The Price Report

The Price Report quarterly conference call

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Dan Denning - DD **Tim Price - TP**

DD: This is the beginning of *The Price Report* quarterly conference call. I'm your host, Dan Denning, and I'm here with the editor of *The Price Report*, Tim Price. Just some housekeeping quickly: we're making an audio recording of this, which will be available later, if you miss something. And also, we will make a transcript of the call available as soon as we can so that you can go back and read it at your leisure. The call will last close to 40 minutes, and should be dominated and championed by Tim. We've got questions from the readers. I guess we'll just start with some general observations, Tim. You spoke at the *MoneyWeek* Conference. It was one of the most well-received speeches. What did you tell folks there and what is your take, by the way, on Martin Wolf's article in today's Financial Times, that we should leave central banks alone and quit picking on them?

TP: Don't get me started on Mr Wolf. On the conference, first, I had a great time. I hope the people who attended enjoyed the event. I think probably the best array of speakers that I have seen at a *MoneyWeek* event. I commend you for your – what's the best way to describe it? – foresight, intelligence and luck in doing it in the context of – clearly, the whole event was overshadowed by the looming potential failure of Deutsche Bank, one of the largest banks in Europe, the largest bank in Germany, and proof positive that the financial crisis that began in '07/'08 has not gone away.

DD: Let me ask you a question about that because I was actually – I would describe it as – chastised by one of our speakers in my opening comments for suggesting that it was possible Deutsche Bank was in serious trouble and that it was not just an issue of the fine that it might pay but also either liquidity or solvency, or that it was a genuine crisis with Deutsche Bank and not an artificial crisis. Are you of the view that this is (a) a problem for Deutsche Bank and (b) a problem for the entire European banking system?

TP: I have no dog in the fight to the extent that for as long as I can remember, I've never owned bank stocks and I certainly don't advocate shorting them either. I'm not a trader. It's so difficult to get, if you like, the inside track on these institutions. I was trying to remember how many hundred pages the Deutsche Bank 2015 annual report was. I think it was 488. It might only be 388. But what's 100 pages of closely-typed text and data between friends? I think it is an existential issue for Deutsche Bank and simply because Deutsche Bank is so big and it has however many 40+ trillion euro in notional derivative exposure. That has implications. I'm certainly not trying to sound alarmist. I'm just trying to be realistic about the situation. Deutsche Bank in a sense is too big to fail and that alone is a sign of how little ground we made in the course of the last decade since Lehman Brothers blew up. I forget who it was; it might have been Churchill that said, "Never let a good crisis go to waste." But, clearly, European banking staff, European bank bosses and the regulators have let a good crisis go to waste because they've done little or nothing to try and improve the health of the financial sector, particularly in the eurozone, in the last ten years, and that's an appalling waste.

DD: Let's talk about the next crisis and how it might be used by the financial authorities. And this is a question that comes from a reader, so I'll get straight into the reader questions because we got some very thoughtful ones. This one's a bit longer so I'll read it to you: "Tim, I refer to the financial repression, financial martial law scenario, predicted by yourself and one or two other financial advisors, and the threat of government control of all our assets by the elimination of cash. One would have thought that this would have led to a large move of personal assets into bitcoin, or similar other digital currencies, which is beyond the interference and control of the financial authorities. However, I have not seen any such recommendation by yourself and others, or noticed any large scale migration to this type of asset. Is there a reason this is not being suggested by yourself and other financial analysts? Thanks and regards, Ken Canfield."

