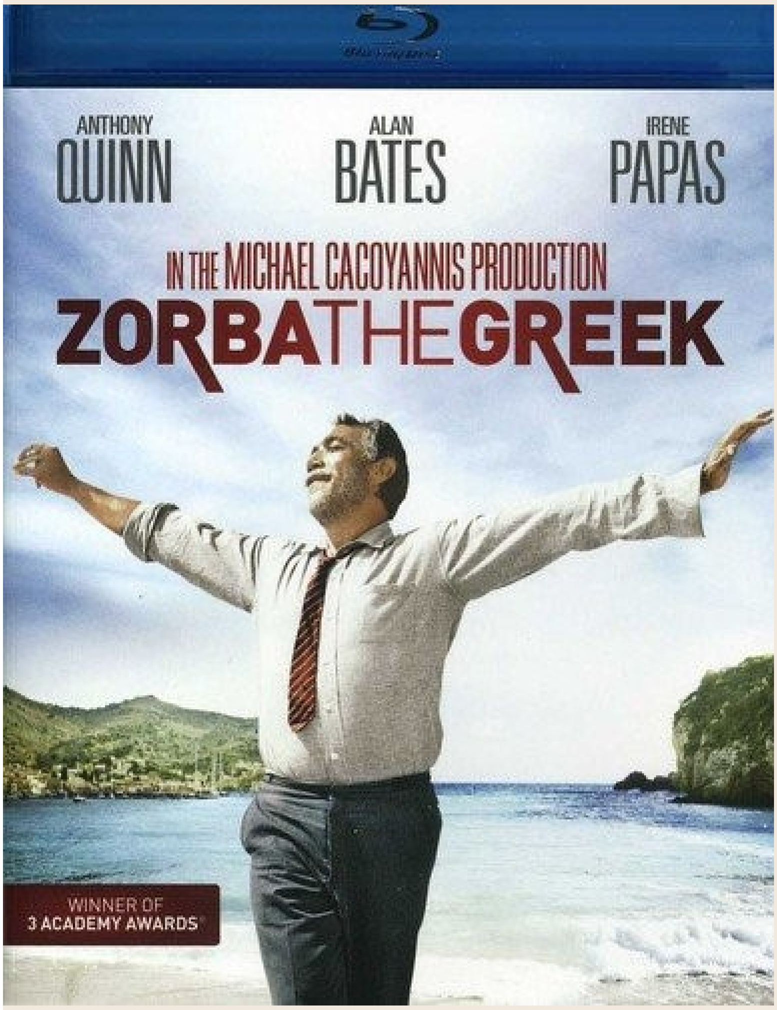
Booms and Busts Report

The Greek market is a wonder. It collapsed in the country's bankruptcy. Since early 2016, it has soared 70%. Curious we never hear of Greece anymore, isn't it?

What would Zorba say?



We'll come back to that.

US Dollar

It seems to me one of the most important financial instruments, globally, is the US Dollar. The (US) Dollar is the Global Reserve Currency - held by all countries in their state coffers, and used to trade, globally.

Let's take a big picture look at it, then zoom in to the smaller pictures.

The US Dollar index is the US$ Vs a basket of currencies, eg the Euro, Sterling etc.

First, the **very long term, monthly chart.**

Over 30 years ago, during Reagan's time, it peaked, at a massive high. It crashed over the following decade.

And peaked again in 2002 (17 years later), at a much lower level than that of 1985. It then crashed again for a decade. The trough was lower than the trough in 1992.

Then it soared again, into 2016 (14 years later), again to a much lower level than 2002.

So, over decades, we have had lower high levels and lower low levels. **A classic downtrend.**

Note, from 2015 to the end of 2016, the Dollar rose but the RSI (lower chart) had lower peaks. That suggested the high in late 2016 may be false. Sure enough, the Dollar then fell, materially, for over a year, to early 2018.

Next, we zoom on the **medium term**, and look at the **weekly chart.**

We can see that 'false' rally in 2015 and 2016, more clearly, with the divergence of the RSI (price rising while RSI falling).

In 2016, commodities and Emerging Markets' share prices soared.

When the Dollar falls, we would normally see global inflation. Rising commodities and EMs are also expected.

In essence, we have seen a sustained downtrend in RSI for 4 years.

The Dollar has risen through 2018 and so far this year. Yet, the still falling RSI suggests the Dollar will fall, like it suggested in 2015 and 2016. And the Dollar fell in 2017.

