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Booms & Busts Report

Given they leave out from the inflation indices the prices of goods and services that are going up, official inflation (CPI) is, now, 6.2% p.a. (The highest since 1992!) And this is with the fraudulent calculation methodology.

Imagine if they kept in / put back in what they leave out / artificially lower... such as home energy, vehicle fuel, food - you know, unimportant things...

If they did that, as you know anyway, the true inflation rate is closer to 15% pa - getting on for 1970s levels of inflation! (When they accurately stated inflation.)

Is your (Pension/ISA etc etc) investment portfolio prepared for / benefitting from long term, rising inflation? (True costs of living increases of around 15% pa.)

It is unlikely to be doing so if it has been holding government bonds over the last two years, as some 98% of investment portfolios still do. (Why, you ask? Because wealth managers / financial advisers say "we've always done it that way...".)

Even now, after two years of soaring inflation, the bulk of portfolio managers / IFAs still are not rearranging portfolios to make the best out of this new ERA of rising inflation. You have to wonder what it will take for them to change their stance. I suspect nothing will change the entrenched, stubborn, detrimental to portfolios (i.e. your comfort in retirement) stance. 🤔

Still, so high a proportion of portfolios remains in assets that, historically, have performed badly in prolonged periods of rising inflation, namely, Government Bonds i.e. UK Gilts, US Treasuries etc.

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In this edition of The Booms & Busts Report:

- **Bonds (as I was saying)**
- **Do you believe shares will achieve inflation-busting growth?**
- **Reminiscences two years after the biggest/fastest markets' crash in history (March 2020)**
- **Wealth is being moved - deliberately - from Savers to Debtors**
- **How do you combat inflation? There are only three options:**
 - Increase your income**
 - Reduce your spending i.e. Standard of Living**
 - Increase your wealth**
- **Economic forecast**
- **How are JD WM client portfolios doing?**

Government Bonds

A Bond is just jargon for a loan. A Government Bond is a loan to the government. In the UK, we have Gilts, in Germany, Bunds, in the US, Treasuries and so on.

Before the 1950s, what was mostly traded in financial exchanges was Bonds. Hence, we have the phrase "My word is my bond." And if you wanted to trade in The City of London, you had to have a good reputation. (Days, long gone...)

Bonds were mostly traded because interest rates didn't move much, for decades. And the moneyed-classes relied on their Bond income, rather than capital gains. Think *Pride and Prejudice*.

Charlotte Lucas: ... of Mr (Fitzwilliam) Darcy... "10,000 a year and he owns half of Derbyshire." *

* **Elizabeth Bennet:** "The miserable half?"

When you lend the government some money, in the Bond fund in your pension, for example, for a stated term eg 10 years, the borrower pays you an annual interest (the rate or yield) and then the capital back, after 10 years.

Bonds can be for any time period between one day and infinity (Perpetual Bonds), which are never repaid. The 10 year Bond is the Big Daddy that tells us a lot about what is going on in the world, economically.

The maths are simple with regards to Bonds and making or losing money.

If Rates rise, Bond Prices fall.

if Rates fall, Bond Prices rise.

Think house prices.

Exactly the same and even more a direct causal relationship.

I don't even have to show the 40+ year chart (I have shown it many times). Everyone knows that rates have fallen since the peak in the 70's/early 80s (depending on which country you are in) to the 5-decade low in March 2020. And likely thee low for a generation.

In the UK, the 10 year Gilt rate troughed at 0.07%.

The US Treasury rate collapsed to 0.4%.

US Ts, last few years.



Globally, rising inflation has caused market rates to rise. The US 10 year has risen from 0.4% to 2.4% in two years.

You often hear of what will the central bank do to interest rates. There is only one rate the Bank of England, Federal Reserve, European Central Bank et al can alter. And that is the 'Base' rate (... which has different names across the globe.) Technically, it is the overnight lending rate.

All other loan durations i.e. from 2 days to infinity are market-controlled. Of course, the authorities influence and can lever this and pull that to force the markets to take actions. However, it is the markets that decide interest rates, just not the Base rate.

