



## Investment Commentary by Roger Nightingale

### Quis custodiet ipsos custodes?

Juvenal, asking the question asked previously by Socrates. The master, recognising the dilemma, relied on the guardians' honour. Hmph!

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Don't mess with German pensioners.

The world was amazed to learn last week that a group of disgruntled German pensioners, in dispute with their financial adviser, had abandoned *due process* in favour of *direct action*. They'd seized the man who, they claimed, had lost their money in real estate dealings in the US and held him captive for several days. Their objective was extortion: in compensation for their losses.

There's a message here for all malefactors.

Predictably, the legal establishment took a dim view of their methods, but, equally predictably, the general public didn't. Most people, though knowing few details of the case, admired the (putatively) bold pensioners and had little sympathy for the (allegedly) miscreant adviser. The problem, they thought, was the Law. The pensioners had had to look after themselves because the Regulatory System didn't. It protected *perpetrators* of misbehaviour, not *victims* of it.

Are Governments listening?  
Probably not.

Did the authorities anywhere in the world think nothing untoward had happened before, during and after the recent financial crisis? Did they perceive commercial bankers to be blameless, central bankers prescient, regulators effective and government ministers virtuous? Of course not. But who was to lay charges against this lot? Under the existing system, the guilty would have to accuse themselves! Some hope!

But the people's anger will not go away.

Instead, they tended to deal harshly with those who'd already suffered. That'd been the fate of the pensioners in Germany and also of their equivalents elsewhere in the world. As a result, there'd been no closure. Nor would there be while miscreants went uncensored.

It may be intensified by economics softness.

Indeed, the embers of bitterness would be kept glowing by the on-going fragility of economies. Last week's news in this regard was far from encouraging. Activity appeared *not* to be recovering in the old industrial world; at best, it was marking time.

Official forecasts are optimistic—unjustifiably so.

There'd been no follow-through to the modest quickening that had occurred in the summer and autumn of last year. On the contrary, reports relating to late winter and early spring implied significant deceleration. The inventory correction had run its course and final sales were as anaemic as ever.

The numbers suggest a new retrenchment.

Industrial production was faltering; world trade losing momentum; and employment threatened. Double-dip was back on the agenda of the consensual forecaster. Rightly so; but the danger was not so much 2010 as 2011. That's when cyclical downturn would reinforce secular debility.

It'll likely be exacerbated by protectionism.

Protectionism was likely to add to the forces of retrenchment. The process had started a couple of years ago, but might have much further to run. At some stage, China was likely to be asked to "help keep the world economy in balance" by engineering a substantial (40% say) yuan revaluation. If, improbably, the Beijing authorities agreed to do so, China's inflation would go substantially negative, its interest rates substantially positive, and its GDP plunge. If, more probably, the authorities didn't agree, protectionist measures would be implemented, production would go unsold and GDP plunge. Catch 22!

Stick with equities for the moment, but be prepared to unload.

The only good news, and it too might be temporary rather than permanent, was that asset markets in the industrial world would continue to appreciate. Not even the doziest of central bankers would tighten credit in current circumstances. And that, taken in the context of moderately strong profits, would justify higher valuations.

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