

Yuck

“4. Article 8(1), (2), (3) and (7) of Regulation (EC) 443/2009 of the European Parliament and of the Council¹, and Annex II to that Regulation, and Article 8(1), (2), (3), (8) and (10) of Regulation (EU) 510/2011 of the European Parliament and of the Council², and Annex II to that Regulation, as well as Articles 2 to 5, 7 and 8(2) and (3) of Commission Regulation (EU) No 1014/2010 and Articles 3 to 6 and 8 and Article 9(2) and (3) of Commission Implementing Regulation (EU) No 293/2012³ shall apply to and in the United Kingdom in respect of the monitoring and reporting of relevant vehicle carbon dioxide emissions during the last year of the transition period.

5. Articles 5, 7, 9 and 10, Article 11(3), points (a) and (d) of Article 17(1), and Articles 19, 22 and 23 of Regulation (EU) No 525/2013 of the European Parliament and of the Council¹ and Articles 3, 7 and 11 of Decision No 406/2009/EC of the European Parliament and of the Council² shall apply to the United Kingdom in respect of greenhouse gases emitted during 2019 and 2020, and Article 5 of Commission Regulation (EU) No 389/2013³ shall apply to the United Kingdom until the closure of the second commitment period of the Kyoto Protocol.”

- Extract from the Draft Withdrawal Agreement between the UK and the EU, 14 November 2018.

“The first thing we do, let’s kill all the lawyers.”

- William Shakespeare, *Henry VI, Part 2*, Act IV, Scene 2.

“Due to planned maintenance, the page you are trying to reach is not available. Sorry for the inconvenience. Please try again later.”

- Text on the European Commission website, as at 15.11.2018, for anybody trying to access the text of the UK's draft withdrawal agreement from the EU.

It was nice of the EU to coordinate the release of the UK's draft withdrawal agreement with the centenary of the World War I Armistice. The continental powers missed a trick by not forcing Theresa May to sign the agreement in the Compiègne Wagon in which the 1918 Armistice was signed, and which Hitler deployed to similar effect in June 1940, this time with the Nazis having the upper hand. But the original Compiègne Wagon was destroyed during World War II – we all have to make compromises, and some of us clearly have recently had to make more compromises than others.

Size, it transpires, is the natural enemy to every living thing. That holds whether the entity in question is natural and organic, or bureaucratic and intangible (the EU). Here is what we wrote in the immediate aftermath of the Brexit referendum in June 2016:

So the British people have finally spoken. The Establishment, however, chose not to hear them, turning its perpetual tin ear to criticism from below. As the flag-bearer for an unaccountable, hypocritical and increasingly bewildered technocratic elite, Martin Wolf for the Financial Times inadvertently showed precisely why Remain lost:

The fearmongering and outright lies of Boris Johnson, Michael Gove, Nigel Farage, The Sun and the Daily Mail have won.. This is probably the most disastrous single event in British history since the second world war.

The BBC - like the Financial Times, another media institution that persists despite itself - also struggled to make sense of the UK's extraordinary decision to enter divorce proceedings with the EU. Extraordinary not because it was irrational, or xenophobic, or economically illiterate, or sado-masochistic, though that is what the Establishment evidently believed. But extraordinary because of the massed domestic and international forces that it managed to overcome: all of the main political parties, the IMF, the OECD, the CBI, the TUC, Goldman Sachs, JP Morgan, Morgan Stanley, most chief executives of FTSE 100 companies, and David Beckham. The majority of voters could tell when they were being patronised. As Johnny Rotten yelled at the crowd after the abbreviated last Sex Pistols concert at the Winterland Theatre in San Francisco,

