HindeSight

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I was told not to mention two things – the Champion's League Final…and the Champion's League Final….

Seeking Value in a World of Financial Repression - The Rule of Law. A tantalising title offered me by our hosts. It's a subject I have written extensively on, albeit indirectly, in our HindeSight Investor Letters. And so I was keen to accept the offer to speak on a subject of particular interest to me. So thank you for the opportunity to come and address such a learned audience. I consider all value investors learned as they undertake a level of rigour and patience for both analysis and outcome, which in today's world of financial sound-bites and month to month market assessment is refreshing.

Now I should say before I start that I am always prescient of what I find fascinating may be of little interest to others - as Lyndon Johnson once famously said to the acclaimed depression economist J K Galbraith - "Did you ever think, Ken, that talking about economics is like pissing down your leg? It seems hot to you, but it never does to anyone else."

I suspect this can be equally applied to the subject of value, although depicting acts of repressive behaviour always seem to garner more voyeuristic interest. We could perhaps observe financial repression within the same prism of soft porn, always titillating, even to

the disinterested amongst us. So here's to my version of soft porn and please try to contain yourself.

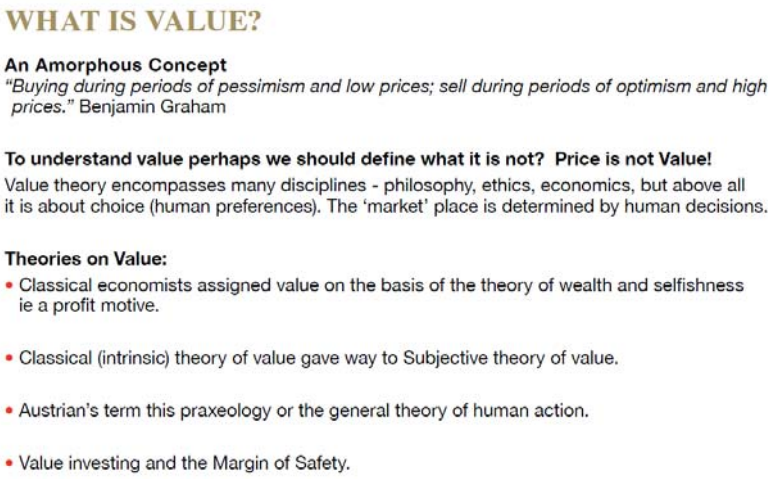
I hope to migrate my way through the minefield of what is value by assigning the Austrian School of thought's appraisal to this particular subject. Firstly because it emphasises the subjective role of the individual in the decision making process of whether to buy or sell. Whether it be a good or service, bond or equity the same principles of individual decision making apply.

And secondly because it is the Austrian School that delineates that institutional acts in the economy or market place are in fact acts of interference in the capital structure which hampers prices and the signals they give of real demand and supply. This ultimately creates a distortion in the value of assets in the market place. (For clarification I will refer to goods, services, bonds, equity as assets.)

If we do not have this comprehension of distortion today as investors, we will not be able to extract value from the right asset class at the right time and even worse we could incur catastrophic loss of wealth. Wealth, by the way, is clearly another value concept which I will briefly touch so we can determine our base denomination for assigning value.

Theories on Value

So what is Value? Seems a simple enough question doesn't it. I bet any one of you could talk at length about value. Hours even days. It's such an all encompassing statement after all.



Indeed value theory involves examination of so many disciplines, philosophy, ethics, economics to name but a few. They have one essential ingredient pertinent to them all - choice. All human decision making is a choice or a human preference.

"To live is for man the outcome of a choice, of a judgement of value." A truism if ever I heard one. Ludwig Von Mises so phrased it best.

In economic theory, let's call it market theory, because after all we are here today to discuss the market place, where a myriad of human interactions take place. We can call this 'Human Action'. Incidentally this was the title of Von Mises magnus opus, and treatise of economics.

It was Mises who really drove the intellectual premise that human behaviour was the central component of the social science economics. I am sure he needs little introduction to this group of professionals and this part of Europe. The guiding light of the Austrian School of Economics his treatise stands as a template for understanding the interaction of human behaviour and value in the market place.

Praxeology

Praxeology, a word he defined, is the study of human action or purposeful behaviour. The study of the 'Acting Man'. We are all 'Acting Men'. We have preference to act or not to act and we utilise *means* over a period of time in order to achieve *desired* ends. As human beings we chose between various opportunities offered of choice. We prefer one alternative to another.

It would be fair to say we have a *scale of wants* or *values* in our minds before we arrange our actions. On the basis of such a scale we assign a higher value, ie more urgent wants and we leave unsatisfied what is of lower value, ie, what is a less urgent want. Urgency implies a temporal horizon. I will touch on this important point later when I discuss capital and time preferences.

Classical economists, think Smith, Ricardo, Mill, unlike Austrian economists objectified value based on prices (although they did make a distinction between natural and market prices). They assigned an intrinsic value to a good, ie the value was contained in the item itself - which was simply the cost of production (or the factor price).

This is its natural price, which could be at odds with the market price which is the price offered by buyers and sellers in a competitive auction, let's say, and not determinant on just its intrinsic price. This market price provide us with an insight as to the true or open market value.

So one can see price is not the same as value. Value is linked to price through the mechanism of exchange. When an economist observes an exchange, two important value functions are revealed: those of the buyer and seller. Just as the buyer reveals what he is willing to pay for a certain amount of a good, so too does the seller reveal what it costs him to give up the good.

The price offered is not just a measure of subjective value; it is also a means of communication between buyer and seller. The offer is an expression of the buyer's opinion, which the seller is free to reject. If they accept it a value judgement has been made.

