# JONATHAN DAVIS
Wealth and Later Life Finance Advisers

## Booms & Busts Report


Before I introduce this Report, I want to recommend the above interview 'wot I did' a month ago.

It tells you, in another medium, my theses and gives practical suggestions. (Not advice of course! To do anything with financial planning, buy professional advice.)

To watch, take the following steps:

- Put the kettle on or open a bottle
- Pour drink
- Click on my clown face. (Sorry for scaring the children.)

This is the May 2024 Booms & Busts Report. I publish these, free, every two months.

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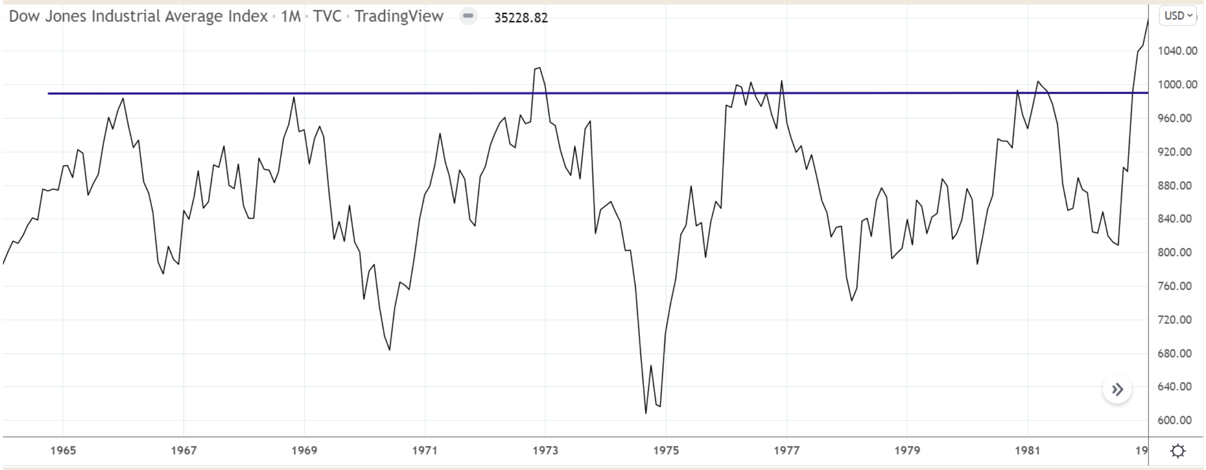
***In this edition of The Booms & Busts Report:***

- Me on Palisades Gold Radio, **click on the image above**.
- What did shares do, long term, during the last inflationary **era**? (Why do you believe it will be different this time?)
- What on earth makes you believe interest rates will fall... much?
- Two millions mortgage payments up 30-60% 2023 to 2024. Do you know anyone who is having a 40% earnings rise, net of tax?
- So, what DO you invest in, in an era of high inflation / Financial Repression?

If, after two nudges so far, you haven't clicked to listen to the interview, then put it in your diary to do so. If you read these Reports, you will learn a great deal by listening to that one, if you never listen to any of my other interviews.

## Dow Jones 1960s to early 1980s




## S&P 500 (same time period)


I would have shown the FT100 (the FTSE) but it only started in 1984.

So, with rising inflation, in the 60s and 70s, the Dow Jones (top 30 companies) literally plateaued for nearly two decades.

The S&P 500 rose around 40%, but with huge falls along the way.

So, you would deduce, based on that, that investing in the S&P 500, during that era, would have been profitable. But not the Dow Jones.

I did say - "with rising inflation". As you all know, inflation rose through the 60s and soared through the 70s.

In fact, during those two decades, consumer inflation, cumulatively, was around 80%. So, inflation-adjusted, Real wealth collapsed. Hence, why the stock market was hated by the late 1970s.

You notice the stock market is loved these days...?

So, investing in large company shares - and they were effectively the only game in town, back then - massively destroyed ***wealth*** aka ***purchasing power*** aka ***standard of living.***

Then, for four decades (c1982 to 2022), with falling inflation (and rates), stocks (and bonds and property) rose, year after year, largely, and decade after decade.

**The era of falling inflation ended a few years ago, folks.**

Shall I repeat that?

**We are now in an era of higher inflation, perhaps rising inflation, long term, like the 60s and 70s.**

Shall I repeat THAT?

So, you made money in stocks, bonds and property... during the era of falling inflation.

Actually, what you made was above-inflation returns, since 1990 or so.

