

PRICE VALUE PARTNERS

The Final Battle

“THE FINAL BATTLE WOULD NOT BE FOUGHT IN THE FUTURE.

IT WOULD BE FOUGHT HERE, IN OUR PRESENT.

TONIGHT...”

- From *The Terminator*, screenplay by James Cameron and Gale Anne Hurd.

“Faced with the choice between changing one's mind and proving that there is no need to do so, almost everyone gets busy on the proof.”

- J.K. Galbraith.

“The larger the mob, the harder the test. In small areas, before small electorates, a first-rate man occasionally fights his way through, carrying even the mob with him by force of his personality. But when the field is nationwide, and the fight must be waged chiefly at second and third hand, and the force of personality cannot so readily make itself felt, then all the odds are on the man who is, intrinsically, the most devious and mediocre—the man who can most easily adeptly disperse the notion that his mind is a virtual vacuum. The Presidency tends, year by year, to go to such men. As democracy is perfected, the office represents, more and more closely, the inner soul of the people. We move toward a lofty ideal. On some great and glorious day the plain folks of the land will reach their heart's desire at last, and the White House will be adorned by a downright moron.”

- H.L. Mencken, July 26, 1920, ‘Bayard vs. Lionheart’, *Baltimore Evening Sun*.

“**Few general elections,**” writes [Robert Tombs in The Telegraph](#), “can properly be described as historic. Fewer still mark a watershed in the way we are governed - perhaps one a century. In 1831, the victory of the Whigs under Earl Grey ensured that the old constitution would be reformed and a slow movement towards popular government began. The election

of 1910, won by the Liberals, marked a victory of "the People" over "the Peers" and heralded full democracy. And now the election of 2019 will decide whether that very democracy, created so slowly and so painfully, can still function in 21st-century Europe."

The UK General Election of December 2019 offers the electorate a binary choice (discounting the Liberal Democrat Party which is an affront to both those adjectives): between severing our ties with a failing, protectionist, technocratic Big State economic model – or ensuring that the UK economy becomes collateral damage in what could plausibly be the next major financial crisis (it turns out that imposing negative interest rates on banking systems tends to destroy them; who knew?). It hardly seems like a difficult decision to make, but that would be to ignore the steady infantilization of politics that has set in since the 2016 Brexit referendum, when for the first time in our history as a functioning democracy, the losing side in a legitimate plebiscite refused to grant losers' consent to the winners.

That infantilization can be most obviously seen in the grotesque bidding war that has erupted between Labour and the Conservatives over how much of our own, and our children's, and grandchildren's, money can be spent on virtue signalling bribery of questionable economic value. This is not, of course, a new development. The American journalist and essayist H.L. Mencken wrote an essay called 'Sham Battle' which was published in the *Baltimore Evening Sun* on October 26, 1936. In it, he wrote the following:

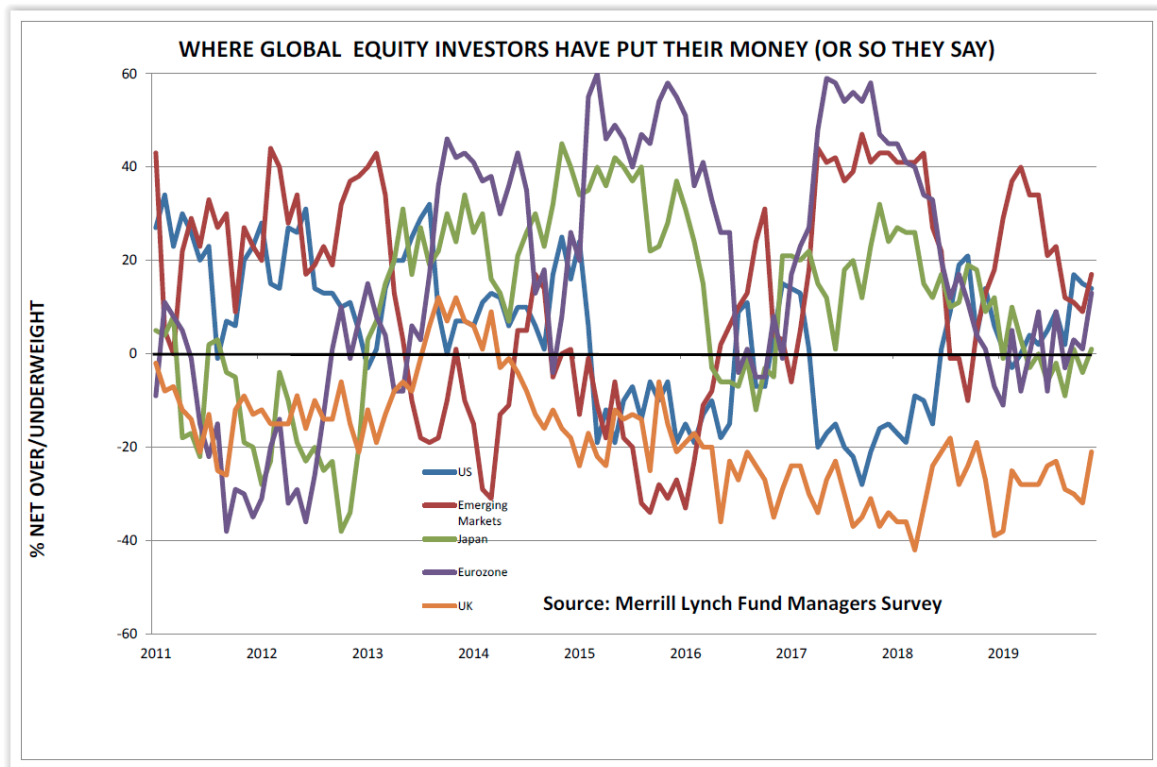
The state—or, to make the matter more concrete, the government—consists of a gang of men exactly like you and me. They have, taking one with another, no special talent for the business of government; they have only a talent for getting and holding office. Their principal device to that end is to search out groups who pant and pine for something they can't get, and to promise to give it to them. Nine times out of ten that promise is worth nothing. The tenth time it is made good by looting A to satisfy B. **In other words, government is a broker in pillage, and every election is a sort of advance auction sale of stolen goods.**

