PFP
Wealth Management

3 Windsor Court
Clarence Drive
Harrogate, HG1 2PE
01423 523311

Lion House
72-75 Red Lion Street
London, WC1R 4NA
020 7400 1860

www.pfpg.co.uk

21st May 2012

Must-read

"Working at my desk today was somewhat surreal. Global risk markets were closing out a dreadful week. Newswires were full of disconcerting articles – J.P. Morgan, Greece, Spain, Italy, China, etc. Meanwhile, CNBC was in the midst of blanket coverage of the Facebook initial public offering. Mark Zuckerberg rang the bell to open Nasdaq trading, while helicopters provided live video of the employee gathering at Facebook's Menlo Park headquarters. Insiders are now worth billions, the "average" employee millions. Even U2's Bono pocketed $1.2bn (with a "B"). I noted above how I see J.P. Morgan's predicament as a microcosm of global financial woes. Well, it is difficult for me today not to see Facebook as emblematic of the incredible transfer of wealth associated with Credit Bubbles. It's almost as if this historic Bubble has been waiting to end with just such an exclamation point."

- From 'The Jig is Up', by Doug Noland.

Like us, you may have missed Robert Wilmers' blistering assault on Wall Street when it was first published. Happily, the Internet occasionally offers up a diamond amongst the garbage. The full letter to shareholders of M&T Bank can be read here. It is a must-read. (The really good stuff starts on page xi.) Nor is Mr Wilmers some swivel-eyed Occupy Wall Street beatnik. He is the chairman and chief executive officer of the US commercial bank in question. His shareholders' letter may be just one straw spinning within the eddies of a tempest, but it encapsulates a morsel of hope amidst a morass of inanity, greed and vile corporate behaviour. Credit to Business Insider for bringing it to a wider audience.

At the risk of driving a coach and horses through 'fair use' limitations in Anglo-Saxon law, here are some of the choicer nuggets contained within Mr Wilmers' polemic:

"As relatively good a year 2011 was for M&T itself, it was far from an easy one. Indeed, it is difficult, for one who has spent more than a generation in the field, to recall a time when banking as a profession has been publicly held in such persistently low esteem. A 2011 Gallup survey found that only a quarter of the American public expressed confidence in the integrity of bankers. We have reached a point at which not only do public demonstrations specifically target the financial industry but when a leading national newspaper would opine that regulation which might lower bank profits would be "a boon to the broader economy." **What's worse is that such a view is far from entirely illogical, even if it fails to distinguish between Wall Street banks who, in my view, were central to the financial crisis and continue to distort our economy, and Main Street banks who were often victims of the crisis and are eager, under the right conditions, to extend credit to businesses that need it**."

“It is no consolation, moreover, to observe that banks and the financial services industry generally were far from alone in sparking the crisis. Nonetheless, it is true, and very much worth keeping in mind, that major institutions in other sectors of the American system – public and private – must be considered complicit, some in ways we are only beginning to learn fully about. As understandable as a search for particular causes, or villains, might be, the truth is that the economic crisis that began in the fall of 2007 implicated a wide range of institutions – not only bankers but their regulators, not only investors but those paid to advise them, not only private finance but its government-sponsored kin. The wide spectrum of the culpable has left the U.S. and the world with a problem which, although related to the financial crisis, transcends it and must be confronted: the decimation of public trust in once-respected institutions and their leaders. This has created a fear among those responsible for forming the rules and standards that shape the American financial services industry. And the outcome of this fear-driven rulemaking is likely to burden the efficiency of the American financial system for years to come and will potentially have broader implications for the overall economy.”

“..So it is that the crisis was orchestrated by so many who should have, instead, been sounding the alarm – not only bankers but also regulators, rating firms, government agencies, private enterprises and investors. That a former U.S. Senator, Governor and CEO of a big six financial institution was at the helm of MF Global on the eve of its demise due to trading losses, or that the largest-ever Ponzi scheme was run by the former chairman of a major stock exchange will long be remembered by the public. The repercussions have stretched beyond banking, creating an atmosphere of fear affecting and inhibiting those who should be leading us toward a better post-crisis economy.”

Bravo, Mr Wilmers. Bravo.

Wading into The Financial Times on an almost daily basis increasingly feels like working for a bomb disposal unit. One dreads to think of what unexploded ‘intellectual’ ordinance one will discover. The weekend edition does not disappoint in this grim respect. With a strange mixture of horror and fascination we stumbled upon the ‘thoughts’ of one Ed Miliband who, nicely displaying the infantilized tenor of our times, was granted a forum to share his ‘thinking’ on economics..

“The divide in politics now,”

writes Mr Ed,

“is between those who think the lesson of the past two years is to offer more of the same and those of us who know now is the time for a different course. It is a divide between those who face the global economic storm having run out of ideas and those with a plan for putting right what has gone so disastrously wrong.”

With what one can only describe as the intellectual equivalent of a million pots calling a million kettles black, Mr Ed suggests that

“[Prime Minister] David Cameron’s response to every downturn is to lecture the euro zone and to argue that nothing is his fault.”

Mr Ed calls for firm, coordinated action. Action, he repeats, is long overdue. Germany, for example, must support demand. Mr Ed demands that Germany supports demand. He demands demand, and he supports it, too. And yes, uncertainty around the world’s banks should be resolved. Action ! Demand ! Support ! Certainty !

It is very easy to call for grand, magical, all-resolving action when one is in opposition. That is almost what being in opposition is all about – windily opining about things about which one has very little understanding, and almost no power to influence. A bit like being an economics commentator at The Financial Times. I recall a definition of fascism I encountered whilst at school (in a history book, as opposed to the more general experience of being at the school in question, albeit it was an independent school):

"Fascism, *n*. A supreme belief in the superiority of action over thought."

If I were even remotely associated with the Labour party, an entity which whilst in office oversaw government spending rising from 37% to 52% of gross national product, and which left the incoming coalition to deal with the largest level of peacetime indebtedness in our country's history, I would not dare raise my head above the economic parapet for fear of having it shot off, by any number of forcibly embezzled taxpayers, pensioners, investors or savers.

Our mid-year resolution is to try and find, each week, a glimmer of positivity amid the slow-motion train crash that is the modern western economy. Speaking at Money Week's second annual seminar on Friday, we focused on the investment opportunity and portfolio diversifier that is the systematic trend-following fund. Asked by the audience for a recommendation to navigate through the next 12 months (admittedly something of an artificial construct given the constrained time horizon) we plumped for BlueCrest's recently listed BlueTrend fund. So we were intrigued to note the coincidence of the FT's David Stevenson, (Adventurous Investor), who in the weekend edition admitted to having recently bought precisely the same fund. Well, he actually mentions a fund called BlueLine, which doesn't appear to exist. But as the likes of Mr Ed and his blithering cabal of incompetents prove in spades on a daily basis, nobody's perfect.

Tim Price
Director of Investment
PFP Wealth Management
21st May 2012.

Email: tim.price@pfpg.co.uk Twitter: timfprice

Weblog: http://thepriceofeverything.typepad.com Group homepage: http://www.pfpg.co.uk

Bloomberg homepage: PFPG <GO>