Praxeology casts no aspersions on whether the 'acting man' is rational or irrational, it is indifferent to the conflicts of schools of dogmatism and ethical doctrines, and it is free from preconceived ideas and judgments. It is in this subjectivism that the objectivity of this

economic science lies, ie it has no value judgement of its own. It just tells us that human behaviour is integral to understanding value in the market place.

The Market Place

Any study of the market place and value would not be complete without touching briefly on this concept of rational behaviour. Rational expectations as bound in Eugene Fama's Efficient Market Hypothesis flies in the face of praxeology and human action.

Fama's belief, and his flaw I would state, requires that agents in the market have rational expectations; that is to say they conform to true statistical expected values of the random or normal bell curve distribution, as ascribed by Gauss. If this past decade of asset price behaviour alone is not evidence to the contrary of such rational expectations, with markets exhibiting bubbles and thus power law distributions, then the debate should end right here.

Indeed Buffett's track record as a leading proponent of value investing is perhaps testimony that the market is not efficient. He even stated himself:

"The disservice done students and gullible investment professionals who have swallowed EMH has been an extraordinary service to us and other followers of value investing founder Benjamin Graham. In any sort of contest, financial, mental or physical - it's an enormous advantage to have opponents who have been taught that it's useless to even try. From a selfish point of view, Grahamites should probably endow chairs to ensure the perpetual teaching of EMH."

(1988 Berkshire Hathaway Annual Report)

Discussion of your nemesis EMH, brings me to perhaps a rather controversial view of 'value-investing'. I stand in trepidation of what I am about to say as the title of the conference would suggest the redeeming discipline which I assume binds you all here today is in fact - value investing. And so I risk a severe backlash. But here goes anyway.

Value investing is not so far removed from EMH as one would think? Wait for it. Only in the sense that it ignores the action of the overall market place and by definition the role of the individual as I have explained by using Mises idea of praxeology.

Like classical economists did, value investing focuses on intrinsic value. It has a market neutral stance; in other words, each value investment stands on its own merit, irrespective of market conditions. I know that Graham did not fully ignore macro-analysis (*the market is macro*) but equally it has been given cursory respect, or perhaps it was until 2008 hit us.

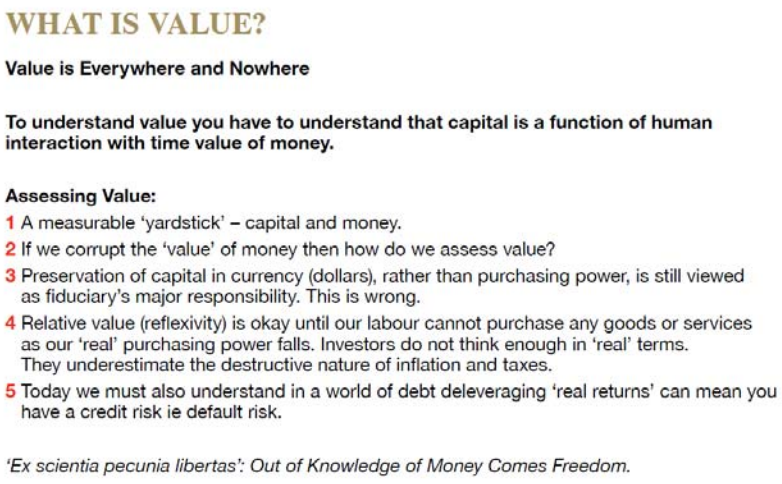
Margin of Safety

Benjamin Graham popularised the 'cigar butt' style investment approach, which at its core is a method for identifying and profiting from significant price-to-value gaps. Practitioners of Graham (and Dodd's) style seek to buy at a level that is appreciably less than an asset's *intrinsic value* or its inherent worth. You call this the *Margin of Safety* that is "available for absorbing the effect of miscalculations or worse than average luck." (Graham)

I do recognise that this style has evolved to include concepts such as Franchise value, the difference between Net Asset Value and Earnings Power Value and further along the value continuum concept also growth value. But interestingly this development of net-nets styled investing incorporates value judgements or heuristics. For example rules of thumb are used on how to make adjustments on property, plant and equipment or discount factors on deferred tax asset and liability. Thankfully this is where value investing diverges from EMH because within its discipline there are potential self-reinforcing fallacies that may drive investment decisions. And so opportunities may become available from collective value-investing in a false reality. You see, it wasn't so bad a comparison.

I believe it is essential to acknowledge and comprehend the role of individuals and their collective behaviour in the market.

Value is Everywhere and Nowhere



WHAT IS VALUE?

Value is Everywhere and Nowhere

To understand value you have to understand that capital is a function of human interaction with time value of money.

Assessing Value:

1 A measurable 'yardstick' – capital and money.
2 If we corrupt the 'value' of money then how do we assess value?
3 Preservation of capital in currency (dollars), rather than purchasing power, is still viewed as fiduciary's major responsibility. This is wrong.
4 Relative value (reflexivity) is okay until our labour cannot purchase any goods or services as our 'real' purchasing power falls. Investors do not think enough in 'real' terms. They underestimate the destructive nature of inflation and taxes.
5 Today we must also understand in a world of debt deleveraging 'real returns' can mean you have a credit risk ie default risk.

'Ex scientia pecunia libertas': Out of Knowledge of Money Comes Freedom.