TP: That's an excellent question. In terms of the bitcoin aspect, specifically, the reason I don't advocate bitcoin is simply because I don't know enough about it or understand the technological issues around it to be able to make a positive recommendation. That's not a criticism. If it is a criticism, it's a criticism of my own technical ignorance. I don't know to what extent there is publicly verifiable information about how much money is being directed into these cryptocurrencies. John Butler, who was a speaker at the conference, would probably be able to tell you. I'd certainly be happy to send a query his way and he can fill us in. But the issue I have with bitcoin isolation is it derives its value from algorithms and from, basically, software that apparently caps the number of units of bitcoin that can ever be created. I lack the coding sophistication to tell whether what people believe to be the case is actually true or not. So, in the absence of that, it's too difficult for me to opine on the value of bitcoin. But like anybody else who's a sort of libertarian advocate for choice, I'd say let a thousand flowers and a thousand cryptocurrencies bloom. And there are clearly hundreds and hundreds of these different alternatives to conventional cash. For me, the straightforward response is that there's an easier way of doing this that doesn't derive from faith in somebody's software, and it's just called itself in whichever form you choose to go with it. I think the rise of cryptocurrencies is only going to be yet another big nail in the coffin of conventional banking. So to bring the conversation back to where we started, on the travails of Deutsche Bank, who would choose to be a commercial banker these days? They are being assailed by all kinds of competitive forces, all kinds of equivalents of smart kids in garages trying to invent them out of business. The regulatory pressure is intense, the margin pressure is intense, the bad debt problems are intense. There are any number of reasons to conclude that that sector has gone ex-growth for the foreseeable future, if not forever. So, although I have a lot of time for all of the speakers at the conference, the one person I would probably take issue with would be Charlie Morris and his somewhat more bullish perspective on the banks because I just don't see it myself, certainly not in the eurozone anyway.

DD: Yeah. I just spoke with Charlie this morning, actually. I asked him what question he would ask you. And I've forgotten it. So I won't ask it. But it's true, for those of you who listen to the DVD or have a chance to do so, Charlie was probably the lone voice to claim that the banks were the opposite of a bond, inflation is rising, bonds will sell off and banks in the US and the UK are fixed. In our group, Charlie is the contrarian. But I like him because he does his research and he stuck to his guns on that call. It's been an interesting one.

TP: I guess the issue here is one that traces back to one of the single biggest dilemmas that everybody on this call, everybody, every investor is wrestling with, which is in a fight between governments and markets, who wins? And we've been wrestling with that particular problem now for nearly ten years, since the crisis first became manifest. It's not clear to me exactly how this will pan out. I think this is the problem: the problem is that markets cannot solve for politics. Markets can solve for a lot of things. Markets attempt to price in all kinds of future outcomes. But the one thing that financial markets simply cannot do is solve for a political issue. And this is a political issue because it's basically [that] the banking system isn't really working, banks have basically crashed the world economy, there is too much bad debt in the system, a lot of it is government debt but there's an awful lot of corporate debt

as well; there's even household debt on top so the debt pile, in total, is probably unmanageable. And there are – and there only can be – three ways to resolve that debt crisis. One is that government, for want of a better phrase, can engineer enough economic growth to service the debt. The second outcome is that you have some kind of reset. Reset is the benign word; default is the malign word. Debt jubilee is the pink clouds and unicorns version. But whichever way you slice that one, that's a bad outcome for the financial sector because if a government says, "Well, I just void my debt," fine, they get rid of their liabilities. But someone else is on the other side of that trade. That someone else is either a bank or a pension fund. That's an asset to them. So if governments do get into the game of repudiating their debt or renegotiating their debt, then the loser is the private sector and the saver and pensioner and investor, worldwide. What's in box number three is effectively what Russell Napier, I think, of any of the speakers at the conference, was best placed to talk about. What's in box number three is financial repression and it's also specifically an explicit policy of state-sanctioned inflationism, which is one of the reasons why, for some of us, gold has been a must-own investment or must-own holding of a portfolio in the last eight years and continues to be so today.

DD: Let's follow up with two questions on that from a subscriber by the name of Chris. The title of your speech was, "Keep Calm and Keep it Real". Chris asks the following two questions. First one: "You advise 20% of the portfolio in real assets. What percentage would you advise in the Central Fund of Canada and what percentage in gold miners, via BlackRock Gold and General? Is now an especially good time to top up on both? If one has a significant hold in BlackRock Gold and General, is there any point in holding Goldcorp and Fresnillo as well?" By the way, I should remind you, Tim can't answer specific questions about what you should do with your money but he can answer questions about his advice on the portfolio. So, over to you.

