EDELWEISS JOURNAL

11 March 2013 www.edelweissjournal.com Issue 12

Would the real Peter and Paul please stand up?

By Dylan Grice

In a previous life as a London-based 'global strategist' (I was never sure what that was) I was known as someone who was worried by QE and more generally, about the willingness of our central bankers to play games with something which I didn't think they fully understand: money. This may be a strange, even presumptuous thing to say. Surely of all people, one thing *central bankers* understand is money?

They certainly should understand money. They print it, lend it, borrow it, conjure it. They control the price of it… But so what? What *should* be true is not necessarily what *is* true, and in the topsy-turvy world of finance and economics, it rarely is. So file the following under "strange but true": our best and brightest economists have very little understanding of economics. Take the current malaise as *prima facie* evidence.

Let me illustrate. Of the many elemental flaws in macroeconomic practice is the true observation that the economic variables in which we might be most interested happen to be those which lend themselves least to measurement. Thus, the statistics which we take for granted and band around freely with each other measuring such ostensibly simple concepts as inflation, wealth, capital and debt, in fact involve all sorts of hidden assumptions, short-cuts and qualifications. So many, indeed, as to render reliance on them without respect for their limitations a very dangerous thing to do. As an example, consider the damage caused by banks to themselves and others by mistaking price volatility (measurable) with risk (unmeasurable). Yet faith in false precision seems to us to be one of the many imperfections our species is cursed with.

One such 'unmeasurable' increasingly occupying us here at Edelweiss is that upon which all economic activity is based: trust. Trust between individuals, between strangers, between organisations… trust in what people read, and even people's trust in *themselves*. Let's spend a few moments elaborating on this.

First, we must understand the profound importance of exchange. To do this, simply look around you. You might see a computer monitor, a coffee mug, a telephone, a radio, an iPad, a magazine, whatever it is. Now ask yourself how much of that stuff you'd be able to make for yourself. The answer is almost certainly none. So where did it all come from? Strangers, basically. You don't know them and they don't know you. In fact virtually none of us know each other. Nevertheless, strangers somehow pooled their skills, their experience and their expertise so as to conceive, design, manufacture and distribute whatever you are looking at right now so that it could be right there right now. And what makes it possible for you to have it? Exchange. To be able to consume the skills of these strangers, you must sell yours. Everyone enters into the same bargain on some level and in fact, the whole economy is nothing more than an anonymous labor exchange. Beholding the rich tapestry this exchange weaves and its bounty of accumulated capital, prosperity and civilization is a marvelous thing.

But we must also understand that exchange is only possible to the extent that people trust each other: when eating in a restaurant we trust the chef not to put things in our food; when hiring a builder we trust him to build a wall which won't fall down; when we book a flight we entrust our lives and the lives of our families to *complete strangers*. Trust is social bonding and societies without it are stalked by social unrest, upheaval or even war. Distrust is a brake on prosperity, because distrust is a brake on exchange.

But now let's get back to thinking about money, and let's note also that distrust isn't the only possible brake on exchange. Money is required for exchange too. Without money we'd be restricted to barter one way or another. So money and trust are intimately

In this issue

connected. Indeed, the English word *credit* derives from the Latin word *credere*, which means to trust. Since money facilitates exchange, it facilitates trust and cooperation. So when central banks play the games with money of which they are so fond, we wonder if they realize that they are also playing games with social bonding. Do they realize that by devaluing money they are devaluing society?

To see the how, first understand how monetary policy works. Think about what happens in the very simple example of a central bank's expanding the monetary base by printing money to buy government bonds.

That by this transaction the government has raised revenue for the government is obvious. The government now has a greater command over the nation's resources. But it is equally obvious that no one can raise revenue without someone else bearing the cost. To deny it would imply revenues could be raised for free, which would imply that wealth could be created by printing more money. True, some economists, it seems, would have the world believe there to be some validity to such thinking. But for those of us more concerned with correct logical practice, it begs a serious question. Who pays? We know that this monetary policy has redistributed money into the government's coffers. But *from whom* has the redistribution been?

Distrust is a brake on prosperity, because distrust is a brake on exchange.

