

An odd, non-linear game

“Sir, John Authers, in *Loser’s Game* (The Big Read, December 22), could have delved deeply into the flaws in the asset management business as it has evolved in recent decades, rather than accepting the industry’s own terms or focusing on tweaks to “active” management that might improve results..

“Mr Authers could also have challenged the bureaucratic thinking and methods asset management has adopted in the course of chasing its “bogey”, starting with the Big Ideas.. Then there are the model portfolios, relative-weightings, “style drift”, investment committees, the requirement to be fully invested and so on — all bog down decision-making and most have nothing to do with genuine investing. In adopting these practices the fund management business has created a recipe for mediocrity.

“In investing, it is never a good idea to do what everyone else is doing. Piling into passive index funds during a year of decidedly poor relative results for active managers, and especially after a long period of rising security prices is likely to lead to future disappointment, just as it did in 1999. This leads us to another line of inquiry for Mr Authers: even assuming “beating” an index is worthwhile, why must we do it all of the time? It is a paradox of investment that in order to do well in the long run, you sometimes have to do “poorly” in the short run. You have to accept the fact that often you will not “beat” an index; sometimes you don’t even want to — think of the Nasdaq in 1999, for example..”

- Letter to the FT from Mr. Dennis Butler, December 30, 2014.

For historians, there are primary sources and secondary sources. Primary sources are the original documents that point to the raw history, like the original Magna Carta, for example. Secondary sources are effectively historical derivatives – they incorporate interpretation and analysis. In financial markets, the equivalent of primary sources are prices – the only raw data that speak unequivocally of what occurred by way of financial exchange between buyer and seller. Everything else amounts to interpretation and analysis, and must by definition be regarded as subjective. So-called fundamentals, therefore, are subjective. There is the price – and everything else is essentially chatter.

It says much for the quality and depth of our mainstream media that one of the most insightful and thought-provoking pieces of social and cultural analysis of our time came in the form of a 5 minute essay within a satirical news review. The piece in question was by the cult documentary maker Adam Curtis and you can watch it [here](#). The following extracts are taken directly from the film.

“So much of the news this year has been hopeless, depressing, and above all, confusing. To which the only response is to say, "oh dear."

“What this film is going to suggest is that that defeatist response has become a central part of a new system of political control. And to understand how this is happening, you have to look to Russia, to a man called Vladislav Surkov, who is a hero of our time.

“Surkov is one of President Putin's advisers, and has helped him maintain his power for 15 years, but he has done it in a very new way.

“He came originally from the *avant-garde* art world, and those who have studied his career, say that what Surkov has done, is to import ideas from conceptual art into the very heart of politics.

“His aim is to undermine people’s perceptions of the world, so they never know what is really happening.

“Surkov turned Russian politics into a bewildering, constantly changing piece of theatre. He sponsored all kinds of groups, from neo-Nazi skinheads to liberal human rights groups. He even backed parties that were opposed to President Putin.

“But the key thing was, that Surkov then let it be known that this was what he was doing, which meant that no-one was sure what was real or fake. As one journalist put it: "It is a strategy of power that keeps any opposition constantly confused."

“A ceaseless shape-shifting that is unstoppable because it is undefinable..

“But maybe, we have something similar emerging here in Britain. Everything we're told by journalists and politicians is confusing and contradictory. Of course, there is no Mr. Surkov in charge, but it is an odd, non-linear world that plays into the hands of those in power.

“British troops have come home from Afghanistan, but nobody seems to know whether it was a victory or whether it was a defeat.

“Ageing disk jockeys are prosecuted for crimes they committed decades ago, while practically no one in the City of London is prosecuted for the endless financial crimes that have been revealed there..

“..the real epicentre of this non-linear world is the economy, and the closest we have to our own shape-shifting post-modern politician is the U.K. Chancellor of the Exchequer..

“He tells us proudly that the economy is growing, but at the same time, wages are going down.

“He says he is reducing the deficit, but then it is revealed that the deficit is going up.

“But the dark heart of this shape-shifting world is Quantitative Easing. The government is insisting on taking billions of Pounds out of the economy through its austerity programme, yet at the very same time it is pumping billions of Pounds into the economy through Quantitative Easing, the equivalent of 24,000 Pounds for every family in Britain.