TP: Great, thank you. Great questions. Within both *The Price Report* and within the private client portfolios that I'm responsible for, we have typically a 20% or so allocation to real assets. And that allocation is almost entirely comprised of the monetary metals, gold and silver. Why the monetary metals? Well, it probably will be abundantly clear to any longstanding subscriber to the service that we're expecting a sad inflationary outcome to this crisis, albeit we may have to live with a period of deflation before that happens. So simply by dint of diversification, that argues, at least in my mind, for a holding in both physical precious metal – ie, the Central Fund of Canada, which is roughly 50% gold bullion, 50% silver bullion, and that bullion is in physical allocated form in vaults either of or identified by CIBC in Toronto. So we think that's safe custody, in every sense of the word. So that's gold and silver in a one-stop shop. And then gold miners because, again, it's an issue of diversification, and we're mindful of the fact that in 1933, President Roosevelt made gold illegal through Executive Order 6102. Now, when the US made gold illegal for private investors in the height of the [Great] Depression, the world was on a gold standard. But we're not on a gold standard anymore so I would like to think that the requirement to diversify away from the threat of government seizure through owning gold mining interests is less acute. Nevertheless, I think it would be entirely fair to say that the nature of the government debt problem is at least as bad as anything we've lived through before so, as I may have said at the conference, I wouldn't trust these bastards further than I could throw them. So, on that basis, you allocate to both. I would effectively suggest to any investor who's got a diversified pot that, say, maybe 10% or so as an allocation to Central Fund makes sense and, equally, maybe up to 10% or so, through diversified mining interest exposures – eg, BlackRock Gold and General or something similar. It would be fair. That's a much higher allocation to gold than most wealth managers recommend but that happens to be what I believe in. In terms of doubling up, yes, if you own a fund like BlackRock Gold and General, there's clearly no great pressing need to own individual mining companies as well. But if you happen to get lucky and are exposed to some of the better performers, you'll make a lot more money holding individual shares than you will through the diversified fund. It's just a bit more bang for your buck if you want to take that extra risk.

DD: Let me follow up, preface the second part of Chris' question by something Russell also

said, which I wanted to see if you had a view on. He said that you were probably less likely to see financial repression in emerging markets, simply because they didn't have the same level of debt problems as you saw in developed markets. On a relative basis, they might be a safer refuge for capital. I think that's what he said. The second part of Chris' question was: "Do you advise switching completely out of Thai funds and into Vietnam opportunities funds and is now an especially good time to top this up?"

TP: Another good question. I have no specific insight into the Thai market but clearly there's political change occurring there with the passing of the royal family. I can't speak for Thailand but I can speak for Vietnam. One of my colleagues from my fund – the VT Price Value Portfolio – Killian Connolly, just came back from a business trip to Vietnam. Vietnam, in the widest sense, I think, is probably the single most attractive opportunity of any equity market worldwide.

DD: Really? Globally?

TP: Globally. Just to give you the ball park, this is sort of the bullet point statistics: Vietnam has a population of 94 million people so it's a reasonably sized country. The average age of the Vietnamese people is 29 years, so it's quite a young economy. Their literacy rate is 94.5%. On an OECD score of maths, reading and science for 15-year-olds, Vietnam scores higher than Austria, Australia, France, the UK, Italy, Spain, the US etc. They're better educated than we are. They are excellent traders. Their major trading partners include Europe, the US, China, Japan and ASEAN (the Association of Southeast Asian Nations). Major exports: clothes, shoes, electronics, seafood, oil, rice – global number two in rice, global number two in coffee, which I found surprising. And the bottom line is that Vietnamese wage rates are less than half those in China. So Vietnam is the foreign direct investment recipient throughout the entire Asian continent. The great thing about it, in addition to those fundamentals, is the fact that it's a cheap market. So it trades on a fraction of the price-to-books that pertain to the rest of Asia, particularly for China. Vietnam, as a market, I find tremendously exciting. The downside, or the flipside, of that argument is that Vietnam is clearly a frontier economy. It's got a communist government. It's clearly a partly state-directed economy, albeit the government is in the process of opening it up to foreign shareholders. We have to be mindful of that – it's a frontier market. So in the context of investible opportunities, you have developed markets, you have emerging and then you have frontier. Frontier is deemed to be the riskiest of the three. That, however, is also an opportunity for private investors. Big institutional players cannot play in this market, end of story. They've got too much money to deploy. Frontier market investments are small because the frontier market is small. But Vietnam, as I say, is in the process of opening up to foreign capital. That process of being effectively completely open, in stockmarket terms, is expected to really come to full fruition over the next 18 months to two years or so. Vietnam is itself expected to be recategorised by, for example, NSCI, the index provider, from frontier to emerging market status. Again, over the course of the next two years or so. If that comes to pass, and it's widely expected to, then there will be a so-called wall of capital – it's already on the sidelines, waiting to invest. So if it's possible to get in now, then I think fortune will favour the patient and perhaps risk-friendly investor. The difficulty with Vietnam is there's a real paucity of investment choices. So we've flagged the [VinaCapital] Vietnam Opportunities Fund. I think I have something even better that's going to come as a new fund in the course of the next month or so. I'll be writing about it in next week's *Price Report*.

