

Little by little, we went insane

“It was begun in good faith, by decent people, out of fateful misunderstandings, American overconfidence, and Cold War miscalculation. And it was prolonged because it seemed easier to muddle through than admit that it had been caused by tragic decisions made by five American Presidents belonging to both political parties.”

- Peter Coyote (narrator), *The Vietnam War*, directed by Ken Burns and Lynn Novick.

“*The Vietnam War* is both the most powerful film Burns has produced, and the most despairing. There's no optimism here, no moments of lyricism.. By the end of the fascinating, sometimes wrenchingly hard to watch 18 hours, it's impossible to regard the Vietnam War as anything other than an agonizing failure, one that taught Americans to be cynical about a government that lied to them, sent Americans off to risk their lives, and made one costly bad decision after another.”

- Kristi Turnquist, *The Oregonian*.

If it looks like insanity, smells like insanity, tastes like insanity, feels like insanity and struts about barking, “This is insanity”, then perhaps it might just be insanity.

We were in the jungle. We had too much money. We had too much equipment. And little by little, we went insane.

Not the words of Mario Draghi – yet. Nor of Jerome Powell, Mark Carney or Haruhiko Kuroda – yet. They are the words of film director Francis Ford Coppola in relation to his magnum opus, *Apocalypse Now*, a film that so outrageously exploded beyond its budget and beyond any reasonable compass that during its making it started being referred to as *Apocalypse Later*.

Coppola's unique vision came at a price. What was expected to be a 14-week shoot in the Philippines ended up taking more than a year. Coppola fired his leading man, Harvey Keitel, after just two weeks. His replacement, Martin Sheen, turned out to be fighting alcohol addiction and suffered a heart attack on set.

Numerous members of the crew went down with tropical diseases. At key points, helicopters hired for pivotal action sequences were suddenly redirected to quell a revolt in the southern Philippines. Then a typhoon hit, the set was destroyed and the production was shut down.

Throughout all of it, Coppola was dealing with increasingly worried money men back in Hollywood as the film's budget ran dry. As the film's scriptwriter, John Milius, pointed out:

Studio executives, you know, are not noted for their social courage.

And then Marlon Brando arrived on set, so hugely overweight as to be almost unrecognisable. He didn't have the barest knowledge of the script. Then he shaved all his hair off and insisted on improvising all of his scenes.

And there were actual dead bodies on the set, bought to add some 'atmosphere' from a local who turned out to be a grave-robbler.

Coppola had sunk his own life savings into the film. He faced financial ruin if he couldn't finish it. He suffered a nervous breakdown and on at least three separate occasions allegedly threatened to commit suicide.

"My movie is not about Vietnam," he once explained, "my movie *is* Vietnam."

Central bank monetary policy, 2008-..?



The markets are not about Vietnam. They are Vietnam. There's a difference, of course. When a film studio runs out of capital, the production gets shut down.

Corporate resources can only ever be finite. But when a government runs out of capital, it simply borrows more. Or taxes more. Or both. At least for as long as it has access to credit by way of maintaining the confidence of the bond market.

Practically every western government has got its finances into a desperate mess. In the words of US fund manager Paul Singer of Elliott Management,

America is deeply insolvent, and for that matter, so are most of continental Europe, the UK and Japan.

For as long as governments can perpetuate the illusion of solvency, they can continue to borrow, and therefore also to spend. But once the illusion is broken..

We all know that Japan is drowning in debt, which makes Japanese Government Bonds about the most dangerous asset in the world right now – alongside, that is, almost everybody else's government bonds.

But the vulnerability of the UK's creditworthiness is less widely appreciated. Any Corbyn / McDonnell government, allied with income tax rises and the imposition of "one-off" wealth taxes, will test the stability of Gilts, and the pound sterling, to destruction. Hence the *Sunday Times* front page [splash](#) last weekend:

Rich List 2019: wealthy prepare to flee Corbyn's Britain.

How to mitigate the risks of a potential Corbyn / McDonnell government ?

Merryn Somerset Webb in *MoneyWeek* provides some helpful perspective and advice:

Labour is promising much higher taxes, much higher spending and significant-sounding levels of asset confiscation. That's not likely to be good news for anyone who has wealth or who is trying to build it (in which I include the 9.5 million people in the UK auto-enrolled into equity-holding pension schemes). The obvious question – and the one readers keep asking– is how does one prepare?

It isn't easy. You might sell any property that isn't your primary home – second homes, and buy-to-lets in particular, are the most obvious of wealth tax targets.. Perhaps fix your mortgage on your main home while you are at it: unfunded spending promises will hit the pound, create inflation and push interest rates up. If you are a high earner (on £70,000-£80,000-plus a year) and have the capacity to bring income forward in order to avoid fast-rising additional rates of income tax (there is talk of 70%), now might be time to do that. Also make sure that you are using up all your allowances: capital gains is bound to rise under a Labour government, for example. I'd also top up pensions and individual savings accounts (Isas), with the caveat that a Corbyn government could easily force redirection of the assets within pensions in particular. Can you imagine a scenario in which a fiscally bombed out government puts in place

regulations requiring all pension assets over, say, £500,000-a-head, to be invested in, say, perpetual “national regeneration bonds?” Quite.

We would add: don’t ignore far cheaper foreign stock markets with far less visible political risk. In its drift to meaningless centrism, the Conservative Party has abandoned its traditional commitment to fiscal prudence, whilst simultaneously being sidetracked by botching Brexit. But the UK is hardly alone in already running its national treasury on empty, on “extend and pretend” and can-kicking. Little by little, even more incredible monetary policy adventuring, like [MMT](#), creeps into the policy debate like an early stage cancer.

Not one single major western government possesses a stable balance sheet. Everybody has thrown caution to the winds, in the illusory hope that ultimately somebody will pay.

If you hold western government bonds, that somebody is likely to be you.

Actions have consequences. Governments are no different from individuals or corporations or film studios in this respect – they can merely perpetuate the myth of solvency for longer, given the credulity of global capital markets and of agency investors with no real skin in the game in their bond portfolios.

But at some point, the piper must be paid. Which is why every major western government is determined to inflate, and pay the piper (bondholders) in ever more worthless paper money.

And this is why the euro zone now has interest rates at below zero. The natural corollary to universal currency debasement is to own a currency and durable store of value that cannot be printed on demand. If only we could [find one](#).

The tragedy of the Vietnam War was a tragedy of many things, not least as an increasingly painful human reflection of the sunk cost fallacy and of the dangers of executive groupthink. Thank goodness our monetary policy authorities and politicians aren’t vulnerable to those same pressures today.

www.pricevaluepartners.com



@timfprice

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](#). You can access the archive of our regular ‘State of the Markets’ podcasts, with Paul Rodriguez of ThinkTrading.com, [here](#).

Price Value Partners manage investment portfolios for private clients. We also manage the VT Price Value Portfolio, an unconstrained global fund investing in Benjamin Graham-style value stocks and specialist managed funds.

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 I05/2/KC1405.