So, market rates have soared over the last two years. (These rates inform mortgage rates, by the way.)

So, Bond PRICES have fallen these last two years.

US Treasuries (Prices, not Rates)



So, we can reasonably say that Bond prices have fallen over 20% during the last two years.

You will find this is similar or worse with almost all Government Bonds, including Gilts, European, Japanese et al.

AND YET, 98% OF PORTFOLIOS HAVE HELD A LOAD OF GOVERNMENT BONDS THROUGH THIS CRASH. And I have been writing about exactly this for years.

So, the real increase in your costs of living is around 15% (anecdotally, however I would imagine you would not argue).

To combat inflation you need to do one or all of three things:

1. Increase your net income by at least 15%. (With rising direct taxes this is (highly) unlikely.
2. Slash your spending. This does not retain your standard of living.
3. Increase your wealth by 15%.

If, outside of your house/s (... you can't spend or eat a house), your financial assets / investments (ISAs, pensions, trusts etc) have held Government Bonds, over the last two years, at say 25% of your portfolio, and they have fallen in value 20%, then they have dragged down your overall achieved portfolio performance by 5%.

Which means the shares etc elements had to work even harder to meet the inflation challenge.

I will wager that 98% of readers' portfolios have NOT kept up with real inflation, these last two years. Thus, your standard of living has been falling.

See, below, for how our clients' portfolios have performed in recent years.

I have written again and again and again about how the ERA of falling interest rates was coming to an end and that it then came to its end.

From the 5 decades' low in March 2020 where can interest rates go, to 2050? They can't go down (much more), from 0.4%.

New readers will assume I must be saying that rates will now rise for a generation. Old readers will know I do not expect that. I do expect rates to be horizontal for a generation. Thus, rates will fall and rise, in a horizontal channel. There will be times when Bonds lose investors money and times when they make money. (For nearly five decades they, effectively, only made money.) Thus, net, they will neither gain nor lose, long term. How will holding Bonds help fight inflation if inflation is soaring and Bonds are returning, net, nothing???

For two years, clients of JD WM have had a **0% allocation** to Bonds, in portfolios.

Tell me again what your wealth manager / financial adviser says about Bonds... And why you retain that wealth manager / financial adviser... Or why, in your DIY portfolio, you have been holding Bonds...

NB

The first casualty of war is said to be the truth, and it probably perishes even before the first shot is fired.

The second casualty of war is sound money. Our money is not backed by anything and to some it is by definition already unsound.

Sound money melts under the heat of political necessity, whether that comes in the form of "medical emergency", "green emergency", "inequality emergency" or "national security emergency". That all these issues are now considered to be **emergencies** will ensure that the pain of materially higher interest rates is unlikely to be inflicted upon a people living in our age of "emergencies".

We have enough emergencies already without adding a solvency emergency. With levels of Debt-to-GDP at all-time highs, which politician / central banker will risk driving up interest rates to a high level to slow growth in order to reduce inflation?

“There are decades where nothing happens; and there are weeks where decades happen.”

Vladimir Ilyich Ylyanov (aka Lenin)

It is possible, on a daily basis, to pretend that we live in a world where interest rates will be used to combat inflation, that price controls are a thing of the past and that capital will always be allowed to move freely. The pretence that financial repression is not coming must soon start to end - perhaps quickly.

We should not expect materially higher interest rates, sustainably. This will FUEL higher inflation!

We should expect price controls - just as Lenin established. (You believe we are not in a Marxist economy? Think again.)

We should expect Capital Controls - exactly as we had until the late 1970s.

So, the question is, if Bonds won't increase your wealth, nominally nor against inflation (!), will shares?

It is the view of Jonathan Davis Wealth Management that we are now in an ERA of high and rising inflation, which will last for many, many years, perhaps 2-3 decades.

Let us look at the last era of strongly rising inflation.

