

Take Shelter 2.0

“The most terrifying words in the English language are: ‘I’m from the government and I’m here to help.’”

- Ronald Reagan.

“When Nobel Prize-winner Joseph Stiglitz was asked in Germany this week if the country and its neighbours would suffer a lost decade, his response was unequivocal. “Is Europe going the same way as Japan ? Yes,” Mr Stiglitz said in Lindau at a meeting for Nobel laureates and economics students. “The only way to describe what is going on in some European countries is depression.”

- ‘Spectre of Japan-style lost decade looms over eurozone’, Claire Jones, *The Financial Times*, August 22, 2014.

Few films have managed to convey the feeling of approaching menace more effectively than Jeff Nichols’ 2011 drama, *Take Shelter*. Its blue collar protagonist, Curtis LaForche, played by the lantern-jawed Michael Shannon – whose sepulchral bass tones make his every utterance sound like someone slowly dragging a coffin over a cello – begins to suffer terrifying dreams and visions. The family dog attacks him. Storms rain down thick, discoloured liquid, like motor oil. He begins to worry about his own mental health, given that his mother was diagnosed with schizophrenia at a similar stage in her own life. He responds by building a storm shelter in his back yard. Are his ominous visions simply hallucinations ? Or are they portents of darker things to come ?

Nichols, the film’s writer and director, has gone on record as stating that at least part of the film owes something to the financial crisis:

I think I was a bit ahead of the curve, since I wrote it in 2008, which was also an anxious time, for sure, but, yeah, now it feels even more so. This film deals with two kinds of anxiety. There’s this free-floating anxiety that we generally experience: you wake in bed and maybe worry about what’s happening to the planet, to the state of the economy, to things you have no control over. In 2008,

I was particularly struck with this during the beginning of the financial meltdown. Then there's a personal anxiety. You need to keep your life on track—your health, your finances, your family..

We first wrote about *Take Shelter* five years ago. Five years would normally be considered a long time in financial markets, but it might as well have been yesterday:

There's a degree of pretension in claiming to have a reliable read on the psychology of the marketplace – too many participants, too much intangibility, too much subjectivity. But taking market price index levels at face value, especially in stock markets, there seems to be a general sense that since the near-collapse of the financial system six years ago, the worst has passed. The S&P 500 stock index, for example, has just reached a new all-time high.. But look at it from an objective perspective, rather than one of simple-minded cheerleading: the market is more expensive than ever – the only people who should be celebrating are those considering selling.

There are at least two other storm clouds massing on the horizon (we ignore the worsening geopolitical outlook altogether). One is the 'health' of the bond markets. Bloomberg's Mark Gilbert points out that Germany has just issued €4 billion of two year notes that pay no interest whatsoever until they mature in 2016. The second is the explicitly declining health of the euro zone economy, which is threatening to slide into recession (again), and to which zero interest rates in Germany broadly allude. The reality, which is not a hallucination, is that years of Zero Interest Rate Policy everywhere and trillions of dollars, pounds, euros and yen pumped into a moribund banking system have created a 'Potemkin village' market offering the illusion of stability. In their June 2014 letter, Elliott Management wrote as follows:

“..Stock markets around the world are at or near all-time nominal highs, while global interest rates hover near record lows. A flood of newly-printed money has combined with zero percent interest rates to keep all the balls suspended in the air. Nonetheless, growth in the developed world (US, Europe and Japan) has been significantly subpar for the 5 ½ years following the financial crisis. Businesses have been reluctant to invest and hire. The consumer is still “tapped out,” and there are significant suppressive forces from poor policy, including taxes and increased regulation. Governments (which are actually responsible for the feeble growth) are blaming the shortfall on “secular stagnation,” purportedly a long-term trend, which enables them to deny responsibility..

“The orchestra conductors for this remarkable epoch are the central bankers in the US, UK, Europe and Japan. The cost of debt of all maturities issued by every country, corporation and individual in the world (except outliers like Argentina) is in the process of converging at remarkably low rates..

“..Sadly, financial market conditions are not the result of the advancement of human knowledge in these matters. Rather, they are the result of policymaker groupthink and a mass delusion. By reducing interest rates to zero and having central banks purchase most of the debt issued by their governments, they think that inflation can be encouraged (but without any risk that it will spin out of control) and that economic

activity consequently can be supported and enhanced. We are 5 ½ years into this global experiment, which has never been tried in its current breadth and scope at any other time in history.. the bald fact is that the entire developed world is growing at a sluggish pace, if at all. But governments, media, politicians, central bankers and academics are unwilling to state the obvious conclusion that their policies have failed and need to be revised. Instead, they uniformly state, with the kind of confidence only present among the truly clueless, that in the **absence** of their current policies, things would be much worse.”

Regardless of the context, stock markets at or near all-time highs are things to be sceptical of, rather than to be embraced with both hands. Value investors prefer to buy at the low than at the high. The same holds for bonds, especially when they offer the certainty of a loss in real terms if held to maturity. But as Elliott point out, the job of asset managers is to manage money, and not to “hold up our arms and order the tide to roll back”.. So by a process of logic, selectivity and elimination, we believe the only things remotely worth buying today are high quality stocks trading at levels well below their intrinsic value.