The simple answer is that we don't and can't know, at least not on an amount per person basis. This is unfortunate and unsatisfactory, but it also happens to be true. Had the extra money come from taxation, everyone would at least know where the burden had fallen and who had decreed it to fall there. True, the upper-rate tax payers might not like having a portion of their wealth redirected towards poorer members of society and they might not agree with it. Some might even feel robbed. But at least they know who the robber is.

When the government raises revenue by selling bonds to the central bank, which has financed its purchases with printed money, no one knows who *ultimately* pays. In the abstract, we know that current holders of money pay since their cash holdings have been diluted. But the effects are more subtle. To see just how subtle, consider Cantillon's 18th century analysis of the effects of a sudden increase in gold production:

> If the increase of actual money comes from mines of gold or silver… the owner of these mines, the adventurers, the smelters, refiners, and all the other workers will increase their expenditures in proportion to their gains. … All this increase of expenditures in meat, wine, wool, etc. diminishes of necessity the share of the other inhabitants of the state who do not participate at first in the wealth of the mines in question. The altercations of the market, or the demand for meat, wine, wool, etc. being more intense than usual, will not fail to raise their prices. … Those then who will suffer from this dearness… will be first of all the landowners, during the term of their leases, then their domestic servants and all the workmen or fixed wage-earners … All these must diminish their expenditure in proportion to the new consumption.

In Cantillon's example, the gold mine owners, mine employees, manufacturers of the stuff miners buy and the merchants who trade in it all benefit handsomely. They are closest to the new money and they get to see their real purchasing powers rise.

But as they go out and spend, they bid up the prices of the stuff they purchase to a level which is higher than it would otherwise have been, making that stuff more expensive. For anyone not connected to the mining business (and especially those on fixed incomes: "the landowners, during the term of their leases"), real incomes haven't risen to keep up with the higher prices. So the increase in the gold supply redistributes money towards those closest to the new money, and away from those furthest away.

Another way to think about this might be to think about Milton Friedman's idea of dropping new money from a helicopter. He used this example to demonstrate how easy it would theoretically be for a government to create inflation. What he didn't say was that such a drop would redistribute income in the same way more gold from Cantillon's mines did, towards those standing underneath the helicopter and away from everyone else.

So now we know we have a slightly better understanding of who pays: whoever is furthest away from the newly created money. And we have a better understanding of how they pay: through a reduction in their own spending power. The problem is that while they will be acutely aware of the reduction in their own spending power, they will be less aware of *why* their spending power has declined. So if they find groceries becoming more expensive they blame the retailers for raising prices; if they find petrol unaffordable, they blame the oil companies; if they find rents too expensive they blame landlords, and so on. So now we see the mechanism by which debasing money debases trust. The unaware victims of this accidental redistribution don't know who the enemy is, so they create an enemy.

Keynes was well aware of this insidious dynamic and articulated it beautifully in a 1919 essay:

> By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. By this method they not only confiscate, but they confiscate *arbitrarily*; and, while the process impoverishes many, it actually enriches some. ... Those to whom the system brings windfalls... become "profiteers" who are the object of the hatred.... the process of wealth-getting degenerates into a gamble and a lottery.
>
> Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, **and does it in a manner which not one man in a million is able to diagnose.**

Deliberately impoverishing one group in society is a bad thing to do. But impoverishing a group in such an opaque, clandestine and underhanded way is worse. It is not only unjust but dangerous and potentially destructive. A clear and transparent fiscal policy which openly redistributes from the rich to the poor can at least be argued on some level to be consistent with 'social justice.' Governments can at least claim to be playing Robin Hood. There is no such defense for a monetary driven redistribution towards recipients of the new money and away from everyone else because if the well-off are closest to the money, well, it will have the perverse effect of benefitting them at the expense of the poor.

