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On the intrinsic value of gold, and how not to be a turkey

By Dylan Grice

One thing we've learned in our time in the investment industry is that people love things that go up. They also hate things that go down, albeit with more intensity. So when gold was going up in every consecutive one of the last twelve years, people quite liked it. But today its price is going down and people don't like it anymore. Actually, its price has gone down by quite a lot, with the second quarter of 2013 seeing the biggest percentage price decline since the collapse of Bretton Woods. Its price is now back to where it was in the summer of 2010, leaving anyone buying the metal in the last three years, in paper terms at least, under water. It's not so much that people don't like gold anymore—it's that they hate it.

Of course, this makes gold more interesting than it has been in many years. There is blood on the streets. Asset write-downs in the gold mining industry abound. The South African mining body says sixty percent of that country's mine production is unprofitable at today's prices. Richard Russell has fittingly described gold as a "stairway to hatred." So against our better judgment, despite the trepidation one feels before discussing gold, and mindful that the last thing the world needs is another opinion on gold, we nevertheless venture our own in the paragraphs below. In doing so, we will try to focus on what we know, leaving the speculation over what did or didn't cause the recent price drop to others. But before we do, let's consider the following story taken from the current book of the moment here in the Edelweiss office, Nassim Taleb's *Antifragile* (from which we've stolen the title to this piece). It is about a turkey, unaware of Thanksgiving, using past data to make future projections:

> A turkey is fed for a thousand days by a butcher; every day confirms to its staff of analysts that butchers love turkeys "with increased statistical confidence." The butcher will keep feeding the turkey until a few days before Thanksgiving. Then comes that day when it is really not a very good idea to be a turkey. So, with the butcher surprising it, the turkey will have a revision of belief—right when its confidence in the statement that the butcher loves turkeys is maximal … The key here is such a surprise will be a Black Swan event; but just for the turkey, not for the butcher.
>
> We can also see from the turkey story the mother of all harmful mistakes: mistaking absence of evidence (of harm) for evidence of absence, a mistake that tends to prevail in intellectual circles … "Not being a turkey" starts with figuring out the difference between true and manufactured stability.

Think of Taleb's turkey the next time you read economists arguing—as Nobel Prize winning "brick-in-the-wall" Paul Krugman has gleefully been doing recently—that the absence of inflation evidence is evidence of inflation absence. As Taleb shows, this is a straightforward if fundamental logical error. It has also led to fundamental problems in the past. For example, it was said that there was no "inflation" during the US housing bubble (because artificial increases in house prices didn't count). It was said there no "inflation" during the technology bubble (because artificial increases in technology shares didn't count either). It was even said that there was no "inflation" as what was arguably the biggest bubble in financial history inflated, that of Japan in the 1980s (the Japanese called it the *babaru*).

Before each of episode of instability was an episode of stability. But it was "manufactured stability" and as Taleb writes, "this stability is similar to a loan one has to eventually pay back." During each

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manufactured stability, absence of evidence was mistaken for evidence of absence. Furthermore, in each episode subsequent events revealed the manufactured stability to have been manufactured with shoddy engineering techniques. The theories used to guide policy were simply wrong.

There are other examples. In the late 1990s, Asia's system of fixed exchange rates was supposed to bring stability to regimes otherwise lacking credibility. And for a while it worked. The system appeared sound as "manufactured stability" prevailed for a period. But ultimately, those exchange rates were the cause of economic collapse because while things appeared stable on the surface, in the background was a build-up of foreign currency debt which became unserviceable when the exchange rates broke. The exchange rates fixed by Asian policy makers (on the basis of then current economic theory) created a system fragility.

A similar thing occurred in the 1970s, prior to which it was believed that inflation and unemployment couldn't rise together because of what was called the "Phillips curve." With inflation on one axis and unemployment on the other, statistical "analysis" showed a negatively shaped curve. For a while, certain economists thought policy makers could simply pick a point on it: if they wanted lower unemployment, they could achieve this by "choosing" higher inflation; if they wanted lower inflation they'd have to accept higher unemployment. It was a very neat curve, an elegant economic theory and all expressed in perfectly coherent and neat mathematical equations that mainly impressed people who didn't know much about mathematics. And it conveniently bred the comforting idea that the economy was something that could be controlled. So when the oil shocks pushed up unemployment to painful levels, the theory of the "Philips Curve" suggested that unemployment could be mechanically reduced back to acceptable levels by simply increasing the rate of inflation. So the rate of inflation was duly increased. But unemployment kept going up. Something was wrong.

