The Price Report

The Price Report quarterly conference call

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Boaz Shoshan - BS **Tim Price - TP**

BS Hello and welcome to another quarterly conference call for subscribers of *The Price Report*. My name is Boaz Shoshan. I'm an editor at Southbank Investment Research, and I'm joined here today with Tim Price, who is the investment director of *The Price Report*.

TP Good morning everybody.

BS Hope everybody has tuned into the call. We'll start with a bit of housekeeping just to give some people time who've not joined the call yet. In terms of what we're going to talk about today, we're going to be going over Tim's investment outlook, we're going to be looking at some of the risks, some of the opportunities out there in the world today, and we're also going to be talking about the possibilities when it comes to new additions to *The Price Report* portfolio, and also how things have been performing recently.

Also, on the agenda is the EU, Japan, Argentina, etc. Also, do remember that we cannot give any personalised financial advice.

These are simply broad investing themes that we're covering today. We can't give anyone any specific recommendations. We'll only be making recommendations for *The Price Report* portfolio. Now, Tim, how are you doing at the moment?

TP Not too bad at all, Boaz. So are you?

BS I'm very well indeed. In terms of what's going on in the world today, now what do you make of the situation in the EU? Where would you like to begin?

TP Have you got a spare couple days?

BS Well, I'm sure some of our subscribers could hang on for a while longer, but maybe not that long.

TP It's extraordinary, isn't it? We're now, we're now a full ten years after the original crisis, the so-called global financial crisis of 2008, and it's like the arcade game Whack-A-Mole. Have you ever played Whack-A-Mole?

BS I have seen it. Yes.

TP Trying to whack things appearing up from holes with sticks. And as soon as you've hit one, then another one comes up and then you hit that one and a third and a fourth. And they're like London buses. So just when you think a crisis has been resolved, you get another three, like a hydrant…

BS All at once.

TP Popping up in its place all at once.

BS Right.

TP And most recently that's been Italy. So astonishing, we were talking just briefly before we came on air, just alluding to the situation in the Italian market.

BS Certainly.

TP Where Italian government bond yields have shot up on the back of concerns that you may actually have a government elected that is explicitly anti-EU, anti-euro, will look ultimately to leave.

BS Yes.

TP And then that turned out to be a one-day event. It just blew away. Just extraordinary levels of now complacency.

BS It came and then vanished.

TP Exactly, it was like a, like a summer storm.

BS Yes, it was one of the great charts. If anyone is wanting to have a look at just how strange things are in Italy, if you take a look at the Italian bond yield for a two-year, a five-year, or a ten-year bond, and you just look at it over since 2008 really, you just have this long crushing of bond yields by the European Central Bank [ECB] and their monetary policy.

And then just all of a sudden, all of the pressure was suddenly released, as everyone in the market seemed to realise that there was actually a problem in Italy.

But at the same time, a lot of that was actually due to the ECB because they were going to stop buying Italian bonds as part of their quantitative easing programme, which caused the yields to go up because there was less of a bid in the market.

TP That's at the heart of the problem for investors today that the overarching theme for the whole year is what will be the impact of quantitative tightening firstly in the US where it's already happening because you've already got interest rates now rising. They've been rising for getting on for two years. You got a new head at the Federal Reserve, Jay Powell. So far, he's probably perceived as being more hawkish than dovish – ie, benign for monetary policy.

BS And correct me if I'm wrong, but it seems that the narrative is we will not be using our balance sheet as a tool of monetary policy.

TP Yes, so in other words, the hidden code is that if investors make mistakes, they're not going to get bailed out any more.

BS Right, they're not going to change the course of the balance sheet.

TP So you got quantitative tightening on the agenda in the States, and so you've seen a move higher in Treasury, US Treasury bond yields. Unlike Italy though, that's been a more orderly sell-off in bonds. It hasn't been a sudden surge higher in yield. It's been a more orderly process going back, getting on for two years. I suppose the best way to describe it in the UK would be stasis. There's just nothing happening, and Mark Carney continues to dance his Dance of the Seven Veils, promising interest rate hikes and then taking them away at the last moment.

