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STOCKBROKERS

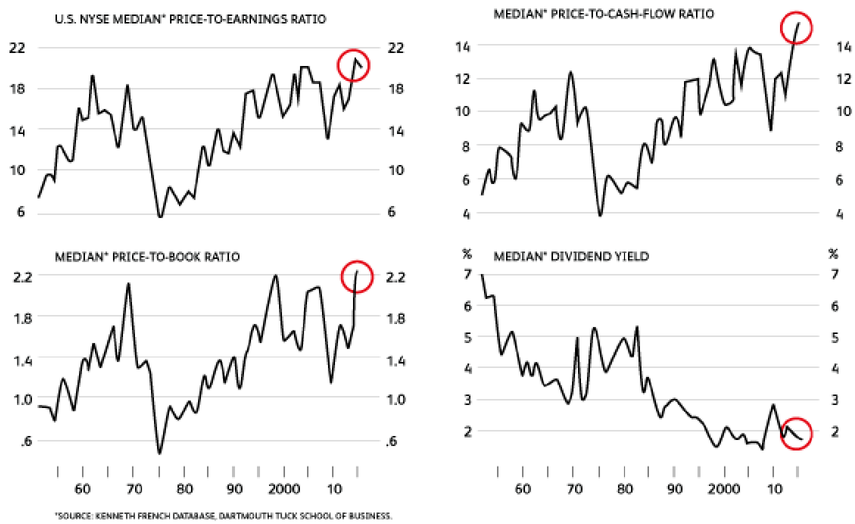
A PERSONAL VIEW FROM PETER BENNETT

SPRING STRATEGY
Brief (Little Change)
20 April 2016

Wall Street Levitation Continues

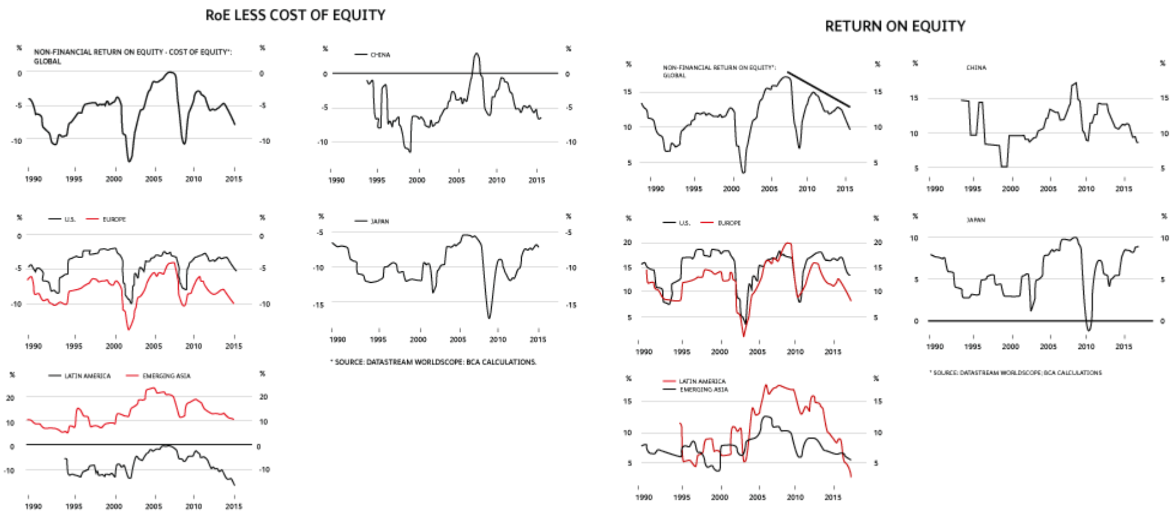
Some more graphs, from BCA Research, giving Wall St equity valuation measures different to the series of long-term ones shown here before. These one year measures are more commonly (though less correctly) used.

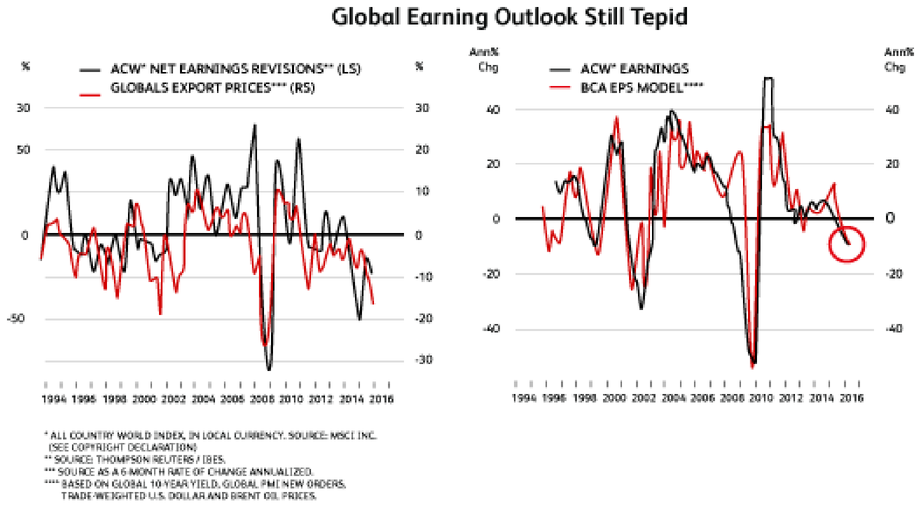
These also show equities the most over-priced since the war at least. As regards the price-to-earnings ratio it is only this century that operating earnings became used for this measurement. GAAP (‘proper’ accounting) was previously used. Currently operating earnings are 30% **higher** than GAAP. So the over-valuation by this measure is **understated** by 30% on a long term ‘real’ accounting comparison.



