►On Target

Martin Spring's private newsletter on global strategy

June 7, 2014 No.176

Banking: Crisis by Design

After the devastating Sub-Prime Crisis, which has cost the world trillions of dollars' worth of lost economic growth, destroyed millions of jobs and businesses, and burdened taxpayers with huge state debts that continue to mount, you would expect implementation of radical reforms to prevent such a crisis from happening again.

Extraordinarily, it hasn't happened.

Almost all those who caused the crisis not only escaped punishment; some have even been handsomely rewarded. The mega-banks are bigger and more powerful than ever. The politicians who facilitated and encouraged the debt bubble of consumers now do the same for a new debt bubble, of governments. The regulators who completely failed to use their powers to fend off disaster have been given even more powers.

The guilty are rewarded. The innocents such as the thrifty suffer. And the stage is set for another, probably even worse, financial crisis, within a decade or three.

How is this possible?

Because, US academics Charles Calomiris and Stephen Haber explain in a new book*, it's a waste of time looking for people to blame. The problem is a financial system that's inherently dangerous because it fosters increasingly irresponsible behaviour. Yet it's a system the world's political classes are making no serious effort to reform – because that would be so damaging to their own interests.

It's a system of incestuous relationships between bankers and politicians that Calomiris and Haber call "the game of bank bargains."

A nation's most powerful private financiers negotiate a complex deal with coalitions of the most powerful political forces. The bankers provide the resources to fund the politicians' objectives, receiving in exchange the benefits of state support they need to shield them from risk, and allow them to maximize their profits.

Taxpayers and others left out of the deal pay the costs. Eventually, those can be enormous. The system encourages both the banks and the dominant political forces to become ever-riskier in their behaviour. The bubble of high-risk assets and unsound debt inflates till it bursts.

In the US, the "bargain" that produced the Sub-prime Crisis came from the emergence of a political coalition of activist groups for the poor and racial minorities and their political sponsors, and liberalization of legal restraints on banking.

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The latter opened up opportunities for big banks to become much bigger, more profitable and richer through expansion, particularly mergers and takeovers. But to do that required political support.

Leftish activists were keen to help. Their price was commitment by banks to provide vast amounts of credit to poor borrowers.

To make it possible for the banks to fund that, the activists lobbied for weaker underwriting standards at the huge government-sponsored enterprises (GSEs) that insure mortgage loans. The politicians obliged, not being willing to appear hardhearted and cruel.

Congress set increasingly tough targets requiring banks to lend to poor and low-income borrowers. To meet those targets, the banks had to lower their lending standards.

Calomiris and Haber report: “In 1990 a mortgage applicant needed a 20 percent down payment, a good credit rating, and a stable, verifiable employment and income history in order to obtain a low-risk, ten-year fixed-rate mortgage, but by 2003 she could obtain a high-risk, negatively amortizing adjustable-rate mortgage by offering only a 3 percent down payment and simply stating her income and employment history, with no independent verification.”

But “those weaker standards were applicable to everyone seeking a loan.” Millions of American families, not just the urban poor, leveraged up, buying bigger and nicer properties. They couldn’t really afford the loans, but it didn’t matter while house prices continue to climb, as they could always sell out at a profit.

The banks found they could lower their lending standards as they could pass much of the risk on to others, both the state-backed insurers and institutional investors who bought packages of securities that included chunks of “sub-prime” loans. As the business expanded, so did banks’ profits, and the easier it became to attract the funds to grow.

Only extreme measures prevented disaster

As the scale grew, so did the risks. Eventually the bubble, inflated by a lot of dodgy assets, burst. But the bubble had become so big and had spread so far, that when it burst it nearly paralyzed and destroyed the global financial system. Only extraordinary support measures by central banks and governments prevented catastrophe.

While Sub-prime was an extraordinary example of a crisis rooted in a bankers-and-politicians “bargain,” it was not unique. Calomiris and Haber devote most of their book to how the “game” has been played in several major countries over the centuries, explaining the common roots of one financial crisis after another.

Until the mid-20th century, the costs of bank failure tended to be borne by the bankers themselves, shareholders and depositors. Since then, bankers, regulators and politicians have progressively shifted those costs on to taxpayers.

And the costs have been enormous.

Over the period 1970 to 2011, the direct costs to taxpayers of saving bankers from the consequences of their own mistakes averaged nearly 7 per cent of GDP. Over a

similar period the loss of economic output from banking crises averaged 23 per cent of GDP.

