

The Fragility of Trust

by Richard Perfect, Fund Manager

In 1954 two DeHavilland Comets were lost in separate midair accidents for unknown reasons at the time. The aircraft was a pioneering venture by the British aeronautical industry that launched the world's first production jet airliner. Subsequent investigations found that the gauge of metal used was insufficient to withstand repeated pressurisation and de-pressurisation cycles which resulted in catastrophic un-survivable failure. After the aircraft was redesigned, it did not re-enter commercial service until 1958. However, trust in the product had been irreparably damaged and with Boeing's successful launch of the larger 707, benefitting from the lessons of the Comet tragedies, the foundation of Boeing's dominance in civil aircraft production was set.

Unfortunately, without disciplined management, success can beget complacency. Fast forward to 2018 and a Boeing 737 Max, the latest iteration of the most successful airliner in history crashes after the pilots lose control. This is soon followed by a second tragedy with another 737 Max under identical circumstances in March 2019. After extensive re-engineering of its software systems it was not cleared for return to service until November 2020.

The news in January that an Alaskan Airlines B737 Max suffered a failure in its fuselage demonstrated that production problems have extended into the structure itself. If the aircraft had been at a higher altitude it could have been a complete tragedy.

It has to be said that Airbus has not been immune from its own production problems, but certainly not on this scale or with the same fatal results. The Netflix documentary "Downfall", which precedes the latest calamity, gives an enlightening account of how Boeing got into this mess.

In its heyday the strapline was "If it ain't Boeing I'm not going". You can still buy such merchandise: If It's Not Boeing I'm Not Going T-Shirt – The Boeing Store. However, in an ironic turn of events, the travel portal "Kayak" has a screen that customers can use to screen out Boeing 737 Max aircraft from travel options.

As managers of investment portfolios, what can we learn from this? Firstly, it's important to remember that regardless of a company's longevity, it is still run by individuals who will eventually leave, potentially leading to a loss of company culture.

While longevity can indicate resilience and strength, it doesn't guarantee them. After all, we are obliged to remind retail investors that "past performance is no guarantee of future performance". Secondly, it is that vital attribute of 'self-awareness'. No matter how successful fund managers may apparently have been, we need to pinch ourselves and be humble. It is probably fair to say that no fund manager is as good as he/she is held up to be nor as bad as they might be accused of being – especially after periods of significant outperformance or underperformance, as luck will almost certainly have played a part in both outcomes.

Finally, applying observations of Boeing's woes, we can assume that Emirates is going to have to wait even longer for the delivery of its new generation B777x aircraft. These new super-sized versions of the otherwise successful B777 program have already been stuck in testing and certification hell for a number of years. Whilst their role is to replace the existing B777 fleet within Emirates, as opposed to their A380s; it does highlight the fleet capacity problem facing the airline and the increased need for the existing leased A380s.

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