[Courtesy: BCA Research]

Meanwhile profitability continues to fall world-wide – bar Japan, my 2016 Strategy favoured market. The sudden soaring yen, however, will take the shine off that.





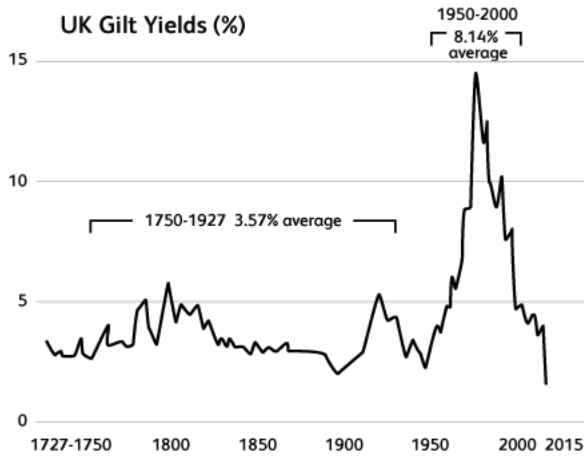
[Courtesy BCA Research]

SO

For the umpteenth time – do not **touch** US equities on an investment basis. Trading, of course, varies. Last bulletin, February 8th, pointed out that bear markets spend little time actually falling and the market then was very over-sold. I modestly participated for clients in the subsequent sharp rally, with the **silver** share Strategy 2016 recommendation doing particularly well. As I write it has exploded. More than 100% this year. The industrial metals investment trust that I wrote positively about also did well. And, not in previous bulletins, there was modest trading success in an oil share and a diamond mining one.

Given the size and speed of these rallies off monster over-sold, I have cleared all the positions, bar a modest one in the diamond company where trading fortunes could about double over the next couple of years *ceteris paribus* (which they seldom are). The major capital development programme is giving way to explosive cash flow growth.

Otherwise I continue to run high yield equities (UK utilities plus/minus 15% of portfolios – plus other high yield). This covers my refusal to touch quality bonds – being expensive as never before in history (yes, I have missed three trades there, that I considered!) Most expensive ever. Per below.



[Courtesy: Moneyweek]

Cash

Remains best asset class. Maybe actually 'under the mattress', given the nonsense about helicopters starting to come out of a panicky establishment. Japanese sales of safes are rocketing.

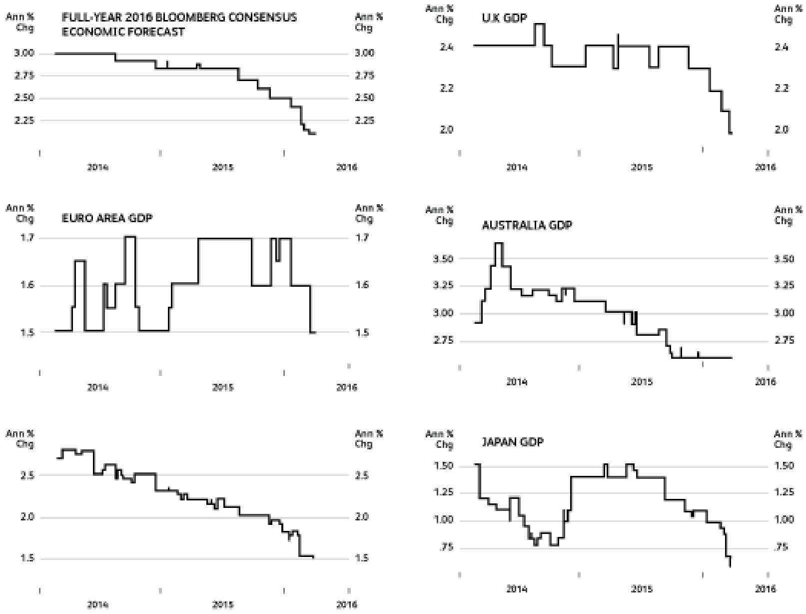
Macro – Impasse

This idiotic QE policy gets steadily worse (US excepted – though partially only).