Inflation (U.S.) 1960s to 1970s



Inflation, US and globally, soared from the early 1960s to the late 1970s. In the UK, annual inflation peaked above 20% per annum. (Gulp!).

So, shares must have grown similarly, no?

The Dow Jones 30 Index used to be the Big Daddy stocks' index (until computers and the S&P 500 took over, as a better representative of the markets).

Of course, there isn't a material difference between the rates of growth of the two indices.

US Share Price Index (Dow Jones 30) 60s to 70s.



During nearly two decades of soaring inflation, share prices did, precisely NOTHING, net.

Unless, of course, you knew or your adviser/manager knew to get in and out at the right times. (cough) Assuming not...

If history is anything to go by - Editor note: It is! - stocks, generally, will make no money for you, over the next decades.

In fact, against inflation, stocks, generally, (like Bonds) will probably lose you your shirt.

Just, passively, investing in 'the index' will not do it for you, as it has done these last few decades. No, it won't.

Your wealth has been hurt these last two years.

Your wealth will be pretty well annihilated over the next 20+ years.

I sometimes say "Don't shoot the messenger".

I imagine you've stopped laughing at me now... (Who is this weird Scots guy who writes to me with ridiculous commentary and thoughts every couple of months?)

No, Bonds and the last decades' winners in the FTSE 100 and 250 / S&P 500 and Small Caps Russell 2000 etc will NOT retain your standard of living as you have long expected.

And yet those are what you are invested in, largely. Because your wealth managers / IFAs have NEVER had to invest in an ERA of high inflation. Periods, sure. Not an

ERA. Their ERA was FALLING inflation and (very) low inflation. I see no material change in professionals' behaviours, in recent years, as regards market investing ... of your money.

Reminiscences of the last two years

23 March 2020 was the low of the financial markets, after the fastest and largest collapse in prices, from All Time Highs.

In just four short weeks, stock and commodity prices collapsed 35-50%.

Back to Lenin: "There are decades where nothing happens; and there are weeks where decades happen."

As you see, in the JD WM client portfolio performance chart, our clients were hit hard, too. In fact, we had peaked in October 2019. It was then a crash from January. For everyone else, the crash began in February.

What did we do, during the crash?

I wrote 12 Client Only Markets' Updates from 20 February to 23 March, hopefully, keeping clients fully apprised of what was going on and what was likely to happen. During one week, I wrote daily. (During 2020, I wrote 53 times to clients of what was going on.) I write Client Updates when there is something to say and the Updates are all directly relevant. I have read hundreds, if not thousands, of 'reports' IFAs and portfolio managers put out and, generally, they are remote and useless. Just fluff to pretend they are doing something for their fees.

I look back at that time, when I was working 16 hours a day, non-stop, to truly understand and advise. This was also the time when they told the world about Covid 19 and they blamed / blame the markets' crash on the coronavirus. Just a pack of lies. In retrospect, the crash was coming. There is no question it was coming. To my chagrin, I did not see it for then. I thought it was coming in 2021. But be assured it was coming and it had absolutely nothing to do with a coronavirus. But, hey, it was great timing.

Our portfolios remained unaltered during the crash. There is a time to alter. And we did so, immediately after the end.

You might think clients would leave in droves, after losing them 30% of their portfolios, from October 2019 to 23 March 2020.

Actually, not one of our superb clients, at the end of 2019, went elsewhere, in 2020, due to the portfolio performance.

I was writing that there would be a huge reversal up in markets. Also, inflation was coming, big time.

On 23 March 2020 - the low of the markets - I wrote a hugely important (it turned out) urgent and immediate advice note to alter portfolios, in a particular way. A couple of weeks later and there was another major change advised.

The result was as you see in the chart, below.

One of the changes we made was to sell all our Government Bond holdings. I wrote a huge and vital (freely available) Booms & Busts Report at the time. (See 27 March 2020.) (And then follow ups, unusually, on 1 April and 16 April.)

Did anyone take the blindest bit of notice of what I wrote? If they didn't that's something they will have to live with.

