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The greasy pole of possibilities

By Tony Deden

The ideas of value and valuation continue to dominate our most basic inquiry. Despite the volume of scholarship, the quantity of books published on the subject, the opinion of so many learned practitioners in the field of investments and so much reflection on our own part, the notion of value and valuation, in practice, remains problematic.

In the pre–World War I days, the investor's problem was rather simple. He was advised to seek "a sure and certain income." He would be reminded of the advice of the Duke of Wellington that "a high rate of interest meant a high degree of risk." Everything else was speculation. Essential to the objective of such "certain income" was, of course, political and monetary stability.

In his 1930 book *The Quicksands of the City*, Hartley Withers is anything but ambiguous about what he considered to be a revolutionary change in thinking at the time, that is, that government debt suddenly became an instrument of stimulating industry rather than a matter of ordinary finance. (Notice that the old focus on "industry" has now been replaced by the "economy" which hides in it all kinds of mischief.) Withers was the financial editor of *The Times* (1906-1910) and later the editor of *The Economist* (1916-1921). The thesis of his book is encapsulated in this paragraph from his short preface:

"A new doctrine, that Governments should quicken trade by spending borrowed money, has been heralded by a blast of trumpets blown by distinguished economists; and the assessment of share values has climbed from dividends to earnings and then up the greasy pole of possibilities. In this whirl of novelty the investor is bewildered by a multitude of counsellors, and the speculator is more than ever helpless under the shears that fleece him."

The objectives of the saver had not changed. Withers writes: "An investor is a man or woman who buys and holds securities chiefly with the object of receiving an income from them, but also with the desire, if possible, for a growing income and an increasing capital value." But something did change. In the dozen years that followed the creation of the Fed, the nature of investment and the temperament of investors underwent what Withers described simply as a revolution. Common stock was no longer viewed as an instrument of speculation, but as a central part of a new, sophisticated investment theory. The old world of 'gilt-edge' securities was now a thing of the past.

The financial catastrophe of the 1930s and the social catastrophe of the world war that ensued did little to slow the monetary and financial sophistication of the world of investments. The focus on certain income was replaced by earnings, earnings forecasts, EBITDA and all sorts of other pseudo-sophistication. Eighty years later, Mr. Withers would surely be aghast to witness the unrecognizable, fraudulent, incompetent and ungodly circus passing for investment practice that his "greasy pole of possibilities" prophetically described.

As much as we do not trust governments, their products or their agents, we do trust the entrepreneur and his ability to overcome obstacles. There is no doubt about the wisdom of owning participations in the capital of outstanding companies. But there are considerable problems in defining exactly what outstanding is. Despite the magnificent scholarly and practical contribution of men such as Benjamin Graham and other value investment pioneers since the 1950s, the ideas of value investing seem to have served merely as a temporary remedy. 'Outstanding' remains elusive if only because we are taught to rely on quantitative measurements to judge the *intrinsic*. We fail to see (a) the risks related to our own view as to whether something is valuable and (b) the

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risks related to other people and their motivation, character and time preference. I am developing an acute intolerance for professional managers whose ambition is focused on the price of their shares and their own personal interest. It makes no difference how outstanding the investment equation may be.

Hartley Withers's book references a speech given by Sir Mark Webster Jenkinson to a professional group of accountants and auditors in London on 5 March 1928. Sir Mark was a highly regarded member of the profession at that time. His subject was on the balance sheet as it relates to the understanding of a business. Much of what he had to say would seem ridiculous to a modern professional who's up the greasy pole of possibilities. But Sir Mark understood the substance of things and the necessity for having one's own judgment on such matters.

"The real value of fixed assets depends on the earning capacity of the business," he said. This might seem an obvious and indisputable observation, but if Sir Mark were around today he'd find trouble with what constitutes "earning capacity." "To gauge the earning power of the business," he went on, "it is essential to ascertain *how* the profits have been earned, *where* the profits have been earned, *why* the profits have been earned." The emphasis is his and the statement is profound in that it forces us to decide on whether the business is desirable *before* we set out to see what it is worth. Notice that the how, where and why demand non-quantitative reflection. The task forces us to come to a judgment about all the things that can go wrong before we make assumptions about the future or attempt to assign a value to such holding. It forces us to make a judgment about the certainty of a stream of income and the permanence of its undertaking.

Yet, in approaching the issue of what such a business may be worth, financial statements are insufficient. "No balance sheet will and no balance sheet can, afford any reliable guide on these matters," according to Sir Mark.

