Managing wealth in treacherous times

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"The long emergency"

- Developed world governments are functionally insolvent – the currencies of debtor nations will suffer the consequences

- A historic banking crisis will have lasting repercussions

- Did anyone mention pensions ? 19 EU nations have a total of nearly €30 trillion of projected obligations to their existing populations – five times higher than their combined gross debt

- The war for finite resources rages on

- How can we preserve our capital in real terms when central banking and a global fiat currency regime are inherently inflationary ?

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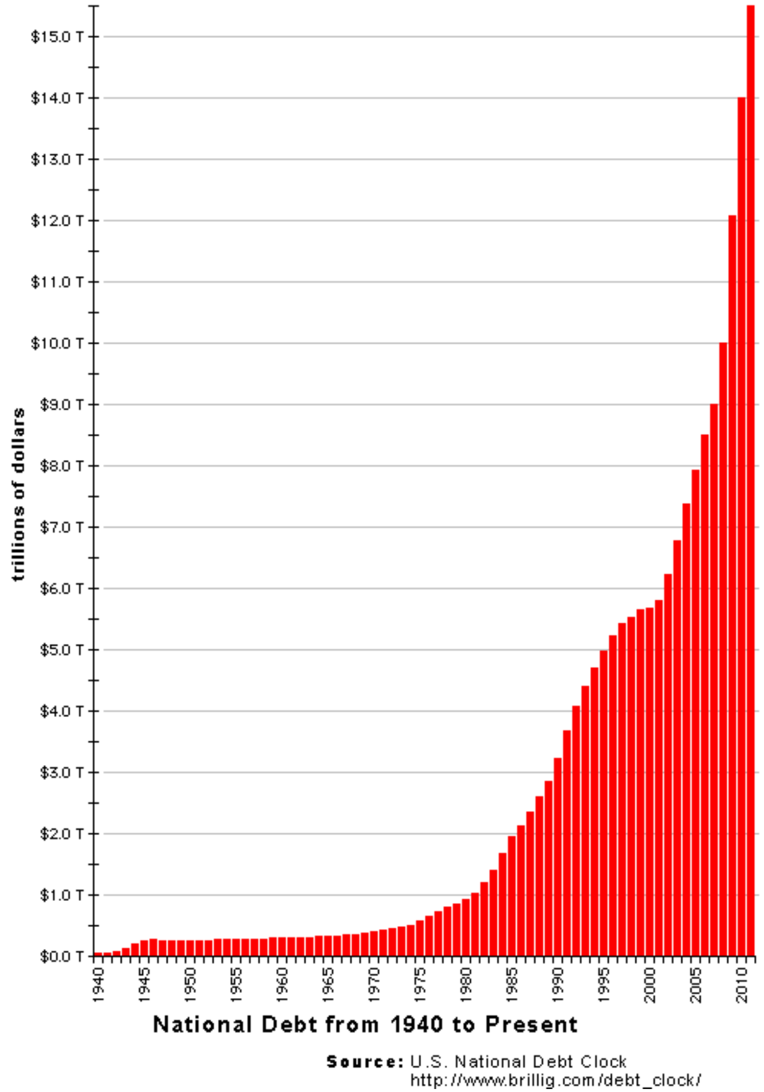
The developed world is bust

“The national budget must be balanced. The public debt must be reduced; the arrogance of the authorities must be reduced, if the nation doesn’t want to go bankrupt.”
– Cicero, 55 BC.



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Too much debt

1. All money is loaned into existence – we have debt-based money.
2. A credit-based economy requires the constant expansion of credit.
3. The pure debt obligations of the US government stand at roughly $15 trillion. But including liabilities of the US government, Medicare and Social Security, the real figure is between $100 trillion and $200 trillion.
4. Dr Albert Bartlett: “Man’s biggest weakness is our inability to understand the exponential function.. Beyond a certain point, growth is either obesity, or cancer.”

