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Leaders in Wealth Management

Chartered Financial Planners

Economics and Wealth Management Update

If you are on an Easter break I hope you are enjoying yourself greatly. If you are working, well, at least there's less traffic and/or you can get a seat on the train.

#FindingThePositives

Long term interest rates

Back in December we wrote that 'everyone' was saying interest rates would soon rise. After all, they said, The Governor of the Bank of England and the Federal Reserve of the US had all but announced it. We also noted that rates had been falling for getting on for 40 years.

We wondered if those saying higher rates are coming were looking in the wrong places.

And sure enough, long term rates (as defined by the rate at which the government borrows) are not rising. Since the start of the year they have been falling.

30-40 years ago Western governments borrowed (over the long term) at
15-20% pa or so. Now they borrow at 3-4% (as in UK, US etc).

Rates rose last year so, apparently, everyone jumped on the short term bandwagon and decided that the multi-decade trend had suddenly changed. Somewhat prematurely in our view.

The above is the last 10 years' history of the interest rates at which the US government has borrowed money. It shows that the rate was c 5.5% (as shown by c 55) in 2004 and is currently c 3.5% (as shown by c 35). US borrowing rates have been similar to that of the UK for a long time.

Note the rate has been down to c 2.5% twice in the last 10 years.

Note also, the rate has jumped up to the long term falling trend line (in faint brown) 7 times over the last 10 years. Each time it fell back from that trend line.

So the rate rose last year and the media and City pundits went wild announcing the death of the 40 year fall in rates and so, they said, we must (!) expect higher and higher rates in the future.

I have news for you: if rates rise then the Western economy is - to put it highly technically - toast! THERE IS TOO MUCH DEBT AROUND. That may be obvious to many of you but to some it is not so clear. Even that millions of households are up to their eyeballs in debt, or that the UK government owes £1,200,000,000,000 (£1.2 Trillions) and that is only the amount to which they admit.

This year alone the UK government will spend £52,000,000,000 (£52 Billions) just on debt interest. This is a lot more than they will spend on Defense. On Interest alone.

Not debt repayment.

Interest.

So, if the rate at which the government borrows was to rise from, say, 3.5% to 4% - a mere 0.5% rise - this would increase the Government's interest bill by £7 Billions pa. How would it pay for it? £7Bns of cuts?

That would play well with the electorate just as we are entering the final year before the next General Election.

What if the rate were to rise 1% or 2%?

Actually, the one thing our country needs (the entire West in fact) is much much lower government spending. However, under our current system the only way that will happen is when global markets (lenders, in other words) decide to take away the ball and lend less.

That is not currently on the horizon. Thus, I cannot understand why, because of one year of rising interest rates, did 'everyone' decide that the multi-decade trend of falling interest rates had ended. If they are right then it's merely a lucky guess. The facts are to the contrary.

1. The government will do everything it possibly can to ensure rates do not rise
2. The FACT is rates are ***falling***. The chart above shows that the long term trend is still down. When it turns up we'll see it.
3. If the rate falls much further that will strongly suggest we are entering into Japanese-style deflation - which they experienced through the 1990s until recently.

By the way, during this period their house prices fell 80%. With effectively Zero interest rates for nearly 20 years...

But, you may say, that is impossible for us. Don't be ridiculous. Well, they said the same thing in the early 1990s. And Japan used to be the 2nd largest economy on the planet.

It is not for us to say this or that ***will*** happen. All we are doing here is reporting what IS happening. Rates are falling. This used to be helpful to the economy. But it may not be going forward, after racking up huge debts.

Remember, the next time we have a Recession - which will likely not be created internally to the UK, it will probably come from a global economic shock (did anyone say China?) - policy makers will NOT be able to slash the Base Rate. They can reduce it and they probably will. But it's already at 0.5% in the UK. Down to zero will not make the blindest bit of difference to the UK economy, in that aforesaid Recession. Depression?

If you're invested expecting inflation to return and interest rates to rise, may we suggest you look at what actually is happening to inflation (falling) and to interest rates (also falling)?

Read on for more on the economy and markets.

Emerging Markets or Developed Markets?

Over the last 6-9 months there has been relentless negative publicity, in the media, about BRICs. ... saying the same thing: "Steer clear of EMs. They will lose you vast amounts of money. Get out and never come back." Yet...

read more

The British are uniquely obsessed with owning real estate.

Not true.

read more

Stock market margin debt has risen to all time highs.

Should I be worried? Well, if you are investing in the US stock markets (and the UK and European and Japanese, for that matter) - YES!

read more

Watch my speech at The Freedom Festival Gala Dinner March 15, 2014.

the freedom festival

One amazing weekend of freedom and liberty

#BringBackCapitalism

[Watch HERE]

And Finally...

A little light divergence:
"The Expert"

[Watch CLIP]

You can forward this update to a friend here if there is any information you think would be beneficial to them.

Our philosophy remains to seek out quality assets at severely depressed prices.

It also means we have a natural aversion to assets which have soared in price. If you prefer to invest in these then you may wish to reconsider your strategies of preserving and growing your wealth.

We have other thoughts that keep us alert to attacks on personal wealth and retirement security as well investing opportunities not generally discussed which may be of interest to you. What should YOU do to secure your or your clients' wealth? We urge you to speak to us.

Don't put it off till it's self-evidently too late.

Can you benefit potentially from our advice? We work for wealthy to very wealthy families (£300k to £25m of financial assets and/or high earners) and trusts. We work for clients all over the UK and indeed on three continents.

Our most important and most often repeated philosophy is (as seen widely on our website): "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.

Kind Regards

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

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