



Investment View

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A Personal Investment View for Thoughtful Investors

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No pain, no gain!



The American actress, Jane Fonda, first coined this phrase in her later career as a fitness guru in the USA, in the early 1980s. It is interesting that the financial pain that will be necessary in both the UK and Europe over the next three to five years at least, will have been caused by American over-exuberance in the banking sector and yet, at this stage, the American government does not appear to be putting in place any austerity measures to rein in their overspending.



Both in the UK and Europe, we are seeing governments pressured into establishing austerity plans to bring spending under control by, initially, cutting back in the public sector (this is virtually true throughout all of Europe). This, in itself, is

causing an amount of political unrest.

It is very difficult to see, at this stage, how governments will be able to bring overspending under control. Effectively, they have two very simple choices:

- They could tax the population more, thereby providing additional revenue for the Exchequer, which will produce extra money for them to spend. Clearly though, no-one wants to pay more tax.
- The alternative is to spend less and this is no more complicated than the words spoken by the Charles Dickens' character, Mr Micawber, who identified perhaps one of the most important financial planning observations that spending more than you earned was a recipe for disaster.

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We do not believe increasing taxes would be a viable option, although many governments will do so, particularly with regard to the so-called “stealth taxes” - VAT in the UK being one of them. However, the option to cut spending by reducing public sector expenditure does mean unemployment in the UK will, possibly, rise to just under three million and that, in itself, is recessionary, as fewer people will be spending, fewer people will be paying tax, etc., etc. Nevertheless, we believe it is necessary for this to take place.



Over the past few weeks, we have seen weaknesses in a number of stockmarkets; however, we have not seen

excessive weakness in Asia – on the contrary, we have seen a number of Asian markets move back into recovery phase, particularly Indonesia, Emerging Markets in general, India and, as mentioned in the opening paragraph, the USA, which, despite all the rhetoric, is managing to show a fairly firm commitment to recovery.

The major issues for us here in the UK are that we do not manufacture enough goods and are too dependent upon financial services and services in general, rather than in the production of real wealth.

We anticipate this summer will be a difficult one, with many austerity plans being implemented, which will give rise to much unrest. However, the current problems will provide opportunities to make money and, as always, we are ever diligent in seeking out those areas and investigating the possibilities for growth for clients.

Finally, the question on many people’s lips is: is it likely that we will see an end to the European Union as it is and also the European currency? Our view is we will not. We believe it will go through a pretty turbulent time and that the strongest economy in Europe, the German economy, will have to shoulder a lot of the responsibility for the recovery. However, in the long term, the German economy will be the beneficiary and, if the German people can tolerate the pressure that will be put on their economy, they may emerge, in years to come, as the strongest and most important economy in the whole European Union.



One to watch, we think!

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