Now, go to your wealth adviser, financial adviser, accountancy firm / law firm financial planner, stockbroker etc (chartered or otherwise) and ask them how your 60/40 or 70/30 etc* has performed since 2020, when the era of falling inflation ended (April, to be specific) and the era of high inflation began. And get them to produce a chart of net performance, after all fees, comparing against RPI - the closest index you can find for your actual cost of living increases. DO NOT allow them to compare against the investor index aka the other investors aka the competition. THAT IS IRRELEVANT TO YOU!

Hint: RPI, since 1 January 2020, has been 32.5%.

The. Retail. Price. Index.

After you get over the shock... go back to that drink I told you to pour, at the top of the Report... and ask them what are they going to do about it?

I will tell you now, it is likely they will repeat the mantra of you must have a 60/40 or 70/30 etc ***diversified*** portfolio. In other words, they will continue to say you must lose money **Vs the costs of living** for as long as you remain a client. Because that is all they know. They've never worked in an era of high inflation. And they haven't realised we are now in an era of high inflation. Yet, they're financial 'experts'...

* 60/40, 70/30, 80/20, 50/50 etc refer to your strategic portfolio allocation of equities and bonds. They may well move, in your portfolio, from Shell (energy sector) to Marks and Spencer (retailing), for example, but a rising or falling tide lifts and lowers all boats... The percent allocation of shares won't alter, much. Nor bonds.

And, during decades of high inflation and rising interest rates, in the 60s and 70s, if shares didn't make you (much) money for decades, bonds actually LOST you money, for decades.

And property rose SUB-INFLATION.

**Shares, bonds and property did not cut it during the rising inflation decades.**

**Nor Cash on deposit or at NS&I.** (It's ok for short terms.)

Look again at the chart of your portfolio Vs RPI, since we entered the era of high inflation, in 2020.

And if you want to believe that we have not entered such an **era** because, for example, the rate of inflation has been falling since the peak 18 months ago, good luck with that.

Nota bene: the global price of oil is one of the three biggest inputs to inflation, and, perhaps, the top input.

From April 2020 to Spring 2022, oil soared by $130 a barrel.  Inflation soared.
Over the next two years it fell down to a new 'base' of $60 - $70.  The inflation rate plummeted.

The price at the pump went from £1 a litre (Spring 2020), to £2 (Spring 2022), to £1.50 (last year and still around that level).

My analysis tells me to expect $200 oil by 2026 or 2027.
Expect £2.50 - £3.00/litre by 2026/27, as the global price of oil soars again, in due course.  (Of course, they could reduce car fuel taxes.  However, I rather imagine they won't.)  In any case, the price of filling your car tank is merely a proxy for the rising costs of living / higher inflation to return.

A 60 litre car would cost between £150 and £180 to fill the tank, as I see it.  Giving you an idea of the costs of living in 2 or 3 years.

We are experiencing - right now - **a bottoming in the rate of price increases aka inflation**.  From 1990 to 2020, c 3% inflation (as the officials tell us we are at now) was the PEAK of inflation for the bulk of those 30 years.  Now, it's the trough...

They told you the costs of living has been coming down.  In fact, only the rate of increase has slowed down.

Carry on investing in shares, bonds and property even when the evidence shows it doesn't work during an era of high inflation.

**Bonds, did you say?**
They act as a diversifier if shares do badly?  That's the narrative, isn't it?
In a long term ***dis***inflation, that's what they do.

What about in a long term ***in***flation though?


The arithmetic is: when long term ***interest rates*** rise, ***bond prices*** fall. And vice versa.

Look at the epoque-making change that took place at the early 80s.

After three decades, interest rates (and inflation) peaked and then fell for the next four decades.

Since 2020 though... another epoque-making change. Interest rates (and inflation) troughed...

Still believe bonds to be a diversifier?
Still want 20 - 40% in them, for the next 20 years?

If - big if - long term rates fall, then bond prices will rise. If rates plummet, bonds will soar. It ***should have*** happened in 2022 and 2023, when shares fell. Rates should have fallen and bonds should have risen. Why didn't they?
Because the market knows we are in an era of high inflation. So, why invest in bonds?

Good question. Why indeed?

Actually, if, in the next 3, 6, 12, 24 months, there is a stock market crash, rates have as much chance of falling as rising. Like 2022, when there was a stocks crash and rates soared / bonds plummeted.
It's an era of high inflation. For the next 20, perhaps 30 years...