Actually, a number of things were wrong, but it will suffice for this brief exposition to note that one of them was that the theory of the Philips Curve turned out to be flawed. All the advice, all the op-eds, all that confidence that the situation was easily controllable turned out to have been misplaced. Inflation exploded. Unemployment persisted. Society fractured. And ultimately, the deep double-dip recessions of the early 1980s required to tame the runaway inflation of the 1970s were considerably more painful than they needed to be.

Naïve intervention. Richard Feynman instinctively distrusted social scientists. Not because he knew much about social science but, as he relayed once in a BBC interview, because he had "the advantage of having found out how difficult it is to really know something, how careful you have to be about checking…" and that experts hadn't "done the work necessary, they haven't done the checks necessary, they haven't taken the care necessary." He had "a great suspicion that they don't know."

In each case above, the aim of policy makers was to make the world a better place. The problem, as Richard Feynman would have understood, was that they didn't know what they were doing. They hadn't taken the intellectual care necessary. Yet the central planners on the ground permitted themselves the delusion of thinking themselves that very great central planner in the sky. And in a way which seems Classically tragic they were punished for trying, with disaster inevitably ensuing. A fellow from ancient Rome transported from his world to ours would surely have recognized the theme. In Ted Hughes's *Tales from Ovid*, based on the original *Metamorphosis*, the story of the Flood recounts the sorry fate of mortals daring to reach the level of the gods:

> *Excited by this human novelty—freedom*
> *From the long sight and hard knowledge*
> *Of divine wisdom—they coveted*
> *The very throne of Jove. They piled to the stars*
> *A ramp of mountains, then climbed it.*

To punish such presumptuous arrogance, Jupiter sends a thunderbolt to blow the top off Mount Olympus, which topples and shatters, "squashing like ripe grapes" the misguided "giants" below.

In the real world, it is easy to see what Ovid was getting at. Consider one of the themes of Taleb's book: the medical concept of *iatrogenics* (literally "caused by the healer," *iatros* being Greek for healer), which refers to the damage caused by medical treatment beyond its benefits. Sometimes the costs are obvious, like when a surgeon lops of the wrong leg. Sometimes they are hidden, as in the case of doctors prescribing drugs to children with made up psychological disorders. And sometimes they don't show up for a long time, as in the case of over-prescribing antibiotics. But despite being overlooked, they are real and they exist. And they typically come about through the application of flawed theory to systems which are poorly understood.

Theories are dangerous things. Taleb himself cites model error as one of the gravest causes of fragility, and the greater the dependency on an erroneous model, the greater the fragility. In medieval medicine, doctors killed more patients than they cured because they had faulty theories about leeches and the "balance of the humors." In modern finance we have just seen the devastation caused to a financial system relying on the model-based valuation of rating agencies, and VaR models. Further back, Nobel Prize winning "fragilistas" (Taleb's term for proponents of shoddy fragility-inducing theories) at LTCM nearly blew up the whole system by relying too heavily on a faulty model. And in modern economic history we have seen various crises caused by dependency on fixed exchange rates, the Philips Curve and inflation targeting (which central banks still use today).

We should point out that Taleb is no economist (perish the thought) and his book is not a financial one. It's about knowledge, life, living systems and how to deal with or even benefit from the inherent uncertainties such systems possess. One element to his argument is that it is a property of evolutionary adaptive systems—life, technology, businesses, the economy—that small errors are *required* to avoid large ones, because error is information which the overall system uses to ensure stability. Errors tell the system what doesn't work so that over time it "chooses" what does. Naïve interventions which override small errors in the name of stability therefore starve the system of the information it needs to remain stable. In fact, they guarantee large scale system instability, as much larger errors occur in time. Taleb summarises his own position more succinctly: "no stability without volatility."