Behavioural finance which encompasses the social, cognitive and emotional aspects of individual decision making acknowledges that market prices and value have their roots in human action. Soros' reflexivity theory is such an example. He made a very pertinent statement which helps us to clarify what value is:

"People base their actions not on reality but on their view of the world." Market pricing is a two-way feedback loop between information of the individual and the market price. It is a circular reference to the relationship between cause and effect. Take the interaction between beliefs and observations in a marketplace. If traders believe that prices will fall, they will sell, thus driving down prices, whereas if they believe prices will rise, they will buy, thereby driving prices up. 'Self-fulfilling prophecy' is another term you could ascribe this to.

If only markets were so simple.

This act of distortion can reinforce behaviour that as George Soros described are fertile fallacies, no more the basis of reality than merely one's interpretation of reality. Soros's ideas on interactive feedback can lead to first self-reinforcing cycles (booms) and then self-defeating cycles (busts). In both cases there is an endogenous structure of imitative behaviour by agents in the market. We observe self-organised criticality, whereby the market can be thought of as hierarchical structures which are self-similar and build to such a point whereby fundamentals (intrinsic value) and market value are markedly wide. Determining the critical point for a reversal of this trend is the basis of much investment proprietary work.

My understanding of the markets and their interrelationship with business cycles has been inherently driven by my understanding of Capital Theory and the Business Cycle as espoused by...you guessed it... the Austrian School of Economics. I believe that value investors if they have not already would benefit tremendously from this school of thought.

On my first slide I quote the master of value investing himself, Benjamin Graham, from his book the Intelligent Investor:

"Buy during periods of pessimism and low prices; sell during periods of optimism and high prices."

A Yardstick of Value

But for an investor this idea of price offers no insight to value.

To understand value you have to understand that capital is a function of human interaction with the time value of money.

We need to understand what capital and money is. What is the true value of a manufacturing (producer) good, a resource good or a piece of nanotechnology or IT software? How can we value it and plan production safely when we do not know the true worth of the unit of account that measures it ie the worth of the numeraire. It is no secret that the US reserve currency has lost almost its entire value from a century ago and with money in such an amorphous and corruptible state, value will be a shifting condition.

Capital and Time Preference

Mises was also known as a liberal economist and by exploring the work of Liberal economists, more specifically Austrian Economists, one can outline how a debased numeraire distorts everything.

Austrians theorise that interest rates reflect a particular preference of human beings, namely *time preference*. Humans prefer to have things now than in the future, and are prepared to borrow money at interest to obtain them. At its simplest, interest reflect an individual's time preference. If time is precious to us - reflected in a high interest rate - then we will then require shorter production processes. When we lend something, we demand to be paid interest, the rate is dependent on this intertemporal allocation of capital. This forms the basis of the theory of investment, production and use of capital. This is a crucial point to understand. Interest is a function of human nature to value an asset either to have now or in

the future. As you will see later if you define a rate structure via legislation or bank rate targeting you are repressing this innate human valuation mechanism.

An understanding of human behaviour would be incomplete without an understanding of its relationship with money. Catallactics is the praxeological theory of the way the free market reaches exchange ratios and prices. People exchange things because they value them differently, prices are simply the rate at which people are willing to exchange. So making a choice involves giving up one thing in pursuit of something you value more highly.

'Capital' is a word that is often banded around indiscriminately. I catch myself using it inappropriately, as if it is some homogeneous thing, but in fact it is simply an idea. Like 'size' or 'weight', it does not exist on its own. It exists only in capital goods, that is to say, producer goods. And the exact mix of those producer goods that is employed in an economy – what Austrian economists call the capital structure – is crucial.

To explain this: If a company builds the wrong producer goods that do not create value for consumers, then that capital is wasted. Understanding this notion of capital helps us understand the persistent features of capitalist economies, the repeated booms and busts that occur in them and as a consequence in financial markets. This phenomenon is well theorised by Austrian Business Cycle Theory (ABCT). Soros inadvertently touched on this in his theory of reflexivity.

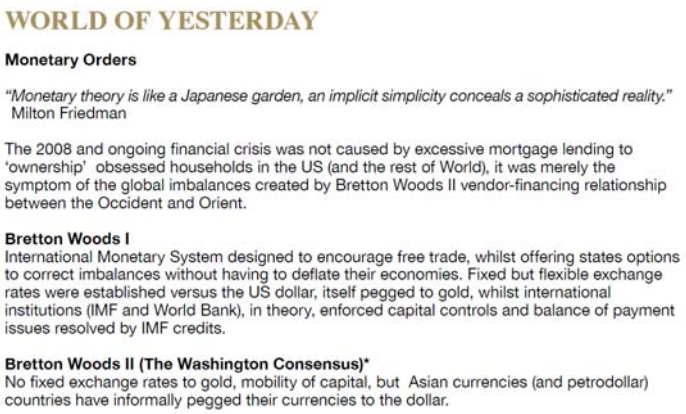
Roger Garrison, a contemporary Austrian describes it as theory that in its broadest sense recognises that extra-market forces (ie central banks and government) can initiate an artificial, or unsustainable, economic boom. The money-induced boom contains the seeds of its own undoing: the upturn must by logic of the market forces set in motion, be followed by a downturn or bust.

By removing interference from the market process all we achieve is less severe boom busts. As we have imperfect knowledge as human beings, value will always be perceived differently, and so the market will be prone to market failure, or the misallocation of capital; as opposed to when capital is applied efficiently under perfect competition and knowledge. This does not exist.

World of Yesterday and World of Today



Only by understanding this is the driver of our monetary system - exchange rates, and thus how capital flows interact in the world can we begin to make appropriate asset allocations. The current system does not allow countries to determine exchange rates freely particularly in Asia, but a lack of capital controls has entailed highly mobile capital.



