



17th October 2011

## What colour is your lifejacket ?

“Manek: How I beat everyone during volatile summer”

- Headline in [‘Investment Week’](#) extolling the performance of Jayesh Manek’s ‘Manek Growth Fund’, which has so far lost 23.6% during 2011.

**This is, at heart,** a tale of one tragedy, or two films. Roy Ward Baker’s 1958 classic ‘A Night To Remember’ is a simple, heartbreaking gem – an account of the sinking of the Titanic, clearly told, putting on display the culture and ethics of at least one bygone age (1958 and 1912). And it has Kenneth More, who at least in cinematic terms is surely the finest Englishman who ever lived. James Cameron’s 1997 blockbuster is also a product of its time – gaudy but empty spectacle, grotesquely overbudgeted and even more bafflingly materially successful. And it has Leonardo DiCaprio, the fey, cat-faced boy who is almost crushed beneath Kate Winslet in a grotesquely shot coupling sequence devoid of any hint of romanticism. But the Titanic story also happens to be the perfect encapsulation of our ongoing financial crisis; as The Onion put it, in perhaps its finest ever satirical headline, “WORLD’S LARGEST METAPHOR HITS ICE-BERG”. The “unsinkable” triumph of hubristic faith in (financial) engineering over the natural world sets sail on its maiden voyage buoyed up by mass overconfidence, hits the maritime equivalent of a black swan, and a lot of people end up underwater. A few rich folk get soaked in the process, but it is the lower orders (**and the Irish !**) that really get stiffed. Plus ça change..

The 1958 version of Titanic is a masterpiece in suspense. It is a rather special achievement to ratchet up the tension in a drama when you already know in advance how it will end. The problem begins with an almost imperceptible shudder. Cutlery gently rattles on a lavishly adorned table. In later sequences oil-stained water idly laps at bedroom doors; dining trolleys slowly wheel away under gravity’s pull. The horror of the tragedy lies in its slow, remorseless logic, the lumbering but relentless pace of the nightmare. In Eric Ambler’s superb screenplay, Titanic’s shipbuilder and draughtsman Thomas Andrews Jr. is trying to convey the urgency of the situation to her captain:

Andrews: The pumps are keeping the water down in this boiler room, but the first five compartments are flooding.

Captain Smith: Well, what’s the answer ?

Andrews: She’s going to sink, Captain.

Captain Smith: But.. She can’t sink. She’s unsinkable.

Andrews: She can't float. Look.. She could float with any three of her first five compartments flooded. She could even float with four of them gone. But she can't float with all five full up.

Captain Smith: Yes, but..

Andrews: [cuts him off] These watertight bulkheads only go as high as E Deck. The weight of the water in the bow is going to pull her down by the head. So, you're going to get the fifth compartment overflowing into the sixth; the sixth into the seventh; and so on, as she goes lower. It's a mathematical certainty. With that amount of underwater damage, she can't stay afloat.. How many people are there on board ?

Captain Smith: 2,200 or more. And room in the boats for.. ? How many ?

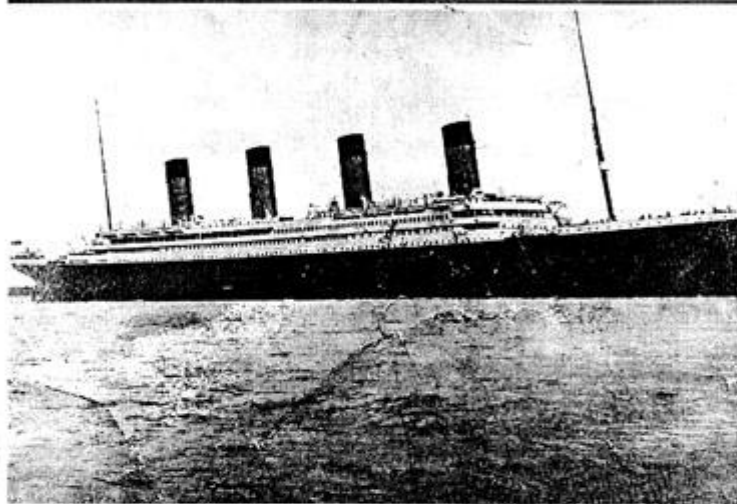
Andrews: 1,200.