And if long term interest rates are rising, so have mortgage rates.

To remind, some 2 million fixed rate mortgages (at under 2%) ended and will end in 2023 and 2024.  Those mortgage payers see their rates go to much higher variable rates or to a new much higher fixed rate.

Monthly payments rise 30 to 60%.
Then add on increases in food, energy, transportation, holidays et al.

Do you know anyone with a 40% earnings rise, after tax?

Yet you remain SURE that house prices aren't falling, because the mainstream media tells you this.  Even though HMRC tells us

- Home sales are down 20+%
- Cash buyers at the highest proportion of sales in decades, and
- Mortgage approvals (for home purchase) at the lowest level in 30 years.

But if the BBC, Rightmove and Nationwide/Halifax - those purveyors of the 'truth'... - say house prices aren't falling, they aren't falling?

Even though Land Registry / ONS say prices are falling, and they are are some 12 months out of date stats...  So, what LR says, actually happened by last Summer.  There's been a lot worsening of the market since then.  The stats will show this, in due course.

Home prices are falling and will likely do so for another two years, at least.

Long term, as in the next c 20 years, as I have said, expect - at best - sub-inflation returns.  Just like shares and bonds.  Just like the 60s and 70s.
The opposite to 1982 to 2022.

Thousands of buy to let investors have left the sector in the last couple of years, or  reduced, materially, their holdings.  Good for them.  But hey, what do they know about property?

By the way, according to LR, the average London price is practically where it was seven years ago.  Shall I repeat that?  (All properties average prices: July 2017: £489k.  March 2024 (latest data): £499k.)
[Peaked in August 2022.  So, falling nearly two years, so far.]
In those last seven years, we had 40% Retail Price Inflation.

**Since Summer 2017, London home prices are down c 40% in Real, inflation-adjusted terms.** Is that your shocked face?

***Land Registry House Price Index.***

Still expect house prices to do well in the era of high inflation?  With MUCH higher mortgage rates and general costs of living.

Yet, for the last years all I've heard of course is 'you can't lose with property'.

Coming to a city, region, country near you.  First, the Real terms falls, next the Nominal (and more Real) falls.  (London has been falling, nominally, for two years already.)

So, if shares, bonds and property - which WERE the growers of wealth and standards of living, for decades - won't cut it, in the new era of high inflation, **what will cut it?**

First, what are commodities?  The things you take out of the ground or grow.
eg  Gold, Oil, Copper, Wheat.
eg #2 Silver, Gas, Iron Ore, Beef.

The question is what comes first?

Inflation or rises in commodities' prices.
Rises in commodities' prices or inflation.

Chicken or egg.
Egg or chicken.

IT DOESN'T MATTER!  They're two sides of the same coin.

Commodities will do brilliantly in the era of high inflation.  Get that right and you ought to achieve above inflation returns aka increase your wealth aka raise your standard of living.

Of course, rising inflation impoverishes the bottom 90% of folk.  NINETY. PERCENT.

Continue with your portfolios, that are largely unchanged for decades, and expect sub inflation returns for a very long time aka reduce your wealth aka reduce your standard of living.

Also, sectors that governments support, such as defence, surveillance, net zero nonsense, immigrant communities, 'levelling up'.  Anything government spends vast amounts on ought to do very well too.  So, you should make above inflation returns in these aswel.

At JD WM, our focus, for the next decade, at least, will be commodities and global growth areas.

And remember, inflation doesn't happen by default.  The politicians decided five years ago (2019) to reintroduce Financial Repression.  As we had from the late 40s to the late 70s.  it will be with us at least 25 years.

I advise clients on Wealth Advice and Later Life Financial Advice (paying for Care Fees) all over GB 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 sizeable risks - and opportunities - in investment markets.
They will.  But will they have benefitted or lost from the decisions made?

Thank you for reading.  I hope you found it interesting and, perhaps, useful.
If you have any queries over any of the issues raised, just call me or email by clicking ***here***.

**With kind regards**

**Jonathan Davis** **BA MBA FCII FPFS EFP**
**Wealth and Later Life Finance Adviser**
**Chartered, Financial Adviser and Economist**

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Society of Later Life Advisers
ACCREDITED

Chartered Financial Planner
JONATHAN DAVIS
Wealth and Later Life Finance Advisers

Share this:

0345 862 2919
jonathandaviswm.com
Hawthorn House, Hoadleys Lane, Crowborough TN6 1TH

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