But this learned accountant in 1928 understood something far more profound. If the financial statements are not sufficient to establish desirability or value, then what? His answer: "You may teach rationalization of industry or you may preach nationalization of industry as a solution of our economic problems; you may introduce artificial aids of a temporary nature, such as State-aided finance, tariffs, and subsidies; you may appoint Royal Commissions, Committees, and Trade Federations, but, in the end, the value of a business depends of the men who run it."

Finally, Sir Mark concluded his remarks with the following verse:

Though your balance-sheet's a model
of what balance-sheets should be,
Typed and ruled with great precision
in a type that all can see;
Though the grouping of the assets
is commendable and clear,
And the details which are given
more than usually appear;
Though investments have been valued
at the sale-price of the day,
And the auditors' certificate
shows everything O.K.,
One asset is omitted—
and its worth I want to know,
That asset is the value
of the men who run the show.

Eighty years later, in the summer of 2012, in an age of fraud, larceny and incompetence in every corner, in a time when a man or woman with precious savings has trouble finding anyone or anything worth of trust, we again learn that value is personal, subjective and suited to one's temperament about what is right and what is wrong. The timeless sentiments of Hartley Withers and Sir Mark Webster Jenkinson ring so true to our own pursuit of what is independent, scarce and permanent. ●

On hoarding and other dramas

The past few months have been characterized by a general desire to find safe havens amidst a worsening economic climate. Fear has made *hoarding* popular again. Some folks hoard US Treasury bills and some prefer the German or Japanese variety. Anything that has a coupon attached, however puny, is in demand. Yielding something a bit less (that is, nothing), bank balance sheets are also bulging with fear-induced, zero-cost deposit liabilities.

"The world has much to fear," declares James Grant in a recent issue of *Grant's Interest Rate Observer*. "However, it seems to us, not the least of these perils are the alleged safe-havens themselves." Therefore, says Grant, "in general, this publication is bullish on things certified to be unsafe, bearish on things certified to be safe." Specifically, he is bearish on one of the very "safest" of safe things: highly rated government bonds. "The times may be troubled (they often are), and people may be desperate (someone usually is), but that doesn't mean that low-yielding sovereign debt is the last word in safety and soundness." We are in the same camp with Mr. Grant. What others think safe (at least for now) is of no bearing to us.

On our part, we are mostly hoarding gold and a bit of silver. Our motivation in such hoarding is not to make money any more than the fellow hoarding banknotes under his mattress. Both of us hoard what we consider valuable in the desire to avoid unnecessary risk and maintain future options. For the fellow with the stuffed mattress, risk is the possibility of a bank run. In contrast, we see risk in money itself, or rather, in the mispricing of risk with regard to money. This is the principal reason we hoard. Allow me to be extremely blunt: I have no confidence in paper money of any kind, or the promises of any and all governments and their employees. The relative safety of one kind of paper money as against another is of no importance.

"Communication is an essential and powerful policy tool of central banks," said Mr. Jörg Asmussen in a recent speech to central bankers. He should know. Mr. Asmussen is a member of the Executive Board of the European Central Bank. Indeed, he knows too well. He went on to explain why communication—marketing, if you will—is so essential: because "the physical 'product' of a modern central bank is something with little intrinsic worth." And as if his audience were completely ignorant of such matters (which is a real possibility), he explained further: "The euros in our pockets are, after all, only pieces of printed paper. Their value lies in the shared conviction that this so-called fiat money can be used as a means of exchange, as a unit of account and above all as a store of value." And then he quoted Adam Smith: "All money is a matter of belief." Indeed. We've come to the root of why I don't trust any of it. The trouble for Mr. Asmussen and all his colleagues around the world is that more and more people are beginning to question the trustworthiness of their "product."

What worries me most is the incredible prevalence of official lying, delusion, ignorance and dishonesty. Bloomberg's Jonathan Weil asks, "if Barclays would lie about its borrowing costs, what else would it lie about? Its balance sheet?" It is a rhetorical question. Of course Barclays lies. They all lie. All government employees lie too. It's a whole gang of crooks in a system that encourages and rewards fraud. The title of a recent editorial in the *New York Times* leaves no room for doubt: "Rigged Rates, Rigged Markets." And this is precisely why all financial prices, to the extent they are interconnected, have become so useless to the owner of savings.

