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Offshore Holding Advisory

Tuesday, 13th October 2009

**Offshore Holdings Advisory
October 2009 Newsletter**
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Market and Currency update – 8th October 2009
(A Personal View by R B Skepper)
(For professional investors and businessmen/women only)

FTSE 100: 5154 – 8th October 2009

Looking through my old newsletters I came across an interesting quote of Lord Hanson in 1991. He said:

“If ever a Labour government gets back into power the U.K gilt market will become the biggest junk bond market in the world”.

A decade of Labour government and his prediction is on the cusp of being fulfilled.

If you pose the question: “What historically has a government resorted to, to save itself, when it has bankrupted its treasury?”

The answer: It first robs its own citizens. In Mugabe’s case he robs the Matabele first to keep his larger Mashona tribe afloat.

Here you might argue Labour is setting out its stall to rob the private sector first in order to keep its own client state - the public sector - afloat.

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Robbing Peter to pay Paul just defers the problem for a bit, as Mugabe has found. With Peter skinned, all that is left is the rotten part of the edifice.

Taxes will go up sharply - both direct and indirect. Then the much more insidious theft will start to clock in: the robbery of people's savings by the watering down of the coin of the realm.

It looks as if the pension funds, who have been encouraged to put more money in Gilts, and have unwisely done so, will then be declaring very dismal money pensions in 10 to 20 years time for their subscribers.

Part of the current enthusiasm for the stock market may well be propelled here in the U.K. by investors' instinctive reaction to this probability.

Their precautionary cash piles now look increasingly vulnerable. Those who decamped to live on the Costa Lotta have already discovered that it is now the Costa Helluvalotta. They are in danger of it yet becoming the "Costa Altogether Too Mucha".

It's not so obvious to residents here, as inflation short term has remained very low.

However that hardly explains the worldwide boom in stock markets since March. Our market is now anyway a small tail wagged by the much larger dog of Asia and the U.S., as most of the companies of the FTSE100 are worldwide operations with little exposure to the U.K.'s particular problems.

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Markets have responded to the realization that a complete financial meltdown has passed. It looked more than possible after the Lehman collapse exposed the full rottenness of the banking edifice. We are back in a recognisable cyclical recession.

One thing everybody knows about them is that eventually they will reverse. Investors perhaps feel comfortable with the familiarity of that.

It may be however that perception of the timing of the recovery is too optimistic. What is certain is that the bargains have gone - one now has to tread much more carefully.

The Conservative message on how to tackle the U.K.'s debt mountain remains confused. The fault line in Osborne's speech was the statement that freezing the Public Sector pay for 12 months would "save" 100,000 jobs in the public sector, when we all know the only credible solution to our woes is to slash the excess jobs in the public sector and gradually re-locate this manpower to the production of wealth rather than the shuffling of paper.

Simon Heffer writes: "He must draw distinction not between front line jobs and other posts but between jobs that are socially useful, productive and necessary, and those (that Brown and Blair) created in the past 12 years to provide well paid work for members of the client state."

The U.K. economy is now closer to the old communist apparatchik command state than any other supposedly free nation.

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The future course of Sterling must remain an uppermost consideration for all Sterling based investors in the coming months.

R.B. Skepper

8th October 09

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- The team at Brewin Dolphin headed by Robert Skepper and has expertise in managing expatriate and overseas investors' wealth
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- Brewin Dolphin is a founding member of the London Stock Exchange and has over 250 years of experience in managing private client wealth
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