I wrote: "It is MOST likely that borrowing rates have seen their ALL TIME LOWS. Effectively, they can now not go any lower than they have been." Did you act?

We did.

From the typical JD WM portfolio down 25%, year-to-date at the end of March 2020, by year end the portfolio ended up 27% for the calendar year. A rise of 70% in 9 months.

We invested more heavily in assets that ought to perform strongly with higher inflation. And more into assets that had been hit hard, during Deflation and Disinflation.

Later in 2020 we invested heavily into US Big Tech (eg Amazon, Apple etc). We saw much more potential there than the FTSE 100. Since the lows of March 2020, the NASDAQ 100 is up 114%. The FTSE 100 is up 52%.

You will see, in the portfolio performance chart, that we achieved no growth for some 3.5 years, from Q3 2016. Repeatedly, I said to clients that, when the inflation finally takes off, the portfolio ought to grow 10%+ per annum.

I got it wrong.

From the 23 March 2020 low, the typical JD WM portfolio is up 125%. Materially more than 10% pa.

In the two years, we have seen energy costs absolutely soar. What did you expect, with politicians and climate change liars telling us we need to move away from Oil, Gas, Coal (and Nuclear - thee most efficient and cleanest energy!*) to renewables? With 83% of global energy from fossil fuels, it is remarkable most folk believed all these people, that they could move to solar and wind etc without HUGE disruptions.

And they shut down the economies - with zero cost/benefit analyses, and even less medical evidence (ie false data) - and handed everyone a load of money, to do nothing. Produce nothing.

And these policies are why your costs of living are soaring.

* Given the efficiency and cleanliness of nuclear, THERE is the evidence of climate-change lies. They have hated nuclear for years, decades even.

More evidence, if needed, is that they are funded to only protest in the West. Never in India or China - huge users of fossil fuels. And only the West has these dreadful policies. As smart people recently have said: Physics beats Platitudes.

(Don't start me on how Nickel and Cobalt are mined for their batteries for vehicles. These con-artists don't live in Africa, do they?)

I told clients, 18 months ago, that it will be laughable on whom or what they pin the blame for inflation, energy and food rationing. It is.

Yes, there will be energy and food rationing. The result of eco-fascism and globalist, marxist policies. Which continue, indeed get bigger and bigger.

I've seen the media lie, daily, for two years now, like never before.
Never mind the politicians and bureaucrats.

Not little white lies. The biggest lies in history.

I've seen every single thing that I said was happening and would happen, happen. I've seen every single lie exposed but never shown in the lying media. Hence, why 90% of folk have absolutely no idea what is going on. Yet, they believe they know everything. Sad and infuriating. People should do a little research. It's all out there.

I've seen professional investors move from being investing gurus to charlatans.
A few have retained integrity and quality. Precious few.
Those who were charlatans are still charlatans.

We have seen financial and economic 'stimuli' like never before. (Where does inflation come from again?) You believe the stimulus goes to the people? Of the \$10Trillions (TRILLIONS!) that Biden's government handed out, 40% went to the top 1%. Just think about that. 35% went to the bottom 90%. And similar in every other country.

This will continue for many years, as we see it. There will be no return to the Capitalism that we had until 1998 (a generation ago), when we had more equality and huge economic growth from when Thatcher and Reagan started to lead.

We continue down a terrifying Road to Serfdom (See Hayek).

Only those who are taking smart action will have a chance of freedom.

The economy has soared. (Many) stocks and commodities too.
Nothing goes in a straight line. Nor does inflation.

We have seen only the first stages of real poverty returning to the West. The non-working, working and professional/middle classes and retirees, depending on fixed

incomes or pension investment portfolios, will be hit really hard, over the next years, as I have written above and previously. (So, that's 90%+ of the population.) Only in recent months have they started to wake up to this reality. However, they have absolutely no idea how hard it will be. And they will demand the "Government do something!" Which will be sad and infuriating... because it's the government/s that did it to them. And making it worse.

