

ECONOMIC UPDATE

Winter 2010

'There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency'. John Maynard Keynes, father of, er, Keynesian economics – to which we are all subjected, more's the pity.

As wealth managers, who seek sound money and also honesty in politics and banking, like him or loathe him, we are inclined to agree with much of what Nigel Farage of UKIP says on economics. If you haven't seen him talk, you may wish to spend a few minutes watching this: [Nigel Farage on Ireland, Portugal etc and Euro 24 Nov 2010](#)

We do not agree with him that the Euro (by and of itself) caused the nation bankruptcies of Ireland and Greece, to name just two that have already happened and there are more due to happen. However, it didn't help. I remind you it took a civil war and 100 years for the US to accept a common currency. And they had one language!

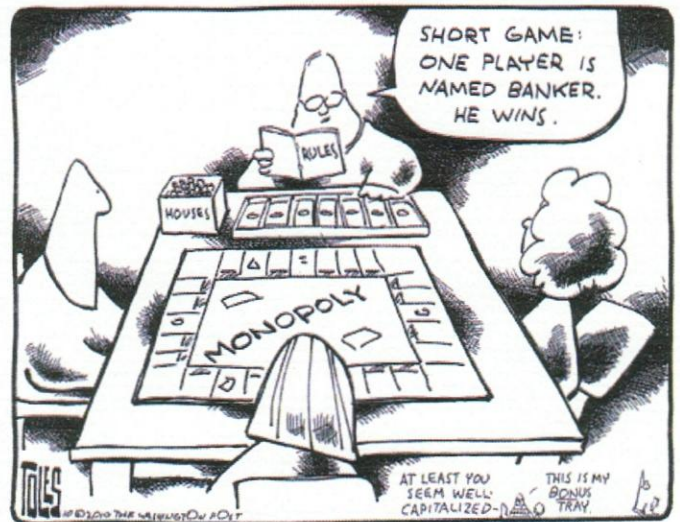
So, Ireland is now bankrupt. T'was inevitable due to the colossally bad lending over a decade. We, the UK taxpayers, are in hock for hundreds of billions of the debts. As we are for Spain and Portugal etc etc. Who'll bail us out...? The problem is the huge pretence that there is no major problem. The fact is we are in the fallout of the biggest debt bubble in history. The last one was Japan, as we wrote about in the Autumn Bulletin. The previous one, everyone knows a little about in the West, was in the 1920s, leading to the Great Depression of the 30s.

"Capitalism without failure is like religion without sin" Charles Kindleburger

All the apparent costs of all the issues in our society pale into insignificance to the amount we handed over to bankers.

Welfare cheats - £1.5Bns. Tax Evaders - £7Bns. Housing Benefit - £12Bns Etc.

Yet, we gave the bankers £850 Bns in 2009. This towers over EVERYTHING ELSE. All of our economic and societal ills would be averted if only our government had the gumption to tell the bankers 'never again will we bail you out'. We do not have capitalism in banking. We have socialism. When they make money they make money. When they lose money (never small amounts!) they are bailed out by the far less wealthy taxpayers.



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The day after any government made that announcement our currency would go through the roof. Import costs would plummet. We would have the most attractive nation on Earth into which to invest. Everything would be cheaper and we could start to borrow, spend, invest and employ. Until then, we shall more likely remain in Depression.

I fail to understand why elected politicians (anywhere apart from, apparently, little Iceland!) will not allow banks to take losses after they lent to consumers with no possibility of being repaid and to governments, like Greece and Ireland, at the same rate of interest as they were lending to the far more successful and prudent Germany. If any reader has a clue, let me in on it, please.

Until we sort out the banking system and industry we will not grow our economies.

George Osborne says he's sorting out our banking by levying a tax on profits of £2.5Bns. Yes, 2.5 v 850 we gave them. The bankers are again laughing their heads off while we pay extra taxes (direct and indirect eg tuition fees), have lower public services and higher unemployment etc. And they pretend they're doing something...

Just so readers realise how atheistic we are about politicians (i.e. they're all a shower), last time, we railed against New Labour. Well, as I am showing, The Tories are no better. Whenever they talk about 'the cuts' to help our finances, remember all they're *proposing* is a reduction in *the rate of increase* in spending. Thus, they'll take us back to 2006/07 levels – hardly major. There was an interesting programme on Channel 4 in November called Britain's Trillion Pound Horror Story. I wonder if you caught it. It was wholly opinionated, however it informed us of some interesting insights. For instance, there are c 6-7m employed by the state, one way or another. If you add up all the front line staff, namely, nurses, doctors, teachers, policemen, firefighters, soldiers etc, they come to 2m. What on earth do the others do? More to the point why will no government ever do anything about it, until its way way too late as in Greece and Ireland? Come on George, do what's best for the country and reduce how much we owe, not just how much we're borrowing.

GDP may not go significantly negative in the near future. Thus, they will say we haven't gone back to recession. However, without at least 2%+ growth each and every year it will feel like recession until we do get that kind of number consistently. We know unemployment will rise by hundreds of thousands and we know the long term unemployed numbers have risen dramatically. The numbers moving from full-time to part-time (involuntarily) have risen dramatically. The number of bankruptcies have risen dramatically. As will home and commercial property repossessions (just look on any High St for the To Let signs). GDP growth, without the majority experiencing it, is illusory and just statistics.

NB. If you are sitting in a traffic jam with your engine idling, that contributes to GDP. If you get divorced, that contributes to GDP. So, when they announce the monthly GDP statistic, take it with a pinch of salt. Perhaps a new definition of GDP is what is needed...

Who to trust with your money?

I see huge wealth managers, in this case UBS, are in the dock for funnelling \$2Bns of client investment funds to arch fraudster Bernie Madoff. Apparently, investors should trust multi billion \$ companies purely because of their size. No, I don't get that either.

Our most important and most often repeated mantra is seen widely on our website:

"We advise you based on what we would do, were we in your shoes, given what we know".

Who do you know who could benefit potentially from our advice? We await your contact or referral.

Please remember, investments can fall as well as rise. And they will!

With kind regards,



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