Bretton Woods was a negotiated agreement by countries to maintain their exchange rates at agreed levels relative to the US dollar, which in turn was linked to a fixed price of gold. The key difference of the current monetary system or what has been dubbed Bretton Woods II, is that our monetary order grew up in an ad hoc manner, with no capital controls.

The collapse of BW led to an acceptable fall of capital controls as countries tried to readjust their overinflated currencies to the US dollar. Recall Nixon abandoned his quest to maintain the gold fix of $35, and decided to keep his gold reserves rather than swap them with

Europe for the dollars. The USA had systematically devalued to fund two Asian wars - Korea and Vietnam. In theory this balance of payment adjustment by specie was supposed to be the break on monetary largesse.

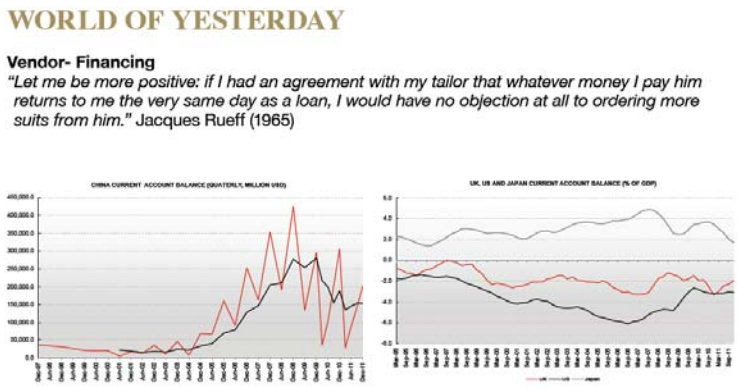
BWII is where much of the world, primarily the Asian countries, has more or less informally pegged their currencies to the dollar, without the backing of gold. These countries do this in order to maintain their relative competitive ability to sell their products to the world and more specifically to the US. So the defining nature of this international and financial monetary system is that it finances the United States' enormous external deficit and the associated fiscal deficit at low interest rates.

This means we have seen unprecedented flows into US treasuries and agencies depressing global yields, as arbitrage to other bond markets drove yields lower there. What concerns me today is that this mechanism has ultimately fostered easier credit availability sourced by new sources of collateral (think 'securitisation proliferation') and lengthened repayment schedules has led to the production of goods underpinned by effectively less cash, and higher debt backed by spurious collateral.

So since 1971 when we moved to a paper based currency system, it is no coincidence that we began to see serial boom busts in business cycles many with systemic consequences. We have been wasting capital. The Anchovy, Tequila, Tiger, a litany of colourfully named crises are testimony to this flawed cycle.

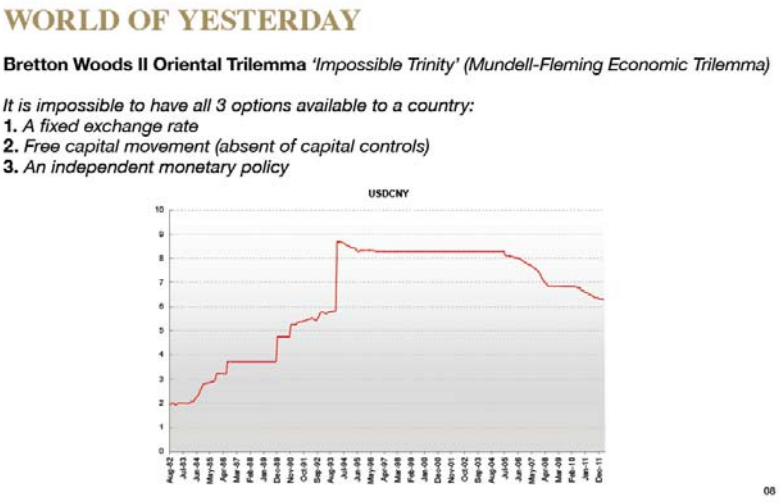
These crises occur because the business cycle is a credit cycle. A state manufactured cycle. It often starts with an excess of credit created by the central bank, which is invariably encouraged by government. I call this casino credit. What ultimately actually funds this credit is the ability of governments to place their debt within the monetary system so it can be loaned out multiple times under the fractional reserve banking system.

Unfortunately modern day banking (both the central & shadow banking system) has facilitated too much ‘easy’ credit for products entities ultimately don’t need. This **unproductive vendor finance** was most notably exemplified at the macro level by this China-US relationship and at the micro level by the subprime borrower and the mortgage provider.



This credit or pseudo capital is highly mobile and can be withdrawn quickly from economies. We saw this in the 1997 Asian crisis, which led to a deflationary risk for those countries who maintained their peg (such as HK) but to inflationary fall out for those who abandoned their pegs, Malaysia for example.

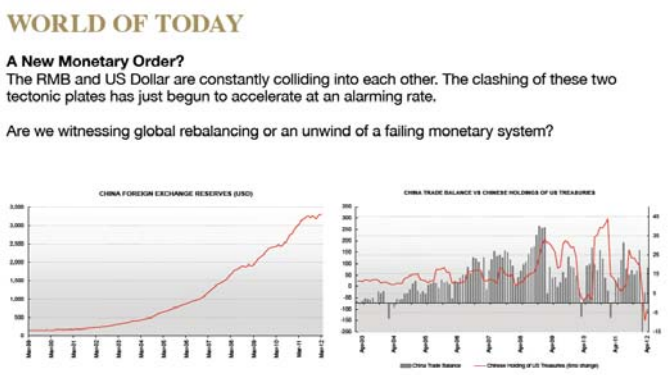
- 97 fallout led to alignment of Asia currencies with weaker RMB
- Export boom then occurred
- Followed by build-up of EM currency reserves



