

One good scare

“I have come here to chew bubblegum and kick ass.. and I’m all out of bubblegum.”

- Apparently adlibbed by Roddy Piper in the John Carpenter dark economic satire [They Live](#).

“You know, it’s Halloween. I guess everyone’s entitled to one good scare, huh ?”

- Brackett (Charles Cyphers) in *Halloween*.

Readers may be interested to hear our recent interview with the entrepreneur Toby Baxendale in the latest [State of the Markets podcast](#).

The film *Halloween* is not just a cracking atmospheric piece from the early career of its director John Carpenter, but at the time of its release was the most successful independent film ever made. Made on a shoestring budget of \$320,000 it managed to gross over \$40 million. This correspondent has always been a fan of John Carpenter, from an early enough age to crowbar ‘Die Filme von John Carpenter’ into his German O-level oral exam, and even the not-so-great releases have always had something intriguing about them. *Halloween 3*, for example, narratively unrelated to its two predecessors, managed to briefly snare the creator of *Quatermass*, Nigel Kneale, as its scriptwriter, before a spat about overly graphic effects severed the connection. Notwithstanding the season we’re now in, given the economic and political climate, two other Carpenter sci-fi / horror classics seem more than usually relevant: *The Thing*, and *They Live*.

Here is what we wrote about *The Thing* – a reboot of the Howard Hawks original – last year:

John Carpenter’s 1982 classic *The Thing* is the last great hoorah for pre-CGI special effects in film, courtesy primarily of creature effects maestro Rob Bottin. Everything you see on screen is “real”, in a way that digitised extra-terrestrial gore will never quite manage to be – the same way some folk prefer vinyl over CD. The premise is straight from the Cold War deep freeze. A crashed UFO long buried deep in the

Antarctic is uncovered and its pilot, none too happy at the turn of events, thawed out. Said pilot possesses the creepy ability to mimic and replace **exactly** any life form it encounters. Exactly, and messily. Pretty soon the dozen- strong members of an American research station start to look at each other with fresh eyes – in some cases, quite literally. Before long, the base disintegrates into a chaotic stew of paranoia, mutual distrust, and the most unnervingly revolting special effects ever committed to a mainstream movie. (At one particularly notorious point, for example, a disembodied head grows legs like a spider and scuttles away from the flaming corpse that once housed it.) Clark, the base’s dog handler, becomes an early suspect as someone who is not quite what he appears. One of the team, Blair (A. Wilford Brimley), sees the existential threat posed by the alien if it ever makes it out to civilisation and starts to demolish the base’s radio room. As he is bundled out into a makeshift cell, he sighs, “I don’t know who to trust,” and he grimly adds a warning:

Watch Clark. Watch him close.

We live in a culture in which the glue is trust. As the historian Yuval Harari points out in [this conversation](#), and in his excellent book *Sapiens*, trust is the raw material from which all types of money are minted. Money is, in fact,

the most universal and most efficient system of mutual trust ever devised.

The downside to this social construct, and its fundamental flaw, is that it is entirely intangible: “the crucial role of trust explains why our financial systems are so tightly bound up with our political, social and ideological systems..”

So what happens to the value of money when trust in our political, social and ideological systems flies out the window ? Stay tuned..

.. The insoluble problem is that our monetary elites have perhaps fatally tainted the well. They have, quite literally, **abused our trust**. It turns out that if the Swiss central bank can simply print money out of thin air and use it to buy Apple stock, while the rest of us are obliged to convert the sweat of our brow to the same end, a growing number of rational investors will rightly revolt at this abuse of the monetary standard (and manipulation of the price of Apple stock and its various peers). If the game is fixed by the referee, why continue playing ?

The mills of God may grind slowly, yet they grind exceedingly small. We have been forced to watch for over three decades as governments displayed shameless market abuse by pumping up the bond supply and printing sufficient unbacked, illusory money to enable them to do so. This shabby parlour trick may have reached its denouement. The skies are finally darkening, accompanied by the clattering hooves of bond market vigilantes riding back into town. The three decade bond market bull run gives every sign of being conclusively **done for**. Since the declining rate cycle powered other risk assets, notably property and common stocks, dramatically higher, then its ultimate reversal carries stark implications for those same risk assets. Property,

especially high-end property, being somewhat bond-like as an asset, hardly looks especially appealing today – unless you're trying to short it.

There is process, and there is outcome. We cannot control the outcome, certainly not in the short run, but we can at least influence it by way of a sound process. In the absence of complete foreknowledge as to the future, we spread our portfolio risk across only the soundest and most compellingly attractive 'value' stocks; uncorrelated funds; and hard, real assets. In the absence of foreknowledge, sound diversification is the **only** intellectually and mathematically defensible market response. But beyond anything else – **watch bonds**.

That call to be wary of fixed income was clearly premature. But the following recent Twitter exchange with a friend has relevance to the topic:

Me: "Unlike Bill Gross, I make no attempt to time this. I'm merely pointing out the horrific lack of value in bonds and the real value elsewhere."

My friend: "100% agree. I've learnt from painful experience that the best way to express macro calls is (pretentious word alert) apophatically."

At this point another Twitter user waded in and asked for the meaning of the word (this correspondent hadn't heard of it, either). To which my friend responded:

"Express macro concerns by avoidance rather than specifically betting on the negative macro outcome. For example: don't own bonds."

Chances are you've experienced someone speaking *apophatically* – apophasis being a rhetorical style particularly popular with politicians. Donald Trump is a master at it. For example, in 2015 he said of his rival and former CEO of Hewlett-Packard, Carly Fiorina,

"I promised that I would not say that she ran Hewlett-Packard into the ground, that she laid off tens of thousands of people, and she got viciously fired. I said I will not say it, so I will not say it."