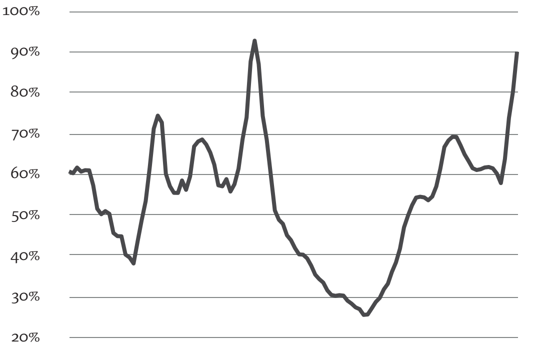
So, we don't need to borrow metaphors from Ovid, beautiful though his poetry is, to see that what might superficially look like one of Jupiter's devastating thunderbolts is in fact nothing more than the so-called iatrogenics of naïve intervention, also called the law of unintended consequences. It is the inevitable fate for those playing around with something they think they understand, but don't. Hayek called it the "fatal conceit."

Which brings us to today. The serial economic crises discussed above should by rights be considered the iatrogenics of modern economics. Each one was caused by policy makers trying to make the world a better place but in fact making it worse. Today's bizarre confluence of negative real interest rates, money printing, eurozone sovereign default, aberrant asset prices, high unemployment, political polarization, growing distrust… none of it was supposed to happen. It is the unintended consequence of past crisis-fighting campaigns, like a troupe of comedy firemen leaving behind them a bigger fire than the one they came to extinguish. What will be the unintended consequences of today's firefighting? We shudder to think.

Yet the same flawed models which created the fragility most recently highlighted by the subprime crisis are still being used by central banks around the world. The tried and failed theories of inflation targeting are today being supplemented by new destined-to-fail theories, such as QE, "forward guidance" and, if calls from some of the darker, more squalid corners from the financial cheerleading industry are heeded, "nominal GDP targeting." The fatal conceit persists. Fragility continues to grow. The iatrogenics are destined to increase.

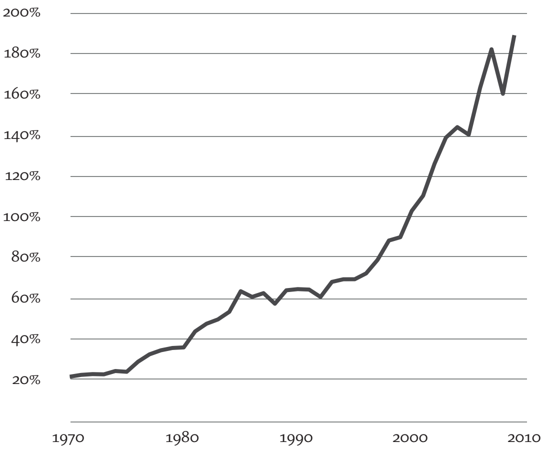
The danger can be seen in still-growing indebtedness (debt is a terrific source of economic fragility). While the price of gold has declined from its peak and pundits joyously shriek "absence of inflation evidence!" the indebtedness of the developed world continues to rise (see charts below, which understate true indebtedness by omitting off-balance sheet items). Moreover, there is little in recent political developments in Europe, Japan or the US to suggest that any resolution will involve fiscal "hawkishness." Monetary "dovishness" is and will remain the order of the day.

Average government debt as a % of GDP at WWII levels



Source: Reinhart and Rogoff

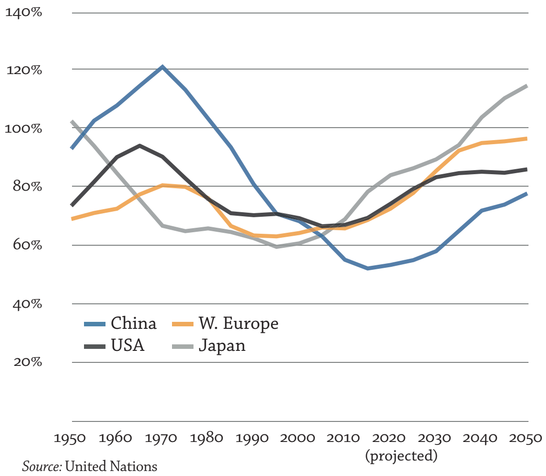
We've never been here before: Developed market external debt as a % of GDP



Source: Reinhart and Rogoff

This problem seems particularly acute to us given the demographic headwinds we face today. Economic activity ultimately comes from people. If you free up the population and that population grows, real economic activity will grow because that's what our species does. But for most developed economies (and even some developing ones), populations are slowing and set to decline. Furthermore, the burden of the unproductive borne by the productive is set to grind ever higher.