"We need to act now to mitigate the impact of rising energy prices, diversify our gas supply for next winter and accelerate the clean energy transition. The quicker we switch to renewables and hydrogen, combined with more energy efficiency, the quicker we will be truly independent and master our energy system."

Ursula von der Leyen (President of the EU Commission) 8 March 2022

And all the Western governments say the same.

Forget the Spring Budget last week.

"Inflation is taxation without legislation."

Milton Friedman

So, they cut fuel duty. That will stimulate demand. Prices will go even higher.

Where's the tax incentives and freedom from political blocking for Oil and Gas companies? For companies to find and produce more oil and gas?

Why do we have so few nuclear power stations?

Basic Rate Tax is to fall from 20% to 19%. This fall will commence immediately before the next General Election. Need I say more?

Chancellor Sunak: Paraphrasing: "The invasion of Ukraine poses a risk to UK recovery."

What rubbish and simply fraudulent. A war raises economic output, short term. Perhaps obviously.

Of course, it affects longer term growth as resources are put into wholly (100%) inefficient, technically, economic areas.

They expect GDP to be, annually: 3.8%/1.8%/2.1%/1.8%/1.7% this and the next 4 years. This is adjusting for their expected inflation. What is their expected inflation rate? I have no idea. No one does. They don't tell us what inflation they're assuming. Shall I repeat that?

How can anyone take these forecasts remotely seriously?
And yet, everyone does.

The OBR said this on the day of The Budget:

The Office for Budget Responsibility (OBR) has warned in its latest economic and fiscal outlook report that living standards were set to fall in the UK.

What did I write, just in January?

Standards of Living will fall at least 20% over five years. And it started last year...

As someone once said (it is erroneously attributed to Einstein) "The definition of insanity is doing the same thing over and over again and expecting a different result."

And yet, that is exactly what the bulk of folk and politicians will do.

One other thing to note is:

You will remember, no doubt, the story (perhaps your own) of borrowing £40,000, during high inflation, to buy a house, and 15 years afterwards it's a monthly credit card debt, relative to levels of income then.

Well, here we are again. If we are to have double digit annual inflation, then stocking up on long term debt ON A FIXED INTEREST RATE seems a particularly intelligent

thing to do. Just make sure you will ALWAYS be able to service the debt, under ALL conditions, especially deep recessions.

HOWEVER, do not expect the asset that you will buy will always go up by inflation. Not if there are said deep recessions. So, swings and roundabouts.

Property, for example, soared again and again and again while interest rates fell for decades. They have stopped falling.

With sustained higher inflation, expect lower economic growth / stagnation over the long term. There will be periods of economic spurts and periods of recession.