DD: Ah. A good tease. Is it in the same region, can you say?

TP: It's a Vietnamese fund, run by a value manager. But the problem that we have is that a lot of these funds – it's the same problem we have with, say, trend-followers or absolute return funds – I would love to recommend but, hand on heart, it's difficult to do so. Not because they're bad investments but either because they have high minimum investment thresholds, which puts them out of the potential grasp of a lot of subscribers, or because platforms in the UK can't accommodate them for whatever reason. But hopefully, the new fund, which is going to be brought through a company

called SSI (Saigon Securities Incorporation), the largest brokerage in Vietnam. Hopefully, this new fund, because it'll be a USIT fund, will be within the grasp of *Price Report* subscribers.

DD: That's good news, something to look forward to. And it actually prodded my memory with the question Charlie had for you. When you said momentum and talked about value investing and momentum at the same time, Charlie's kind of a momentum guy. He buys value when he thinks there's momentum in it. So his question was: "Is there any kind of cyclicality for you to your value investing? Are there good times for it, or better times, or bad times for it?"

TP: It's an excellent question. And, again, Charlie has more of a – this is not a criticism, really an observation – trading focus, whereas I tend to be a much more long-term investment – just buy-and-hold, buy-and-forget, type investor. There is undoubtedly a cyclicality to the value versus growth debate. At the moment, value is very out of favour. Value has been a disaster, as a strategy, for the last three or four years or so. And the corollary of that is that growth has been really the only game in town. Effectively, what you're talking about, I think the reason for this is quite straightforward: it's, for any other pithy way of describing it, the markets are rigged so governments are pouring money through the central banks into markets. If you look at, say, what the Bank of Japan is doing, they're buying up huge swathes of what was the Nikkei 225 – and what's now the Topix index. The Bank of Japan has huge amounts of the Japanese equity market but that effect is being made manifest primarily through large-cap stocks. And large-cap stocks tend to be largely capitalised stocks, the most valuable companies by market capitalisation. What that tends to be is sort of reinforcing strategies, that the large institutional owners get a huge benefit from this but private investors that tend to own perhaps slightly more of the small-cap and mid-cap markets get completely left behind. You're seeing the same trend in the UK. Last week, or recently, I alluded to the whole Unilever versus Tesco spat. Well, Unilever is a great example of the large global mega-cap popular stock, deemed to be an alternative to a bond. It's clearly equity but it has bond-like features. The problem with that is that, as a value investor, beyond a certain level, these stocks are too expensive to ever want to own. And Unilever, I think, is one of those candidates now. It doesn't mean it's a bad business. It means it's probably too expensive for a lot of defensive investors, like myself, to consider owning. And that's the issue. So effectively, for Unilever in this case, read growth. The growth stocks have been hugely supported by, I would argue, not underlying economic fundamentals, globally, but simply by, again, a wall of cheap money that's cascaded into markets and is going to go after growth stocks because they're the biggest stocks, they're the most liquid markets. I would like to think that if trends and interest rates are any guide, we're starting to see a tiny bit of anecdotal evidence that the bond market bubble might finally be bursting. Then look out below, particularly for growth. If you want to be more defensive, in terms of your equity exposure, go after – assuming there's an underlying quality to the businesses, favour businesses that aren't trading at any kind of premium to the rest of the market. Because if the market, as defined by the S&P 500, goes down dramatically, then all stocks will be affected but the stocks that will be most heavily affected and impacted will be those that have the most premium attached to them, and that's going to be growth.

DD: Yeah. I love that term that you used at the conference, "the expensive defensives". I think Merryn Somerset Webb loved it too because she used it three or four times, and I've tried to sneak it in.

TP: I can't claim it's original. I nicked it from somebody else.

DD: You didn't have to say that. We were going to give you credit for that. Let me ask another question from a reader. This is related to income so it's not a value question. But it's a good one: "Dear Tim, if you need an income of about 3% from your portfolio, how do you achieve that and maintain the asset allocations in your portfolio?"