Dependency Ratios (children and retirees as a % of working age population)



Source: United Nations

So how is this debt to be stabilized, let alone repaid? Portugal, Italy and Japan show what happens when growth stops: debt ratios explode. The common diagnoses in the fragilista op-ed columns is that more inflation is "necessary," the assumption being that any inflation created will be benign and controllable, like a Labrador puppy in a toilet paper advertisement. And this theory too will be shown to be incorrect. But only after it has been *properly* tried. We are paying close attention to Japan's experiment...

In the meantime, an unfortunate consequence of the most recent naïve interventions is that capital preservation in the long run and capital preservation in the short run have been made mutually exclusive. We are forced, by what James Grant calls the "PhD standard" to choose one or the other.

To illustrate, consider how one would preserve purchasing power in the very short run. The simplest thing would be to put money on deposit. Ten years ago this was a splendid option open to all. Inflation eroded the value of whatever capital was deposited, but positive interest rates more than compensated for that. In real terms, those deposits would increase steadily in value with little risk to principle. Better still, the purchasing power of that capital made no discernible daily fluctuations. To be sure, such action would make no man rich. But neither would it make one poor. Today, such an option is not open to us. True, we can place our funds on deposit. And in the very short run, the bank (assuming one has chosen carefully) will likely be secure. So short run preservation of nominal purchasing power is secured with such action.

But what about real purchasing power? Well, we now have to ask ourselves some difficult questions. Firstly, what sort of money shall we put on deposit? Dollars? Euros? Pounds? Had one placed their cash in USD deposits in 2009, for example, each $100 deposited then would today have just $90 of real purchasing power remaining. In five years' time, that purchasing power will likely have declined to less than $80 because inflation continues to run at around 2% per year, if not higher, while the interest offered to compensate that erosion is 0%. **In other words, the cost of short-term capital preservation is long-term capital erosion.**

In order to ensure the long-term objective of real capital preservation, one is therefore required to take on some short-term price risks. But what short-term risks are acceptable? The only answer here can be one that is temporary and never permanent in nature. Bear in mind that under today's PhD standard, long-term ownership of cash guarantees a capital loss which is both *real and permanent*. The same is true for nearly all nominal assets, despite the recent back up in yields.

When it comes to owning equity participations in certain businesses, judging whether or not any particular price declines represent impairments which are temporary or permanent requires a great deal of skill. Sometimes it can never be known until after the event. For example, is the recent decline in the price of Apple common stock, from over $700 to $450 (as we write) temporary or permanent? We don't know. We would hazard that few others do either. But we know that the longer the time horizon, the greater the risk of permanent loss to owners of Apple. The company will surely be around next year, the year after that and the year after that. But will it still be around in ten years? Probably, but not certainly. Twenty? A bit more difficult to say. Fifty? Unlikely. One hundred? Almost certainly not.

> Money is the primary toy of today's naïve interventionists ... they will play with it until they break it.

Now consider gold. In ten years' time, gold bars will still be gold bars. In fifty years too. And in one hundred. In fact, gold bars held today will still be gold bars in a thousand years from now, and will have roughly the same purchasing power. Therefore, for the purpose of preserving real capital in the long run, gold has a property which is unique in comparison with everything else of which we know: **the risk of a loss of purchasing power approaches zero as one goes further into the future.** In other words, the risk of a permanent loss of purchasing power is negligible. We would also think that an allocation of gold to portfolios will help make them long-run antifragile. That is to say that ultimately, gold won't merely protect, but will benefit from the disorder and iatrogenics of continued naïve intervention.

Let us leave you with a final thought on the attractiveness of gold at this moment in time. Not only is it that rare thing in today's markets—widely hated—but it is poorly understood. We frequently hear that it has "no use," unlike other commodities like oil, grain or copper. Yet this betrays a fundamental ignorance of the importance of exchange in society, and the role money plays in the facilitation of that exchange. In the long history of our species, we aren't aware of any example of a society which didn't organize around *some* kind of money. As long as there are people, there will be exchange, and therefore a social need for money. Always.