The risks we face today are considerably larger than those of even a few years ago, though not unique in the annals of modern history. It isn't just the fact that money is nothing but confidence. At the root, whether in America, Europe, China or Japan, our problems are political—and thus unlikely to be solved barring some complete collapse.

The mispricing of the risk we face, combined with an utter distrust of the political and banking system that produces it, is the principal reason for our hoarding precious metals. As such, our motivation is quite different from that of others who see gold as a way to become rich by hedging against price inflation, or as a trade *du jour* in the ongoing guessing game as to the likelihood of further monetary debasement.

> Heaven help us when the tidal wave of headlines crosses over the Atlantic someday.

Great crises make for great drama. Who would have thought we would all become so intimately familiar with the entire gang of Greek political dunces? Or so intensely involved in guessing the knee-jerk reactions and political outcomes of a grotesquely dysfunctional European monetary experiment? Has there ever been a political solution to a balance sheet problem? Why is it that we keep expecting miracles?

While all this political drama makes for great news broadcasts and endless tweeting, a greater drama lies unnoticed in the real economy. In offices across the world, entrepreneurs and managers are only just beginning to realize that the age of credit is over. They face higher costs across the board, lower demand, higher taxes, more regulation and greater uncertainty. Who would want to hire anyone or make further investments in such a setting? In the real economy, business activity is hampered and stalled. Not surprisingly, there is cash hoarding to be found there, too.

A bigger drama, though still in the making, is the battle for political sentiment. The Germans are being confronted with a currency wipe-out for the third time in 100 years. They are insistently being asked to throw their limited savings and that of future generations at a problem which is limitless, while the rest of the G8 are unanimously behind the idea of Roosevelt-inspired and debt-financed growth. There is no obvious escape from the death spiral other than a system-wide collapse or a massive currency debasement. America is not far behind. Nearly 12 years ago when George W. Bush moved into the Oval Office, the US Federal debt stood at almost $6 trillion. In recent times, it has grown to nearly $16 trillion. What does America have to show for this extra $10 trillion of debt? Heaven help us when the tidal wave of headlines crosses over the Atlantic someday.

And finally, there is a drama of hope, shared by most investors, bankers and other assorted peddlers. They hope that given this and given that, we'll soon get back into a normal and stable environment from which growth will spring eternal. So, buy stocks. It is sheer delusion.

Edgar Howe's words fittingly sum up these dramas: "There is nothing so well known as that we should not expect something for nothing—but we all do and call it hope." ●

We read

"Government interference into economic affairs almost never alleviates the problem it set out to solve. The unintended, and perhaps intended, consequences only rally more calls for further intervention. Because of its countless edicts, the majority of people who reside in Western economies have no concept of how and why markets function as they do. They have mistaken crony capitalism or socialism for genuine capitalism. While mistaken, this distrust of the market has been the lifeblood of the parasitic state."

—James E. Miller, "Learning to Laugh at the State," posted 1 July 2012 in the Ludwig von Mises Institute of Canada blog. Read more: http://tinyurl.com/ej-miller.

"We have been living beyond our means. We have been paying ourselves more than our efforts were earning. We sought political leaders who would assure us that the good times would never end and that the centuries of boom and bust were over; and we voted for those who offered that assurance. We sought credit for which we had no security and we gave our business to the banks that advertised it. We wanted higher exam grades for our children and were rewarded with politicians prepared to supply them by lowering exam standards. We wanted free and better health care and demanded chancellors who paid for it without putting up our taxes. We wanted salacious stories in our newspapers and bought the papers that broke the rules to provide them. And now we whimper and snarl at MPs, bankers and journalists. Fair enough, my friends, but, you know, we really are all in this together."

—Matthew Parris

A little story on Bloomberg (4 July) reports that several Israeli companies are "seeking to dually list shares in New York after trading volumes in Tel Aviv plunged." Oh? Presumably those who run such businesses reason that higher activity results in higher prices. "The reason they've decided to go abroad now is because they don't like the market," said Gilad Alper, an analyst at Excellence Nessuah Brokerage. "The volumes are becoming very, very small and unattractive. So it makes sense to move away from the dwindling Israeli market and toward a more active exchange." Well, when brokers complain, as they do, that volumes are down, we understand their plight. But when issuers are concerned with trading activity in their shares, the message is loud and clear: We are in the business of our stock. The factory is just an incidental nuisance.

