3 Windsor Court
Clarence Drive
Harrogate, HG1 2PE
01423 523311

Lion House
72-75 Red Lion Street
London, WC1R 4NA
020 7400 1860

www.pfpg.co.uk

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Bad advice more popular than ever

"A BOOK advising married women to have affairs has sparked renewed interest in really bad advice. Experts say Catherine Hakim's *The New Rules of Marriage*, which claims that having affairs makes relationships stronger, shows a demand for self-help advice that is not merely trite but actively harmful.

Publisher Julian Cook said: "The market for bad advice is huge, as can be seen from the success of books like *Eat Yourself Smart, She's Crying Because She's Happy* and *Live It Up, You Could Die Tomorrow*.

"Our latest title, *Kill Your Inner Fat Pig*, applies Sun Tzu's *The Art of War* to dieting by regarding all types of food as a dangerous enemy, and is currently doing very well in the teenage market.

"Basically people want quick fixes for complex problems, which bodes well for our forthcoming title *Quick Fixes For Complex Problems*."

- From The Daily Mash article entitled 'Bad advice more popular than ever'.

Reader contributions will be gratefully received, but right up there alongside 'Eat Yourself Smart' has to be the unsolicited advice from the UK's former chancellor, Alistair Darling, to its current chancellor, George Osborne, to "Act Now" on the economy. Osborne's policies have "simply not worked". When you have served as finance minister for the government that gave the UK the worst fiscal deficit in the G20, and doubled the national debt, you might be tempted to shut your pie-hole, one might have thought. But this is politics, and neither familiarity with life on planet earth, nor any form of financial common sense, is required. Speaking of economic cretinism, Darling's sage advice recalls the comparably informed counsel that is Paul Krugman's ode to ineffectual hand-wringing, 'End This Depression Now !' Krugman gets to flaunt his robust intellectual grasp of economics twice a week in The New York Times, which presumably has some kind of death wish. Readers still in full possession of their faculties may prefer to take the clearer analytical waters at Krugman In Wonderland.

We already shared our preferred take on the western economic condition, which came via Mr Takashi Ito and the FT's letters pages. On the basis that a sensible observation never really tires amid an environment overloaded with clownish shrieking, we republish Mr Ito's observation below:

"..for so long people have sneered at the Japanese for their inability to steer their economy to recovery. Perhaps because they have sneered so much, it is no longer possible to admit that after a huge housing bubble bursts, there is nothing to do except suffer many years of economic indignity."

New Labour helped make the bed of economic indignity, so it may as well lie in it.

Fund manager and blogger Terry Smith was also moved to write about the idiocy cascading out of Whitehall last week:

"First there were reports that the government is considering plans to stimulate housebuilding. These were followed by an open letter from Alastair Darling the former Chancellor in which he urged the government to change course and take 'urgent action to promote growth' including building more houses and other infrastructure projects. Then this was followed by the grim figures for the public finances just in. July is usually a good month for the taxman, such that government finances were in surplus (by £2.8 billion) this time last year. The latest figures, however, reveal a sharp (£3.4 billion) deterioration, to a deficit of £0.6 billion.

These figures come as no great surprise to me or my colleague Dr Tim Morgan who publishes research for Tullett Prebon. We have both been warning that there are in effect no spending cuts despite the propaganda to the contrary and that the growth on which the government was relying to correct the deficit would not arrive. Now it is proving to be so.

I suppose I also shouldn't be surprised that both the government and Alastair Darling put forward housebuilding as one of the solutions to this problem of a lack of growth. Neither seems to have considered the following factors:

1. An obsession with home 'ownership' (with a 100%+ interest only mortgage – hence the inverted commas) was part of the cause of the financial crisis;

2. In the most successful economy in Europe – Germany – less than half the population own their home; and

3. No one has ever managed to export a house.

By the way, the government is talking about promoting 'affordable housing'. For those of you familiar with Hutber's Law, if there is such a thing as 'affordable housing' what does that make the remainder?

