

# Max King's Financial A-Z of 2011



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## Albanians

"Even the Albanians are leaving" wailed one Athenian in despair at the descent of Greece's capital into chaos and depression, thereby coining a new metaphor for "rats leaving a sinking ship." Greek tourism, however, benefited from holidaymakers avoiding North Africa and from measures taken to help the industry, with early season arrivals up 10%.

## Banks

European bank Dexia was rescued by the French, Belgian and Luxembourg governments just three months after it passed the EU stress tests with flying colours. With banks throughout the euro-zone weighed down with the sovereign and private sector debt of countries facing exit from the euro-zone, their share prices collapsed. Further liquidity and capital injections on an epic scale are inevitable if a global banking crisis is to be avoided.

## Currency

Argentina knocked a cumulative 12 noughts off its currency between 1970 and 1990 in four separate occasions. Since then, the pace of devaluation has moderated but with sustained capital flight, exchange controls and escalating inflation, the outlook is deteriorating again. Note that the Bloomberg code for the peso is ARSE.

## Deutschemarks

The Bundesbank estimated that, nine years after the transition to the euro, €13.5bn worth were still in circulation, a number that is unlikely to have shrunk in 2012.

## Euro-zone crisis

The pundits spent much of the crisis calling for a "big bazooka" solution from the European politicians, the European Central Bank and EU officials. A WW2 veteran points out that "the German equivalent of the bazooka was the panzerfaust, a weapon requiring very little training but suicidal recklessness." Tip-toeing quietly away from the oncoming tanks would be a much better idea, and appears to be the preferred response of the Euro-establishment.

## FTSE 100

As of mid-December, ARM was on course to be the FTSE 100's best performer for the third year running (Weir out-performed in 2010 but only entered the FTSE 100 late in the year). ARM, a designer and licensor of semiconductor chips, is designed into Apple's i-phone and i-pad. The FTSE 100's worst performer was Lloyds Bank. Whatever the markets, running winners and cutting losers is a powerful investment strategy.

## Guns

A recent Gallup survey showed that gun ownership in the US had risen from 41% to 47% of American adults in the last year. Ownership by Republicans and males is unchanged but ownership by women surged 10% to 40% and by Democrats by 10% to 43%.

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## Harry Potter

As the last episode of the Harry Potter octology reached the cinema screens, a rare book dealer was asking £29,500 for a case-bound first edition of the first book, "Harry Potter and the Philosopher's Stone." The highest recorded price paid is \$37,000. 500 copies were printed.

## Indonesia

A Jakarta court sentenced Gayus Tambunan, a former Indonesian tax collector, to seven years in prison for bribing his way out of jail no fewer than 68 times. The Jakarta Post named him Indonesia's "man of the year."

## Jobs, Steve

The death of the half-Syrian founder and Chief Executive of Apple, the world's largest company by market value, from cancer at the age of 56 showed a different side of public attitude to wealthy business leaders from the "occupy" protests. Shrines outside Apple stores and the mourning of customers showed that they can be worshipped as well as vilified.

## Krone

Forget the Krone, the store of value to own in Norway in recent weeks has been butter. A combination of falling milk production and soaring demand, owing to the growing popularity of high fat, low carbon diets has seen prices soar. The Telegraph reports 500g changing hands for £300 and the Metro that a Russian smuggler has been apprehended on the Swedish border with 90kg hidden in his car.

## Libyan School of Economics

Close links between the otherwise highly-respected LSE and the Gaddafi family, including the acceptance of a £1.5m donation, forced the resignation of its Director, Sir Howard Davies. It took an eight month civil war and an estimated 25,000 deaths for the rebels to oust the Gaddafi family with Western help.

## Mugs

In their rush to be first to market with a commemorative mug for the Royal Wedding, Guangdong Enterprises advertised a design which featured Kate Middleton and .... Prince Harry. The mugs, offered at £9.99, were quickly withdrawn but were soon in hot demand on E-Bay.

## News Corpse

The hacking scandal brought the closure of the News of the World and a year of crisis for the Murdoch family and its executives, some of whom face criminal charges. It led to News Corporation dropping its bid to buy in the outstanding 61% of BskyB's equity but BskyB's Chairman, James Murdoch, continues to resist pressure from many shareholders to resign. On a happier note the shares of BskyB trade nearly 10% above the bid terms.