BS Which is very reminiscent of Janet Yellen, isn't it? She used to – who was always talking the jawboning…

TP Jawboning, yes. Moral suasion, I think it's called. Then you got the ECB. Now the ECB possibly further along the line to tightening, and that may have a particular relevance, say, for markets like Italy, which is not in control of its own monetary affairs. It has to outsource that to Mario Draghi at the ECB.

The other market where quantitative tightening is certainly not on the table is Japan. And there's this stat that I wanted to share with people because I think it's quite incredible. There's a piece in, I think, the Washington Post.

But they point out in this article that more money has been lost, more capital destruction has occurred in the Japanese economy over the last, well, for it lost decades after the market crashed back in the late 80s. More money has been lost in Japan. Three times as much money has been in lost Japan proportionately as was lost in the US during the Great Depression. Now that is a staggering statistic.

BS That's crazy.

TP And it's doubly staggering if you then consider that in the face of that capital destruction, which incorporates both equity, risk, and property, the value of real estate, what is doubly staggering is, despite all of that economic carnage, the Japanese unemployment rate never went above 6%. Now that is an unbelievable statistic.

BS So in terms of that wealth that was destroyed, in the Great Depression, it was very wide, very broad across society. In the Great Crash and the Depression that seem to have fallen Japan, was that similarly felt across society if unemployment still remained so low?

TP Well, I think what you can see, say, with the benefit of hindsight, is what maybe the Japanese did even more aggressively than the Fed did back in the 30s was they primed the monetary pump. So what you saw in the 30s in the States was an explicit governmental response to attempt to stimulate the economy through… They were called alphabet agencies. It was the Big Deal, the New Deal, the Roosevelt.

Japan has done that. But in addition, they've also driven interest rates down to zero. And the JGB market, the Japanese government bond market, has been the swing factor. So, Japan is now getting, I think, perilously close to outright monetisation – ie, government borrows money with one hand, and the central bank immediately…

BS Buys.

TP Funds that.

BS Yes, there's not a free market for the bonds.

TP At the moment, the Bank of Japan has some godawful ownership of the Japanese government bond market. At some point, it'll logically become hundred per cent. There won't be any private-sector investors. Now Japan's an interesting one because it's important to distinguish between Japan as a government and Japan as a country. So there's a metric that's probably my favourite metric over the last ten years for assessing credit risk at a sovereign level, which is just measure net foreign assets as a percentage of GDP.

So as a reminder, net foreign assets is the totality of government sector, corporate sector, and household sector assets less the value of domestic assets owned by overseas investors as a proportion of the economy. And the quick takeaway from this is that there are a handful of countries that are objectively creditworthy. They are likes of, in no particular order, Hong Kong, Qatar, Singapore, the UAE, Russia amazingly, China amazingly, and, drum roll, Japan.

So Japan as a country is creditworthy. It's actually one of the most creditworthy countries in the world. Japanese corporates are rolling in money. Japanese households, by and large, are rolling in money. It's only the government that's effectively irretrievably insolvent. But for that reason, you don't want to probably touch Japanese bonds with a barge pole, and you're not getting any return from them at all. You're going to get a return of 0% by way of yields in Japan.

But clearly that stimulus has finally achieved something in the stockmarket. Now I don't like the Japanese stockmarket because of the Bank of Japan [BoJ] monetary stimulus. I like it because evaluations are outstandingly cheap. But notwithstanding, just to do a comparison, in 1989, when the Nikkei peaked, it peaked at just below 40,000. Well, now here we are in 2018, and it's just under 25,000. It has missed out on the largest equity bull run in history. It's still cheap.

BS It's interesting, yes.

TP So it's important to discriminate between these different characteristics in that country. Japanese banks now have the healthiest balance sheets in the world. That is an amazing…

BS It's quite a statement.

TP But it happens to be true. And the logical market to compare that to now is… Okay, so what's happening in Europe? What's happening in the EU? It is…

BS Polar opposite.

TP Plausible that Deutsche Bank, which is one of the largest banking organisations by way of “assets” is on its knees and may be forced into some form of emergency merger with someone like Commerzbank. Now they’ve been having all kinds of meetings behind the scenes in Germany, but as of yet, there’s yet to be a formal response. But you only have to look at Deutsche Bank share price. Something has gone very badly wrong.