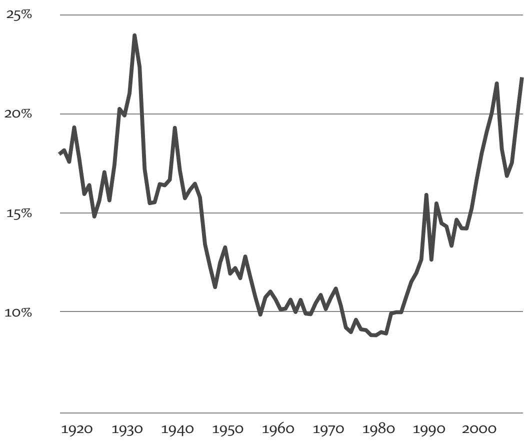
Take the past few decades. Prior to the 2008 crash, central banks set interest rates according to what their crystal ball told them the future would be like. They were supposed to raise them when they thought the economy was growing too fast and cut them when they thought it was growing too slow. They were supposed to be clever enough to banish the boom-bust cycle, and this was a nice idea. The problem was that it didn't work. One reason was because central bankers weren't as clever as they thought. Another was because they had a bias to lower rates during the bad times but not raise them adequately during the good times. On average therefore, credit tended to be too cheap and so the demand for debt was artificially high. Since that new debt was used to buy assets, the prices of assets rose in a series of asset bubbles around the world. And this unprecedented, secular and largely global credit inflation created an illusion of prosperity which was fun for most people while it lasted.

But beneath the surface, the redistributive mechanism upon which monetary policy relies was at work. Like Cantillon's gold miners, those closest to the new credit (financial institutions and anyone working in finance industry) were the prime beneficiaries. In 2012 the top 50 names on the Forbes list of richest Americans included the fortunes of *eleven* investors, financiers or hedge fund managers. In 1982 the list had none.

In 2012 the top 50 names on the Forbes list of richest Americans included the fortunes of *eleven* investors, financiers or hedge fund managers. In 1982 the list had none.

Besides this redistribution of wealth towards the financial sector was a redistribution to those who were already asset-rich. Asset prices were inflated by cheap credit and the assets themselves could be used as collateral for it. The following chart suggests the size of this transfer from poor to rich might have been quite meaningful, with the top 1% of earners taking the biggest a share of the pie since the last great credit inflation, that of the 1920s.

Total US income earned by top 1% of earners



Source: Piketty & Saez

Who paid? Those with no access to credit, those with no assets, or those who bought assets late in the asset inflations and which now nurse the problem balance sheets. They all paid. Worse still, future generations were victims too, since one way or another they're on the hook for it.

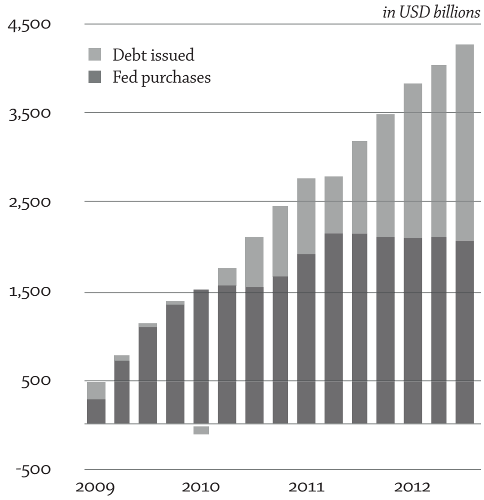
So with their crackpot monetary ideas, central banks have been robbing Peter to pay Paul without knowing which one was which. And a problem here is this thing behavioral psychologists call *self-attribution bias*. It describes how when good things happen to people they think it's because of something they did, but when bad things happen to them they think it's because of something *someone else* did. So although Peter doesn't know why he's suddenly poor, he knows it must be someone else's fault. He also sees that Paul seems to be doing OK. So being human, he makes the obvious connection: it's all Paul and people like Paul's fault.

But Paul has a different way of looking at it. Also being human, he assumes he's doing OK because he's doing something right. He doesn't know what the problem is other than Peter's bad attitude. Needless to say, he resents Peter for his bad attitude. So now Peter and Paul don't trust each other. And this what happens when you play games with society's bonding.

When we look around we can't help feeling something similar is happening. The 99% blame the 1%; the 1% blame the 47%. In the aftermath of the Eurozone's own credit bubbles, the Germans blame the Greeks. The Greeks round on the foreigners. The Catalans blame the Castilians. And as 25% of the Italian electorate vote for a professional comedian whose party slogan "*vaffa*" means roughly "f**k off" (to everything it seems, including the common currency), the Germans are repatriating their gold from New York and Paris. Meanwhile in China, that centrally planned mother of all credit inflations, popular anger is being directed at Japan, and this is before its own credit bubble chapter has fully played out. (The rising risk of war is something we are increasingly worried about…) Of course, everyone blames the bankers ("those to whom the system brings windfalls… become 'profiteers' who are the object of the hatred").

