



## Investment Commentary by Roger Nightingale

Don't let politicians drive you crazy,  
especially when you know it's in walking distance.

Stoicism may be intellectually attractive, but it's psychologically unsatisfactory.  
The case for violent retribution is recurringly compelling.

12<sup>th</sup> March 2010

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Recessions “cure”  
themselves;  
depressions don't.

Severe financial crises occur only rarely. It's not surprising, therefore, that Governments develop no expertise in dealing with them. That said, the US seems usually to demonstrate a modicum of competence; the rest of the world invariably none at all.

The latter need skilful  
treatment. Britain  
didn't get it.

Britain's response to the turmoil that manifested itself in 2008 was very disappointing. Why, for instance, was the rate of Value Added Tax cut for twelve months? Did the authorities suppose the economics hiccup would be short-lived? That a temporary boost to demand would be sufficient to restore activity to its earlier vitality?

Because of politics?

Or were economics considerations ignored? Was it politics that drove the change? Did Ministers calculate that a sop to the consumer in front of the election would buy them extra votes?

The cut in VAT was  
puerile.

Nobody will ever know. But the economics consequences of the decision have gradually become clearer. The lower VAT rate added to the country's monstrous fiscal deficit and camouflaged its incipient inflation. But it did very little to revive GDP. As a result, the country in 2010 seems to have been left with the worst of all worlds.

The bailout of the  
banks unconscionable!

But the error of analysis that led to the VAT decision was as nothing in comparison to that which prompted the rescue of the banks. Who in his right mind could have thought that the way to help non-banks was to give taxpayer funds to banks? Only those with a *Kafkaesque* strain of insanity would have recommended such a policy.

There ought to be an  
inquiry.

Are we surprised that it didn't work? Are we surprised that loathsome bankers grabbed the money and, instead of advancing it to others, paid it to themselves? Of course not; it's in the nature of the beast. But why was there nobody in Government (Parliament, Treasury or Bank of England) who anticipated the outrage? Perhaps after Chilcot has condemned one set of malefactors, he can turn his attention to another!

Prisons may be overcrowded, but some villains . . .

Last week, illustrating the extent of bankers' insensitivity, we learned that credit card interest rates were at their highest levels for twelve years even though official rates were at their lowest ever. Is there perhaps a shortage of funds in the banks? No, of course not. The supply is virtually limitless. It comes, courtesy of the Treasury, from taxpayers. It's lent to banks at *negligible* rates. And they lend it back to taxpayers at *extortionate* ones!

. . . need nevertheless to be incarcerated.

It's the geniuses effecting the scam who are said to deserve huge bonuses! It's claimed that, if not paid sufficiently, they'll go abroad and rip-off foreigners instead. Excellent. Let them go. And let them take also the numbskulls in Parliament, Treasury and B-of-E who licensed their malfeasance.

Equities are, at least temporarily, back on track.

The good news is that the Central Bankers who'd been toying with the idea of tightening liquidity to forestall potential overheating may have thought again. The risks of doing so, they've possibly concluded, could exceed the benefits. That being the case, stock price indices will likely recover. But a degree of vulnerability is going to remain. Looking to the longer term, it's probable that valuations will respond more to corporate profits and less to monetary conditions.

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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