"If people, a company's most important asset, can't be put on its balance sheet, neither can its know-how. In this wonderful interview, 73-year old Robert Sinigaglia talks about the culture of substance, permanence and know-how to be found in his employer of 53 years, French fragrance maker Robertet.

Read the interview here: http://tinyurl.com/ej-robertet.

"Suppose I'm a fund manager worried that if I underperform the market over a twelve-month period I'll be out of a job. What value would I attach to a boring business with dependable and robust cash flows, and therefore represents an excellent place to allocate preserve and grow my client's capital over time but which, nevertheless, is unlikely to 'perform' over the next twelve months? The likelihood is that I will value such cash flows less than an investor who considers himself the custodian of his family's wealth, who attaches great importance to the protection of existing wealth for future generations, values permanence highly, and is largely uninterested in the next twelve months. In other words, an institutional fund manager might apply a 'higher discount rate' to those same expected cash flows than the investor of family wealth. They arrive at different answers to the same problem. The same cash flows are being valued subjectively and there is no such thing as an objective or 'intrinsic value' embedded in the asset, even though it has cash flows."

—Dylan Grice in SocGen's Popular Delusions, *17 July 2012.*

They've found yet another shipwreck off the coast of Ireland. The SS Gairsoppa went down in 1941 by a German torpedo. It was laden with 1.4 million ounces of silver. The insured value at the time was 325'000 pounds and it was paid up properly. Assuming they can get to the wreck and bring the loot up, it has a current market value of around 38 million dollars. One can't help but wonder what the current value would be if the ship had been carrying banknotes instead.

Courtesy of JE, read the article here: http://tinyurl.com/ej-shipwreck.

"If you'd invested a pound in the FTSE in 2005 (when [Bob] Diamond joined the [Barclays] board) and hung on to your dividends you'd now have £1.08, notes a story in today's *Times*. If you'd invested it in HSBC you'd have 78 pence. If you'd invested it in Barclays you'd have 29 pence. Which is rubbish, really. In the same time period, Diamond has been paid £119 million."

—Merryn Somerset Webb, "The hounding of Bob Diamond: it isn't disgraceful, it's essential," posted 4 July 2012 in her MoneyWeek blog.

Do you keep your books on some electronic tablet? Here is a message posted on the door of a bookshop at Hay-on-Wye that is best to pass on:

When the data on friends' discs and drives
Has all but disappeared,
Your massive hoard of books and prints
Will no longer seem so weird. ●

Conversations

Jonathan Escott*'s day job is to manage the busy and sophisticated trading room of a large bank. But for years now, his evenings and weekends are devoted to handling his family savings. He keeps tabs on fund managers, hedge funds and investment companies of all sorts, everywhere. And he asks a lot of questions. He is one of very few who possess the kind of profound determination in acquiring investment wisdom for its own sake. We think that his staunch and principled journey in understanding is perhaps worthy of a book. In the meantime, we have asked him to share some pertinent thoughts with us.*

Edelweiss Journal: Jonathan, it seems that virtually everyone, regardless of their education, ultimately discovers that investing their own savings is more difficult than it seems. In fact, studies show that most people ultimately lose their savings either in nominal terms or in real terms or both. Why is it that something that appears relatively simple and about which so much is written can be, in the end, so difficult?

Jonathan Escott: Have you read James Montier's "Seven Sins of Fund Management"?

EJ: Indeed, but was he not addressing fund managers only?

Escott: He was, but the principles are valid—in fact, required reading, for anyone contemplating investing their own money or letting someone else do it for them. The buying and selling of stuff may seem easy but the investment task, well, evidently isn't.

EJ: So what makes it so difficult?

Escott: Actually, the problem with investors is much larger than even Montier suggests. An investor is forced to speculate about the consequences of ever-changing government monetary and fiscal policies and about the career risk of investment managers and the "physics envy" that has infected the whole world of finance. He has to navigate the not-so-clear world of fees and fees upon fees. He has to disregard the pretentious and unnecessary industry jargon, figure out what is real and what is not, and finally, he has to learn the most important thing—who to listen to and, maybe more importantly, who not to listen to! There's so much that's not so easy in his task.

EJ: You have mentioned both internal risks, those related to one's own fallible nature, and external risks, those ever-present in agency relationships. This is a daunting list. So, where does one start? You say that knowing "who not to listen to" is principal to the process. What then do we exclude and why?

> When you know that the best fund managers of all time have underperformed the market on average for 3 years out of every 10, our obsession with daily price moves is rather ridiculous.