Finally, the **last year or so,** on the **Daily chart.**

I have boxed the Dollar off, from August last year.
Into last August the Dollar rose to an index level of 97.0. Today, it stands at 97.8.

It has hardly moved in some 9 months. It has risen slightly. Yet, the RSI has fallen slightly. This suggests coming weakness in the Dollar.

The Dollar has twice, recently - see blue oval - attempted to rise out of the horizontal range (the rectangle). Each time, so far, the market has brought it back down into the range.

Can it rise above and go on its way (up, up and away)? Of course. However, the RSI suggests this will not happen. The RSI suggests the Dollar will fall and, indeed, will fall DOWN out of the box.

On the weight of evidence, seen here and elsewhere, it seems to me the Dollar will fall. A lot.

That would be super bullish all sorts of commodities, namely, agricultural such as pork or wheat, industrial and precious metals eg iron and gold, energies eg oil.

All of these moving prices contribute to inflation.

If the Dollar falls, materially, expect another bout of inflation (to add to the inflation since early 2016). And, as the Bank of England has told us, expect higher interest rates.

Readers of the Booms & Busts Report will know that I have castigated the Bank for not raising rates (much) already. For some 9 years, the UK Base Rate was at 0.5%. Last year, Mark Carney increased to 0.75%. Big deal. The US Federal Reserve has increased 9 times, since December 2015.

The market expects US rates to fall to 2.0% by next year, from the current 2.5%.

The market expects UK rates to rise 2 or 3 times by the end of 2020 ie to 1.25% to 1.5%.

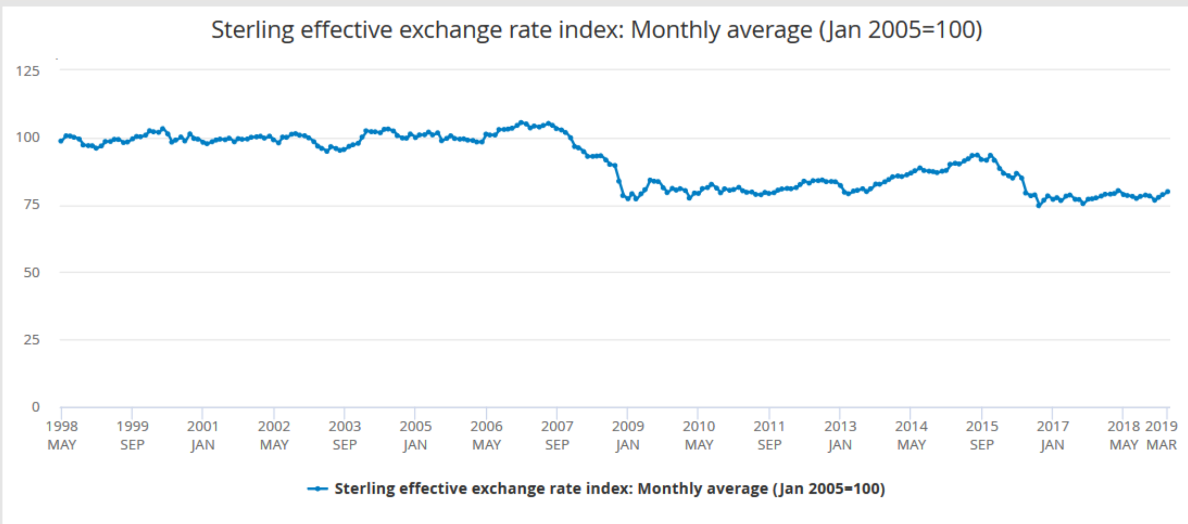
To me, this is quite appropriate, given sustained inflationary conditions. Not high inflation. But HIGHER than we saw a few years ago.

On that basis, our portfolios remain 'inflationary' ie they are invested, mainly, in assets which normally do well during rising inflation. These include Global Stocks, Energy Companies, Commodities, Emerging Markets and Index-Linked Government Bonds.

Pound Sterling

Also, with expected rises in UK interest rates, we should expect to see a rising Pound Sterling.