Shifting the burden from bankers has encouraged them to imprudent behaviour, while shifting it from shareholders and depositors has reduced their incentives to discipline bankers.

Costly crises occur even though banking systems are subject to close regulation and supervision by governments. Regulation doesn't work because bankers can always afford experts who are cleverer than the bureaucrats, and because the regulators rarely enjoy strong support from the politicians, whose own interests are more likely to be served by laxity.

"A country does not 'choose' its banking system," the authors say, "rather it gets a banking system that is consistent with the institutions that govern its distribution of political power…

"Banking systems are susceptible to collapse only when banks both expose themselves to high risk in making loans and other investments, and have inadequate capital on their balance sheets to absorb the losses associated with those risky loans and investments."

To prevent emergence of bad banker-politician bargains that lead to costly financial crisis requires these kinds of reforms:

► The penalties for poor risk management must revert to those primarily responsible (bankers) and those who choose to take the risk of funding them (shareholders, bondholders and depositors).

No bank should be considered too big to fail, and taxpayers shouldn't be expected to pay the cost of saving them. There are far better ways of dealing with problems such as providing alternative credit sources for borrowers – state-owned savings banks.

The higher the certainty that foolish behaviour will be punished by personal loss, the less the need there will be for regulation to protect society.

► Political elites must be forced to provide for transparent funding of social objectives, not allowed to fund them through means that hide the costs and whom is ultimately going to pay – such as the risk in too-low lending standards.

Financial media have a particular responsibility to expose dangers that average folk don't have the expertise to recognize and understand.

► Banks must be required to have enough capital to finance the risks they take on, and forced to compete. It is particularly important to ensure that dangerous official policies such as easy-credit don't give undue advantage to mega-banks, the ones whose failures are potentially most damaging to society.

Politicians hide the unpleasant facts from voters

There needs to be periodic public review to see banks continue to warrant the privileges they receive, such as the protection from competition they enjoy through licensing. One reason why Canada has avoided financial crises, Calomiris and Haber say, is that its banks' licences come up for renewal every five years.

Reform of banking regulation, they warn, is difficult not only because banking is an inherently complicated subject, but also because dominant political coalitions "make it difficult for the majority of voters to see what is going on. Consider the

patchwork quilt of housing-finance subsidies in the United States, or the endless complexity of the Basel capital standards applied to banks.”

Reforms introduced in the wake of the Sub-prime crisis “have done little to end the subsidization of housing risk, to prevent banks from continuing to abuse the same system of capital regulation to hide risk, or to prevent too-big-to-fail bailouts.” Indeed, the Dodd-Frank legislation named for two legislators who were leading promoters of bad policies that brought about that crisis has actually “enshrined and institutionalized those bailouts while pretending to get rid of them.”

* *Fragile by Design: the Political Origins of Banking Crises and Scarce Credit, by Charles W Calomiris and Stephen H Haber. Pub. by Princeton University Press.*

Guidelines for Investors in ETFs

By Don Freeman

Exchange-Traded Funds are a great way to diversify, lower expenses and grow your money. My friend and co-founder of the Money Club in Chiangmai, Thailand, has written this useful guide.

Given that so few actively managed funds are able to consistently beat important market benchmarks, Exchange Traded Funds (ETFs) are great investments, because they track and replicate the performance of key market indices at minimal cost.

However, the popularity of ETFs has led to their proliferation with some being better investments than others. So what are the best ETFs to own, and which ones should you avoid?

Here are some general rules of thumb for selecting the right ones for your portfolio:

Buy ETFs that track important indices

ETFs tracking big-name indices or markets like the Dow Jones Industrial Average, the S&P 500 and the Nasdaq should form the bulk of your ETF portfolio of US equities, but don’t overlook those that track other big indices like the Russell 2000 (small company stocks), and those that track important sector indices (for example, the Dow Jones Utilities Average).

For international holdings, look to those that track important indices like London’s FTSE, Tokyo’s Nikkei or the MSCI Emerging Markets Index.

Don’t forget about bond ETFs which, like bonds, tend to do well in recessions or bear markets.

Avoid ETFs tracking obscure sectors or indices

ETFs have proliferated to such an extent that Vanguard’s founder John Bogle once sarcastically wrote in a *Wall Street Journal* op-ed: “Can you believe we now have an Emerging Cancer ETF?” That ETF, among others, has since closed after either failing to attract enough assets or after delivering poor returns to investors.

