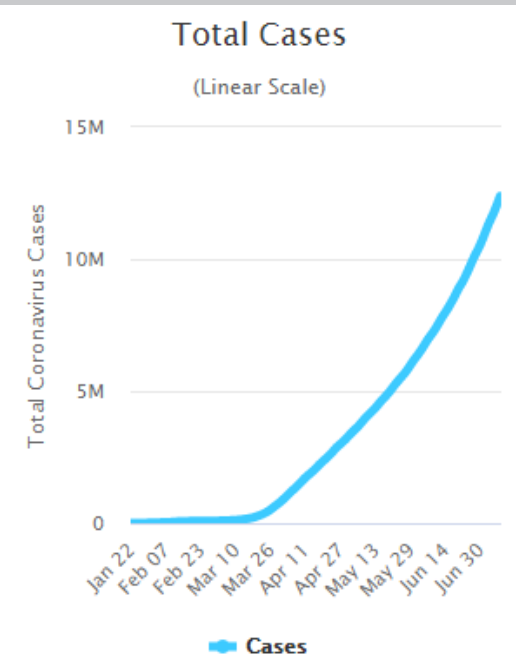


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## Critical Thinking versus Positive Thinking and the Covid-19 Pandemic

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from <https://www.worldometers.info/coronavirus/#countries>

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### The Critical Thinking Capacity

- Love is blind. And so is hate.
- Fear can be blinding. And so can hope.
- These are truths of human nature. And these proverbs have a scientifically proven basis in neurophysiology.
- Under the influence of strong emotions the blood flow to the pre-frontal cortex is sharply cut.
- The blood flow is redirected to the amygdala, which sends out a distress signal. The result is the adrenal gland begins to pump out adrenaline.
- The system switches to 'fight or flight' mode.

The pre-frontal cortex is the seat of critical thinking. It is where rational, logical deduction takes place. This capacity for critical thinking is shut down under the influence of strong emotions. We have all seen this in others. And especially in ardent sports fans when the home team suffers a loss.

Anyone who is angry, upset, or emotional is simply incapable of recognizing a logical fact. Their critical thinking capability is on lock down. Angry or fearful people cannot be reasoned with. We know all this. It is common sense.

### Herding Behavior

- Herding behavior is an evolutionary adaptation that is based on safety in numbers in a predator - prey environment.
- Herding behavior is fear based pre-rational behavior.
- When a predator is lurking in the vicinity, the prey gather together for safety in numbers.
- A single, solitary animal is an easy lunch for a predator.
- A stampeding herd not so much.
- This is why insects swarm, why fish swim in schools, why birds fly in flocks, why animals migrate in herds, and why investors want to buy when they see others buying.
- This investment phenomena even has its own acronym
- FOMO for 'Fear Of Missing Out'

This explains why analysts, news reporters, CEOs, and investors are always maximum bullish at major peaks and maximum bearish at major lows.

This also explains how the trend creates the news. When everyone is mindlessly bullish even bearish factors become bullish news. Otherwise the most bearish developments are completely ignored.

#### Covid-19 and Hope Based Substitutes for Reality

- With Covid-19 all stock market bulls begin their argument with variations of the same one line.
- “Once we have a vaccine...”
- The Bulls simply assume that there will be a vaccine, and very shortly. Then everything will spring back to normal.
- They assume this because there is no bullish case for the economy without a vaccine.
- Investors who have a desperate need for higher equity prices dare not question the feasibility of a vaccine.
- Stock market bulls are living in an alternate hope based reality that may or may not occur in the future.

This desperation for a vaccine was on full display back on Monday 18 May. A small bio-tech company called Moderna announced that eight people were tested with a possible vaccine. They developed antibodies instead of the disease. Eight. With no pre-existing conditions. This was a PR stunt. But for the stock market it was a ‘Crazy Eight.’ At one point on that Monday the Dow was up over 1,000 points. It was a dramatic triumph of hope over reason.

#### Critical Thinking versus Hope

- Then in late May there was a remarkably story on Fox News.
- The headline tells the whole story.
- *Don’t count on vaccine against COVID-19, top HIV scientist warns.*
- Quoting from the article:

“A leading HIV scientist in the U.S. said Wednesday that people shouldn’t expect a COVID-19 vaccine anytime soon, according to a report.

William Haseltine, known for his ground-breaking work on HIV/AIDS and the human genome, acknowledged that while a COVID-19 vaccine could be developed, he said, “I wouldn’t count on it.”

After Moderna claimed of favorable results with eight people, Haseltine likened it to “the equivalent of a chief executive of a public company announcing a favorable earnings report without supplying supporting financial data,” according to an op-ed in the Washington Post.”

Articles this honest are extremely rare and I salute Fox News for carrying it.

### Science versus Politics

A few more quotations from this very important Fox News story are warranted.