“But it gets even more confusing, because the Bank of England has admitted that those billions of Pounds are not going where they are supposed to. A vast majority of that money has actually found its way into the hands of the wealthiest five percent in Britain. It has been described as the biggest transfer of wealth to the rich in recent documented history.

“It could be a huge scandal, comparable to the greedy oligarchs in Russia. A ruthless elite, siphoning off billions in public money. But nobody seems to know.

“It sums up the strange mood of our time, where nothing really makes any coherent sense. We live with a constant vaudeville of contradictory stories that makes it impossible for any real opposition to emerge, because they can't counter it with any coherent narrative of their own.

“And it means that we as individuals become ever more powerless, unable to challenge anything, because we live in a state of confusion and uncertainty. To which the response is: Oh dear. But that is what they want you to say.”

..Are prices real, or fake ? The cornerstone of the market structure is the price of money itself – the interest rate. But interest rates aren't being set by a free market. Policy rates are being kept artificially low by central banks, while the term structure of interest rates has been hopelessly distorted by monetary policy conducted by those same central banks. Inasmuch as 'real' investors are participating in the bond market at all, those institutional investors have no *personal* skin in the game – they are economic agents with no real accountability for their actions. Other institutional players can be confidently assumed simply to be chasing price momentum – they likely have no 'view' on valuation, per se. The world's bond markets have become a giant [Potemkin village](#) – nobody “real” actually lives there.

Of the four asset classes to which we allocate within our discretionary managed accounts, three of them offer at least some protection against the material deprecations and endless price distortions of the State. 'Value' listed equities give us exposure to the source of all fundamental wealth – the actions of the honest entrepreneur. Systematic trend-following funds are the closest thing we can find to truly market-uncorrelated investments. The monetary metals, gold and silver, give us Stateless money that cannot be printed on demand by the debt-addicted. We are slowly coming to appreciate the counsel of a friend who suggested that the merit of gold lies not in its price so much as in its ownership. What matters is that you own it. (It also matters why.) Which leaves debt. Objectively high quality debt – a small market and getting smaller by the day.

The practice of sensible investment becomes difficult when our secondary information sources (“fundamentals”) are inherently subjective. It becomes almost impossible when our primary information sources (prices) can't be trusted because they have politicians' paw-prints all over them. “Nothing really makes any coherent sense.. We live with a constant vaudeville of contradictory stories.. We live in a state of confusion and uncertainty.” If the pursuit of certainty is absurd, the only rational conclusion is to acknowledge the doubt, and invest accordingly.

This piece was first published in January 2015, since when the monetary distortions have only become more outrageous.

www.pricevaluepartners.com



Tim Price is co-manager of the [VT Price Value Portfolio](#) and author of 'Investing through the Looking Glass: a rational guide to irrational financial markets'. You can access a full archive of these weekly investment commentaries [here](#).

Price Value Partners manage investment portfolios for private clients. We also manage the VT Price Value Portfolio.

Important Information

Price Value Partners Limited (PVP) acts as investment manager to its professional client VT Price Value Partners ICVC (the Fund). PVP is not in a marketing group with Valu-Trac Investment Management Limited who act as Authorised Corporate Director (ACD) to the Fund. PVP also acts as investment manager to private individuals, classified as both professional and retail clients. PVP makes this information available under its responsibilities as investment manager. PVP has approved the above information in accordance with Section 21 of the Financial Services and Markets Act 2000 and its Treating Customers Fairly policy (a copy of which is available on request). The ACD makes use of an exemption under the Financial Promotions Exemption Order to provide this information to investors (or potential investors) of the Fund. Accordingly, PVP has made this document available for your general information. You are encouraged to consider the risks detailed in the Fund prospectus and any investment management agreement originated by PVP and seek independent financial advice before acting. We have taken all reasonable steps to ensure the above content is correct at the time of publication. Any views expressed or interpretations given are those of the author personally. Please note that PVP is not responsible for the contents or reliability of any websites or blogs and linking to them should not be considered as an endorsement of any kind. If you no longer wish to receive these commentaries, please let us know and we will remove you from our distribution list, which is opt-in exclusively. We have no control over the availability of linked pages. Price Value Partners Ltd. is authorised and regulated by the Financial Conduct Authority, registered number 629623.

Ref: 64/2/KC1307.