But what does it mean for the owner of capital? If our thinking is correct, the solution would be less monetary experimentation. Yet we are likely to see more. Bernanke has monetized about a half of the federally guaranteed debt issued since 2009 (see chart below). The incoming Bank of England governor thinks the UK's problem hasn't been too much monetary experimentation but too little, and likes the idea of actively targeting nominal GDP. The PM in Tokyo thinks his country's every ill is a lack of inflation, and his new guy at the Bank of Japan is revving up its printing presses to buy government bonds, corporate bonds and ETFs. China's shadow banking credit bubble meanwhile continues to inflate…

The Fed has monetized 50% of US debt since 2009



Source: Edelweiss Holdings Ltd. research

For all we know there might be another round of illusory prosperity before our worst fears are realised. With any luck, our worst fears never will be. But if the overdose of monetary medicine made us ill, we don't understand how more of the same medicine will make us better.

We do know that the financial market analogue to trust is yield. The less trustful lenders are of borrowers, the higher the yield they demand to compensate. But interest rates, or what's left of them, are at historic lows. In other words, there is a glaring disconnect between the distrust central banks are fostering in the real world and the unprecedented trust lenders are signaling to borrowers in the financial world.

Of course, there is no such thing as "risk-free" in the real world. Holders of UK cash have seen a cumulative real loss of around 10% since the crash of 2008. Holders of US cash haven't done much better. If we were to hope to find safety by lending to what many consider to be an excellent credit, Microsoft, by buying its bonds, we'd have to lend to them until 2021 to earn a gross return roughly the same as the current rate of US inflation. But then we'd have to pay taxes on the coupons. And we'd have to worry about whether or not the rate of inflation was going to rise meaningfully from here, because the 2021 maturity date is eight years away and eight years is a long time. And then we'd have to worry about where our bonds were held, and whether or not they were being lent out by our custodian. And of course, this would all be before we'd worried about whether

Microsoft's business was likely to remain safe over an eight year horizon.

We are happy to watch others play that game. There are some outstanding businesses and individuals with whom we are happy to invest. In an ideal world we would have neither Peters nor Pauls. In the imperfect one in which we live, we have to settle for trying hard to avoid the Pauls, who we fear mistake entrepreneurial competence for proximity to the money well. But when we find the real thing, the timeless ingenuity of the honest entrepreneurs, the modest craftsmen and craftswomen who humbly seek to improve the lot of their customers through their own enterprise, we find inspiration too, for as investors we try to model our own practice on theirs. It is no secret that our quest is to find scarcity. But the scarce substance we prize above all else is *trustworthiness*. Aware that we worry too much in a world growing more wary and distrustful, it is here we place an increasing premium, here that we seek refuge from financial folly and here that we expect the next bull market.

We read

In the long course of history, there's never been a shortage of do-gooders and other conceited and pompous numbskulls eager to instruct and enlighten the rest of us or make breathtaking pronouncements. One Michael Bloomberg, New York city mayor, apparent energy expert and self-appointed demigod, while addressing a recent US Department of Energy–sponsored energy conference had this to say: "Even though the coal industry doesn't totally know it yet, or is ready to admit it, its day is done. It used to be said that coal is king, and regrettably coal remains king in nations like India and China. Here in the US, I am happy to say, the king is dead. Coal is a dead man walking." For the record, the coal industry is being killed by calculated government policy. But also for the record, the free market is quite gifted in unexpected revivals.

The Scottish philosopher and historian Thomas Carlyle is known for having described economics as a dismal science. Sadly, he is less famous for wisely suggesting that for every hundred men who can handle adversity, there is but one who can handle prosperity, or for urging us to the task of present duty as our principal endeavor. "Our main business," he wrote, "is not to see what lies dimly at a distance, but to do what lies clearly at hand."

After years of eating up a lot of capital and going nowhere, the Board of Directors of US–based Groupon recently fired its CEO Andrew Mason, who immediately sat down to pen a farewell email to his employees. Apparently, with nothing else to lose, he could afford to be quite candid. "People of Groupon," he starts, "After four and a half intense and wonderful years as CEO of Groupon, I've decided that I'd like to spend more time with my family. Just kidding. I was fired today." It was a short goodbye. But by the fourth and last paragraph, he managed to encapsulate what was worth passing on: "If there's one piece of wisdom that this simple pilgrim would like to impart upon you," he wrote to his colleagues, "have the courage to start with the customer. My biggest regrets are the moments that I let a lack of data override my intuition on what's best for our customers." We applaud.