Captain Smith: I don't think the Board of Trade regulations visualized this situation. Do you ?

Consider that phrase again: ***It's a mathematical certainty.*** For the last forty years, a world economy kept afloat on a bubble of credit has required constant growth, not least to maintain the interest payments on all that debt. Now that the western economies have gone conclusively ex-growth (we would argue), the debt cannot be serviced. Certainly not all of it. ***It's a mathematical certainty.*** If a thing cannot grow exponentially forever, it will not, and it's only a matter of time. Defining the problem as a euro zone debt problem is somewhat missing the point. It is a global debt problem, and Greece simply looks like being the first nation to be ethnically cleansed from the status quo. If the behaviour of the stock market is any guide, the current consensus is that Europe's politicians are still capable of pulling more rabbits out of the hat, and that any Greek default will be an orderly one. The so-called troika of the European Commission, the ECB and the IMF will be able to ring-fence the rest of the euro zone periphery, let alone the core. We're not so sure. Greece is no more the proximate cause of the crisis than a bucketload of subprime debt was the proximate cause of what transpired in 2008 and has metastasized since. Rather, Greece now, like subprime then, is, in the words of pi Economics' Tim Lee, "merely the first part of the credit edifice to give way, not the whole story".

If [IMDB](#) is any guide, 'A Night To Remember' cost an estimated \$1,680,000 to make. It is a classic. James Cameron's iteration cost an estimated \$200,000,000 – there's inflation for you – but took in an even more extraordinary \$1.8 **billion** at the box office. It also won 11 Oscars – proving if nothing else that there really is no accounting for taste, and that William Goldman was right about Hollywood when he suggested that nobody there knows anything. I remember the first time I saw 'A Night To Remember': my brother and I were both kids watching it on TV, but even at a young age, we were capable of appreciating a ripping yarn well made. The film is endlessly rewatchable. I also remember the first and only time I saw 'Titanic', not because of anything that happened on-screen, but for the bizarre reason that during the film, I suddenly noticed, amid the darkness, that my watch had disappeared. (I was probably checking it at intervals, wondering if time had stalled and I had fallen into some kind of movie theatrical purgatory. *L'enfer, c'est le Titanic de James Cameron.*) It transpired that it hadn't actually been extracted masterfully by the woman in the next seat, but that the strap of my poor Casio G-Shock had had enough of the film and decided to kill itself. I can hardly blame it.

# WORLD'S LARGEST METAPHOR HITS ICE-BERG



The Royal Mail Steamer Titanic, the ill-fated emblem of man's pride, took 1,500 to a watery grave. It is photographed here leaving the port of Queenstown, Ireland, on her doomed, allegorical maiden voyage.

## TITANIC, REPRESENTATION OF MAN'S HUBRIS, SINKS IN NORTH ATLANTIC

### 1,500 DEAD IN SYMBOLIC TRAGEDY

New York, April 15.—Officials of the White Star Line have confirmed the sinking, during her maiden voyage, of the R.M.S. Titanic, the world's largest symbol of man's mortality and vulnerability.

First reports of the calamity were received Monday at the London telegraph office of the White Star Line, which owns the nautical archetype.

At 4:23 a.m. Greenwich Standard Time, the following message was received from the rescue ship Carpathia:

**TITANIC STRUCK BY ICE REPRESENTATION OF NATURE'S SUPREMACY STOP INSUFFICIENT LIFEBOATS DUE TO POMPOUS CERTAINTY IN MAN'S INFALLIBILITY STOP MICROCOSM OF LARGER SOCIETY STOP**

It is believed at this time that upwards of 1,500 passengers aboard the metaphor may have perished in the imperturbable liquid immensity that, irrespective of mankind's self-congratulatory "progress," blankets most of the globe in its awful dark silence. Seven hundred more passengers survived to objectively human insignificance in the face of the colossal placidity of the universe.