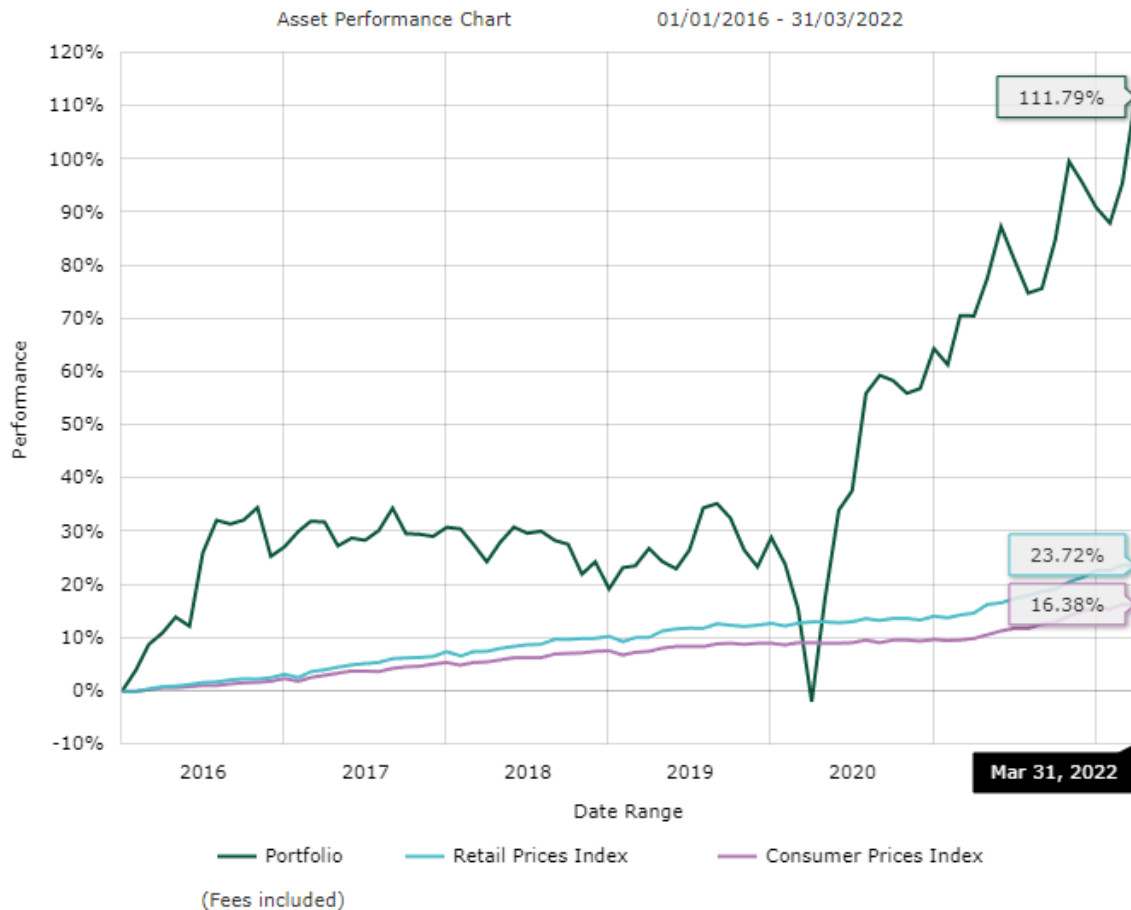
Thus, higher unemployment. Lower aggregate incomes and no future falls in interest rates will be headwinds to house prices. At least versus average incomes.

In fact, the economic spurt of the last two years, is likely ending about now. It would not surprise me to see a recession starting in 5, 4, 3..., perhaps by Q2 2022. The quarter begins tomorrow, by the way. And that's not an April Fool.

Rising prices (soaring even) are recessionary.

They will throw printed money at the problem, and pretend they are helping. Then we will have another economic and inflationary spurt.

Clients' investment performance (to end of Q1 2022)



JDWM Typical Client* portfolio performance

Since 1 January 2016, the TC is up ~111% net (Vs RPI of ~24% / CPI of ~16%). An annualised compound return of 13.8% net Vs ~3.5% pa RPI inflation. (A £1m portfolio, at the start of 2016, has become ~£2.1m now.)

* A 'Typical Client investment portfolio' of Jonathan Davis Wealth Management has a capital growth objective, accepts high volatility*, and has an investment risk profile classed as Speculative.

* NB Volatility does not mean down. It means movement size... which can be down or up.

We have been and we remain positioned to take maximum advantage of the inflationary conditions, that we expect will remain for at least a few years.

I expect 2022 to be another strong investment performance year.

We advise private clients, exclusively, nationally and internationally (ex-UK residents). Some international folk, non-UK, subscribe to our Client Only Updates.

I have unlimited space for subscribers to our Client Only Updates.

We advise clients all over the UK and, indeed, on four continents.

"We advise you based on what we would do, were we in your shoes, given what we know."

Call me personally to see how we can help you.

I think most folk do not realise the growing problems in investment markets. They will. But will they have lost out or benefitted from the correct actions taken?

Follow me on Twitter @j0nathandavis where I frequently comment on markets and economics and where you will see day-to-day thinking, and sometimes big picture.

If you have any queries over any of the issues raised call me or email by clicking [here](#).

With kind regards

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Please note that investments can fall as well as rise. And they do!

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