As we watch bumbling politicians and central bankers everywhere convinced in their desperate measures to engineer prosperity by decree, the 170-year old wise warnings of Richard Cobden sound refreshingly appropriate: "Can you by legislation add one farthing to the wealth of the country?" he asked rhetorically in a speech at the House of Commons on 27 February 1846. "You may, by legislation, in one evening, destroy the fruits and accumulations of a century of labour; but I defy you to show me how, by the legislation of this House, you can add one farthing to the wealth of the country. That springs from the industry and intelligence of the people of this country. You cannot guide that intelligence; you cannot do better than leave it to its own instincts. If you attempt by legislation to give any direction to trade or industry, it is a thousand to one that you are doing wrong; and if you happen to be right, it is a work of supererogation, for the parties for whom you legislate would go right without you, and better than with you."

In Wikipedia, we read that "truthiness is a quality characterizing a 'truth' that a person claims to know intuitively 'from the gut' or because it 'feels right' without regard to evidence, logic, intellectual examination, or facts." By the same logic of our postmodern relativism one might also propose that anything strongly believed is just as "truthy." Sadly, facts frequently interfere with what we want to believe. The recent issue of *Grant's Interest Rate Observer* (8 Feb 2013) offered a fitting analogy on 'truthism': "Spanish Prime Minister Mariano Rajoy, who is accused of corruption, announced on Monday that all allegations 'are "untrue"—except for some things.' So, too, in the United States, with respect to inflation. It is dead—except for some things."

We are not the only investment practitioners who see the financial backdrop as unsustainable and fragile. In Baupost's 2012 Annual Letter, Seth Klarman writes: "It is dangerous to need constant access to the capital markets for such staggering amounts of financing. An unknowable tipping point looms over the horizon. When we reach it, outsiders and U.S. citizens alike will become suspicious of our creditworthiness, causing interest rates to rise and the dollar to plummet. Holders of greenbacks will rush to spend their money while it still has some value, causing the prices of goods and stores of value (like gold) to surge. No one knows precisely how much debt is too much, or at what moment the tipping point will be reached. It's like driving a car with a faulty navigation system along a steep mountain road at night while wearing a blindfold. Sooner or later, you're going to plummet over the edge."

From Brandon Smith via Zerohedge: "If there is one concept on Earth that has been the absolute bane of human existence… it would have to be the concept of the 'majority opinion'. The moment men began refusing to develop their own world views without first asking 'What does everyone else think?', they set themselves up for an endless future of failures.

"Human beings desperately want to belong, but, they also desperately want to understand the environment around them. *Often, the desire to belong and the desire to know the truth conflict.* In some societies, in order to be accepted, one must give up on his search for truth and avoid eliciting the anger of others. This causes a severe mental and emotional disturbance within a population. In order to reconcile their conflicting needs within a system that does not nurture their quest for transparency, they tend to unconsciously cling to the 'majority view' as if their very existence depends on it. The idea of the majority view or the 'mainstream', gives people the sense that they are a part of a group, and at the same time, gives them the illusion of being informed." *Emphasis ours.*

We would add merely that great danger arises when people confuse being in the majority with occupying the moral high ground. Never forget that the majority of participants in a gang rape are in favor of rape…

Pain is a wonderful thing. Despite our ingenuity in finding ways to make it go away, pain is a reminder that something is wrong. It is a symptom. If we merely focus on making the pain go away, the disease lingers—and often worsens. But there is another thing that comes from listening to our pain, identifying the disease and looking for solutions. Somehow the result is that our focus changes to things that matter. Consider this story. *Finanz und Wirtschaft* reports that at a recent meeting with journalists to present the bank strategy for the future, the CEO of a very large Swiss bank claimed to have completely reinvented investment banking. What is supposed to be so different about it? His answer was as novel as it was shocking: "We now operate according to the interests of the client." We wonder if this will catch on.

Read for yourself (in German) here: http://tinyurl.com/aj2vzj8.