You should also be aware that Bogle has said that individual sector and country ETFs are probably “too narrow for most” investors, although there might be times when such investments make sense.

Stick with "plain vanilla" ETFs

There could also be times where having a small position in so-called "inverse" ETFs (which short the market), leveraged ETFs (which use leverage in an attempt to generate outsized returns), or those tracking non-traditional assets (commodities), can make sense.

However, you need to understand these ETF investments come with added and potentially significant risks. Vanguard's Bogle has gone so far as to say that inverse and leveraged ETFs are where the "fruitcakes, nut cases and lunatic fringe" can be found.

Avoid illiquid ETFs

A major problem with ETFs tracking obscure sectors or markets, along with some inverse or leveraged ETFs, is their lack of liquidity -- because not many investors or traders are buying or selling them. This lack of liquidity could lead you to pay too much to buy and sell them.

Read the prospectus

The good thing about most plain vanilla ETFs is that they are fairly straightforward investments – meaning even less-experienced investors should be able to read the prospectus and understand what they are doing.

However, if reading the prospectus leaves you confused, or if the prospectus is not well explained in plain simple English, you should find another ETF to invest in.

Be very careful when investing in commodity ETFs

There are two types of commodity ETFs – one type owning the physical commodity (say, gold bars), and the other type owning commodity futures contracts (not physical assets). In the latter case, you need to read the prospectus carefully to understand the risks involved.

Moreover, be aware that since commodity ETFs do not invest in securities, they tend to be regulated differently or are less regulated than other investments.

Avoid high-fee ETFs

Most big ETFs on the market today will charge fees as low as the 0.04 to 0.25 per cent range, but there are some ETFs out there, usually "managed" ones, or those with more exotic investment strategies (for example, they invest in commodities, short the market or use leverage) which might charge fees as much as 1 or 2 per cent, even more.

However and given the wide selection of low-cost ETFs available, there is little reason to invest in one that comes with such high fees.

In conclusion, EFTs are a great way to diversify, lower expenses and grow your money.

If you are unsure of which ETFs to put in your investment portfolio and how to buy them, call me for a free consultation and get your portfolio invested in the most efficient way possible.

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Another View on China

Here's what the excellent British commentator, Merryn Somerset Webb, has to say…

The Chinese government is targeting economic growth of 7 per cent plus. Most fund managers think 5 per cent is more likely. The reality could be closer to zero.

China has achieved huge growth over the past 30 years, largely "by using low labour costs to out-manufacture us." But GDP per head has now reached about $10,000. It's hard to move beyond such a level without finding some new competitive advantage. "For productivity to grow, you need things such as the rule of law, democratic accountability, absence of corruption and rising middle-class rights." That presents "something of a problem" for China.

Growth hasn't been just about cheap labour. It's also been about the largest credit expansion in modern history. Much of that has been spent inflating a residential property bubble and "useless infrastructure." Secretly, China has created a massive toxic debt problem. Officially, non-performing loans are now only 1 per cent of GDP. But Fathom Consulting reckons the true figure is about 17 per cent.

Merryn says there are two possible outcomes:

► A controlled deleveraging of the economy, with a gradual write-off of bad loans. 'Little growth, but no huge crisis"; or

► The authorities don't get it right, so contagion spreads, with banks failing, lending collapsing and consumption falling.

My only major quibble with this analysis is that it completely ignores China's massive annual savings that are financing all that debt creation. If they don't go into spending or lending, and exchange control prevents them going elsewhere in the world, where will they go? I suspect they would go into something safe like government savings deposits or bonds, which in turn would be recycled -- used to sterilize much of the systemic financial danger.

More encouragingly, Merryn offers this advice to investors…

Much of all the uncertainty is already priced into asset values, with the Shanghai stock-market down 67 per cent from its 2007 peak. If there's a financial crisis, prices could fall a lot further. But stock-market returns are not correlated to economic growth. [Poor growth doesn't necessarily mean poor investment profits].

China has announced a round of reforms of the big state-owned enterprises, requiring them to raise their dividends. And the ministry of finance is beginning to endorse more privatization as a way of improving performance. Privatization is almost always good for investors.

"And Chinese valuations are just fine – the MSCI China index comes with a price/earnings ratio of only 8.8 times."

When the US stood on the edge of its financial crisis, investors were in total denial. In the case of China today, the situation is quite different. Everyone, including policymakers, accepts the facts and to varying degrees has priced in the troubles.