Even some respected commentators suggest central banks should do **even more** of the same. Machine gunning themselves in the feet is clearly not enough. They should also put hand grenades in their mouths – with the pins out.

Bank profitability is being massacred by this policy. Capital investment (per previous bulletins) is being held back, as buying existing assets with minimally priced borrowing is so much easier than risking real investment. And directors aren't fools – they know that no-one knows how the grotesque distortions in the financial system will be unwound. And low risk savers are also massacred.

This is all results, for the first time in history, from the stubborn unbending refusal to deal with the largest credit excess in history – and its resultant debt mountain and zombie investments and falling monetary velocity resultant therefrom. A result is shown below courtesy BCA Research. And the sharply declining 'productivity' of debt (Number of GDP bangs per extra unit of credit).



[Courtesy: BCA Research]

Indeed, now there is talk of actual printing (albeit electronic). Next it'll be let's have Weimar!

This would no longer be "jush one more thrink oshifer". It would be offering the whole pub. The abandonment of all moral hazard. Flood gates wide open.

The Keynesian option is also substantially closed off because of already accumulated debt. Keynes, correctly, favoured countercyclical government spending – but **only** on the assumption that in previous expansionary times cash had been put by for the rainy day. He specifically ruled out piling Pelion on Ossa of debt, which is what many faux Keynesians currently recommend.

Impasse.

China

Panic wins. Policy is back to the same old same old that got the economy into the unbalanced, debt-ridden mess it is in. So we will have a slight lift in the old areas of the excess – and a further major lift in the already enormous credit bubble. Itself understated with large off-balance sheet loans.

BREXIT – Only a personal view

Weeks more of the torrent of negative propaganda. Spare us. Look, no-one can foretell the future either way. Brexit is a leap in the dark; but Remain is a leap into the twilight that characterises the sclerotic, unmanageable, moribund European economy. Not forgetting the democratic deficit leading to continued ill will and unpleasant politics. And the endless over-regulation. Nailing one's flag to a Titanic? Is that safer?

The 'balanced' assessment endlessly vaunted is impossible as 'facts' are data-mined and bent into propaganda by both sides – though especially the hysterical 'Remains'. Those people who can't forecast next year's economy blether on about 2030. Get serious.

The decision, *au fond*, is predominantly a gut feeling one. Slinging around conflicting figures and unsubstantiated assertions is a waste of time. Which is what we mainly get, though the BBC and popular press, do a good job of dousing the volcanoes of hot air.

I see relatively little problem with the important matter of EU trade. Sure, some hissy fits. But we are the EU's largest export market. Ditto the reverse – though declining in importance. Given problems stacked to the ceiling in Europe – do they want to fight an unnecessary 'war' on yet another front? At huge cost to their business interests. C'mon, I suspect life will go on pretty much as normal. Deals will be done. The pound will go down *pro-tem*. The (real) long term economic danger is not European business but our endless reliance on overseas funds to cover our never ending financial deficit. A lower pound would help. Indeed the decline so far already, from the pricing point of view, at least cancels out facing the potential (not very high) main EU tariff barriers which we may have to face. Favours we are unlikely to get. In any case the single market in services, our main economic output, barely exists. There will be uncertainty *pro-tem* also. But that goes with a referendum.

On security – obviously we will co-operate, for all our sakes. But we will govern ourselves. **This is the key issue**. Especially given the 'ever closer union' trajectory of the EU elite / bureaucracy. Remember Jacques Delors saying nations would be salami-sliced into deeper commitment, often without noticing at all that sovereignty had gone till it was too late. And no powers would ever be given back. As David Cameron recently found out. Sinister. No thanks.

Outside will then be like any and every other nation trying to do the best it can, taking in the **whole** world. Indeed this is previously our history / culture (which emphatically detests *de haut en bas* elitist, bureaucratic, corporatist governance). What's wrong with that? Sure compromises have to be made; deals worked out. What's new? I am trying to be practical – like Brits usually are. I leave the grandiose United States of Europe and 'projecting power' nonsense to others.

Having said all this, inertia and fear of the unknown unknown (the known unknown is staying in), greatly assists the Remain vote. They may well win. Having twice been an entrepreneur and energised by the complete 'unknown', I know which way I will vote. No contest. There have apparently been 12,000 'directives' from Brussels in the past ten years – and we have to like it or lump it. All the member nations have to. Nuff said.

Incidentally, I'm half European by blood; married to a European; and a Europhile indeed (if not politico-economically).

At last! Yesterday a **positive**, inspirational speech: by Michael Gove for BREXIT. Such a change from the hand-wringing old aged and fearful shroud waving from elsewhere.

Good luck!

Peter Bennett, BA Cantab, MBA Wharton

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