Few can write like Taki. Even his mere description of a quiet lunch with friends causes one to reminisce nostalgically—as it happens when one gets old. Taki looks back at his native Greece of old—except that the observations somehow ring true everywhere:

"The timeless beauty of the land we grew up in is now gone. Athens is a stink hole. The marble-topped tables in the squares, the sweet, haunting, romantic music of Attik—he starved to death during the German occupation—the white-jacketed impeccably polite waiters at the cafés, the graceful manners of ladies and gentlemen of society, and the white-suited young men paying court to young ladies in ballrooms by the sea are all gone with the wind, and pardon the pun. It is as if I was talking about the American South, except we had no slaves.

"Beauty has largely vanished from our civilization in general. There is no courtesy, no manners, no degree of distance and respect. One checks into a hotel for the first time and the concierge calls you by your Christian name. Travel is now an exercise in being among slobs. Tracksuits, trainers, loud dirty children, fat people drinking out of bottles with wires hanging from their ears—these are the best excuses I know of for paying through the nose and flying privately.

"Manners and the courteous treatment of others have been replaced by political correctness and its strident policies of equality, an equality that is selective and as oppressive as any policy was under an apartheid regime. (By this time we are on our third bottle of wine and just starting the main course.) The rot in Greece began with Andreas Papandreou and that other bum, Karamanlis, the two conmen who preceded Blair and Brown in enlarging the public sector to the extent that more than half the country was on the public payroll and thus kept voting for the party in power. Now the Ponzi scheme has collapsed, but the same old names are in power. Not that Obama and Osborne are any different. Redistributing wealth is a sucker's game, but it's good for the short run. Depriving the rich is a vote-getter—envy is as big among Greeks as it is among French and Brits—but it's the road to national perdition."

—Taki Theodoracopulos, "My Big Fat Greek Lunch," Taki's Magazine*, 22 February 2013. Read more: http://tinyurl.com/ej-taki.*

Whether writing about medicine or about life, the inimitable and always fascinating Theodore Dalrymple (Anthony Daniels) never fails to reward his readers not only in wonderful prose, but in ideas worth reflecting. In writing on the "Frivolity of Evil" he skillfully points a learned and accusatory finger at the intellectual and political elites and the "moral cowardice" of their "ideological libertinism" that has managed to create an unparalleled social and economic disaster that is yet to be reckoned with. His subjects are strictly British but Darlymple's foresight is squarely focused on the State whose function is to "ameliorate by redistributive taxation the material effects of individual irresponsibility, and to ameliorate the emotional, educational, and spiritual effects by an army of social workers, psychologists, educators, counselors, and the like, who have themselves come to form a powerful vested interest of dependence on the government."

Read more: http://tinyurl.com/ej-dalrymple. Read about Dalrymple here and sample his rich intellectual output over the years here.

Until recently, Artur Baptista da Silva was a celebrated economist, media darling, frequent recipient of standing ovations and one of the "most authoritative voices" in Portugal. His future as a soothsayer would have been brilliant, were it not for a small problem: His credentials were all fake. We think that his rise to prominence speaks volumes, surely not of his own ability, as much as the intellectual poverty of his audiences. We suggest that the Portuguese media's search "for an equally articulate and charismatic replacement" should be limited to graduates of Princeton university.

Read more: http://tinyurl.com/ej-silva.

"Suppose we wanted to understand the flocking behavior of starlings. There are some stunning films available on YouTube...

The numbers of individual birds in these flocks can run into thousands, yet they almost literally never collide. ... Often the whole flock seems to behave as a single individual, wheeling and turning as one. ...

The whole performance would make a more than usually elegant screensaver. You wouldn't want a real film of starlings because your screensaver would repeat the same identical balletic moves over and over.... What you want is a computer *simulation* of starling flocks; and as any programmer will tell you, there is a right way and a wrong way to do it. Don't try to choreograph the whole ballet ... Devote almost all your effort to programming the behavior of a single individual bird. Build into your robo-starling detailed rules for how to fly, and how to react to the presence of neighboring starlings... If you've got the behavioral rules right for a single starling, a thousand computer starlings, each one a dot on the screen, will behave like real starlings flocking in winter ... The key point is that there is no choreographer and no leader. Order, organization, structure—these all *emerge* as by-products of rules which are obeyed *locally*... not globally."