Used rhetorically, apophasis is clearly a sneaky manoeuvre.

But used in an investment context, it's altogether more down-to-earth.

It essentially means: if you don't really understand the rules of the game, or if the price of something seems unsustainably high, don't try and benefit by speculating (selling it short) because that's too dangerous.

It's easier, and altogether less risky, *just to stop playing the game*, and go play a different game somewhere else.

So we play our different games – in value stocks, trend-followers, and gold.

They Live represents one of John Carpenter's cultier efforts. Over to [Cinephilia and Beyond](#):

During the 1980s, John Carpenter stumbled upon a comic book based on Ray Nelson's 1963 short story entitled 'Eight O'Clock in the Morning' [which you can read [here.](#)] Enraged by what he saw in Ronald Reagan's America, the filmmaker saw the story as a suitable premise for a cautioning science-fiction action thriller that the world would get to know in 1988 under the sinister name *They Live*. A thrilling, funnily written SF action flick was dressed in the garments of a B-movie, honouring the films Carpenter grew up on, but what was hidden barely beneath its cheesy surface was an ingeniously simple and straightforward but effective subversive film that stands out as one of the most memorable and most influential counterculture movies of the decade. The premise is as simple as this: an unemployed American everyman comes across a special set of sunglasses that enable him to look at the world and see what it really is: a dollar-ridden circus of mass consumption, advertising and subliminal messaging that condition inert, sleeping citizens to spend money, consume and breed. The society is run by physically disfigured aliens resembling skeletons of human beings, masquerading as yuppies who helm the consumer society of which Los Angeles, the setting of the story, is a living embodiment.

One writer more than any other has identified the hypocrisy, mendacity and idiocy of so many within our political class over Brexit (and much else besides), namely the philosopher John Gray. As the UK wends its grinding way to independence from the EU, or not, here is what Gray wrote in his essay for *The New Statesman*, '[Brexit has left the British political class trapped by its own history](#)', in March this year (before we were supposed to leave, for the first time):

The impact of leaving without a deal would nevertheless be profoundly destabilising. The British party system would be violently reconfigured. Many take for granted the Conservatives would be out of power for a generation, but this is not at all obvious. More likely they would become a demagogic party led by Boris Johnson, a figure reminiscent of Beppe Grillo, the comedian and co-founder of Italy's Five Star Movement, while Labour would fracture into a hard-left caucus with a rump of disoriented moderates. Varieties of populism would be the most powerful forces, while the centre would be enervated and directionless. British politics would, at last, be Europeanised.

The impact on the EU could be even greater. Retaining an independent currency and controlling its public spending, Britain could mitigate the shock through monetary expansion and aggressive fiscal stimulus. Locked into an inflexible currency union and restrictive rules on spending, eurozone countries can do neither. Almost inevitably, the march of the far right would gather speed.

It is not only a hard Brexit that could destabilise the EU. Another financial crisis could test the euro to breaking point. Uber-Remainers who seek shelter in the imagined safety of the EU are not living in the real world. In this they are like the established political classes in every Western country. There is nothing singularly British in the failure to understand the present. Screening out the continuing disintegration of the post-Cold War order is the response of liberal elites everywhere. All of them act on

the assumption that the turn to authoritarianism is an anomaly, which must eventually be followed by reversion to liberal normalcy.

In fact, as John Maynard Keynes noted in his exquisite essay of memoir, “My early beliefs”, it is a liberal order that is historically anomalous. Addressing a Bloomsbury audience in 1938, he mocked the faith in human rationality that he shared with much of his generation at Cambridge in the years before the First World War. “This pseudo-rational view of human nature,” Keynes declared “led to a thinness, a superficiality, not only of judgement, but also of feeling... The attribution of rationality to human nature, instead of enriching it, now seems to me to have impoverished it.”

Keynes renounced his youthful faith in reason after watching Europe’s slide into chaos and barbarism following the botched Versailles peace conference in 1919. Securing a decent modicum of civilisation today requires an unflinchingly realist view of the deciding forces of politics, not blind faith in floundering liberal utopias.

The British political classes have made the same mistake that Keynes ridiculed in his early self. They have failed to understand some of the most powerful human needs. If a majority in Sunderland continues to support Brexit despite the threat it poses to Nissan expanding its operations in the area, the reason can only be that they are irrational and stupid. The possibility that they and millions of others value some things more than economic gain is not considered. Persistently denying respect to Leave voters in this way can only bring to Britain the dangerous populism that is steadily marching across the European continent.

Our politicians are wildly out of step with the people they purport to represent. Most of them are damaged goods, having campaigned on a key manifesto pledge – only the most important political decision for a generation – that they are now happy to ignore or prevent. The sense of popular outrage is palpable. Failure to leave the EU by Halloween itself threatens to be incendiary.

They Live, one of John Carpenter’s more underrated films, is notorious for a fully five-minute long extended fight sequence between (professional wrestler) Roddy Piper and the film’s co-star, Keith David. [Cinephilia and Beyond](#) describes it as follows:

[the fight] could be seen as Carpenter’s desire to profit from Piper’s dominant masculine physique, as a tribute to John Ford’s *The Quiet Man* and as a simple wish to satisfy the expectations of Piper’s fan base. On the other hand, if we consider the fact that the fight is going on between two friends who are basically on the same side, it wouldn’t be a stretch to at least consider the possibility that Carpenter envisioned the long, exhausting and almost pointless brawl as a vehicle for conveying one of the main points of the film: that we keep on wasting our time and energy fighting among ourselves, when we should simply put on the sunglasses and focus on the real enemies.

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Ref 127/2/KC2210.