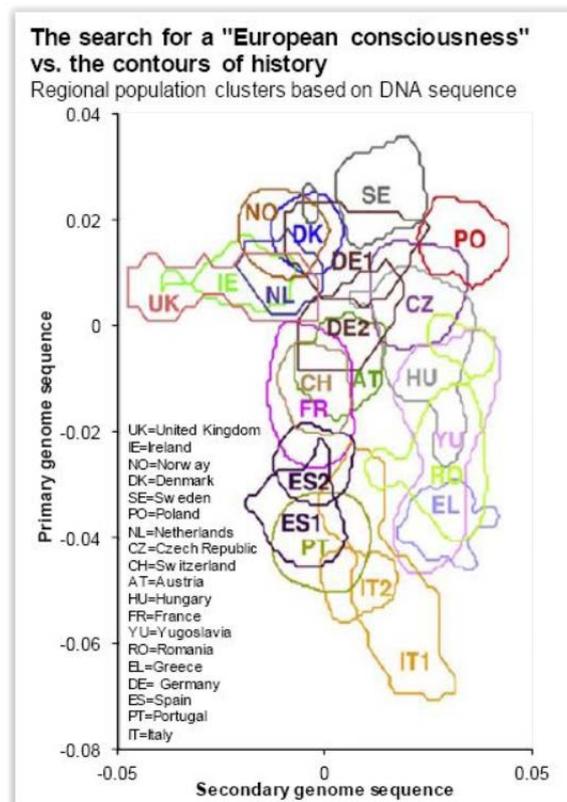
Ever get the feeling you've been cheated ?

What did 17.4 million British people vote for ? One can only speak for oneself. We voted for economic independence from a failing totalitarian socialist economic bloc. The euro zone isn't working – a literal truth for the unemployed young across Greece, Spain, Italy and Portugal.

The euro zone is a latter-day gold standard. Because its member countries have no control over their own monetary policy, they must accept a one-size-fits-all model. But what is appropriate today for an economy like Germany's is unlikely to be appropriate for an economy like that of Greece. (Which should never have been allowed to join in the first place – but then institutionalised corruption is another of the euro zone's fatal flaws. Are the EU's accounts and payments "free from material error" ? On this basis they haven't been signed off by the EU's own Court of Auditors for over 20 years.)

The euro zone is simply too big to function properly. Given the widely various cultures of the euro zone, it was always going to be a big ask for such a diverse patchwork of countries to try and move lock-step together.

As JP Morgan's Michael Cembalest points out, there is disturbingly little commonality amongst those disparate cultures. The graphic below shows DNA mappings of European citizens (courtesy of Current Biology Magazine, August 2008). While genetic variations are relatively small, those variations are tied very closely to geography. As Cembalest observes, by grouping similar DNA results together, we get something that looks very much like a map of Europe – a map that reflects "hundreds of years of migration, weddings, funerals, births, language, values passed to children, circumstances that call for charity, sacrifice, revenge and everything else that defines 'culture'."



Source: JP Morgan Chase & Co.

As Cembalest puts it,

The map shows clear patterns of ancestry tied to geography, which is perhaps why the EMU was designed to retain the region's fiscal, economic and cultural identities. Perhaps we should not be surprised that Northern Europe is struggling with whether it will mortgage its future to save the South.

And perhaps the ultimate will to save Europe simply does not exist. "In terms of shared experiences and values measured by anthropologists, and the contours of history implied by genetic research, they may not have enough in common. It took almost 150 years for the US to reach the same point in its history, when it began to cede more control to a Federal, centralised government."

Whenever sceptics expressed concern at the EU's uncertain direction of travel and its acceleration regardless, it was met with a standard response: the answer is more Europe. Well, not any more..

And here is what we wrote the previous month, in May 2016:

In the aftermath of the latest Berkshire Hathaway annual general meeting, we made the observation last week that size is the enemy of investment performance. Warren Buffett himself concedes this point; as he wrote in a letter to shareholders in 1989, "a high growth rate eventually forges its own anchor". Once a fund manager's assets under management become unwieldy, future returns are inevitably compromised. When Peter Lynch left Fidelity's Magellan Fund in 1990, for example, after 13 years with the Group, the fund was at \$13 billion in assets. By the time Morris Smith had left in July 1992, the fund was up to \$20 billion. On Jeffrey Vinik's departure in June 1996, assets were up to \$50 billion. By the end of the century, Magellan assets had grown to over \$100 billion (the fund was closed to new investors in September 1997 and peaked at almost \$110 billion in August 2000), only to see them fall back to \$52 billion on manager Robert Stansky's departure in 2005, through a combination of investment losses and investor outflows. Once you become the market, you cannot beat the market.

Size isn't just a barrier to efficiency in asset management. Beyond a certain limit, size threatens operational performance in just about every facet of life. In the words of the late Dr. Albert Bartlett, emeritus professor of physics at the University of Colorado at Boulder,

Continued growth past maturity for any entity becomes obesity or cancer.

