



Investment Commentary by Roger Nightingale

All creatures are created equal, but some, regulators,
for instance, more equal than others.

George Orwell was criticising Communism—its principles perverted by human frailty. He might equally have attacked Regulation.

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Regulators are potentially
useful members of society.

Regulators are the bane of modern society: ignorant but arrogant; omnipotent but unaccountable. In theory, they're supposed to curb exploitation, to protect the weak from the strong. In practice, they don't. They've become the strong; they've become the exploiters. And, from their abuse, there's no protection!

With a little retraining,
they might help rather
than hinder.

In finance, this situation has been evident for some time; in aviation, it's become apparent only recently. When volcanic debris first spread across European airspace, it was quite sensible that regulators act cautiously, that flights be restricted and threats to aero-engines be explored. But it was unacceptable that, a breathing space having been created, no investigation was undertaken.

But, currently, whether in
finance or aviation,
they're a curse rather than
a blessing.

The regulators *pretended* that they knew about the effects of silica debris on aero-engines. They didn't. They were profoundly ignorant and, worse, chose to remain so. It was left to the airlines to do the experiments that showed that the threat was negligible, that the air transport system had been closed down pointlessly.

Will the miscreants be
punished? Silly question!

Will the guilty parties be censured? Will their behaviour patterns in the future be amended? Probably not. The FSA is as incompetent and arrogant these days as it was when it failed to deal with banking malpractice a couple of years ago. The CAA is likely to go the same way.

Economics conditions are
continuing to drift.

There's little that's new on the economics front, meanwhile. Monetary conditions are very easy, but the response of demand is generally disappointing. While consumer activity has picked up in the US, it's done almost nothing in Europe or Japan. In the latter, but for exports, GDP would be declining again.

How'll thing be eighteen months hence? Not good.

It's the prospects for 2011 and 2012 that are particularly worrying. Currently, in the favourable part of the cycle, things are ticking along almost satisfactorily. But later, as the cycle matures and appetites grow duller, activity will slow. If, by then, the expansion hasn't become self-sustaining, retrenchment will be unavoidable.

In Europe, a disaster threatens.

What price fiscal orthodoxy then? The poor Europeans are going backwards during the strongest phase of the cycle. Their numbers will get progressively worse in the years ahead. Little wonder that Greek debt has been downgraded again. The politicians might claim that conditions are stabilising, but the markets say otherwise. Investors reckon default is almost certain, and that the rest of the EZ will do nothing to help.

Will British politicians want to cut the ties? Sadly, no.

It'll be interesting to see what Britain's politicians make of Europe's problems. In the second of the television debates, there'll be a focus on foreign affairs. Will Clegg and Brown, Europhiliacs both, regret their past support for a broken model? Will Cameron, spineless appeaser of the EU's constitutionalists, admit his misjudgment? No, but the chances are that the LibDems honeymoon will be shown to have ended. The man was preferred when the other two were known and disliked. Now that he too is known and disliked, opinion will revert to the *status quo ante*.

Equities will rise, but possibly not into 2011.

Asset valuations have held up very well in a difficult period. And the expectation is that they'll continue to do so. Indeed, significant advances are thought likely between now and December. It's next year that the problems will set in.

The facts and opinions contained within this newsletter have been provided by Roger Nightingale; Buckles Investment Services do not take any responsibility for the contents.

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