BS You blew the whistle on Italian banks quite a long time before the sudden uproar in Italy at the moment. In terms of banks within Europe, they’re very, very bad balance sheets, all these non-performing loans, etc. Deutsche Bank, in particular, has continued to float in and out of being hated or an it’ll-be-okay thing. Often in the articles that speak about Deutsche Bank’s woes is the absolutely gigantic derivatives books that they have.

Now, for some people who aren’t involved in finance or in financial markets and whatever, derivatives are incredibly illusory. They don’t reveal much. Would you like to describe how it is that Deutsche Bank managed to get these trillions of dollars, trillions of pounds, of derivatives? Where did this come from? Why were they built?

TP Again, we’re going into history-book stuff now. One of the measures that was introduced after the crash of 1929 in the States was an act called Glass-Steagall, and Glass-Steagall formally separated the activities of commercial banks from investment banks.

So in other words, it basically forced businesses that previously offered both of those types of services to their clients to choose which way the derivative jumped. So the likes of JP Morgan – I think JP Morgan was then split into JP Morgan and Morgan Stanley – for example. Morgan Stanley became the investment banking arm. JP Morgan remained the commercial banking entity of the House of Morgan.

Glass-Steagall was repealed in the States around 1999, and that effectively marked the high-water mark for… Because we then had the dot-com crash. And then, if that wasn’t bad enough, you then actually had the global financial crisis of 07, 08. So you could make a plausible case now for the fact that Glass-Steagall needs to be brought back.

And that would then enable groups like Deutsche to separate their casino activities – ie, things that are happening in the derivative market from their…

BS Commercial.

TP Supposedly lower risk commercial activities, which is commercial lending and mortgages and stuff like that.

BS Because my repealing it, they’re allowing customer deposits. Effectively, it’s a gamble.

TP Well, effectively, it meant that investor bankers were gaming the system, so you then had not just Deutsche but every major banking organisation.

BS Right.

TP You then have aggressive traders making, heads, I win, tails, you lose, bets. Because if the trades win, good. Then the trader responsible would get a share of that P&L. And if the shares went bad, well, then ultimately if it imperilled the bank, the bank then just gets bailout courtesy of the taxpayer.

Well, that's not capitalism. That's crony capitalism. And I think what's happening now particularly in the eurozone is you're seeing the legacy of ten years' worth of financial… What would you want to call it? I would call it practically fraudulent behaviour on the part of the central banks. The skies over Europe are now darkening with the sight of chickens coming home to roost.

BS Right.

TP It's happening in Italy. It's happening in Germany. To go back to the topic of Brexit, this is why I'm astounded the… I accept this is a deeply polarising debate.

BS Of course.

TP But I'm staggered that more of the Remain camp won't acknowledge the very real dangers to the financial market stability in the EU.

BS Right. But in terms of Italy, they're weird with their banks, their balance sheets, etc. It seems that Mario Draghi, with his incredibly loose monetary policy and quantitative easing, etc, rates pinned to the floor, negative, etc, managed to keep some of these institutions alive.

TP Zombie banks.

BS Zombie banks. How much of a risk, do you think, this plays or how much of an influence does this have on Mario Draghi when he's making his monetary policy announcements?

Because of course he needs to keep the euro together. We've already said how they stopped buying Italian bonds to frighten the government into cowing down back to the pro-euro view. Do you think that with all the things that are going on in Italy, this is actually going to stop Mario Draghi from, say, quantitative tightening as the Fed has, raising interest rates just because he's trying to keep the show on the road?

TP It's a good question. I would accept that probably for ten years, I've sounded like a broken record because the problems that were visible back in 2007, 2008 haven't gone away.

BS Right.

TP They've just been papered over with short-term fixes otherwise known as QE.

BS Right.

TP So a combination driving interest rates down to zero has clearly helped sub-par businesses. Because if you can borrow money at effectively almost no cost, then you can stay in business. The astounding thing about that though is that… The target of QE was to trigger inflation because I think ultimately all of the world's financial woes ultimately come back to a surfeit of debt, an unpayable mountain of debt, a lot of which is government debt, government borrowing.