"China is entering its period of expected crisis with a cheap stock-market that is almost entirely unowned by foreign institutional investors. That's something I find rather attractive."

Risks in the Climate-Change War Zone

Whatever your views about it, there is no doubt that climate change is an increasingly important factor for investors. It is shaping energy policies worldwide, tax policies, even our moneycraft decisions (would it pay you to retrofit solar panels?)

Controversy is intensifying for several reasons.

There have now been 15 years of absence of any global warming despite a continuing rise in greenhouse gases – which challenges the validity of what the alarmists claim is scientific fact, contrarians say is unproven theory.

The alarmists' case is increasingly damaged by forecasts that prove to be wrong, revelations of bad analysis, persecution of the minority of climate scientists who challenge the consensus, and manipulation of the facts to suit political objectives.

The Economist has revealed how the summary of the latest report of the Intergovernmental Panel on Climate Change was painstakingly drafted to please governments rather than reflect accurately the content of the thousands of pages of the full report. It's propaganda rather than a balanced synopsis. The summary is designed to influence policymakers, very few of whom can be bothered to examine the detailed facts.

The IPCC keeps having to correct its earlier alarmist reports. For example, in the past it made much of the risk from tropical diseases because of global warming. But hidden away in the latest report the IPCC says: "Concerns over large increases in vector-borne diseases such as dengue as a result of rising temperatures are unfounded and unsupported by the scientific literature."

Notwithstanding the scaremongering about global warming causing more floods, droughts and tropical storms, the IPCC now admits there is no scientific evidence of any increase in either the frequency or severity of such extreme-weather events.

In an age of austerity, the huge costs of climate change policies are becoming an increasingly sensitive issue. According to the International Energy Agency, governments spent $101 billion in 2012 subsidizing renewable energy, and the subsidies are projected to more than double to $220 billion a year by 2035.

There is mounting outrage over policies that reward the wealthy and the vested interests of academia and industry. Landowners enjoy huge payments for wind turbines sited on their estates, homeowners for solar panels on the roofs, with the costs loaded on to consumers, even the poorest.

Nevertheless, the carbonatic lobby continues to increase its political influence.

The latest example is how the Obama administration has used its power to obstruct indefinitely regulatory approval of the proposed Keystone XL pipeline to

import oil from Canada. It now seems certain that, after investing $2.3 billion in its project without being able to secure a go-ahead, TransCanada will abandon it. This "will be a huge victory for the environmental movement," says energy investment consultant Allen Brooks.

He warns that while it is difficult to see mounting campaigns against fossil-fuel companies "gaining significant traction, one would have said the same thing about the first Earth Day [in 1974, the start of the war in the US over environmental issues], the anti-tobacco effort, the anti-apartheid boycotts of South Africa, and various other socially-motivated movements throughout history."

"Energy executives must understand that whether they like it or not; or even if they approve of it or not; new energy sources will gain market share.

"Renewables are here to stay, economic or not, because a portion of our society has determined they should be a part of our energy supply mix and legal action will be taken to insure their role.

"Natural gas-powered and electric vehicles will represent a growing portion of America's transportation fleet.

"Energy companies also can expect increased regulation that will squeeze profit margins."

Nevertheless, investors who risked their capital for ideological reasons – global warming is very Politically Correct – have been fleeing the sector for traditional oil, gas, even coal, after catastrophic results. A comparison published in *Forbes* shows that by early February $100 invested in 2002 in renewable fuels in the US would have been worth only $34, but the same amount put into fossil fuel shares would have grown to $252.

Winning Investment Strategies

Many of America's most profitable trading funds with records spanning 20 or more years follow the "turtle" rules spelled out by the successful commodities trader Richard Dennis.

Basically, futures should be traded when they break out of established ranges, such as new 20-day highs or lows, with stop losses used to hedge downside risk.

Fundamentals and news should be ignored, all actions being based on market-price trends.

British investment adviser Tim Price says that systematic trend-following funds "have a long history of generating attractive returns," and those returns "can be confidently expected to come with a roughly zero correlation to the stock-market – which makes them the perfect investment to sit within a properly-diversified portfolio alongside… stocks, bonds and real assets."

Another approach is simply to back those that are currently market leaders, so-called momentum investing.

"When investors set up mechanistic momentum strategies, which hold the winners over a recent period (usually the past six months or the past year), and sell short the losers, and keep on rebalancing, they reliably make money," says the *FT*s John Authers.