Among the prominent passengers ironically missing and believed perished are New York millionaire John Jacob Astor, mining tycoon Benjamin Guggenheim, railroad president Charles Melville Hays, and presidential military aide Major Archibald Butt, providing further example of man's inability to covart with God, no matter how wealthy or powerful he may be, as well as the vast indifference of the universe toward even the grandest of human achievement. Late word indicates,

however, that the well-to-do and the privileged constitute a great majority of the living. It could not yet be determined whether this betokens a form of maritime social Darwinism or a particularly overt form of social injustice.

**IRONY**  
 Although unconfirmed as of press-time, it is rumored that the Titanic was proceeding at a rapid pace through ice-berg-laden waters in order that her captain might flaunt the ship's great speed, making all the more ironic the demise of this paramount symbol of man's hubris.

An architect from the firm of Harland & Wolff, which constructed the great metaphor, was stunned and aggrieved by the significance of the tragic event.

"I spent the better part of two years re-drawing the marble on the grand staircase at the first-class entrance until it represented absolutely the right dimensions for showing off the daintily luxurious evening-wear of the wives of the industrial millionaires. Now that staircase will provide an entrance only for the plankton, moss, and other marine life that inhabits the frigid North Atlantic seabed. I dare say that is ironic."

**HYPERBOLE**  
 "Let us take a step back from the horror of the tragedy," said Lord Peter Hothcliffe, a British naval historian, "and view it in terms of its grander significance. Simply put, the Titanic was more than a gigantic crystallization of the accumulated triumphs of 200 years of Western industrialization wedded to the firm but icy hand of Science triumphant. It was a ship larger than any ship need be, which therefore also makes it somewhat of a hyperbole."

#### TELEGRAPHIC NEWS DISPATCHES ON THE TITANIC TRAGEDY

### SPANIARDS RULED OUT AS SUSPECTS IN ICE-BERG PLACEMENT

#### BUT IS THE STATE DEPARTMENT BEING TOO HASTY? THE ONION INQUIRES

The Department of State has responded in the negative to a cabled inquiry by Onion Editor-in-Chief T. Herman Zweibel about possible involvement of the Spaniards in the location of an ice-berg which tore into the Titanic's hull and sent her to a watery ocean grave. In a statement to The Onion, Secretary of State Philander Knox said that there is very little tangible evidence of Spanish agents-provocateur in the region of the North Atlantic where

the Titanic sank, nor was it believed possible that the Spaniards had even the capability to tow a several-hundred-ton ice-berg into the path of an oncoming ocean liner.

In addition, there was a general ice-berg advisory issued to ships in the region. Therefore, Knox concluded, the Spaniards are ruled out as suspects at this time. Those mindful of the war, however, know that the Spaniards are capable of such a dastardly deed.

### DID JAZZ SINK THE GREAT SHIP?

Controversial "ragtime" jazz music may have brought the great ship to her disastrous end, a prominent minister says.

Reverend X. Lucius Salymine suspects that a conucopia of lively jazz seducers, as performed by the ship's orchestra, may have delighted passengers right up until the Titanic's submerision.

The Reverend believes religious science has evidence to implicate the new form of music on the ship's demise.

"This rambunctious 'rag-time' music has an effect on the human body not unlike an evil spirit," he said. "It can quickly eat away at the morals of the listener, slowly reducing the mind to a state of dementia. A sea captain affected by this malady would be in no condition to pilot a large ship safely."

### STEWARDS KINDLY ASK THIRD-CLASS PASSENGERS TO DROWN

From all reports, the attempt to abandon the sinking Titanic was fraught with chaos and panic of the first order, as passengers in the steerage class rudely strained against locked gates to reach the main deck and reacted harshly to the stewards' polite entreaties to accept the notion of drowning in the fast-rising waters. Words of an unkind and occasionally profane nature were addressed to employees of the White Star Line, who were simply doing their duty in trying to restore order and propriety.