BS Right.

TP So if you accept that thesis, then QE was effectively a mechanism whereby governments could trigger inflation and slowly or perhaps not so slowly look to inflate away the value of that debt. But that's not what actually happened. What actually happened was QE usurped their interest rate policy and NIRP, negative interest rate policy, because there are still negative rates in some markets.

BS Yes.

TP Instead of triggering inflation, they were actually deflationary. In other words, they kept zombie businesses afloat. So if you've got basically a sub-par business operating, pumping out its goods and services, whatever it's in, whatever it's doing, it means that there's unfair competition against the perfectly solvent businesses that have to compete with them.

BS Right.

TP So it's that inbuilt deflation, I think, that has been the mysterious outcome of central bank interference. Now you've got, I think, the worst of all possible worlds because the outlook isn't even that benign any more. Because most people would say, well, we were discussing QT, quantitative tightening at thetop of the podcast.

BS Yes.

TP So now we've got to that end-of-the-road stage arguably when you can't kick the can down the road any further. I've been worried about central banking policy for as long as I can remember. But now you've got to this critical impasse.

On the one hand, take, if you want to see what the bond market is capable of doing, check out what's happened to Italian bond yields. If you want to see what the bond market is capable of doing, check out what's happened to US Treasury bond yields. It's not pretty. So now it seems like the bond market vigilantes have finally started riding back into town.

BS Right.

TP If that's been the case so far, then if your job as a central bank governor is to try and reverse that monetary policy loosening that's been going on for ten years, good luck to you.

BS Right. You said, quantitative easing was deflationary, disinflationary at least.

TP It seems to have been.

BS So following that line of reasoning, do you think quantitative tightening will be inflationary?

TP It could be.

BS Yes.

TP One of the things I've learnt over the experience the last ten years is these big macro issues, the macroeconomic, they're trying to read the ruins, runes, Freudian slip, read the ruins of the market, read the runes of the market…

BS Right.

TP Trying to asses macro movements. When you've got basically the vestiges of a free market trying to duke it out with central banks that can conjure up money out of nowhere, that's an almost impossible fight. There is this phrase, don't fight the Fed. In other words, you don't stand in front of a moving train.

BS No.

TP At some point, the Fed changes policy.

BS The train stops moving.

TP And you get run over by it.

BS Right. With, quantitative tightening has never, has never happened before, so no one knows.

TP Again, if we were in unchartered territory before, we're even unchartered territory now, which means…

BS Historic.

TP From an investment perspective, it comes down, I think, absolutely to forget the idea that you can just hitch a ride on the stockmarket bubble or on equity markets, bull markets and start to think a little more carefully about, okay, if things don't go as planned, what does actually make sense. So for that reason, we abandoned debt entirely at the end of the last year in *The Price Report* portfolio because I just think that game is too difficult to… If you don't understand the rules of the game, probably it's not a good idea to continue playing the game.

But it's not like the bond market suddenly… Treasury bonds look comparatively good value now. I wouldn't want to pick fights with the Fed. So I just, I think there are better avenues for people's money. And I think, to go almost full circle, as we were talking about just before we started the podcast, I think all roads lead to gold now.

BS When you look at what happened with Italian debt when the ECB stopped buying them, it really shows just how much influence the ECB really has.

TP Well, they are the market until they're not the market any more, and you don't want to be on the wrong side of that trade.

BS Yes.

TP The one, the widow-maker trade that I saw at the start of my career was in Japan. Let's again roll the clock back. So their market peaks at the end of 1989.

The stockmarket peaks. Then they have a banking crisis. They have a property crisis, and they're all intertwined. And as a result, so when I started work as a bond salesman for a Japanese bank in 1991, ten-year JGB or Japanese government bond yields were probably about 6%, and then they went to five.

And in the meantime, the Japanese government is borrowing more and more money. So logically, you think that yield will be going higher, but they're not. They're going lower. And they go to 4%, and they go to 3%. And all the way long, you've got traders in the City saying, this market's become untenably expensive. I'm betting against it. And they all, to an amount…

BS Wiped out.

