

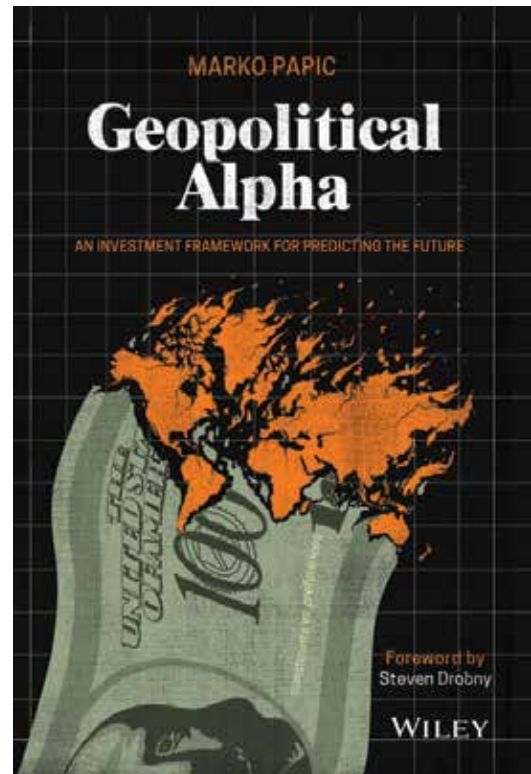
We Read (And Liked) ... *Geopolitical Alpha: An Investment Framework For Predicting The Future*

What better way to revive the hallowed tradition of BCA Geopolitical Strategy book reviews than to give clients a sneak preview of our founder Marko Papic's literary debut, *Geopolitical Alpha: An Investment Framework for Predicting the Future*?¹

Long-time readers will know much of this book – it is the distillation of a decade of Marko's work at BCA Research and, more recently, Clocktower Group. Here is the story of European integration – perhaps Marko's greatest call, from back in 2011. Here is the story of multipolarity and investing. Here is the apex of globalization. Here is the decline of *laissez-faire* and the rise of *dirigisme*. Here is the end of Chimerica.

Attendees of the BCA Research Academy will also recognize much in Marko's formal exposition of his method. The categories of material constraints that bind policymakers. The practical application of the median voter theorem. The psychological lessons from Richards Heuer and Lee Ross. The occasional dash of game theory – and the workingman's critique of it. The core teaching is the same: *"Preferences are optional and subject to constraints, whereas constraints are neither optional nor subject to preferences."*

There is also much that is new, notably Marko's analysis of the COVID-19 pandemic, which is bound to generate controversy for classifying the whole



episode as an example of mass hysteria comparable to the Salem witch trials, but which is as well-researched and well-argued as any section in the book.

I was fortunate to learn the geopolitical method with Marko under the guidance of George Friedman, Peter Zeihan, Roger Baker, Fred Burton, Scott Stewart, and other colleagues at Stratfor (Strategic Forecasting, Inc.) in Austin, Texas from the era of the Iraq troop surge, the Russian invasion of Georgia, and the Lehman Brothers collapse. We both owe a lot to these teachers: the history of geopolitics, intelligence analysis, open source monitoring, net assessments, and, of course, forecasting.

¹ New Jersey: Wiley, 2021. 286 pages.

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What Marko did was to take this armory of geopolitical analysis – which we both can testify is best taught in practice, not universities – and to put it to use in the financial context, where political analysis was long treated as optional and anecdotal despite the manifest and growing need for a rigorous framework.

A hard-nosed analyst will never cease to be amazed by the gaps that emerge between the consensus view on Wall Street and a careful, disciplined net assessment of a nation or political movement. By the same token, the investor, trader, or economist will never cease to be amazed by the political analyst's inability to grasp the concept of "already priced in" or "the second derivative." What needed to be done was to master the art of macro investing *and* geopolitics. Marko took this upon himself. It was audacious and it provoked a lot of skepticism from the dismal scientists and the political scientists alike. But *Geopolitical Alpha*, the concept and the book, is the consequence – and we are now all the better for it.

Marko is fundamentally a *post-modern* thinker. His methodological hero is Karl Marx for the development of materialist dialectic, the back-and-forth debate between economic forces that humans internalize in the form of competing ideologies. His foil is the humanist and republican, Niccolo Machiavelli – not for his amoral approach, but for prizing the virtue of the prince in the face of outrageous fortune. Human agency is Marko's

favorite punching bag – he excels at identifying the ways in which individuals will be frustrated despite their best efforts by the cold, insensitive walls of reality around them.

If there is a critique of Marko's book, then, it is that he gives short shrift to the classical liberal tradition – or as I like to think of it, the balance-of-power tradition. The idea that hegemony, or unipolarity, leads to a stable social and political environment conducive to peace and prosperity has a lot going for it. But it also partakes of an older tradition of thought that envisions a single, central political order as necessarily the most stable and predictable – a tradition that can be ascribed to Plato as well as Marx. You can see the positive implication for financial markets. But what if this tradition is only occasionally right – what if it too is subject to historical cycles?

If that is the case, then the Beijing consensus is a mirage – and the US's reversion to a blue-water strategy (not only under President Trump, but also under a future President Biden, according to his campaign agenda) does not necessarily herald the "end [of] American dominance on the world stage." The classical tradition behind the Greco-Roman, British, and American constitutional systems, including their naval strategies, envisioned a multipolar order that was somewhat less stable but more durable, and this tradition has proven immensely beneficial for the creation of technology and wealth.

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Of course, Marko is very much alive to this tradition and, despite his critique of the ancients, shows himself to be highly sensitive to the interplay of virtue and fortune.

Throughout the work, the analytical style can be characterized as restless energy in the service of cool, chess-playing logic. Marko is generous with his knowledge, merciless in drawing conclusions, and outrageously funny in delivery. He attacks the questions that matter most to investors and that experts too often leave shrouded in finely wrought uncertainty.

He also shows himself to be a superb writer as well as strategist, interspersing his methodological training sessions with vivid anecdotes of a lifelong intellectual journey from a shattered Yugoslavia to the heights of finance. The bits of memoir are often the best, such as the intro to Chapter Six on geopolitics. To paraphrase a great author, Marko writes because he has a story to tell, not because he has to tell a story. The tale of the mysterious consulting firm Papic and Parsley will do a great public service by teaching readers precisely how skeptical of mainstream news journalism they should be.

It isn't enough to say that we read *Geopolitical Alpha* and liked it – the sole criterion for a review in this column. Rather, the book and its author are the reason this column exists. And *Geopolitical Alpha* is now the *locus classicus* of market-relevant geopolitical analysis.

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