Escott: I start with skepticism. To quote Nassim Taleb, "skepticism is effortful and costly. It is better to be skeptical about matters of large consequences, and be imperfect, foolish and human in the small and the aesthetic." So before reading or listening to someone on matters "of large consequence" you might want to ask yourself coldly, "Do I have good reason to listen to that specific person on that specific subject?"

EJ: Is this not difficult in the vast world of internet, instant experts and self-appointed gurus?

Escott: Luckily not, because we can reduce the cost of skepticism and simply Google any prior claims and forecasts of so-called experts brave enough to want to pontificate. However, a decent track record is the easy, quantitative filter—but it's not sufficient at all. Just consider the fate of all those fallen gurus whose long, impressive track records collapsed because they were reliant on factors which the manager never fully realized or took heed of. One then needs to apply the more tricky qualitative filter and try to see what the main attributors to their success were and whether it was luck or skill. In the last decade for example, bond and gold funds did very well but if the manager runs many funds in all sorts of asset classes, I am sure that most of their other funds did very poorly, and then again, those that chose to be in bonds usually have contradictory reasons to those who chose to be in gold but they both appear to be "right" in the eyes of the market, so how do you decide...? You have to go another level down and I am afraid there is no way of getting away from it in my mind, but you have to go right down to basic principles.

EJ: So then, lacking understanding, skepticism in avoiding error is a more important skill than that of finding opportunity. Since you brought it up, let me ask you about this last item you mentioned: principles. Give me a short list—your principles as a guardian of your own savings. What are they?

Escott: For me, it all starts at something basic: know yourself and focus more on process, not outcome.

EJ: The *means* instead of the *ends*.

Escott: Yes. It is well known that we are far less rational when making decisions than we would like to believe, especially in complex and emotional areas like investing. Dan Ariely has several amusing talks online if you are interested in examples. The good news is that when you know what most of the "bad biases" are, you can develop methods to try to mitigate their influence on your own decision-making process, but it's important to try not to change the actual investment choices themselves. A trap to watch out for is that you ought not to change how you invest to match your weaknesses, but think of ways of mitigate the influence of these on your investment process. Let's say you have a tendency to check prices all the time and cannot sleep easy with a volatile portfolio. Rather than look for a low volatility portfolio (which opens up a whole can of worms in itself), why not give your money to a fund manager who sends out updates infrequently, or make a note to yourself to only check the financial pages once per quarter. After all, when you know that the best fund managers of all time have underperformed the market on average for 3 years out of every 10, our obsession with daily price moves is rather ridiculous.

EJ: If the means are more important than the ends, how do we then distinguish between skill and plain luck?

Escott: It is very hard to distinguish luck from skill in the investment world, but focusing on process has been far more helpful than just looking at results and post-hoc narratives. The investment decision process is a subjective one springing as it does from the mind of the decision maker, which rules out the futile attempt to find mathematical investment formulas or, more broadly, mathematical answers to all the larger questions.

EJ: So, what are some of the common tendencies you deem to have overall merit?

Escott: The common tendencies of good investment process seem to be: a focus on value and the balance sheet but not just limited to the corporate sector, an "old-fashioned" view of economics, lack of conflicts of interest, an intellectual curiosity across many fields, flexibility, patience, canny ability to reframe things in novel ways for unusual insights and perspectives, an almost willful disregard for consensus— which is not the same as being a contrarian, and a lack of ostentatiousness. There are probably many others but when you ask about my principles, if I find good outcomes that seem to have evidence of the sorts of contributions to process as listed, and I can invest in a way that won't conflict with my own foibles, I would be surprised if it wasn't a good decision.

EJ: Before we close, allow me to return to my original question. The owner of savings, whether an individual or an institution, has never been confronted with as much noise and confusion as he is today. Can you give me a simple word of advice that can stand the test of time?

Escott: I can give you something very simple. Is it not a little ironic that some of the best ideas of the last decade have been extremely old-fashioned? No need for a CFA or derivatives bible, nor 2 and 20 fees. Complex problems don't necessarily need complex solutions. It is also interesting to note that frequency of trading seems inversely correlated to performance and a growing body of behavioral finance shows that excessive focus on detail detracts from investment performance. The man with savings does not need to even bother with the ever-ballooning financial gobbledygook. But my views demand that he also possesses certain humility, in the sense that he is not shooting for the stars and can thus live with opportunities lost, but correspondingly avoid costly errors.