Which is why, on 23 June 2016, this British citizen will be voting [to leave the European Union](#). The decision has little to do with whether the UK will temporarily be better or worse off outside the EU. It has everything to do with whether the project is any longer fit for purpose, and has become too big for its own good. The union we confirmed our membership of, in 1975, was something called the European Economic Community, also known as the Common Market. For a nation of shopkeepers, membership made complete sense. Britain has always thrived on international trade. But that is not what the EU has become. Britain never signed up to an ever-expanding political union among vastly disparate states. And most of the 'Remain' campaigners warning of Armageddon if the UK chooses to leave the EU were also warning of

Armageddon if we failed to adopt the single currency in the 1990s. The sad reality for them is that leaving the Exchange Rate Mechanism was one of the best things that ever happened to the UK economy.

The fundamental problem with the gigantism of the State, and the obesity – or cancer – of self-compounding central planning, was identified by Leopold Kohr. Kohr was an Austrian Jew who only narrowly escaped Hitler's Germany just before the outbreak of the Second World War. He had been born in Oberndorf in central Austria, a village of just 2,000 or so. Oberndorf's lack of size came to play a crucial role in Kohr's thinking.

Kohr graduated in 1928 and went off to study at the London School of Economics with the likes of fellow Austrian Friedrich von Hayek. In September 1941, Kohr began writing what would become his masterwork, 'The Breakdown of Nations'. In it he argued that Europe, far from expanding, should be "cantonized" back into the sort of small political regions that had existed in the past and which still existed in places like Switzerland, with a commitment to private property rights and local democracy.

We have ridiculed the many little states,

wrote Kohr sadly,

now we are terrorised by their few successors.

Kohr showed that there were unavoidable limits to the growth of societies, not least to the complexity that is a natural part of larger systems:

Social problems have the unfortunate tendency to grow at a geometric ratio with the growth of an organism of which they are a part, while the ability of man to cope with them, if it can be extended at all, grows only at an arithmetic ratio.

But as the European Union and its common currency bloc grow ever larger, they smash horribly into Kohr's thesis, and whatever economic dynamism they once possessed becomes sclerotic.

Take José Manuel Barroso's 2012 State of the Union address as President of the European Commission:

Globalisation demands more European unity. More unity demands more integration. More integration demands more democracy.

But the words he smears together in defiance of logic and plain common sense – unity, integration, democracy – have no meaning in his perfunctory Orwellian doublespeak. What democracy does demand is the primacy of the individual over the unelected Brussels technocrat. European democracy is going to be disappointed.

And euro zone economic policy is delusional. Despite the conspicuous failure of QE to reflate Europe's economy, Europeans are being promised more of the same. Despite interest rates having now become negative, the monetary beatings will clearly continue until morale improves. The EU's central bankers are in complete denial. ECB

Governing Council member Vitas Vasiliauskas, also the head of Lithuania's central bank, [commented](#) last week:

Markets say the ECB is done, their box is empty. But we are magic people. Each time we take something and give to the markets – a rabbit out of the hat.

Vasiliauskas is the perfect embodiment of EU monetary policy. A showman foisting magic tricks on an increasingly sceptical crowd.

Investment markets don't endorse gigantism or central planning. They favour choice, flexibility and competition. Our own investment exposure to the euro zone is extremely modest, focused almost entirely on smaller and nimbler businesses trading at attractive valuations, and we're unlikely to raise it any time soon. The people, workers and consumers of Asia, on the other hand, operate in a society not ossified by protectionist regulation and central planning. They want urgently to become wealthier, and we are very happy, by investing in them, to help them toward that end.

There is a saying about the 'myth' of first mover advantage and the risk taken by start-ups in business: the pioneers get the arrows; the settlers get the land. The economist, author and lecturer John Hearn last week tweeted ironically about the UK leading the charge and battling its way out of the technocratic quagmire of the EU:

It reoccurred, that nightmare that in ten years time we will still be negotiating to leave the EU and every other country has left.

Two quotations from our greatest ever wartime leader, Winston Churchill, now seem apposite to our country's current travails:

You have enemies ? Good. That means you've stood up for something, sometime in your life.

and

Never give in, never give in, never, never, never, never—in nothing, great or small, large or petty—never give in except to convictions of honour and good sense.

This *feels* like one of this nation's darkest hours. Here's to not giving in.

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