“Haseltine also gave his opinion on which countries have handled the coronavirus crisis the best since the outbreak began less than six months ago.

China, South Korea, and Taiwan have done the best at curbing infections, he said, according to the Guardian, while the U.S., Russia, and Brazil have done the worst.”

And one final quotation:

“Do not listen to the politicians who say we’re going to have one by the time my re-election comes around,” Haseltine said, according to the Guardian. “Maybe we will [but] I’m just saying it’s not a slam-dunk case by any means ... because every time people have tried to make a vaccine -- for Sars or Mers -- it hasn’t actually protected.”

Contrast this science with the very first line of the argument of every stock market bull: Once we have the vaccine...

At best this is a deeply flawed assumption. At worst, it is fantasy.

### Critical Thinking versus Positive Thinking

- As a technical analyst one of the most important books that I have ever read is a critique of positive thinking.
- “Bright-sided: How Positive Thinking is Undermining America” by Barbara Ehrenreich.
- As soon as I finished reading it I added it to our website list of recommended reading.
- It is only 262 pages but packed with brilliant insights.
- It was first published in August 2010, but this slim volume is more relevant than it has ever been.
- When Covid-19 first hit, almost every country immediately embarked on testing and contact tracing.
- Except in America. Where certain politicians assured us it was a hoax that would magically go away.
- These unwarranted and baseless assurances show how easy it is for positive thinking to stray into outright fantasy.
- When positive thinking tries to battle with scientific facts, the facts will always win.
- Critical thinking is the only path for uncovering facts.
- In a pandemic, positive thinking is for denying reality.

#### The Ideal Outcome versus the Actual Outcome

- In America an immediate and complete 15 day lock down would have stopped the spread of Covid-19 dead.
- It saddens me to say this, but we are talking about a population that deeply resents being told what to do.
- And a population with a serious anti-science infection.
- A population accustomed to hiding out in positive thinking whenever things temporarily go south.
- At the height of the pandemic in New York and New Jersey I was fielding calls from subscribers who were very angry that New York and New Jersey were holding back the resurgence of economic activity.
- Zero compassion.
- Many of these calls came from Texas. Houston in fact.
- Now they are saying that, once all the dust settles, Houston is likely to be the worst hit city.
- The other big collision between positive thinking and reality occurred in Florida.
- How many lives will it cost to dislodge the anti-science streak in America?

#### Human Lives versus Economic Activity

- Early on in the pandemic the Lieutenant Governor of Texas said that older people should sacrifice their lives for the good of the American economy by going back to work.
- Then there was the argument that the only people who were dying were already in nursing homes, and they were going to die anyway. So everyone should go back to work.
- I would like to suggest that human lives versus economic activity is a false dichotomy.
- It is difficult to support your family if you are dead.
- Or permanently disabled.
- There are those disturbing discoveries that many who recovery from Covid-19 have permanent brain and or lung damage. What will be the longer term costs of that?
- And by the way, what was the last time you heard anyone talk about flattening the curve.
- That curve in America has gone exponential.
- Meanwhile, inflated by the Fed, the stock market soldiers on at or near new highs.
- The stock market is disconnected from the economy.

#### **This is a Reluctant Release**

- I wrote the first draft of this piece back in May but have been very reluctant to release it.
- My intention is not to upset or insult anyone.
- But if we cannot learn from difficult times, then we are in real trouble.
- This whole Covid-19 situation in America has been a dramatic demonstration of why technical analysis works.
- It has shown how emotional and irrational hopes can deny facts and reality, creating a bubble of fantasy.
- It has shown us why America, more than any other country, is such a fertile field for speculative bubbles.
- Positive thinking has its role if you are in sales or marketing.
- But it has no role to play in fighting a pandemic.
- Or in assessing the value of a trade or an investment.
- There is no question that Covid-19 will eventually pass.
- But it seems a clear denial of reality to assume that things will quickly bounce back to normal.
- The future will be decidedly different from the past.
- There will be no going back.

#### **Covid-19 as the Great Accelerant**

- From the earliest days of the Covid-19 impact on the markets it was very clear that it was an accelerant.
- Just as Covid-19 sought out individuals with serious pre-existing conditions, it also sought out markets and institutions with serious pre-existing conditions.
- Deep and fatal flaws and fissures that were purposely hidden or overlooked were exposed.
- And then those flaws were mercilessly attacked.
- This is why there is no way back to the pre-Covid-19 world.
- That world was already slowly ending and being replaced.
- The pandemic has been a brutal and relentless agent of rapid change and transformation.
- Changes and transformations that were already inevitable and inescapable were greatly sped up.
- And these changes and transformations are not done yet.
- And they will not be done even after Covid-19 passes.
- The longer term impact will be a function of what we learned, of what we fixed, repaired, and improved upon.
- And of whether or not we learned compassion.