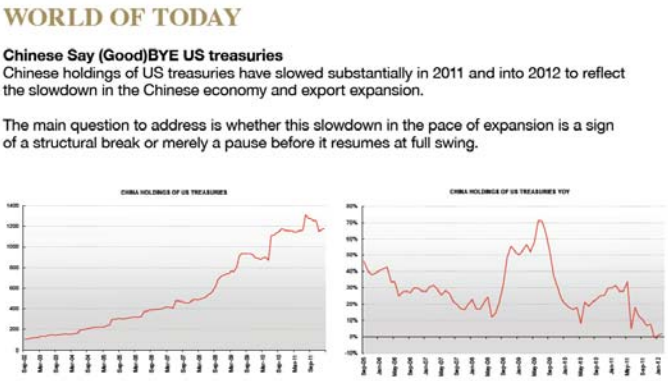
The build-up of reserves since was no coincidence, but as the economic trilemma highlights one cannot enjoy all 3 options of a fixed exchange rate, free capital movement and an independent monetary policy. Asia enjoys a dirty float so they are deeply affected by developed world monetary policy.

Every time the US eases or does QE, they experience de facto easing or QE as they have to maintain their peg relative to this new supply of dollars. (They issue their own currency to keep peg stable; which leads to an increase in base money and ultimately high powered money (credit) in their economy - hey presto inflation rises in goods as there is real demand in EMs).

- Should be noted that 97-98 Asian crisis initially created major slack in EM economies so took time for currency reserves to become inflationary
- Mobilisation of Chinese labour 200mm underemployed. 10 -12 million net new jobs needed in urban centres. This rural - urban migration has been disinflationary force whilst reserves increased
- No longer case: workers receiving higher wages under state edict. Domestic / ASEAN export shift has occurred so less reliant on US

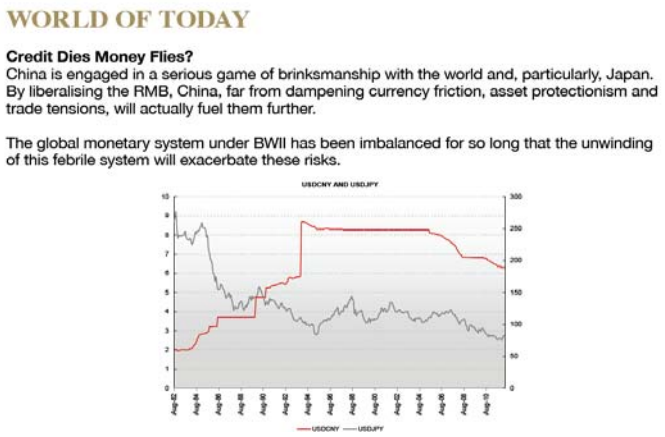


- Is this a structural occurrence or just a long awaited rebalancing of the current account imbalances managed by an incremental liberalisation of global pegs?
- A collapsing current account deficit portends weaker growth - US senators should be wary of what they wish for when they ask for realignment



- Either way demand for Treasuries will be far less out of Asia and for maintenance of other pegs, Brazil, and Saudi Arabia for example
- Likewise the 'fiscal cliff' looms so who will take up slack in Treasury purchases of which needs over $350bn dollars a quarter financing for the private sector alone
- For now the FED has taken on this burden

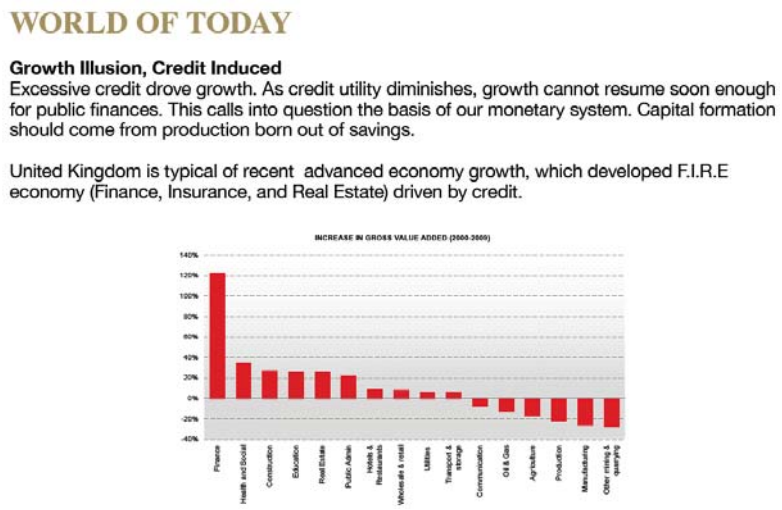
I believe we are witnessing the end of vendor-financing; credit is dying. Question remains remains how much monetary base will be created to plug gap. Arguably we are at practical limits – which can only be breached with the application of coercive capital controls.



- China hasn't had some irrational proclivity for US dollars, it's just the US had a far more open trade system than Europe and rest of world. Until now that is. But with the development of ASEAN and LATAM countries plus mutual beneficial Russian relations, China has found new trade partners. It can keep up exports, whilst also grabbing essential commodity resources and widen its currency reserve holdings to boot.
- See impact of competitive dollar diversification on USDJPY. Horn of the trilemma was firmly passed as weaker dollar vs RMB aggravates Yen strength vs. dollar



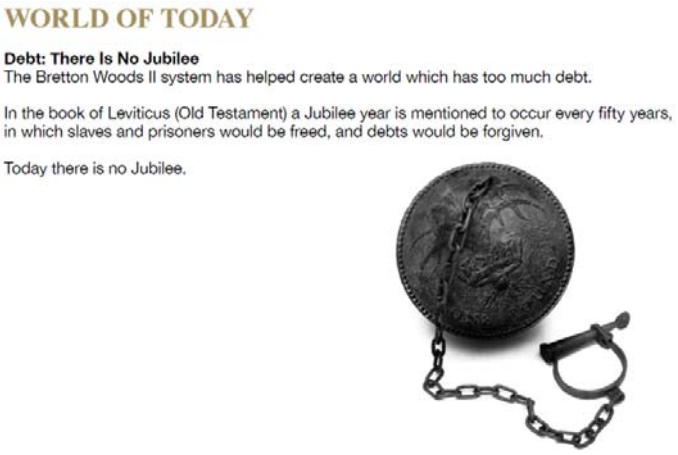
- Evidence to date suggests credit retrenchment is more likely to impact asset prices and output than global headline CPI.