TP: Very good question. And this will partly be a function of how your portfolio is structured. So, for

example, in the wealth management business that I'm involved in, most of our clients there have their portfolios in the form of SIPP (self-invested personal pensions). If you have a pension wrapper, if you have a tax wrapper, then you should be really completely indifferent as to whether you're getting your return through capital growth or income or both, because there's no tax implication either way. Clearly, if you then have an unwrapped account, you need to be mindful of the disparity between income tax rates and capital gains tax rates and invest accordingly. But in terms of trying to find a decent yield – and 3% is a decent yield these days – the way I'd advocate that would be as follows: there are four component parts in *The Price Report* portfolio. You have cash and, specifically, objectively high-quality bonds. You have value equities, defensive equities, you have absolute return funds and then you have real assets. The problem with the absolute return funds and the real asset funds is they don't give you any income. So if you are an income-dependent investor, clearly you need to slightly skew the portfolio approach to more income-generating assets. The reason I'm wary of doing that is because with interest rates at zero or in some cases negative, income is appallingly expensive to get now. In other words, you're having to pay a real premium to get income. So if you have the flexibility to get your overall return by a combination of income and capital growth, so much the better. But you asked about explicit income. To give you an example, within the portfolio's two bond holdings CGP, Gravis Capital Partners Infrastructure Fund, has a dividend yield of 6.5%. Now, I know another subscriber has raised an issue about the fund trading at a premium, which is correct. But the dividend yield of that fund is about 6.5% today. That is not to be sniffed at. When you apply the premium, it probably brings it down to maybe 5%. But nevertheless, that's from a portfolio of UK government-backed PFI debts. So they're across a variety of different instruments, healthcare, alternative energy, schools, a variety of projects. But a dividend yield of, say, net 5% is not too shabby – particularly when (a) it's backed by HM government and (b) something like 70% of that portfolio is indexed to inflation.

DD: Can I just ask a quick question on that because there was another question, from Julian, on that particular fund, the GCP Infrastructure Investment trust. He said, "It is now trading at a 16% premium to net asset value. You've just mentioned the yield." His question is: "Do you still rate it as a buy at this premium?"

TP: Yeah, I suppose, fairly, it's probably best described as an accumulator. In other words, if the shares do ever start to trade at a lower premium or, ideally, ever at a discount, then clearly they become more attractive. As a way of mitigating that, I think GCP also has an open-ended fund, which won't trade at a premium. So that might be an alternative if you're considering the GCP Infrastructure proposition. They have got, I think, an open-ended or at least one open-ended variation. But to go back to the income point, say, what's available in the UK market? From what I would consider, what I would suggest is a pretty high-quality diversified fund. The other one, which is possibly the oldest recommendation in the whole portfolio, is our old friend, the Wealthy Nations Bond Fund. Now, the Wealthy Nations Bond Fund, for anyone that's not familiar with it, is a portfolio of investment grade sovereign and quasi-sovereign debt issued by, bluntly, the most creditworthy issuers in the world. Everyone assumes that government debt issued by the likes of the US, the UK and European governments is low risk. I say, "Watch this space." The kind of credits that are in the Wealthy Nations Bond Fund are issued by the likes of Hong Kong, Qatar, Singapore, the UAE, etc. They're either well-run economies or they're resource-rich Gulf states. Now, clearly, the Gulf state element, the energy element, has changed in recent years. So they're not quite as rolling in cash as they used to be. But a country like Qatar, for example, I'd argue, is still an objectively better credit risk than many countries in Europe, for example. And the current yield to maturity of the Wealthy Nations Bond Fund, last I saw, which quite recently, was a yield of 4.5%. Again, it's not too shabby at all, by a way of a yield. To answer the question about how to get a return or an income of 3%, I would be biased in favour of, firstly, clearly making use of those funds or if you can find a superior fund with even greater credit quality, by all means, buy it, but I think you'll struggle to find those funds. High-quality credit still works. Then, of course, you've then got high dividend yielding equity. So, in as much as you can secure a decent income from either a single stock or a portfolio of blue chips that you don't have to

pay too much of a premium for, that's your answer. It's a combination of debt and equity, but the best quality in both.

DD: Let me interject a question related to developed market bonds with the premise that the early signs of inflation in the UK, perhaps the US, are incipient and that it'll be at or above the target set by the Bank Of England and the Fed. What about tips for investors, inflation-adjusted bonds or funds?