Here is a **20 year chart of the Pound Sterling Traded-Weighted Average.**

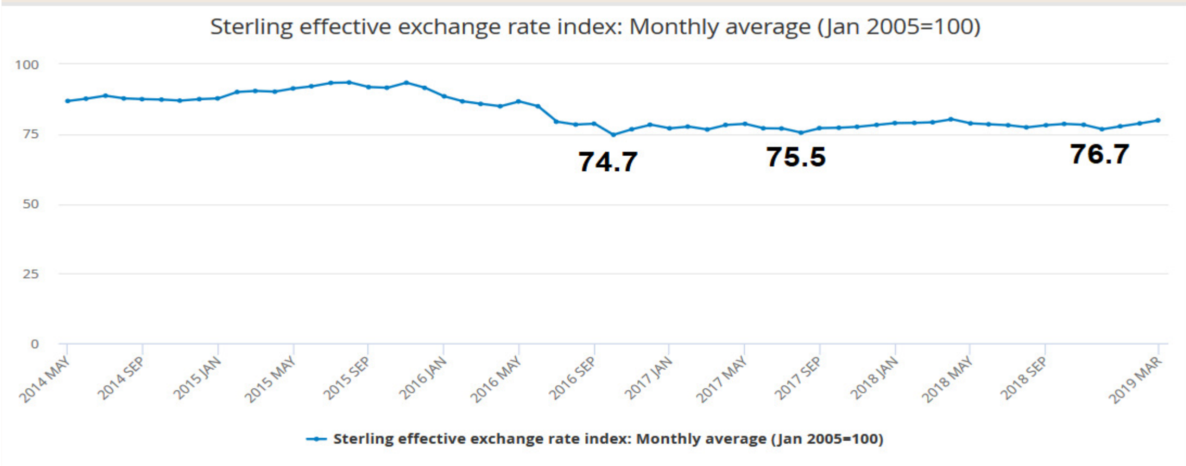


See how the Pound was steady, at a much higher level than today, for at least 10 years, up to the end of 2007.

In the banking collapse, of 2008, our currency crashed 25%, and, effectively, stayed down at that level since. The Pound rose in 2014 and then crashed again, from mid 2015. (It is a media etc myth that the EU Referendum pulled down our currency. If you want further proof that our long term falling currency had NOTHING to do with Brexit, just look at this 168 year chart of our currency. The Pound has been falling since the 1920s!)

What is notable is that the 2014 rally appears, to me, to be the first attempt by the market to **raise** the Pound, long term.

The currency appears to have bottomed, for the medium to long term, with Carney's rate cut in late 2016. (He is the reason why the Pound fell in H2 2016, not the referendum). Since then, each trough in the level has been higher than the prior troughs, as is shown in the **5 year chart**, below.



It seems that the Pound is heading higher, in the medium term, perhaps long term.

This, as I say, would come from higher interest rates, as has been suggested by The Bank of England itself (and called for by me for 2 years!).

With a gently trending up currency, it appears the market may yet agree with me.

UK Stocks
As we expect a rising currency, vis-a-vis other global currencies, we recently raised our holdings of UK stocks as a proportion of a) our global stocks holdings and b) our portfolios, overall. If other currencies are weakening Vs ours we want to hold fewer assets from outside and more from inside the UK.

We sold some global equities and bought what we expect to be a superb UK investment trust, investing in technology companies, at a more than 10% discount to net asset value. This should perform handsomely over the next few to several years - based on the manager's excellent multi decade record.

What else - other than a rising currency - do you get with rising interest rates?

Some may say, falling inflation.

That, I am afraid, is unlikely.

As I have written and presented, extensively, The Bank of England is likely to be 'behind the curve' for years ie inflation will rise faster than they raise interest rates.

So, the best they will likely achieve is inflation rising a little more slowly than if they don't raise rates at all. We're up to 3% RPI now, officially (the reality is much higher but that's another story).

The (extremely manipulated) CPI is at 2.4%. The Bank is charged with keeping it no higher than 3%. So, they will let it drift up and they will start raising rates.