TP Get taken out on stretchers because a concerted central bank can just be amazingly surprising at what it can achieve. And one thing these guys have shown they can achieve is they can drive the bond market way more expensively than you ever thought possible.

BS Yes, it's really a ritz of scraping the ceiling of reality, it seems. Tere was the issue with the Swiss Vollgeld, would you like to give me your take on that, Tim?

TP Yes, sure. So for those people who aren't aware, Switzerland is almost a perfect example of a proper democracy, where I think you need, I forget the figure, it's either 10,000 or 100,000 signatories to a potential vote, and then you can have a national referendum on it.

BS Right.

TP And so they got the critical mass to effectively have a debate about whether they wanted to go to effectively a gold-backed monetary system whereby fractional reserve banking was effectively put to the sword and then the Swiss National Bank would be able to provide credit.

BS Right.

TP I don't think that that's the answer, and clearly neither did the electorate in Switzerland.

BS No.

TP Because the measure didn't through. I think they only got something between 25% and 30% of the vote. But the fact that they even had the debate to begin with is interesting because it's a straw in the wind for people are getting fed up of having their money depreciated on an ongoing basis. And that's what QE has been undoubtedly about that every day the future value of your pounds, dollars, euros, yen just gets lower and lower and lower.

And so you can make a plausible argument that one reason why the gold price hasn't been better even than it has been. It's been a perfectly good form of holding cash, if you want to call that, or money for the last, nearly last 20 years. But you can argue that one reason why it hasn't been even more successful is because it's been sidelined by the rise of bitcoin.

BS Right. Yes, the Winklevoss twins said that they believe that bitcoin will disrupt the gold market.

TP I think it already has done.

BS Yes. Do you think that's pulling significant amounts of liquidity out of the gold market?

TP There's a supremely good piece of research that comes out every year called In Gold We Trust by the guys at…

BS Yes, by Incrementum.

TP Incrementum in Liechtenstein. So guys, Ronnie Stöferle and Mark Valek produce this, and it's…

BS It's free for anyone listening. Yes.

TP Free. Again, we can put a link to their site if anyone is interested.

But the company is called Incrementum AG in Liechtenstein, and In Gold We Trust is always interesting reading. I'm pretty sure they use these figures. There's a search function on Google where you can just put in a phrase and see how many people are looking for that phrase.

BS Right.

TP Buy bitcoin peaked, and it spiked very sharply and has now, has now abated. And buy gold is probably coming back. So they've been out of kilter for a while. But I think, if you wanted the perfect environment to have some of your portfolio in a safe haven asset, then now is that time.

BS Oh, it's interesting. The Royal Mint did a blockchain thing with gold, or they're trying to do a blockchain thing with gold, I think it's RMG, royal mint gold…

TP Yes.

BS Equals… I think it's 1g of gold which they have in their vault.

TP Right, so it's backed by gold.

BS It's backed.

TP Yes.

BS And so you can trade the RMG. It was just interesting, people trying to take this technology and then apply it to precious metals.

TP This is not going to go away. This itch is going to continue to be scratched. So I'm absolutely not anti-bitcoin. I'm certainly not anti-blockchain.

BS Yes.

TP The only reason I haven't, if you like, warmed to the theme more powerfully is because I just don't know enough about it. I don't know enough about the mechanisms of buying, holding, and most importantly storing bitcoin. Because I do read on a fairly regular basis that people get ripped off all over the place with fraud.

BS Yes, there's certainly a frontier market in of itself really. In terms of, yes, the banks of the EU, there was this great phrase describing it as a status version of Hotel California. How do you think things are turning out for Britain, and what do you think the impact will be on, if there are any impacts, UK investors?

TP It's a good question, and I'm not sure I'm bright enough to know what the answer is. The most important, the most influential book I've read of recent years is *Sapiens* by Yuval Noah Harari, and the message of *Sapiens* is that we are driven by narrative. Narrative is tremendously important to how human beings operate. The narrative at the moment would seem to be that the Brexit negotiations have been a shambles.

Those people who voted to leave are being sold down the river, and we're not going to get what we voted for. For that reason, I'm trying to fight, along with other people, a rearguard action to try and ensure that we get what we wanted, what we voted for two years ago. But there is a concern, and I'm sure it's not me alone, that there's going to be some rather messy political fudge over this.