And gold is money. That's not to say it's legal tender. You can't use it to buy goods and services directly. But inhabitants of Norway can't use Japanese Yen to buy things either. Does that mean Yen isn't money? In effect, gold is everyone's foreign exchange. It's the original "hard currency." So to say that gold has "no use" is like saying money has "no use." Which isn't correct. One might as well say language has "no use." Both are fundamental to how societies organize and communicate. What people mean, we think, is that gold has no *industrial* use. But without money there would be no industry. Therefore, without money there would be no demand for oil, copper, zinc or the other raw materials many prefer on the grounds of "having use." The monetary goes before the industrial, and so money has an "intrinsic value" to society which few other things do. Yet money is so ubiquitous that it is taken for granted. It is underappreciated and undervalued. Money is also the primary toy of today's naïve interventionists. And being what they are, they will inevitably play with it until they break it.

Historically, people have understood money's intrinsic value when they have been forced to, when alternative monies have been rendered unfit for purpose by persistent debasement. Negative real returns to cash, the inflation in various equity and credit markets, and investors' "reaching for yield" suggest money's transition from usable to unusable is already underway, if in a subtle and small way (for now). And if debasement to date has not dented debt ratios even slightly, the debasement of tomorrow will. Today, we see the intrinsic value of gold. And although we can't know when, we think others will soon be forced to too.

"How am I supposed to think about consequences before they happen?"

We read

All is not well in Caracas where the socialist paradise of the late Chavez and his Bolivarian revolutionaries seems to have stopped rolling. Here are the pitfalls of naïve intervention at their most obvious. "Even at my age, I've never seen this," 70-year-old Maria Rojas told the AP. Another woman, Maria Perez, who walked out of a supermarket in downtown Caracas, told the agency: "Here there's a shortage of everything—butter, sugar, flour—but there always used to be toilet paper." To President Nicolas Maduro the culprit is clear: anti-government forces, including the private sector, are deliberately causing the shortages. Commerce minister Alejandro Fleming blames "a media campaign that has been generated to disrupt the country" but assures his people "the revolution will bring the country the equivalent of 50 million rolls of toilet paper." As the nation awaits action, legs crossed, the regime is curiously quiet about the price controls it has imposed on paper (and other markets). Intended to keep prices affordable, they have merely rendered production unprofitable and shortages inevitable.

Judging by the press attention, the poor Venezuelans are attracting more mirth than sympathy. How could they be so stupid as to think they could set correct prices for toilet paper?! Weren't these people paying attention to Soviet case studies on central planning?! Those crazy Latin Americans, eh?! They're all so funny! ... Yet no one seems to bat an eyelid when our various central banks do exactly the same thing when the price of money (that being the rate of interest) is set by committee. It's a strange old world... Still, for all the bluster over this damned "bear market" in gold, the barbarous relic has actually been doing very nicely in Venezuelan Bolivars, up 22% so far this year in the local currency. Not everyone is convinced though. "Well, I can't very well wipe my a** with gold," one local was rumoured to complain, "unlike our currency." So scratch all that stuff we wrote earlier, we stand corrected. Gold is quite useless after all.

Slowly but surely, the cracks in the Eurozone—perhaps the most naïve intervention in recent memory—are widening. In Portugal, where the constitutional court recently ruled civil service pension reductions unconstitutional and the coalition government is split on how much austerity is too much, a new book entitled *Why We Should Leave the Euro* instantly topped the bestsellers list. It overtook *Fifty Shades of Grey* on the way to the top. In a Q&A session following debate between the author and a former socialist politician and supporter of the euro, Nuno Pires put the following question to the latter: "People say if we leave the euro our salaries and savings will fall, and we will find ourselves isolated again; but how is that different from now?" What did Charles Mackay, author of the classic *Extraordinary Popular Delusions and the Madness of Crowds* say all those years ago? Something about people going mad as a group, but coming back to their senses one by one...