TP: Tips [Treasury inflation-protected securities], at least theoretically make sense – I think I would probably favour the Tips market in the US over the index-linked market in the UK, only because they're both expensive. This sounds a little, perhaps, strange. This is maybe more of a trading response than, if you like, an investment response. Given a choice between owning UK guilds or US Treasuries, I'd rather own Treasuries today. And the reason is, it's as much a currency question as anything else – if you, like me, have a cautious, wary general stance towards markets, you would probably concede that the US dollar, as a currency, is going to be the last man standing. So if you expect things to get worse – one of the lines that I used in the conference was from Lily Tomlin: "Things are going to get a lot worse before they get worse" – then, frankly, the US Treasury market probably is the market to own, from a bond market context because it will almost certainly be the last man standing. It's the deepest, most liquid treasury market in the world. So, although we may have issues over the precise quality of, say, the US government and its debt profile, I think US Treasuries will persist longer probably than any other market, including that of the UK. If it's possible to secure access to US treasury bonds, at the long end, perhaps around 2% or so, I think there's plenty of potential for that yield to go lower before it goes higher. So in the same context, I would say there's probably more juice in the US Tips market than there is in the UK index-linked market, where you've just got pension funds gobbling these things up whenever they come onto market.

DD: At the risk of complicating the story – but I think it's an interesting question because part of it was prompted by something that happened last week. Actually, it had been happening all year but it culminated last week when the new rules governing US money market funds came in. So the prime funds have new reporting requirements and it's not really a lock up but they can keep your money for longer, which is, of course, the opposite of putting your money in a short-term money market fund. What had happened prior to that is you saw a huge shift in capital flows from the prime funds to government bond funds; they were short-term government bond funds. So it went from being about two trillion dollars in prime funds and less than a trillion in government funds to the exact opposite, which to me confirmed the point that a lot of people made at the conference – that financial repression is about directing capital flows to where the government wants the money to go. In that case, the credit's no longer going into the money market, the private prime funds, it's going in the government bond funds.

TP: Which is great if you happen to be enormously indebted and want people to buy your bonds.

DD: I just looked at it as a pure trade. If you're sort of amoral about all the policy issues and whether they're good or bad for the economy or for freedom, financial freedom, it's just front running. If the strategy was to front run, the European Central Bank and by corporate bonds, it is the strategy now to realise that the government's going to make it possible to direct money into bond funds? But that's clearly not a strategy that would have any place in a value portfolio. It just might be a trade.

TP: It may well be. And I think (a) you're right and (b) there is a case to be made, admittedly as more of a trade than as a long-term value play. Then, for me, if there's any part of the G7 government market that makes sense, it would be the long end of the US. But that's because you can still get a positive return there. It's very difficult. Probably most of the German market now trades with a

negative yield, which is clearly nonsensical. Your point about cash also reminds me that I spend last weekend – I didn't enjoy it but I spent it – reading Kenneth Rogoff's – it's not the *War on Cash*, because I wrote that.

DD: *The Curse of Cash*.

TP: *The Curse of Cash*, thank you. You can tell what an impact it made on me. I can't even remember the title of the bloody thing. If you weren't aware, Kenneth Rogoff is a former world chess champion and one time chief IMF economist – full-time nerd, full-time liberal-idiot, some might say. I couldn't possibly comment. He's just written a book suggesting the next step of financial repression ought to be that the US gets rid of – well, in the first instance – all of its higher denomination notes and ultimately all cash altogether.

DD: Yeah. I would [call] him a nascent financial authoritarian. He's a frontier spokesman for the idea. We were lighthearted about it at the beginning but I think you said all along –

TP: These people are probably serious, is the issue.

DD: 100%. They're floating these ideas in the editorial pages of the major think journals and they're publishing books to get people ready for the concept that, "We're taking these things away from you," which is going to affect what you can do with your money. Although I thought there was one thing that was really interesting that you said when you looked at Harry Browne's fail-safe portfolio from the late '70s, where he had a very simple portfolio in four asset classes with cash, bonds, real assets and equities. But in this market right now, in this world, with bizarre central banking policies, other than the bond funds you mentioned, the objectively high-quality government bond funds, you don't think cash does play a big role in a portfolio.