EJ: Thank you for sharing your views.

Interested readers can find James Montier's "Seven Sins of Fund Management" available for download here.

Books we read: addendum

We received mail from readers who asked whether ***Otto von Schwamendingen*** *could add to the minimal reading list he offered in connection with his review of* Why Nations Fail *(see Issue 7). His response:*

My modest book review concerns a subject of extraordinary breadth and scope, indeed one about which hundreds of volumes have been written by philosophers, historians and economists over many years. It would be impossible to compile a comprehensive bibliography and it would be incredible presumptuous on the part of a layman, such as myself, to even consider it. Nonetheless, on account of so much interest, I offer this discordant selection of some scholarly, some entertaining and generally valuable books that one can use as a starting point in his own intellectual journey.

Chodorov, Frank. *The Rise and Fall of Society: An Essay on the Economic Forces That Underlie Social Institutions.* 1959. Reprint, Auburn, AL: Ludwig von Mises Institute, 2007.

Clark, Henry C., ed. *Commerce, Culture and Liberty: Readings on Capitalism before Adam Smith*. Indianapolis: Liberty Fund, 2003.

Ekrich, Arthur A., Jr. *The Decline of American Liberalism*. 1955. Reprint, Oakland, CA: Independent Institute, 2009.

Hazlitt, Henry. *The Conquest of Poverty.* 1973. Reprint, Auburn, AL: Ludwig von Mises Institute, 2007.

Herman, Arthur. *The Idea of Decline in Western History.* New York: Free Press, 1997.

Mencken, H.L. *Mencken's America*. Edited by S.T. Joshi. Athens, OH: Ohio University Press, 2004.

Nasar, Sylvia. *Grand Pursuit: The Story of Economic Genius.* New York: Simon & Schuster, 2011.

Pomeranz, Kenneth and Steven Topik. *The World that Trade Created: Society, Culture, and the World Economy, 1400 to the Present.* 2nd ed. Armonk, NY: M.E. Sharpe, 2005.

Potter, David M. *People of Plenty: Economic Abundance and the American Character.* 1954. Reprint, Chicago: University of Chicago Press, 1958.

Roche, George Charles, III. *The Bewildered Society.* New Rochelle, NY: Arlington House, 1972.

Röpke, Wilhelm. *Economics of the Free Society.* 1963. Reprint, Auburn, AL: Ludwig von Mises Institute, 2008.

Sowell, Thomas. *Conquests and Cultures: An International History.* New York: Basic Books, 1999.

Van Creveld, Martin. *The Rise and Decline of the State.* Cambridge: Cambridge University Press, 1999.

Sense and nonsense

- "All government, in its essence, is a conspiracy against the superior man: its one permanent object is to oppress him and cripple him. If it be aristocratic in organization, then it seeks to protect the man who is superior only in law against the man who is superior in fact; if it be democratic, then it seeks to protect the man who is inferior in every way against both. One of its primary functions is to regiment men by force, to make them as much alike as possible and as dependent upon one another as possible, to search out and combat originality among them. All it can see in an original idea is potential change, and hence an invasion of its prerogatives. The most dangerous man to any government is the man who is able to think things out for himself, without regard to the prevailing superstitions and taboos. Almost inevitably he comes to the conclusion that the government he lives under is dishonest, insane and intolerable, and so, if he is romantic, he tries to change it. And even if he is not romantic personally he is very apt to spread discontent among those who are."
  —H.L. Mencken

- "Confidence is the feeling a person has before he fully understands the situation."
  —Unknown

- "They're there because people have to have them, not because people believe in them."
  —David Jacob, who was fired from Standard & Poors in December, in an interview at Bloomberg about the ratings industry

- Since sovereign bonds are no longer thought of as a safe-haven, investors are "deprived of a valuable and stabilizing wealth-preservation option at times of stress, including in the form of collateral."
  —Bank for International Settlements, 2011 Annual Report

- "I wholeheartedly agree on the issue of dishonesty in the financial markets. I am muzzled by our compliance officer and prevented from being as frank as I would like. Your reference to the delusional hope that keeps investors in the game reminds me of Nietzsche's observation that "hope is the worst of all evils, for it prolongs the torment of man." Confidence is unraveling before our eyes, but goes unseen by most. The final stages of disillusionment will be swift."
  —From recent correspondence with a fund manager whom we admire

- "Democracy is a pathetic belief in the collective wisdom of individual ignorance."
  —H.L. Mencken

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