What we do know today is that every crisis these past forty years has been counterbalanced by active fiscal and monetary policy. This is done to avoid a collapse of aggregate demand brought about by recessionary or deflationary forces unleashed by a crisis.

As we know that there is no organic capital formation outside of the central banks.

Global society has hit a debt saturation point, whereby our collective income can no longer service either principal or interest payments. So to conceal this reality policymakers must prevent a rise in market interest rates.



Ignore slides 17 and 18.

Financial Repression

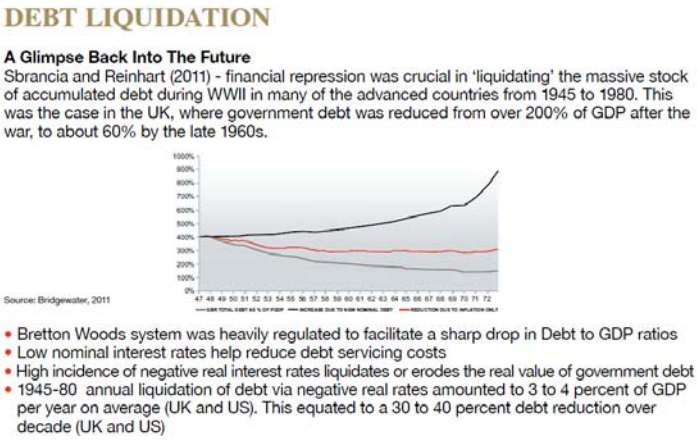
The state has chosen to fight the collapse in credit by underwriting private balance sheets, namely the banks, pension and insurance companies by issuing more debt, injecting money and making purchases of both private and public debt to keep yields low. But it's running arguably at the practical limits of such policy.

The developed world will have to curtail the freedom of capital if it is to support the inflationary tendencies of this monetary system needed to reduce the burden of debt, as right now capital can flee countries that undermine the value of their domestic currency.

Key point: to keep rates low they will have to control the flow of capital.



Slide 23 A Glimpse Back to the Future



- Sbrancia and Reinhart examined the post WWII period
- Real interest rates were significantly lower during this period than in freer capital markets pre WWII and after financial liberalisation.

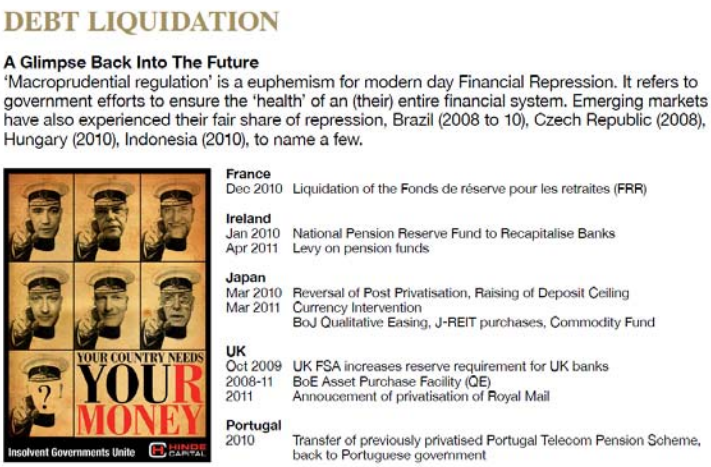
- For advanced economies real ex-post interest rates were negative in about half of the years of the financial repression era compared to less than 15% of the time since the 1980s.

The truth dawns on a nation that in periods of substantial public and private debt overhangs, especially those post banking crises, that growth will not be forthcoming. The empirical evidence by Reinhart and Rogoff (2010) supports this. Quite simply the State needs to find a means of reducing this debt before it becomes unserviceable or investors stop lending it money. They need to capture capital domestically to pay both finance and pay down the debt. **The overriding conclusion is that embarking on such steady dosage of financial repression whilst accompanied by an equally steady dosage of inflation does significantly reduce debt/GDP ratios.**

The UK experienced its fair dose of financial repression. The gold market was closed in early WWII, reopened in 1954, the Bank of England stopped publishing the Minimum Lending Rate in 1981 and in 1986 it withdrew its guidance on mortgage lending. Prior to these dates the impact of such restrictions was to control the flow of capital back to government institutions and to 'coerce' individuals and institutions to purchase bonds (not gold). Likewise it was not until 1979 that all restrictions on outward FDI were abolished or the Exchange Control Act of 1947 was suspended, allowing relatively free mobility of capital.

To assess the effectiveness of a financial repression tax one can observe the Napoleonic Wars era (1819-59) and the post WWII era on the UK's public debt. In the former debt was 260% of GDP, and the latter 237.9%; growth was comparable at 2.5% per year but it took only 20 years in the post WWII period versus 40 years to bring the debt to 100% ratio of GDP. The difference – you guessed it – WWII experienced substantial negative real rates.

