Fund Manager's Diary
Iain Little 26 to 30 January 2015

Oh Dear, An Odey Idea

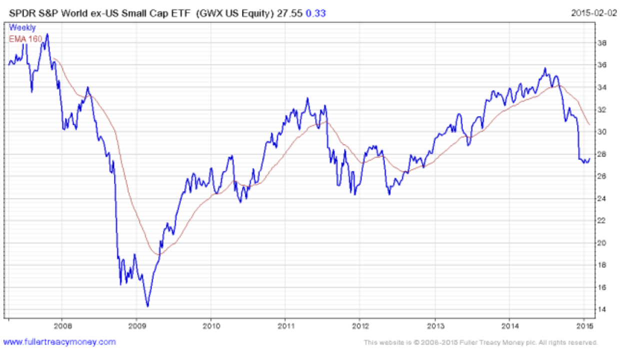
I first met Crispin Odey in 1980. We were poorly paid, poorly fed company analysts in the City and in those floppy-haired, blue-sky days, Crispin and I followed the fortunes of the UK's electronics companies, Crispin for Framlington, I for Kleinwort Benson. Crispin delivered questions to management with a courtly elegance that belied a passion for getting to the bottom of things, particularly if he suspected chicanery. I remember a precocious understanding of how companies really worked: top line, bottom line, margins, moats, management. Despite media puff, analysts who think with true originality about what makes companies tick are rare in the City (Terry Smith of Fundsmith is one).

The art of knowing a good fund is the art of knowing a good man. So in the early '90s I backed Crispin with client money when he went independent with his European hedge fund. My clients and I remember a volatile ride with some picturesque detours. One year, Crispin assumed that knowledge of European equity markets perfectly equipped him to judge the West African cocoa market. My clients were treated to a Six Flags roller-coaster, hefty drawdowns and the nearest thing to an apology I've read in 35 years in the industry. Crispin began his client confessional with some TS Eliot poetry: *"I should have been a pair of ragged claws / Scuttling across the floors of silent seas".* It didn't bring the money back, at least not that year, but it made Crispin a lot of friends.

In an industry filled with helmet-wearing piste-huggers, Crispin has skied off-piste like few others. He has gone on to manage USD 12bn of other peoples' money, and has made a considerable fortune. I went on to graze in the quieter pastures of the private client world and immerse myself in the fascinating challenge of explaining a sometimes impenetrable and always mischievous world to families, clients and friends, a quest that continues to this day.

So when I read this week that Crispin has written that *"Equities Will Be Devastated"*, I sat up. It is so far from what we believe most likely (a humdrum and extended global recovery supported by technological breakthroughs, cheaper energy and negligible interest rates). Most chillingly, we are part of the very consensus that Crispin decries. Crispin's warnings could script a Hollywood disaster movie. Here are clips.

Major economies are entering a recession that will be *"remembered in a hundred years.....a bearish opportunity to short stocks as great as it was in 2007-2009.....the themes I have been outlining since the second quarter of 2014 are now establishing themselves: a faltering Chinese economy with growth down to 3%* (it is now 7%), *hard landings for China's client economies: Australia, South Africa, Brazil. A fall in commodity prices bringing pain to the Middle East, Venezuela, Argentina, mid-west USA, Canada, Norway, Scotland*". Will cheaper energy help out?....."*my problem with such a hopeful outcome is that.....those that lose out from a fall in their income are quicker to adjust than those that benefit. In that intertemporal space lurks a recession.....Most investors.....rely upon Central bankers who they think have solved the problem.....My point is that we used all our monetary firepower to avoid the first downturn in 2007-09.....There is precious little earnings growth ex-Japanese exporters and we have now reduced our US cyclical exposure as we expect the commodity-induced recession in the mid-west to effect the resilience of the greater US economy. In Europe, we are half way through the write-off process, having written off half as much as the US. Draghi will disappoint.....we are in the first stage of this downturn.....we will make some mistakes but with our thinking we won't make the major mistakes. I am amazed to see so many are fully invested given that equities are already fighting the downtrend. Mid and small caps have moved into bear markets and much relies on large caps to keep the whole thing going and they are very exposed to international trade".*



In our business, everyone talks their own book. But I sense that few have noticed that global small cap stocks have broken down. More eerily, plunging bond yields and sagging oil prices are unusual in a recovery. We meet early next week to discuss this rational prophecy. I'll report back after then.

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