Speaking of madness, Ben Bernanke, head of the Fragilista Reserve System, innocuously commented on the 22nd of May that "if we see continued improvement and we have confidence that that's going to be sustained then we could in the next few meetings ... take a step down in our pace of (asset) purchases." The apparent hint that the Fed would soon stop printing wrought havoc. On the day Mr. B. spoke, the yield on the ten year Treasury reached a low of 1.88%. Not six weeks later, the same ten year yields were approaching 2.8%. The BIS have calculated somewhere that a 3% increase in bond yields—a reasonable guess at what a more "normal" bond market would look like in a more "normal" economy—would wipe $1 trillion off aggregate bank equity, or something. So this sharp move brought forth various squeals from market participants and pundits alike. And if there's one thing Mr. B. hates it's squeals from the market. The tactical retreat didn't take long: "If needed, the committee would be prepared to employ all its tools," he reminded the world last week, "including an increase in the pace of purchases for a time, to promote a return to maximum employment in a context of price stability." A bond-bubble tease he may be, Volker he ain't.

"As far as financial follies go, tulip mania takes some beating. But future economic historians may look back at the time when investors financed a convention centre in Rwanda as the moment that the rush into emerging market bonds became frothy," wrote the FT's Rob Wigglesworth late in May. OK, so Rwanda gets something like one third of its budget from overseas aid. And some of that aid was withheld last year because the regime was found to be using it to back rebels in the Democratic Republic of Congo. But apparently the fundamentals are improving. So stop scoffing.

As we read the article, we couldn't help but wonder who was actually buying this rubbish. To be more specific, we wondered what type of manager goes home to their spouse and maybe kids too, chats to them over dinner about their day, looks at themselves in the mirror while brushing their teeth before bed, and then sleeps as soundly as a baby, comfortable in the knowledge that they are dutifully and sincerely serving the very best interests of the savers they serve.

Mr. Wigglesworth finds one such specimen: "We are worried about some of these countries, but current momentum supports buying their bonds," proclaims a certain Gregor MacIntosh, head of sovereign debt at Lombard Odier Asset Management at the end of the article. Isn't he worried about the overpriced trash he's buying for his ultimate customers, or that their savings are in great danger? No. "We'll just have to be nimble when things turn." Ah… the old *I'm-smarter-than-everyone-else* chestnut. Come back Chuck Prince, all is forgiven. Of course, it's none of our business really, but we wonder if Mr. MacIntosh and "investors" of his ilk were nimble enough to sidestep the decline in Emerging Market bond prices during the recent fluctuations in the fixed income markets.

In China, with one fifth of the world's mouths to feed but only around a twentieth of the world's water and arable land, we read that 44% of rice samples collected by the Guangzhou Food and Drug Administration "contained dangerously high levels of cadmium, a heavy metal that causes cancer, kidney failure and other diseases. Local residents are rightly worried—and furious." Apparently it's nothing new. Researchers at Nanjing Agricultural University found that 10% of all of China's rice crop is contaminated with the metal, although the "full extent of soil pollution is deemed a state secret, and activists who expose polluters are regularly imprisoned." Early last year, "an estimated twenty tons of cadmium was dumped in the Longjiang River in Guangxi, wiping out fish farms along the waterway. After a five day cover-up, the tap water was turned off for more than three million residents of Liuzhou city." Although the authorities found seven companies to have been discharging the metals, "the main culprit wasn't identified."

With entire villages reportedly suffering from the acute bone aching caused by cadmium poisoning, the problem is apparently two-fold. The first is that soil quality is appalling. As heavy industries making paint, batteries, electroplated products, etc. discharge their waste directly into the nearby rivers and lakes, government officers look the other way. "Because local officials protect factories that provide revenue, both legitimate and corrupt, the polluters escape serious punishment. And those same officials allow the farmers to keep selling grain because otherwise they would have to compensate or relocate them." So the problem is swept under the carpet, and anyone trying to peak under gets sent to the gulag. A second problem is that the local fertilizer producers find it too expensive to remove the cadmium from the phosphate fertilizers they produce or, at least, cheaper to pay the regulator not to notice. In other words, the fertilizer itself is poisoning the Chinese.

Beijing insists on China being 95% self-sufficient in grain. So the provinces shoot for self-sufficiency also. Thus the whole system is pressured into production levels it is ill-equipped for. More naïve intervention. More messy outcomes. And if the centrally planned food system is as toxic and corrupt as this, we shudder to think what its banking and credit system looks like.