—Richard Dawkins, The Greatest Show on Earth *(2009). We suspect he would easily recognize the futility of most 'macroeconomic' theory more clearly than most economists.*

A recent article in *The Atlantic* presents an old idea in a refreshingly poignant manner. The author asserts that those who search for "happiness" live for themselves, while "meaning" comes from choosing to live and sacrifice for others. He weaves in Viktor Frankl's memorable contribution that "a man who becomes conscious of the responsibility he bears toward a human being who affectionately waits for him, or to an unfinished work, will never be able to throw away his life. He knows the 'why' for his existence, and will be able to bear almost any 'how.'" Yes, it is an old idea, but we find that it defines our contemporary culture quite well. Another author explained: "Happy people get a lot of joy from receiving benefits from others while people leading meaningful lives get a lot of joy from giving to others."

Read the article here: http://tinyurl.com/ej-happiness.

Sense and nonsense

- "Any perception of our wavering in our commitment to sound money would undermine our ability to sustain stimulus."
  —Headline on 26 February 2013 quoting Bank of England's Paul Tucker. We suspect that what he meant was that fraud only works for the fraudster so long as victims don't see they are being defrauded.

- "Being downgraded by Moody's is like being called a moron by a moron."
  —Tim Price, "End of Empire," 25 Feb 2013.

- "Understanding that in a market economy a person can only get rich by enriching others torpedoes claims to the moral high ground of those who propose that government redistribution of wealth is a means to alleviate poverty."
  —Manuel F. Ayau, Not a Zero-Sum Game: The Paradox of Exchange *(2007).*

- "I abandoned free market principles to save the free market system."
  —George W. Bush, interviewed on CNN on 16 December 2008.

- "Somebody like Paul Krugman, who's overdosed on mathematics and uses the King's English better than practically anyone alive is very dangerous."
  —Charlie Munger, Daily Journal Corp Annual Meeting, 6 Feb 2013.

- "It is easy to make a buck. It's a lot tougher to make a difference."
  —Tom Brokaw

- "It is more than passing curious that those in the university community who are most heavily addicted to diversity cannot tolerate it when it comes to divergence of opinions, conclusions, public policy prescriptions, etc."
  —Walter Block, Building Blocks for Liberty *(2006).*

- "There's all kinds of myths and pseudoscience all over the place. I may be quite wrong, maybe they do know all these things, but I don't think I'm wrong. You see, I have the advantage of having found out how hard it is to get to really know something, how careful you have to be about checking the experiments, how easy it is to make mistakes and fool yourself. I know what it means to know something, and therefore I see how they get their information and I can't believe that they know it. They haven't done the work necessary, haven't done the checks necessary, haven't taken the care necessary. I have a great suspicion that they don't know, that this stuff is [wrong] and that they're intimidating people."
  —Richard P. Feynman, The Pleasure of Finding Things Out *(1999).*

- "'Devaluing a currency,' one senior Federal Reserve official once told me, 'is like peeing in bed. It feels good at first, but pretty soon it becomes a real mess.'"
  —Francesco Guerrera, The Wall Street Journal, *4 Feb 2013.*

- "The euro should not fluctuate according to the mood of the markets. A monetary zone must have an exchange rate policy. If not, it will be subjected to an exchange rate that does not reflect the real state of the economy."
  —French President François Hollande to the European Parliament, 5 February 2013.

- "We all know what to do, we just don't know how to get re-elected after we have done it."
  —Jean-Claude Juncker, prime minister of Luxembourg, in a moment of candor. Quoted in The Economist, *15 Mar 2007, and worth pondering when politicians wonder why no one trusts them.*

EDELWEISSJOURNAL

Edelweiss Journal is produced on an irregular basis by Edelweiss Holdings Ltd., a private investment company. It is distributed electronically to friends and colleagues without charge or obligation.

The opinions expressed herein are subject to change. Nothing in this publication is intended or should be taken as advice or guidance on any subject.

Edelweiss Journal issues may be freely shared in their original PDF format. **Issues may not be posted online or articles reproduced in whole without the express permission of the Publisher.** © 2013 Edelweiss Holdings Ltd. All rights reserved.

Visit www.edelweissjournal.com to subscribe. Letters to the editor may be addressed to mail@edelweissjournal.com.

Publisher
Edelweiss Holdings Ltd., 31 Victoria Street, Hamilton HM 10, Bermuda

Editors
Tony Deden, Dylan Grice

Design and copy editor
Christine Weeks

Contact
mail@edelweissjournal.com