## Olympus

Japan's reputation for corporate integrity suffered a severe blow when it was disclosed that the company had hidden up to \$1.7bn of losses, partly through over-stating the costs of acquisitions. There is reported to be no evidence of fraud or links to criminal gangs.

## Pencil sharpener

"I am a craftsman," David Rees from New York insisted, "practising the age-old art of pencil-sharpening. Send your blunt pencil to me, and I will personally sharpen it, then return it to you in a padded tube along with a bag containing your shavings. Some people ask me if I use an electric sharpener, and just shove pencils into it like a factory? No. The whole point is that I use a single blade hand sharpener, and have an honest, authentic encounter with your pencil." So far I've got about a hundred customers worldwide, and business is gradually taking off. I'm sure there's someone in India who could sharpen your pencil for \$8.00.

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But if you want proper American craftsmanship, \$12.50 per pencil is what it costs.”

### Quotations

“A democracy can exist only until a majority of voters discovers that they can vote themselves largesse out of the public treasury” – Lord Woodhouselee (1747-1784). So perhaps it was not so much the fault of the bankers, the politicians or the bureaucrats who are to blame for the continuing financial crisis, but that of the voters.

### Robert Fitzpatrick

The “end of the world” is seen as a metaphor in financial markets but Mr Fitzpatrick believed in the real thing, spending \$140,000 on placards around New York predicting that the world would end on 21 May 2011. “I just don’t understand,” he said repeatedly. “Everything indicated this was the day and that was the time.” Hecklers reacted with rage when it failed to happen. Only in New York...

### St Pauls

“An al fresco sulk” is how journalist Rod Liddle described the encampment at St Pauls in the City of London, a generalised protest covering a myriad of issues spanning the political spectrum. Back-packers can take advantage of a free camp-site in the heart of London but the only institution in danger of tearing itself apart over the issues raised is the Church of England.

### Tsunami

Japan withstood the severe earthquake that shook the coastal region North of Tokyo well but the tragic tsunami that it caused killed an estimated 29,000 people. The world, however, quickly became obsessed by a minor leak of radiation (the reactor having been promptly shut down) from the Fukushima nuclear power station, which was overwhelmed by a 14m wave. Data collected from 5000 people in the area showed only 10 with even modest levels of contamination<sup>1</sup>. It’s of interest to note that marriage increases your exposure to radiation by 7% while installing double glazing doubles it. Cornwall has the highest level of background radiation in the UK; international studies have linked high levels of background radiation to better health and longer life expectancy.

### Unelected governments

The elected governments of Greece and Italy were replaced by Vichy-style governments of “technocrats” with the connivance of the Euro-establishment. The new Prime Ministers are respectively a former Vice President of the European Central Bank and a former European Commissioner. “Technocrats should be kept on tap, not on top,” Winston Churchill once said.

### Volatility

To give investors an opportunity to profit out of increased volatility, Barclays launched an ETF based on the Vix index of S&P 500 volatility in January 2009. Since then, it has lost 90% of its value but still has \$900m in it.

### War loan

Britain’s irredeemable War Loan was first issued in 1914 with a coupon of 5% but this was reduced to 3.5% in 1932 when it was trading so far above par that the government was able to threaten redemption in order to reduce the coupon. The price reached nearly 97 in 2011, the closest it has come to par in over 60 years as investors flooded to the “safety” of long dated gilts. As in 1932, caveat emptor.

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<sup>1</sup> Source: <http://www.newscientist.com/article/dn21181-radiation-levels-in-fukushima-are-lower-than-predicted.html>

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## **Yields**

Yields on Greek 10 year bonds reached 33% and on 1 year bonds 330%; markets therefore regard default as a certainty. Spreads relative to Germany on Italian, Spanish and French 10 year bonds reached 550, 470 and 200 basis points respectively, discounting devaluations of 31%, 28% and 14%. Despite the insistence of the politicians, markets regard euro-zone departures as a matter of when, not if.

## **Zuckerberg, Mark**

The estimated value of Facebook, scheduled for a stock market flotation in 2012 or 2013, reached \$100bn, of which Facebook's founder, still under 30, owns 24%. Barely seven years after the launch of the social networking site, it has over 800m active users. There is little evidence that, whatever its economic problems, the US has lost its entrepreneurial spirit.

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\*As at end September 2011

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