Every two years, the Erik Kempe award is given for Europe's "best paper in the field of environmental and resource economics." What was the recent winner's novel idea? Pay fossil fuel producers to leave their oil in the ground. We think he deserves his prize, not for his calculus, but for coming dangerously close to promoting free-market ideas.

For a non-economic goal like limiting CO2 production, what better free-market mechanism is there than to pay the market price for the resource and sit on it? This respects the property rights of producers, but entails no interference in trade, no arbitrary CO2 taxes or cap-and-trade schemes, and no need to erect trade barriers to "punish" non-compliant countries.

And it's cheaper too. The Swiss government will soon increase the fuel tax to CHF 60 per tonne of CO2. Could a free-market environmentalist get a better deal? We know one Canadian oil-sands developer that can be bought for $0.014 per barrel in the ground. Extracting and burning one of these barrels will eventually produce ~550 kg of CO2-equivalents, so our environmentalist pays $0.025 for every tonne of CO2 he can now prevent—a 2'400-fold improvement on the government model.

Sense and nonsense

- "Credibility is an enormous asset. Once earned, it must not be frittered away by yielding to the notion that a little inflation right now is a good thing, a good thing to release animal spirits and to pep up investment. The implicit assumption behind that siren call must be that the inflation rate can be manipulated to reach economic objectives. Up today, maybe a little more tomorrow and then pulled back on command. Good luck in that. All experience demonstrates that inflation, when fairly and deliberately started, is hard to control and reverse."
  —Paul Volcker, 29 May 2013

- "When you're one step ahead of the crowd you're a genius. When you're two steps ahead, you're a crackpot."
  —Rabbi Shlomo Riskin, Lincoln Square Synagogue, Feb 1998, cited in Arizona Jewish Post, *18 Sept 1998, B10*

- "Let's be clear. We've intentionally blown the biggest government bond bubble in history."
  —Andy Haldane, Bank of England director of financial stability, cited in The Guardian, *12 June 2013*

- "(As a teenager) I was utopian. I found adults and adulthood fundamentally corrupt, self-serving and unclear. I still do but I now find the utopian even more harmful."
  —Nassim Nicholas Taleb

- "We all know it's going to end badly, but in the meantime we can make some money."
  —Jim Cramer, CNBC

- "Thank God for the Fed."
  —Australian Treasurer Wayne Swan

- "In money management what sells is the illusion of certainty… a fund manager who tells the truth (the truth being that he may be wrong at any time) is a more difficult sale but a better investment."
  — John Hempton

- "Banks need more capital—lots more capital, not minimal provision based on a pseudoscientific calculation of risk-weighted assets. Neither regulators nor management can assess accurately how much a bank really needs. The only safe bank is one with more capital than it could possibly require. Like banks of old."
  —John Kay, cited in the Financial Times, *2 April 2013*

- "He defeated fascism, this is what matters the most. And life was cheap and affordable too."
  —Ushangi Davitashvili, Georgian admirer of Josef Stalin, explaining the recent rise in popularity of the old Soviet tyrant to Bloomberg *(According to a poll referenced in the same article, 45% of Georgians approve of Stalin.)*

- "…the best way to get interest rates up is to have low interest rates, because that promotes a stronger growing economy and that causes interest rates to rise. In some ways the fact that interest rates have gone up a bit, and it happens on the real not the inflation side, is actually indicative of a stronger economy, which again suggests that maybe this is having some benefit."
  —Fed Chairman Bernanke responding to a Congressional testimony question by California Representative Miller

- "What is the foundation for your certainty that as peacetime debt hits new records in coming years, the United States will be able to engage in forceful countercyclical fiscal policy if hit by a large unexpected shock? Furthermore, do you really want to find out the answer to that question the hard way? … we attach, as do many other mainstream economists, a somewhat higher weight on risks than you do, as debts of all measure—including old age liabilities, public debt, private debt and external debt—ascend into record territory."
  —Harvard's Carmen M. Reinhart responding to Paul Krugman's recent volley of attacks with significantly more class than the shrill mudslinger from Princeton, 25 May 2013

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Publisher
Edelweiss Holdings Ltd., 31 Victoria Street, Hamilton HM 10, Bermuda
Editors
Tony Deden, Dylan Grice
Design and copy editor
Christine Weeks
Contact
mail@edelweissjournal.com