Slide 24 A Glimpse Back to the Future



Policymakers are undoubtedly taking a leaf out of history today. In the past four years, real rates in 21 advanced economies have been negative about half the time and below 1 percent about 82 percent of the time. This overall turn to lower real interest rates occurred despite the high rates investors have demanded on securities in several countries that have been teetering on the verge of default or restructuring. Real central bank discount rates and bank deposit rates have also been markedly lower since 2007.

Macroprudential regulation/ Credit Controls.

Discuss examples today.

Slides 25 -29

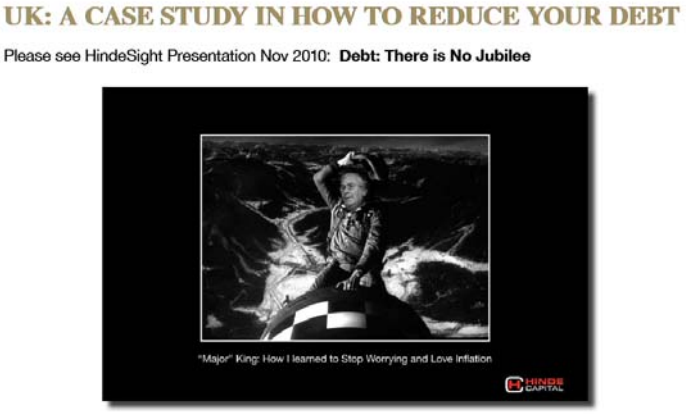
Excuse showing monetary aggregate charts, but really it is just to remind us that we have potentially reached a practical limit to such expansion and that in order to continue developed nation states will need to embark on capital restrictions in various guises as outlined earlier.

Slide 30 -31

Currency interventions in a world of beggar thy neighbour world, what Plato called Tragedy of the Commons - we can't all graze or eat at the same trough. It's a zero sum game in world of current account politics. See CHF and JPY. The unwinding of BW II is playing havoc with historically with currency markets.

Slide 32

UK is classic example of how they are implicitly targeting higher nominal GDP levels, whilst conscripting capital to ensure they can keep inflating. Nobody needs to own sterling, it's not the reserve currency, so capital flight is not negligible. (See our latest Eyes Wide Shut for veritable tome on UK. See UK There is no Debt Jubilee to see how they are achieving this.)

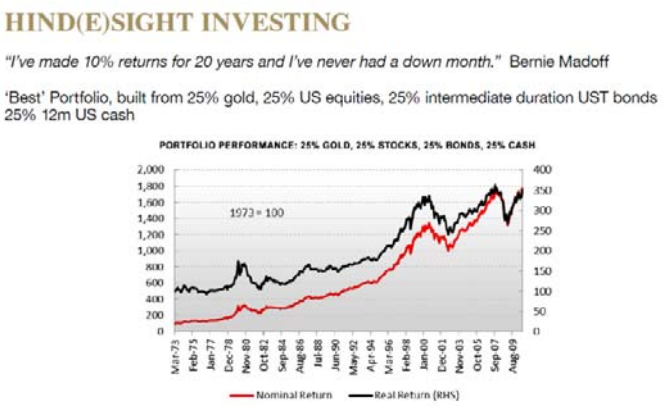


Hind(e)Sight Investing



By examining the behaviour of governments under periods of excessive debt is perhaps one of those times where looking in the rear-view mirror may elucidate some information how we should invest.

See Slides 32 to 48 Notes:

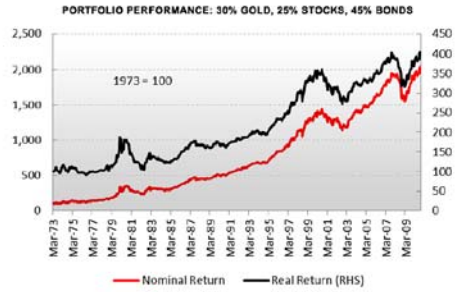


- Investors must think in real terms not nominal
- Portfolio concept

HIND(E)SIGHT INVESTING

Optimised portfolio: 4% annualise real return, 7.7% annualised volatility.

$100 invested in 1973 would be worth $2171 at end 2010.



- Higher weighting of gold 'smoothes' draw downs

HIND(E)SIGHT INVESTING

Myth of Commodity Diversification

The first portfolio is 25% commodities, bonds 37.5%, 37.5% equities. The second portfolio is same except we substitute 25% gold for commodities.

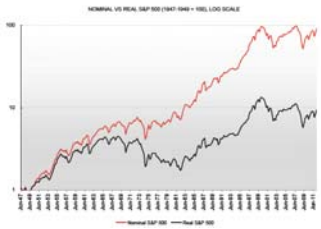
For optimal performance, drawdown and diversification, gold is superior to a basket of commodities. Despite this institutional managers still live in myth of commodity diversification.