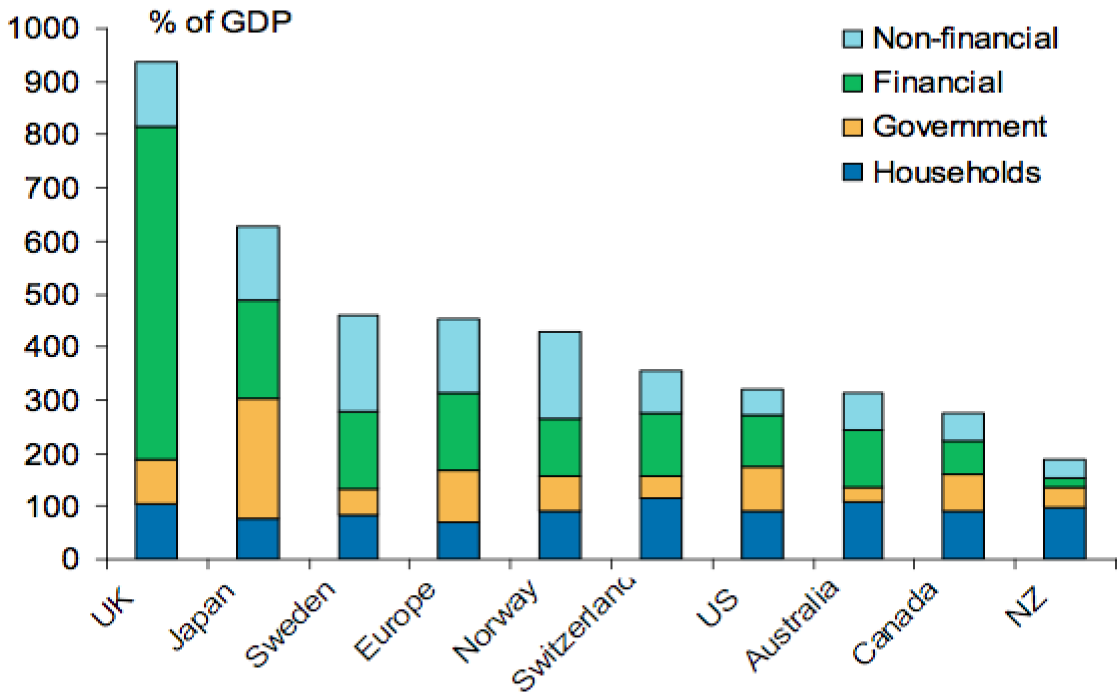
So I am not surprised that the UK's public finances are deteriorating rather than improving, or that the government and at least one member of the Opposition think that promoting more housebuilding is part of the solution rather than the problem, but I must admit I am surprised by Alastair Darling's intervention because I had him in the sensible camp. It's particularly disappointing that he points to the current low interest rates as evidence that the government could borrow to undertake a programme of building infrastructure projects and houses. He seems to have missed the fact that such rates exist: a) because of the contrast between the UK's statements on correcting its deficit and the train wreck which is taking place in the Eurozone. Of course, at any moment, the bond markets may just spot that this is all baloney. The July public finance figures are just the sort of catalyst for this; and b) the government owns over a third of its own bonds through the Quantitative Easing programme. It is unlikely that the government will set the same rate at which it will buy its own bonds as an external investor would.

At some point someone like Ed Balls or Alastair Darling may get to a position of power again and launch a policy of increasing borrowing even more than it is growing already (bear in mind that the public debt is still rising-they are trying to reduce the deficit, there is no likelihood of a surplus) in order to pursue this attempt to borrow and spend their way out of debt crisis. If they do, it will be amusing to watch the outcome, from a safe distance."

The world's largest bond fund manager, Pimco's Bill Gross, warned over two years ago that UK Gilts were resting on a bed of nitroglycerine. Gross was evidently somewhat premature in his warning, but that does not make him wrong in anything substantive, except perhaps his timing. Everybody knows that the UK's indebtedness is a huge cause for concern – but then so is just about everybody else's throughout the western world. Factor in bank sector debt, however, as Morgan Stanley does in the chart below, the aptly named 'Exhibit 1', and the UK manages to make even Japan look good by comparison.

Exhibit 1

G10 Debt Distribution



Source: Haver Analytics, Morgan Stanley Research

At some point this is all going to go horribly wrong, what with UK sovereign risk and banking risk having become effectively fused (under the last Labour government). The only thing we don't know is when. But with Gilt yields already so pitifully low, why take the risk – when you can own more creditworthy sovereign bonds at much higher yields ? That Gross' 2010 admonition has so far come to naught only shows the extent to which central banks globally have so far managed to keep hundreds of balls in the air. Sooner or later one of them has to drop. And as Reinhart and Rogoff make clear in their encyclopaedic analysis of financial crises, 'This Time is Different', the likes of sovereign default (or let us be gentler and use the term 'restructuring') tend to bring in their wake other malign financial effects, such as "inflation, exchange rate crashes, banking crises, and currency debasements". That we have experienced some of these already does not preclude us suffering from more of the same, perhaps with even greater intensity. Hedging against these outcomes may or may not constitute bad advice.

Right, that's it. We're about to hit the beach. The commentaries will be back, refreshed, and offering yet more cheery investment guidance, in late September. (Austria, since you ask. In our quest for good beaches, we may have been misinformed.)

Tim Price
Director of Investment
PFP Wealth Management
28th August 2012.

Email: tim.price@pfpg.co.uk Twitter: timfprice

Weblog: http://thepriceofeverything.typepad.com Group homepage: http://www.pfpg.co.uk

Bloomberg homepage: PFPG <GO>

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