BS Yes, certainly. Yes, in terms of, I guess that affects sterling an awful lot, and…

TP Has done already. But it is an interesting one. Because, on the one hand, you got sterling which can clearly go between phases of risk on and risk off, depending on what the political mood music is.

BS Yes.

TP But on the other hand, again it comes back to something we were talking about earlier. I'm amazed that more people aren't bothered by the existential crisis known as the euro.

BS Yes.

TP Which is effectively acting as a latter-day gold standard for the periphery. In other words, they're locked into a doomsday device and there's no escape. The only escape mechanism effectively is to leave…

BS To leave euro.

TP To leave the euro and to leave the EU altogether, which is not on the table. So I don't think the Italian problem is going to go away. I don't think the periphery problems are going to go away. You only have to look at the youth unemployment rates for markets like Portugal, Spain, Italy, and Greece to see that this is a huge problem. Those unemployment rates are so high now. They're consistent with the rates you get just before you have a civil war.

BS Certainly.

TP So these are non-trivial issues.

BS On that note, it's interesting with Italy with their proposal to issue the mini-BOT, which would in a way serve as a parallel currency. The denomination would be between €1 and €500, issued by the government. Doesn't pay any interest, is just a short-term paper issued by the government, which they then pay government contractors with.

TP But my understanding is… Let's just say the ECB would…

BS Very much…

TP Not be a fan.

BS Well, that was the main reason they got the president to get rid of the finance minister who wanted to do it I believe. It's very interesting that it's one of those stresses within the system.

There are these attempts to get out of the bind that the euro imposes on all these countries. On the Swiss area – you are aware of the Swiss National Bank's operations in buying US equities, right?

TP Yes. The Swiss National Bank's an interesting, an interesting entity because, to my knowledge, you can actually buy shares in it.

BS Yes, it's publicly traded.

TP So it's publicly traded business. But there's something a little bit odd going on. Because if you or I or any of the listeners to the call want to own, say, Apple stock, we have to work and generate income and use that income to pay for the shares. But the Swiss National Bank can just print money out of thin air and then buy it with that.

BS Yes.

TP That doesn't seem fair somehow.

BS It's just that people love the Swiss franc, right. That's how they can get away with it without it, without decreasing the value of the Swiss franc. Because Switzerland, a great democracy, a great economy, has that and that's why it is such a large safe-haven currency. I guess that's just how they can get away with it.

TP I just hope that in the fullness of time there is a backlash against this kind of monetary absurdity because it is absurd. It's completely absurd.

BS Yes, I was speaking about that with one of our other editors, Eoin Treacy, about it, and he was saying they can only get away with this where they're giving people just… They're printing pieces of paper, and then people are giving them real assets for them.

TP But you can argue the US is doing the same thing.

BS Certainly.

TP They're getting to print dollars, and other people have to do real work to get those dollars.

BS Yes, but with the Swiss National Bank where they're buying so many, so much just US… It's not even in their own country.

TP Yes.

BS You can't say it's monetary stimulus when you're buying US assets.

TP It's just a giant hedge fund.

BS Yes, it's a massive publicly traded hedge fund. It is…

TP Speaking of which…

BS Indeed.

TP So that takes us to the portfolio. So I was just having a look at the composition of the portfolio. So as a reminder to people, we did have four component parts: absolute return funds, objectively high-quality bonds, value unconstrained equities, and real assets. Notably, the monetary metal is gold and silver.

Nothing fundamentally has changed on those, except bonds no longer feature. So bonds are out. So there are some absolute return funds. My favourites within that component would be the two trend followers, DUNN WMA and Man AHL. I accept these have been poor performers.

But to be fair, people have made reasonable returns in some of the other areas. So if you like, their insurance characteristics haven't yet been required. But notwithstanding that, I absolutely want to have some exposure to trend-following funds, particularly those two funds in particular, DUNN and Man. Because I think, at some point, we are going to see a huge resurgence of volatility in the market.