"Academics have documented a momentum effect across the world, and in time periods going back two centuries… Hedge funds use it to make money."

In the US over the period 1927 to 2013 a "winners minus losers" strategy delivered an average positive return of 8.3 per cent a year, compared to 4.7 per cent for a value strategy of backing cheap stocks.

Clifford Asness of the AQR investment group in New York has published a paper he's prepared with colleagues that demolishes ten "myths" about momentum investing.

One is that it's particularly volatile. Not true.

Others are that it's tax-inefficient (unlikely, as it relies more on capital gains than income); that it incurs excessive trading costs (not true); that it works only for small companies but not larger ones (not true).

Asness suggests using momentum in collaboration with, rather than as an alternative to, value, as the best strategy. There are periods when value stocks are beginning to perform, so they are also momentum stocks.

Further information on *Fact, Fiction and Momentum Investing* – go to the website http://ssrn.com/abstract=2435323.

Five Bubbles

Commenting on Bank of England governor Mark Carney's warning that the recent sharp rise in house prices poses "the biggest risk" to Britain's economic recovery, Patrick Jenkins, the *FT* 's financial editor, suggests these five bubbles:

► Leveraged loans: These dollar-denominated credits provided to finance private-equity deals with high multiples of debt to equity that are "covenant-lite" – backed by weak guarantees – reached a new record of $260 billion last year, up 69 per cent on the already-inflated level of pre-crisis 2007.

► ETFs: This fast-growing business – trading volumes up 18 per cent over the past year -- depends "on their sponsors making markets in the underlying shares, bonds or other investments," but "worsening illiquidity in some of the more risky underlying securities could be the thing that upsets this vast market."

► Eurozone sovereign debt: Yields on the government bonds of troubled member-nations have fallen to exceptionally low levels – even Greece is paying less than 5 per cent for five-year money. Such rates "under-estimate the structural reforms that have yet to happen, and ignore the fact that [economic] growth remains anaemic. Barely two years after the Greek default, it is unfashionable to mention the D-word."

► Bank securities: There is an avalanche of money pouring into unconventional bonds such as hybrids and cocos. Even bank regulators, once strongly in favour, now "admit privately that there is dangerously hot demand for these rinky dink instruments," which convert from debt into if capital reserves fall sharply because of trading losses.

► UK property: Housing in the Southeast of England "has got to be the most bubbly asset class of all." The average ratio of prices to earnings of first-time buyers, which remained relatively unchanged for decades at four times, is now

running at eight times. “The risk is magnified because nearly half the mortgage market is on interest-only deals, whose monthly payments will jump with every rise in interest rates.”

Wrong Focus: on Demand, Not Wealth Creation

“The near-zero interest-rate policies of the Federal Reserve, coupled with big government spending, have proved to be almost as ineffective in America as they have been for more than a decade in Japan,” says Robert Vambery, professor of international business at New York’s Pace University.

“The policies of the Fed are less productive than hoped because on the fiscal side the administration’s deficit spending is directed towards income and wealth distribution, rather than economic growth.”

The massive credit creation, quadrupling the size of the central bank’s balance sheet, has had “no clear and significant impact on the sluggish growth of nominal GDP,” says Alan Reynolds of the Cato Institute.

Although employment has increased by 5.7 million since the recession ended, the number of Americans neither working nor seeking work has grown by 10.5 million. The number of job-seekers has fallen twice as fast as the increase in the number of jobs.

“Monetary stimulus involves pushing interest rates down to subsidize big borrowers (mainly governments and banks) at the expense of small savers (seniors). Federal Reserve efforts to keep interest rates absurdly low have reduced the incentive to earn and save money for the future, while encouraging risky debt and dodgy investments… Fed purchases of long bonds made it less profitable for banks to lend to small business.”

Reynolds argues that the basic error has been to focus on stimulating demand rather than on income and wealth creation.

Active Management: a ‘Giant Negative-Sum Game’

A new research report by consultancy Hymans Robertson concludes that on average any extra performance achieved by active management of long-term investment funds is not enough even to recover the additional costs involved – it makes more sense to invest passively, tracking an appropriate index.

The study was commissioned by LGPS, one of the world’s largest occupational pension schemes, with assets of about $300 billion.

“Active fund management has finally been revealed for what it is: a web of meaningless terminology, pseudoscience and sales patter,” says Michael Johnson of the UK’s Centre for Policy Studies.