TP: Yeah. Again, we have to acknowledge the kind of crazy times we're living in so that the Harry Browne so-called permanent portfolio, or fail-safe portfolio, is basically equally weighted 25% to cash, bonds, stocks and gold. And the problem with that, as I made the point at the conference, in a world where $16 trillion worth of sovereign debt has a negative yield – ie, is guaranteed to lose you money – and in a world where lots of interest rates, cash rates, have now gone negative, having half your money in cash and bonds all of a sudden doesn't look like the best idea in the world. So with the best will in the world, I think we need to be slightly more pragmatic, slightly more responsive to circumstances. The example that's even more black and white, if you like, is that probably the typical financial advisory portfolio, both here in the UK and in the US, is a so-called 60/40 portfolio – where you've got 60% of your portfolio, plus or minus, in stocks of various kinds and you've got 40% in bonds of various kinds. And the closer you are to retirement, then actually the more you're likely to be recommended to own in bonds, as a kind of lifestyle choice. And that kind of ticks the regulatory boxes because the regulator is minded to believe that bonds are low risk, whereas stocks are comparatively high risk. Now, that's on the basis of I don't know how many years of history, but I guarantee that bonds in future will be a lot higher risk than anyone alive has ever experienced. So whether bonds now ought to be viewed as the bellwether, the mainstay in a portfolio, I think is very much open to question. And with that in mind, and I cited this stuff at the conference, I think we need to be somewhat more flexible, somewhat more pragmatic. If you can find, for example, bond-like stocks that aren't expensive, they clearly have equally – we use the phrase, keep it real – real assets in all their various forms, subject to finding them at the right price.

DD: Ok. Let me ask you one final question, we're nearing the 40-minute mark. Your book. You've got a new book. It comes out early November. Tell us what it's called, what it's about and how we can get it.

TP: That's very kind. The new book is called, *Investing Through the Looking Glass*: *A rational guide to a rational financial market*, I think is the subtitle. The culmination, really, of my 25 years in the business, just becoming ever more amazed and outraged at just the insanity that's going on. A lot of it is, if you like, kicking the usual suspects, pointing out to where some of the skeletons are hidden. But lest this call end on a negative note, it also does issue some slightly more, hopefully, encouraging advice about how we should be prepared for this environment and what may be to come. But spoiler alert: anyone who's a subscriber to *The Price Report*, the conclusions will not be new to you because they're the conclusions that we use in the portfolio service. There's merit in real assets, there's merit in value, there's merit in absolute return funds, particularly trend-followers, if you can access them, and there's merit in gold. So I've probably just done myself out of a few hundred sales.

DD: Well, people will buy it anyway, I think. I'm actually going to sneak one last one in because prior to Tim arriving, Dara, our sound engineer, did me the favour of unfurling the giant American flag in our studio, which I brought here just because I've had it since I was in Australia. You used the word "rigged markets" to start the call off and we've had several people on both sides of the aisle and the United States –

TP: And now we've got a rigged election to look forward to!

DD: Right. Any geopolitical risk that people need to factor in? Or can they practically prepare for any political risk coming from the American election. Or is it just a non-event in terms of long-term wealth planning?

TP: To be honest, the range of outcomes is such that I'm not sure that there's merit in hedging. If you're going to attempt to hedge against a Trump presidency, then you probably want to buy real estate in the most obscure locations globally, with a bunker, hopefully, bundled in with that real estate. But being serious, I'm not sure that there's any real requirement to change. If it's a valid portfolio arrangement and structure today, chances are it'll be just as valid after the election in early November. So I think the best advice is (a) to keep the faith and (b) if need be, just switch off the news.

DD: Yeah, that was great advice that you gave at the conference. I also thought, in the context of keeping it real, as you mentioned at the beginning, the longer there is political uncertainty, which markets cannot resolve, cannot price in, then the more sensible it is, in my view, to have some of your money locked out of markets or put in assets that aren't subject to the whims of day-to-day pricing.

TP: And for as long as our central bankers will allow us to, it wouldn't hurt to have a bit of the folding stuff in carry-around form.

DD: There it is. OK, ladies and gentlemen. Tim, thanks very much for coming in.

TP: A pleasure.

DD: Congratulations on the book.

TP: Thank you.

DD: If you have a follow up question that you would like to direct to Tim that he may be address in a future issue of *The Price Report*, please send them to daniel@moneyweek.com. I'll pass those on to Tim. And for those readers who emailed their questions in ahead of time, thanks very much. So for this quarter, that's it. I'm Dan Denning with Tim Price and we'll talk to you next time. See you.