BS Right. In terms of gold and silver these days, you said it's held its own. Is there anything with supply and demand or currency interventions in the future you're thinking will be good, positive or negative for it? Because we've got the US hiking rates. Generally, speaking higher interest rates, higher real rates, and a strong dollar should be, should be pushing gold down, and yet gold…

TP It doesn't seem to, it doesn't seem to be the case yet.

BS It doesn't seem to be happening.

TP Yes, and I remember Russell Napier, who's probably one of my favourite analysts, making the point that as he sees the world… Firstly, I think Russell, like me, does like to see the value in gold. But he's also said that the thing to really watch will be when the dollar is rising and gold is rising as well.

And I think we may, we may well see that because the system… Let's just say the global system does not seem that well, and what Mr Trump is doing in relation to trade doesn't exactly seem to be helping matters.

BS No.

TP So I think it is plausible the dollar will remain, if you like, the least dirty shirt among fiat currencies. But I think you have to own, to have some allocation to gold now because if the uncertainty was great before, it's even greater now.

BS With though, speaking of Trump, with the recent tariffs being promoted across various countries, Canada, and then there was the G7 meeting which has some great photographs coming out of it, what do you think the future holds for this, the globalist order that there was before? It seems to me that we've received a turning point with it and that Trump is dismantling it.

TP I think there may be an element to that. The commentator I think I most follow is the British philosopher John Gray, and he's written very, very well about this for the New Statesman of all places, of all publications. And he makes the point that Trump arguably couldn't have got the presidency if the alternative, if what basically the likes…

If Hillary Clinton hadn't used the phrase "the deplorables" to describe Trump voters, he probably wouldn't have been elected. And I think you can make the same point about Trump that the way that the media treats Trump is they are the reason why he got elected. Because they're completely disparaging about a huge swathe of the electorate.

BS Certainly.

TP Now I'm not saying Trump is the greatest thing since sliced bread. But I'm saying what he does represent is a clear break with the past, a clear break with the new world order. People, words have meaning, but people tend to use these weasel coinages like populist. Populist is just another way of saying something that wins election.

BS Yes.

TP So I feel that there is a huge number of people who feel they've been completely left behind by globalism, by globalisation.

BS Certainly.

TP And those people are now starting to flex their muscles, and I'm all for that.

BS Yes, absolutely. You made an interesting allegory before we started recording actually, Tim, after you've been reading about Winston Churchill in the last line between the appeasers so many decades ago and what's going on with Brexit now. Would you like to elucidate on that?

TP Sure. So just very, very briefly, there's a terrific book that I'm reading at the moment called *The Last Lion* by William Manchester, and it's a three-volume biography of Winston Churchill. And it's huge. But it's also extraordinarily well written, so it's a pleasure to read.

In the 30s, Churchill was seemingly the only politician in the UK that was awake to what Hitler was doing and what the German state was doing in direct contravention of the Versailles Treaty.

Nearly everybody in the establishment was in favour of, a, allowing Germany to rearm and, b, actively pressing for the UK to disarm. That, it strikes me that what is happening between the Brexit remain and leave camps is almost an identical corollary today that you have… I appreciate that once you start using Nazis in metaphors, then people start to lose faith in the quality of your argument.

BS Certainly.

TP But I would defy anyone to tell me why what is currently happening with Brussels is not the UK arguing with basically a European dictatorship that is negotiating in bad faith.

BS Right. And with, and the appeasement way of back then was saying that we should, they should let Germany rearm itself, build the U-boat, build up the navy, etc. And after Brexit, I remember there was one video from one of the EU bodies where there was this lady announcing, we are definitely going forward with a EU army. Very celebratory, even though this was something that was totally not on the cards. It's a joke.

TP At one point, this was a free-trade block.

BS Yes, who would've thought?

TP It seems mysteriously to have morphed into political union, doesn't it?

BS How things happen, it's quite strange. It was very, very interesting allegory. So you've already said, with Japan, things are looking pretty good.

TP Yes, so Japan remains my single favourite stockmarket. Vietnam being not far behind it. Markets as a whole this year haven't tended to do an awful lot, so there's a lot of treading water going on. There is a superb presentation by a gentleman by the name of Morgan Housel, which I recommend to anybody. And if you need details on it, I think I've written about in the newsletter. But again just hit me by email, and I'll send you the source.