“Ludicrously expensive talent is deployed” in what amounts to “a giant negative-sum game in which the savers pay the price, their hard-won capital persistently eroded by recurring charges and fees.”

Occasionally this truth comes out. The world’s most successful individual investor, Warren Buffett, has said: “By periodically investing in an index fund, the know-nothing investors can actually outperform most investment professionals.”

According to F&C Fund Watch, in the first quarter only 46 of 1,069 UK funds had consistently produced top-quartile returns over the preceding three years.

Tailpieces

Job creation: One of the most important, oft-ignored, trends in the world economy is the way technology is displacing humanity – capital equipment, both machines and software, is preferred to employing labour. It's a major reason why high levels of unemployment persist despite economic growth, why there has been no growth for decades in middle-class living standards in advanced economies.

This latest example caught my attention…

Honda recently opened a new manufacturing plant at Yorii in Japan, which is producing a quarter-million cars every year. It employs just 2,200 workers.

In the US, the reported fall in unemployment is almost all due to people exiting the labour force, due to retirement of the baby-boom generation, out-of-workers finding it so difficult to find jobs that they've given up looking, and youths staying on at school because no paid employment is on offer.

Without those distortions, "the unemployment rate now would be 13 per cent," Gary Shilling reports on *Bloomberg*.

Booming bonds: There is little need to worry about the recent strength in the prices of sovereign bonds such as US Treasuries, which might be interpreted as showing loss of investor confidence in economic growth, even though that's been the opposite of what "virtually everyone had expected at the start of the year," says Allianz's chief economic adviser, Mohamed El-Erian.

By reducing mortgage rates in the US, which are linked to the yields on Treasuries, this strength increases house affordability and, for existing homeowners, the incentive to refinance mortgages – both of which support home prices and housing activity.

"They also push investors out of bond holdings" – because higher prices mean lower yields – "and into riskier assets.

"This is the main objective of the 'unconventional policies' pursued by leading central banks, in the hope that the resulting price surge in risky assets makes households and businesses feel better, encouraging greater consumption and higher investment (via energized 'animal spirits').

Investing in tourism: In just three years the number of Chinese holidaying abroad has soared from 60 million to 100 million – but the avalanche is likely to expand to 200 million a year by the end of the decade, says CLSA analyst Aaron Fischer.

Their spending on foreign holidays will triple.

What shares are plays on the tourist renminbi? Among the biggest are gaming companies such as Galaxy Entertainment, as well as airports such as Sydney and Bangkok. Other possibilities are duty-free retailers, South Korean cosmetics.

Joohee An of Mirae Asset argues: "Tourism is one of the best sectors for surprises."

E-commerce: In China it's already 60 per cent the size it is in the US, and has been growing almost twice as fast, says Goldman Sachs.

This is what's behind all the excitement about the pending listing in New York of the Chinese e-commerce leader Alibaba.

It's in a fierce battle with other Chinese operators, particularly giant Tencent, whose dominance of smartphone activity puts it in pole position to challenge, because that's where e-commerce is expected to grow fastest.

Career choices: Historically, there are long periods "when financial types were the masters of the world," but those are followed by periods when the winners are "producers of real goods," says the iconoclastic investor Jim Rogers.

He highlights one current career opportunity: "In America, fewer than 10,000 people study agriculture now, but over 200,000 get MBAs… every year. Nobody is studying agriculture. [Yet] the average age of farmers is 58."

Europe: Commenting on outcome of the latest election, Bret Stephens writes in the *WSJ*: "The best achievements of European institutions have all stemmed from removing restrictions – to trade, travel, residency and financial transactions.

"But for at least 30 years, the EU [European Union] has mainly been in the business of *imposing* restrictions on everything from the judicial sentences that national courts can impose to the shape of vegetables that Europeans get to eat."

Belgian mystery: There has been an extraordinary surge in buying of US Treasury bonds by Belgium. In the five months to March, Belgian holdings more than doubled to $381 billion. No official explanation has been given, but there is speculation that the Belgians have been helping out the American central bank in some way, at its request.

US immigration: By making it difficult to draw on a large pool of skilled workers available in Asia and elsewhere, the restrictions protect, and thus subsidize, high-income earners from global wage competition, and are one reason the income gap has widened so much in recent years.

Wise words: *The efficient-market hypothesis is nonsense. Markets are driven by humans, humans are irrational, thus markets are irrational.* Hugh Young.

Martin

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