In five years, nothing has changed, even while the monetary insanity has intensified. Or rather, geopolitics have changed. Brexit (the referendum, if not quite yet the outcome) has happened. Trump has happened. Liberal “elites” have gone mad. John Gray for [The New Statesman](#):

The mistrust began with disinformation surrounding the Iraq War, increased with the global financial crisis and reached a recent peak with successive iterations of “Project Fear” in the Brexit information war. In Europe, distrust of liberal elites is reflected in the continuing advance of populist parties in Italy and Hungary, among other countries. In all these cases, such elites are being rejected because of their inability to handle crises seen to be of their own making. The near-meltdown of the financial system and chronic difficulties with immigration have all but destroyed the credibility of the liberal centre. No external intervention could have inflicted anything like the damage these episodes have done in undermining its authority. But it is a safe bet that plenty of liberals will continue to believe that outside forces have masterminded the decomposition of the political order they once believed permanent. Nothing will induce them to accept that they have authored their own undoing. With typically unthinking brio, David Cameron has explained Brexit as being a result of “populism”. His partner in the coalition government of 2010-15, Nick Clegg, seems to think much the same. Neither of them seems to have considered the possibility that their policies might have produced the populist reaction.

This is why liberals find conspiracy theory attractive. It serves to exonerate them from responsibility for what has gone wrong. Supported by liberals in all parties, a decade of austerity produced cuts in public services and infrastructure that damaged much of the British population. Liberals in all parties also promoted large-scale immigration. Anyone who suggested it might have costs as well as benefits, especially for the working poor, was denounced as racist. The rise of Ukip, and then of the Brexit Party, was the predictable result. Populism is the creation of a liberal political class that

blames its decline on the stupidity of voters. If the liberal idea is dead, as Vladimir Putin has claimed, it is liberals who have acted as his useful idiots and killed it.

We have just returned from a trip to the Edinburgh Fringe – an event that, as Dominic Frisby points out, sees the city’s population during August swell from roughly 480,000 to roughly **five million**. We participated in a [panel discussion](#) with MoneyWeek’s Merryn Somerset Webb, discussing the life, times and continued relevance of Adam Smith, widely credited as the father of economics.

Of the 195 countries in the world, about 160 of them – or 85% – will have tourists representing them in Edinburgh during August. They will collectively see almost 4,000 different shows – and almost 60,000 performances of them. And as Dominic points out, this entire event was conducted without any form of governmental administration:

This enormous growth was unplanned, unregulated and spontaneous. It happened quite organically. There was no quality control. Just thousands of artists, each with their own speciality, pursuing their own self-interest.

It’s chaos, but there is a weird, naturally occurring order to the whole thing. Turn up on time and don’t overrun. That’s all that matters. Apart from that there are no rules. Everything else seems to take care of itself. Every year there are a gazillion problems. But they all seem to sort themselves out without top-down directives.

Injustice and inequality is everywhere. But audiences are not taken from successful shows and redistributed among the less successful in the name of equality. Good work is rewarded, bad work isn’t.

The result is this amazing Fringe Festival – wonderful show after wonderful show. Audiences love it. It makes fortunes for the capital. And dreams, for some, come true.

Adam Smith’s almost magical “invisible hand” has brought us glories like the Edinburgh Fringe. The dead hand of government and central bank intervention, conversely, has brought us years of a Potemkin bull market, ZIRP and now NIRP, economic stasis, and a mounting feeling of dread as the monetary policy medicine cabinet yawns empty open. We still like gold – in fact now more than ever – and we still like defensive value. We still hate bonds and, for that matter, almost all forms of paper.

Over the past week, this correspondent has also been watching the Paramount Network series *Waco*, which covers the real-life 1993 siege of the Texas-based Branch Davidian sect by the FBI. The two primary sources are *A Place Called Waco* by a survivor of the experience, David Thibodeau, and *Stalling for Time: My Life as an FBI Hostage Negotiator* by Gary Noesner.

Noesner is played by Michael Shannon (reliable as ever). The sect’s leader, David Koresh, is played by Taylor Kitsch (outstanding).

The mission of the FBI – a US government agency – is to “protect the American people and uphold the Constitution of the United States”. *Waco* strongly suggests that in this case, it failed in both cases, spectacularly, and in some cases acted outside the law – murderously so.

The series makes for gripping, if grim, entertainment. It recalls the American obliteration by bomb, rocket and napalm of the South Vietnamese town Ben Tre in February 1968 during the Vietnam War. Associated Press reporter Peter Arnett covered the attack:

U.S. advisers said the heavy allied firepower hurled on the city to drive out the Viet Cong probably contributed largely to the deaths of at least 500 civilians and possibly 1,000. South Vietnamese officials say the enemy dead totalled 451. About 50 Vietnamese soldiers died, along with more than 20 Americans...Lt. Col James Dare of Chicago, commander of U.S. Advisory Team 93, said “we will never know for sure” the number of civilians who died...Maj. Chester L. Brown of Erie, Pa., spent hours over the city as an Air Force forward air controller directing helicopter and fighter-bomber attacks. “It is always a pity about the civilians,” he said.

The massacre gave rise to an infamous, and since much disputed quote:

It became necessary to destroy the town in order to save it.

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@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](#).

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