But it's an absolutely superb presentation about what investing is really all about. And he cites the example of a lady in the States that recently died at the age of 100, had a fairly nondescript life but ended up being worth $8 million simply by just slotting into the market and leaving it well alone. The day after that lady died, someone called Richard filed for personal bankruptcy. Richard had been Harvard educated, MBA, head of an investment bank, and lost all of it.

BS Right.

TP And Morgan Housel makes this very, very telling point: only in finance, only in investment could you get that outperformance by an amateur. And the reason for that, he says… But you're better off seeing the presentation because he expresses it so much than I could. He says the reason for that is because investing is all about how we behave, not about anything else.

BS Right.

TP It's all about behaviour and having the patience and the commitment to stay for the long term.

BS Right. On that note, though, you did mention Japan. Of course, with the Eastern countries generally, a rising dollar is often seen as bad for their economies because a stronger dollar, if they have dollar debts, those debts become harder to cope with.

TP Sure.

BS We have seen a rally in the dollar since then. But the fact that they've not suffered since shows that there's considerable strength in that market.

TP This will be probably the next theme for the newsletter for the portfolio. Namely, the markets I like, as I say, because the growth is, I think, is much more likely to occur in Asia at large. And within Asia, the markets I particularly like would include… I've mentioned Japan and Vietnam… I'd also be interested in getting some exposure, more than we currently have in the portfolio, to markets like Malaysia, Indonesia, Singapore, and Thailand. Now the problem there is they're difficult to get into.

But that's what I'm on the lookout for now. And as long as evaluations are fair and one area where you can get still, I think, quite attractive evaluations in, say, small- to mid-cap stocks. Because those small- to mid-caps tend to be domestically focused, the currency is less of an issue because they're not big exporters.

BS Right.

TP So that will be the next, that will be the next thing I hope to be able to bring to the portfolio.

BS That's on the horizon for *The Price Report*.

TP Yes.

BS Right, very good. In terms of looking at the global scene today, are there any other aspects you'd like to speak on? So for example, commodities, currencies elsewhere.

TP There seems to be evidence that commodity market basically bottomed something like two years ago. So I'm still a fan of, if you like, the reflation trade. I mentioned earlier that I think the macro issues are too difficult to call, so I'm certainly not bright enough to work out how the macro jigsaw precisely fits together.

I think it's just a reiteration of the Morgan Housel point. You want to be diversified, you want to be sensibly diversified, and if there's stuff that you own that made sense and still makes sense, just be patient in holding it because it will come good. You just might need to take… It might take some time for that to happen.

BS Right, certainly. With the momentum, well, the trend-following strategies…

TP Yes.

BS They haven't been quite so successful. But do you think that's because there's been a lack of momentum in the market or…?

TP It's difficult to say. The one problem we have when you talk to clients about the trend followers is it's almost impossible to come up with a narrative as to why they behaved how they behaved. All you can say is they were enabled to find a sufficient number of strong trends. But that isn't a very satisfying answer. But that's the problem that there is no real narrative for trend followers. It's probably something I should write a bit more about because it's probably the least well-known part of the portfolio.

But I'm just assuming, and it is an assumption, so I may be proven wrong. But I'm making, I think, a fairly safe assumption that these have worked over two, three, four decades. And I think they will continue to work on average going forward because human nature doesn't change. Market circumstances change, but I think human emotions… What we all are as human beings is pretty much immutable.

BS Right. Oh yes, I heard recently from Simon Mikhailovich of…

TP Yes.

BS Tocqueville Bullion Reserve. He gave this great parable with the only lesson you can learn from history is people don't learn from history.

TP Exactly.

BS Yes.

TP It's rather sad, but I think he happens to be right.

BS It's just the way it goes. And again he put it back to, I think, Ecclesiastes in the Bible where the…

TP This, well, this too shall pass. I don't know if that's Ecclesiastes or not, but…

BS Maybe. Thank you very much for joining me, Tim.

TP My pleasure.

BS Thank you all for tuning in. This has been another quarterly conference call for subscribers of *The Price Report*. Any feedback, do send myself or Tim an email at boaz@southbankresearch.com. And yes, I hope you all have a very nice day. Thank you very much.