As a representative of the White Star office in New York explained, "The standard rescue procedure aboard all trans-Atlantic luxury liners is as follows:

ladies and children of the first-class, then first-class gentlemen, followed by their pets, steamer-trunks, potted-palms, and, finally, the billiard tables. Then the second- and third-class passengers are respectfully accommodated.

"However, the Titanic was sinking at such a rapid rate, and there were so few available life-boats, that few of the first-class gentlemen were themselves saved. Therefore, in that light, the stewards had no choice but to ask in the most deferential

### and delicate way manageable for the third-class passengers to consider drowning, so that the rescue could proceed more smoothly overall."

### WELL-TO-DO DOWAGER GETS HAIR DISHEVELED FOR FIRST TIME

Lady Geraldine Dinsdale-Grey, a passenger aboard the ill-fated liner R.M.S. Titanic, experienced her first ever hair-mussing while being helped to a lifeboat. Lady Dinsdale-Grey, the widow of Lord Clement Dinsdale-Grey, was being assisted by a steward when a gust of wind nearly swept her hat from her head if not for the presence of a hat-pin securing the hat to Lady Dinsdale-Grey's head, the hat would have surely been lost.

Loosened strands of hair brushed against her face, as Lady Dinsdale-Grey attempted to adjust her hat-pin without the assistance of her maid-in-waiting, who had become separated from her in the rush to the life-boats. But there was little time, and, by the time Lady Dinsdale-Grey's lifeboat was set afloat, her thick Auburn pompadour had fallen out of place considerably. Lady Dinsdale-Grey is reportedly safely on-board the rescue ship Carpathia, although there is no word on the present status of her hair.



So far, so good. Some good **did** come of the Titanic disaster. As Roy Ward Baker's film in its conclusion reminds us, the sacrifice of the 1517 victims was not entirely in vain. There are now lifeboats for all, unceasing radio vigil and the international ice patrol. But as Europe teeters on the brink, what have we learnt about avoiding a catastrophic experience in debt ? Not much, we fear.

But we can wail and gnash our teeth on the sidelines, or we can be proactive. We prefer to be proactive. Our primary objective for our investment clients is capital preservation in real terms. By our thinking, that is today inconsistent with anything close to a 100% allocation to equity markets. Rather we prefer to use other, ideally genuinely uncorrelated, assets, to share the load and to reduce the risk. Amongst them: objectively creditworthy debt (yes, debt), issued by objectively creditworthy countries, quasi-sovereigns and corporates. We can currently own such debt, hedged into a variety of currencies, with an underlying yield to maturity of roughly 8%. With cash rates at zero, who wouldn't take that yield ? We don't ignore blue chip or defensive equities, but if there is even the remotest risk of a significant market correction (and if not in the current climate, then when and where ?) we see value in diversification. We also have high conviction in the merits of systematic trend-following funds **precisely because** they're not discretionarily managed: the tangible market failure of the so-called 'absolute return' sector underlines just how difficult both asset allocation and security selection have become this year. And at the risk of flogging an actually quite lively horse, we see continued merit in the currency- and inflation-insurance attributes of real assets, most notably the monetary metals.

This is not the first time we have cited 'A Night To Remember' and the now mythic nature of the Titanic tragedy in the context of our financial markets. It will probably not be the last. Nor are we alone in citing it. The reason is because we're still trapped in the nightmare, and nobody seems capable of resolving anything, least of all our politicians. A private sector debt disaster morphs into a public sector debt disaster. Economists of various hues engage in a long but futile and essentially binary spat over the pace of returning the state finances toward balance. As we first said at least 18 months ago, anything can now happen. As Second Officer Lightoller remarks at the conclusion of 'A Night To Remember', after an utterly extraordinary human tragedy, this really is different, new territory, for everyone:

"Because we were so sure ! Because even though it's happened, it's still unbelievable. I don't think I'll ever feel sure again, about anything."

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