(Emphasis ours.)

A mature and sensible democracy would ask questions about the efficacy of government spending, as opposed to simply engaging in acts of chest-beating machismo over the size of the national chequebook. As Dominic Frisby points out in his excellent new book, *Daylight Robbery: how tax shaped our past and will change our future*,

You can find examples of state education and healthcare working well; you can find as many of them disappointing. But the endless arguments over both show how high levels of dissatisfaction are – much higher than in areas of the economy such as food, clothing or tech, where government is less involved in provision. The most commonly proffered solution is to spend more on health, education and welfare. It might be coincidence, but since the Second World War, health inequality in the UK actually grew most during the period (1997-2007) when the NHS had most, as a proportion of GDP, spent on it, suggesting that simply spending more might not be the answer.

Something about Britain is certainly spooking global investors; the latest Merrill Lynch Fund Managers Survey (h/t to SMBC Nikko's Jonathan Allum) has the UK as the least favoured market from among the US, emerging markets, Japan or the euro zone, as indicated below:



An outright Conservative majority following the election would plausibly kill off two birds: it stands a good chance of delivering a clean Brexit (a consummation devoutly to be wished), and it kicks the threat of a Corbyn / McDonnell Marxist administration, with its almost inevitable attendant capital controls, into the long grass. Such a majority could plausibly also trigger a fairly heroic relief rally in UK stocks, and in the pound. Having been burnt before on political bets (notably in an ill-advised purchase of Tory seats ahead of the 2017 General Election), this correspondent will be watching and waiting before committing. We note, in passing, that the Japanese stock market sits at No. 4 in the pecking order of global fund managers – so plenty of scope there for further outperformance.

We wouldn't normally dwell so intensely on politics, but we agree with Robert Tombs' view that this election really is a game-changer of no small significance, in that any outcome other than an outright Conservative win would have grave implications for both our country's future and for genuine democracy and the rule of law. That, in turn, would clearly impact the UK's attractiveness as an arena for investment. As things stand, irrespective of the victor, given the squalid tussle over spending commitments, Gilts, for one, seem likely to be the loser.

In conclusion, Robert Tombs, again:

So our coming election, just as much or perhaps more than those of 1831 and 1910, is about how we are to be governed; or more exactly, whether we are to govern

ourselves. The trans-national establishment scoffs that this is mere nostalgia. One of the world's richest and most powerful states is incapable of doing what Norway, Switzerland and Singapore somehow seem to manage. Those taking this view have political attitudes that would have been familiar to Earl Grey in the 1830s: the common people are incapable of rational choice; they must follow the lead of the superior classes.

But even if the superior classes today - or indeed in the past - had shown themselves consistently capable of ruling in the interests of all rather than in their own, this would be a complete misunderstanding of democracy. **Democracy is not a system for discovering the "right answer" to political issues: we can rarely if ever be sure what the right answer is. Democracy, rather, is a system for creating consent and solidarity by allowing all to have an equal vote. For making people feel that the way they are governed, though not perfect, is at least one in which they are fairly consulted and their voices listened to. So that, even if they do not get their own way, they accept the outcome without trying to sabotage or evade it.** [Emphasis ours.]

That is what we have come perilously close to losing. Next month we have the chance to regain it, with all the opportunities and risks that democracy entails.

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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