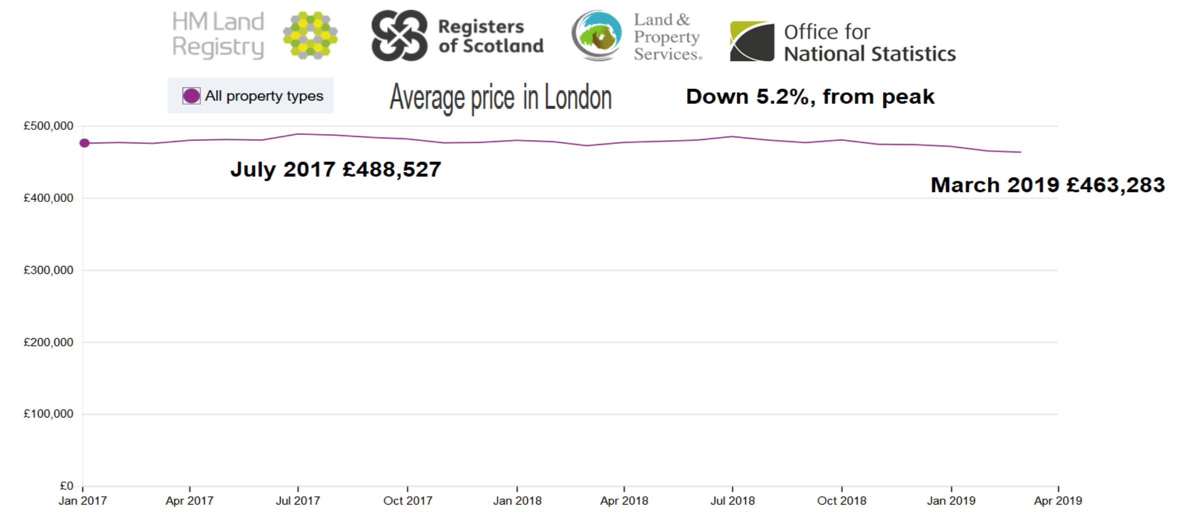
Likely this year we can expect 1% Base Rate.

So, the costs of living and of doing business will continue to rise faster than we saw for about a decade. Though commercial property prices and rents have potential to fall, quite considerably...

London house prices
With higher interest rates, as I have written often, we can expect lower property prices.

Over a year ago, you may recall I forecasted, publicly, a 17% fall in **London house prices**, from 2017, to the end of 2020.
At the time of my forecast, prices were down less than 1%. Nobody took any notice. (So, what's new?)

This is where we were 2 months ago (the most recent data available).



According to Government statistics, London house prices peaked in July 2017 and have fallen just over 5% since, on average.

With a couple of interest rate rises, over the next year, as I said ought to happen, a further roughly 10% fall, over 20 months, could well be on the cards. Especially, when you consider how other top global housing markets eg Melbourne and Sydney, Vancouver, Manhattan, San Francisco and others are falling hard.

It is amusing how everyone - especially the main broadcasters - associates London house price falls with Brexit. It's a global issue.

So, back to Zorba...
As everyone knows, Greece went bust a few years ago. The stock market was annihilated.

The **Greek stock market since 2007** collapsed 95% to early 2016.

However, look at the box. It's been in a range since as long ago as 2011.

Indeed, since early 2016, the market had doubled, over some 18 months. It pulled back, during 2018, from such explosive growth and, after a few months of rallying, recently, it is again 70% higher than early 2016. And trending up.

As I have written, previously, it seems to me the Greek market absolutely bottomed in early 2016 and is in a multi-year (maybe multi-decade) secular bull market, starting from incredibly low valuations.

You notice Greece has not once been mentioned in the main or financial news, for years. Markets rising, quietly, often receive no attention from the media.

What would Zorba say? If you recall the film, he'd probably laugh loudly.

The bulk of portfolio managers has NEVER managed money in an era of rising inflation.

They have only known falling inflation, throughout their careers. Just like you.
What is your portfolio adviser / manager saying and doing?

What should YOU do to secure and grow your wealth and purchasing power?

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

If your portfolio, altogether (pensions, ISAs, other investments), amounts to at least £500k, why not arrange a no-obligation discussion with me about your plans and objectives?

We work for wealthy families and/or high earners, whose portfolios will get there.
We work for clients all over the UK and indeed on 3 continents.

We also have an association with an excellent financial planning firm who can advise interested parties with portfolios materially under £500k. Contact me for details.

Our most important and most often repeated philosophy is:
"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.

Please note, carefully, the following important message:

I think most folk also do not realise, in big picture, the excellent opportunities in our markets.

They will. But will they have benefited?

If you have any queries over any of the issues raised do not hesitate to get in touch with me by calling me or emailing me ***here***.

Follow me @j0nathandavis where I frequently comment and link to material commentaries on markets and economics.

See ***Jonathan Davis youtube*** channel.

Kind Regards

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