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# Crowd Control

"The degree of the moves shows the markets are pricing in something really apocalyptic."

- David Shairp, strategist at JP Morgan Asset Management, quoted in the FT.

**Extraordinary scenes here** in the UK, with a parasitical underclass robbing, torching and looting businesses. But enough of the bankers – why did a segment of Britain's 'lost' urban generation suddenly turn feral ? The comparison between out of control financiers and disaffected violent youths is not merely a tired snipe against our unreconstructed banking class. There are wider social tensions busily simmering away. Perhaps some of the rioters who took to the streets of London, Birmingham and Manchester last week have started to twig that they face a lifetime of higher taxes (if they can get jobs at all) and diminished social services courtesy of decades of swelling "entitlement", the accumulated benefits of the baby-boomers that preceded them, and the damage wrought by self-interested financiers playing at casino capitalism of no social merit whatsoever. Not so much Generation X as Generation Ex: ex-jobs, ex-growth, ex-prospects. We have had politicians pocketing illicit expenses, and bankers trousering unjustifiable bonuses even as the financial system totters at the cliff edge. Is trashing Miss Selfridge really so different ?

The recent involuntary transfer of wealth from western taxpayers to a narrow financial elite has been the largest in the history of the world. Why has nobody rioted over that ? Why has there been, Austrians apart, no questioning or examination of a rotten financial superstructure, in which the ongoing con of central and fractional reserve banking, and unsound fiat money, continues to transfer wealth in real terms from what's left of the productive economy to a bankrupt (in all senses) banking system ? Why does the cult of Keynesian stimulus continue to hold such power over our politicians when it has so obviously and expensively failed ? What we get, from mouthpieces of conventional finance such as The Financial Times, is ongoing yellow journalism mocking the "bubble" in gold. This is not just missing the wood for the trees. It is missing the story from the story.

We will probably never know what caused the 'Flash Crash' of recent weeks. But the damage was widespread and largely indiscriminate. From their recent peaks to last week's lows, the stock market in the UK lost 22% of its value, Germany's 28%, China's 30%, France's 31%, Brazil's 35%, Italy's 44%. It didn't really matter whether you were caught up in the slow motion train crash that is the euro zone or not, or whether you were an emerging market with robust fundamentals or a western market with lousy ones. There is certainly no shortage of suspects as a proximate cause: political posturing in the US Congress; S&P's downgrade of the US' credit rating (which we think is an 'end of empire' moment if ever there was one); damning evidence of a western economic slowdown; a euro zone that seems to be not so slowly breaking apart at the seams. Perhaps it was just down to High Frequency Trading (another segment of the financial industry that would appear to serve no social purpose but that is surely a significant threat to ongoing market stability, integrity and confidence – a sandpile just waiting for the right moment to topple).

From a behavioural perspective, 'Mr. Market' seems to have gone more than usually mad. We view his recent wild gyrations – down 5% one day, up 4% the next – as cause for real concern. This doesn't "feel" like an orderly market. It "feels" like a market schizophrenically churning ahead of making a much sharper move, and a move that is unlikely to be a positive one, given the macro fundamentals that are now painfully familiar to anyone with a pulse. But then what can one constructively or objectively say about a financialised world in which prices are being rigged on a daily basis ? The intellectually enfeebled will point to low Gilt or US Treasury yields as evidence of some bizarre form of safe haven status, "safe" from the lunatic fringe that is the euro zone debt market. Well, perhaps. But 10 year Gilts yielding 2.5% are not particularly meaningful in the context of headline inflation that is double that, nor are they saying anything fantastically upbeat about long term UK growth prospects. All we know is that the banks are buying them, and that the British central bank will probably be buying them again soon, in size. And the US Federal Reserve will probably soon be doing the same thing in its own bond market – so why attribute any significance to market prices when the market is no longer real or legitimate ?

How you choose to respond to market volatility is partly a function of the maturity of your investment life cycle. If you are only part-way through your career of income generation, then volatility, especially to the downside, equates to pound cost averaging, albeit of a rather psychologically draining type. But if you are no longer generating savings income, then you are effectively dealing with sacred and irreplaceable assets, and your attitude and exposure to risk, asset allocation and security selection should be calibrated accordingly. The usual sad parade of me-too traditional advisers was busily trudging through the weekend financial press, advocating staying the course. That advice is uninspired but not particularly damaging provided that the 'irreplaceable assets' investor has a sufficiently diversified portfolio. But if listed equities comprise the lion's share let alone totality of an 'irreplaceable assets' portfolio, the investor is exposed to an asset that a) can and will swing violently from any assessment of fair value, b) can be sold off for reasons unconnected with any form of fundamental valuation, c) can remain at depressed levels for longer than the investor can possibly imagine and d) is at the mercy of an uncontrollable mob.

Speaking of mobs, the following letter appeared in Thursday's Financial Times:

"Sir, I was wondering: are riots good for gross domestic product ? Certainly the purloining of items is simply a transfer from one warehouse to a thieves' den, but both the replacement of the item by the retailer and the thief then spending his or her disposable income elsewhere must surely be a double positive whammy for the economy. Not to mention the impact of extra (re)construction, police overtime and so on feeding back into the economy.

"While clearly wrong and traumatic for victims, in pure GDP terms surely some light in a dark tunnel ?"

I had to read it twice because I couldn't quite believe my eyes. There is the possibility that it is a spoof, of course, or a short work of satire. If the latter, it isn't terribly funny. It is certainly the perfect expression of the sort of mental retardation that comes with Keynesian stimulus thinking. (We covered similar ground in a commentary last year, 'Alice Through The Breaking Glass'.)

Perhaps we should have riots more often, and boost the economy that way. Perhaps it makes sense to loot, burn and pillage in the cause of economic growth. In any event we will soon be getting more helicopter drops of money from Ben Bernanke, a Federal Reserve chairman who will go down in history for turning a balance sheet recession into a full-blown depression, by throwing money at it.

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