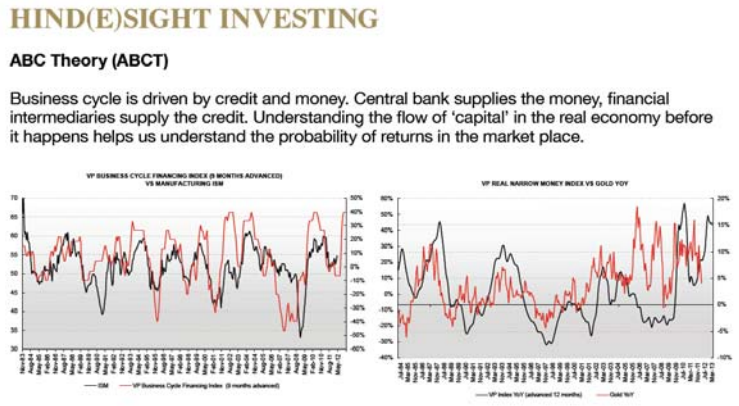
HIND(E)SIGHT INVESTING

Equitable Risk, Nominal vs Real

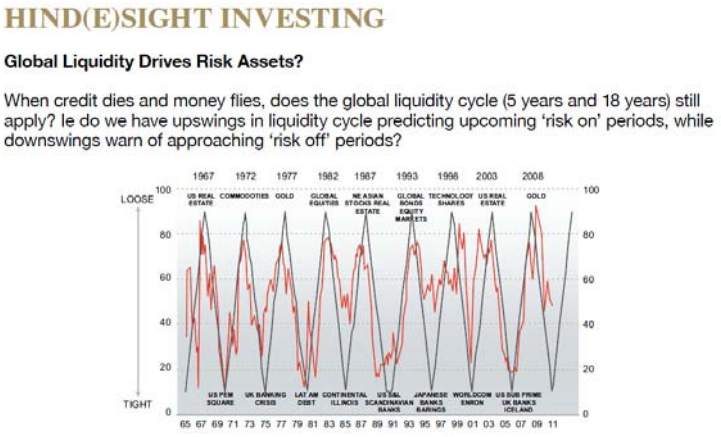
In the recent 60 years there has been two 10-15 year periods in which the nominal value of the S&P 500 has moved sideways but where the real value has declined. These periods are 1970 to 1985 and 2000 to 2012 (2015?).



- Emphasise real and nominal is well illustrated in equity performance
- Question to be asked? Can collateral levels been maintained at artificial rates that can support nominal asset prices



- Credit proliferation has been severely curtailed and money stock has had to be created outside of the banks ie directly by CBs
- Capital conscription could entail a reduction in credit but perversely higher inflation as rates kept too low - money is not neutral
- Equities will not be a favourable investment, although nominally could benefit which is way we need gold to protect our purchasing power



- Stagflation likely, understand where in the cycle for each country - we don't think cycles will be as synchronous as countries become more insular
- Watch credit and money indicators

Slides 38 - 41

Equities offer no value in high inflation, even less in debt deflation.

Slides 42 - 46

Skip on Gold Point to presentations listed on slide 42 as to why gold is undervalued, under owned and largely misunderstood.

Slide 47 - 48

Rule of Law

Salutary lesson of history is that the 'Rule of Law' is often changed retroactively. We must be vigilant to signs of regulatory and legal 'reform'. Euphemisms for 'We will steal your capital'.





Conclusions for Asset Investing

Credit is dying, and if US Treasuries cannot be supported. I am sure there is a risk at end of year that as Bush tax cuts and other tax holidays expire, and the automatic fiscal stabiliser spending cuts kick in, there is a risk bond market participants boycott treasuries at these yields, (4.5% first?), and give us a first taste of this breakdown in the macro production of credit.

Higher rates and no growth are very feasible. This would cause equities to fall in developed world, but would offer some risk reward for developing world markets which would after initial sympathetic fall offer value.)

Avoid developed world bond markets, if cannot raise gold holdings and search for value companies with yield; but of course what is value anymore! Long term returns will not be significant in decade to come unless you replicate what we did in years gone by, in the future:

HIND(E)SIGHT INVESTING

The Rule Of Law

Ninja Warriors - four investment decisions over 40 years and a nominal return of over 177,530%.

1970-1979	100% invested in gold	1,363% return
1980-1989	Switched from gold to Japanese equities	493% return
1990-1999	Switched from Japanese equities to US equities	317% return
2000-2010	Switched from US equities to gold again	391% return
1970-2010	**Total compounded return of above straegy**	**177,530% return**

Summing Up

Unfortunately the criticism levelled at capitalism's supposed failings are not a function of failed free markets but of state intervention in the supply of money. The failing of the banking system is the product of meddling in the true or real rate of interest which has distorted all pricing mechanisms in the production of both credit, resource availability, manufactured goods and services. This has been a global phenomenon.

Money is a reflexive concept as it is used only as long as we have faith in its value. And thus not unlike the boom bust cycles it helps engage it to can come and go. The homeostasis of the faith in money has become so engrained that I imagine most individuals and investors alike deem it almost imponderable that money may have no store of value. So by definition the assets we buy will have no value, relative or otherwise. We need to guard against this.

We need to understand if we are witnessing a change in the monetary order or we are just at the end of business cycle propagated by the credit machine, and that we should invest in assets accordingly based on where we are in the deleveraging cycle.

If only it were simple. The repressive nature of finance today deters us from observing true prices that signal to us the true time preference of individuals to make purchases or sales and hence their assignation of value for assets.

I may sound more like a philosopher or even a political reformer than an Investment manager, but I make no apology. For me to achieve my fiduciary duty of protecting my client's money I must protect its value first and foremost. Until such time as the monetary system resets or a new monetary order appears that fosters price and hence stability in the value of our numeraire then I will have to fight what I see as infringement in free markets to perform their basic and fiduciary responsibility which is price discovery. A true price discovery will enable value to be representative of buyers and sellers, where one can chose of their own volition to reject or not the value offered.

Ex scientia pecuniae libertas. "Out of knowledge of money comes freedom." I echo the sentiments of the Committee of Monetary Research and Reform. Thankfully we have the World Wide Web. This is highly democratising and its advent, as we have begun to see, is the ultimate global forum for truth and action by which each and every one of us can pursue individual rights, open markets, free trade, freedom of movement and an understanding of sound money.

Thank you for taking the time to listen. Happy investing to you all.

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