

## The ship is sinking, which kind of passenger are you?

Posted At : April 25, 2012 12:32 AM | Posted By : Michael Smith

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Some great metaphors and quotes in this article from Sovereign Man [blog](#) (my **bolding** inline)

Roy Ward Baker's 1958 classic film A Night To Remember, recounts the final night of the RMS Titanic based on survivor interviews from Walter Lord's 1955 book of the same name.

One scene from the movie depicts a lounge in one of the upper class quarters of the ship as it slowly sinks beneath the waves. Notwithstanding the vessel listing alarmingly, a motley band of toff revelers are determined to go out in the finest style. **Some continue to play at cards with a fatalistic resolve while others determinedly quaff spirits direct from the bottle.**

Having considered for some time the most appropriate metaphor for the current market environment, we think this may be it: **one may be doomed, but one can still party on.**

Having already hit the iceberg, one major problem we see is the common perspective for both investors and the asset management industry to view debt and equity as the entire universe of investor choices available.

The reality is (a) that investors can pursue other distinct types of assets (we would single out real assets as an obvious and relevant alternative), and (b) that there can and will be times when both debt and equity markets together underperform, in both relative and absolute terms (the relative benchmark being cash since developed government debt can in no way now be considered a risk-free asset class).

We may be fast approaching a macro environment that threatens conventional portfolios with exactly that outcome-- a bear market in both stocks and bonds simultaneously. In other words, the authorities could attempt to throw a bull market party for both bonds and common stocks, but nobody would show up. The ticket to entry is simply too expensive.

Having long exhausted the armory of conventional policies to keep the unsustainably indebted show on the road, increasingly desperate politicians are doing increasingly desperate things, be that gifting money to the IMF in a brazen display of fiscal denial that we can ill afford (US, UK) or simply stealing from other sovereigns (Argentina).

Project 'End Up Like Japan' continues to advance well throughout the western economies. The euro zone continues to perform like a group of drowning men lashed together for buoyancy.

Here in the UK, the Bank of England has the dubious privilege of being able to print money with abandon, and it is taking every opportunity to duly abuse the purchasing power of Britons with savings. We continue to hear Mr Takashi Ito's sad refrain, published as a letter to the FT back in August 2010:

"...after a huge housing bubble bursts, there is nothing to do except suffer many years of economic indignity."

Politicians, of course, are not in the business of sitting idly by while the country collectively suffers that economic indignity (the savers, at least). They must be seen to be doing something.

The ironic triumph of the Keynesians means that, in trying to save the economy, our central bank may end up destroying it completely by means of the printing press; as a consequence, we now get to experience some of the full-on horror of the Japanese malaise.

As the debt burden and currency debauchery game rise together toward some form of climactic end-game, the sense of politicians simply not getting the point is almost comical. Just when it were most needed, evidence of urgency from government is invisible.

**So in a portfolio sense, we close all water-tight doors.** Debt holdings are restricted to those of only the most objectively creditworthy borrowers. Equity exposure is kept modest and restricted to only the most defensive. (Sustainable and relatively high dividend yields help.)

We diversify further into the highest quality currency available, namely bullion. That this approach has not necessarily delivered whopping returns over the past 12 months is not an immediate cause for concern to us since we're most focused on straightforward survival.

We also repeat our increasingly urgent suggestion that investors in debt and equities (especially debt) enjoy the party but dance near the door. Developed market debt investors have enjoyed a 30+ year bull trend in interest rates (and credit creation), **but the fat lady in the next room has started tuning up** .

To put it another way, the ship is listing badly but has not yet sunk. **Do you have a lifeboat, or a bottle of brandy?**