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What we know about bank crises

- Government debt rises 86% over the first 3 years on average
- Stocks lose 56% over 3.4 years
- Unemployment rises 700 basis points over 5 years
- Houses prices drop 36% in real terms over 6 years
- GDP falls -9.3% cumulative over first 2 years

(Ken Rogoff & Carmen Reinhart 2009 study of 15 developed nation bank crises)

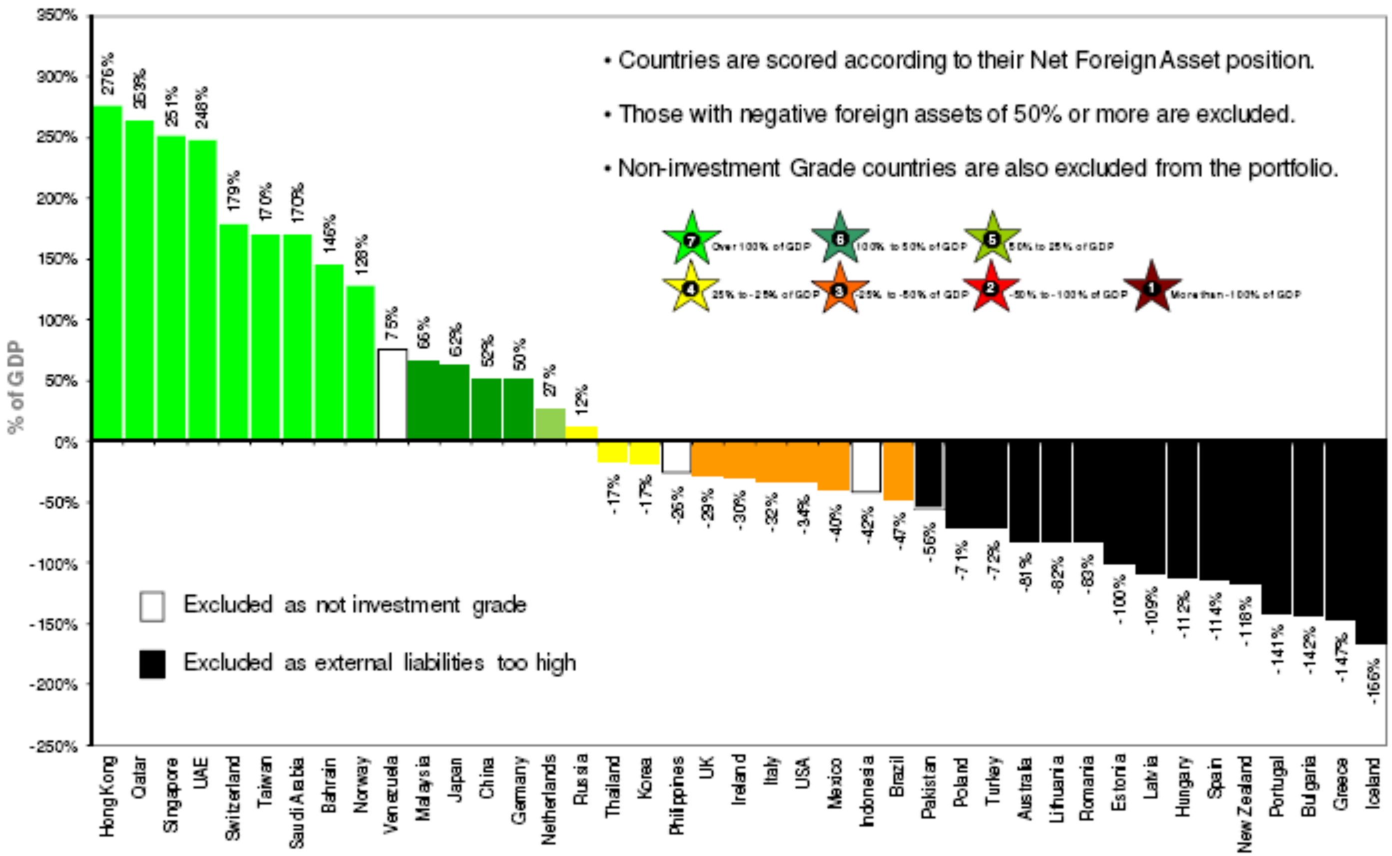
- **Average duration: 4.3 years**
- Average percentage of non-performing loans: 26.7%
- Cumulative fiscal costs of banking resolution 7.8% of GDP without currency crisis, or 17.4% with
- **2/3 of all banking crises result in currency crisis (-25% drop vs USD)**

(BoE study of 33 systemic crises 1977-2002 Financial Stability Review 2003)

Conclusion: consider moving capital assets to a stabler banking / sovereign regime
- not least, the likes of Switzerland, Canada, Singapore

The most important chart you will see this year

Net foreign assets of selected countries as % of their GDP

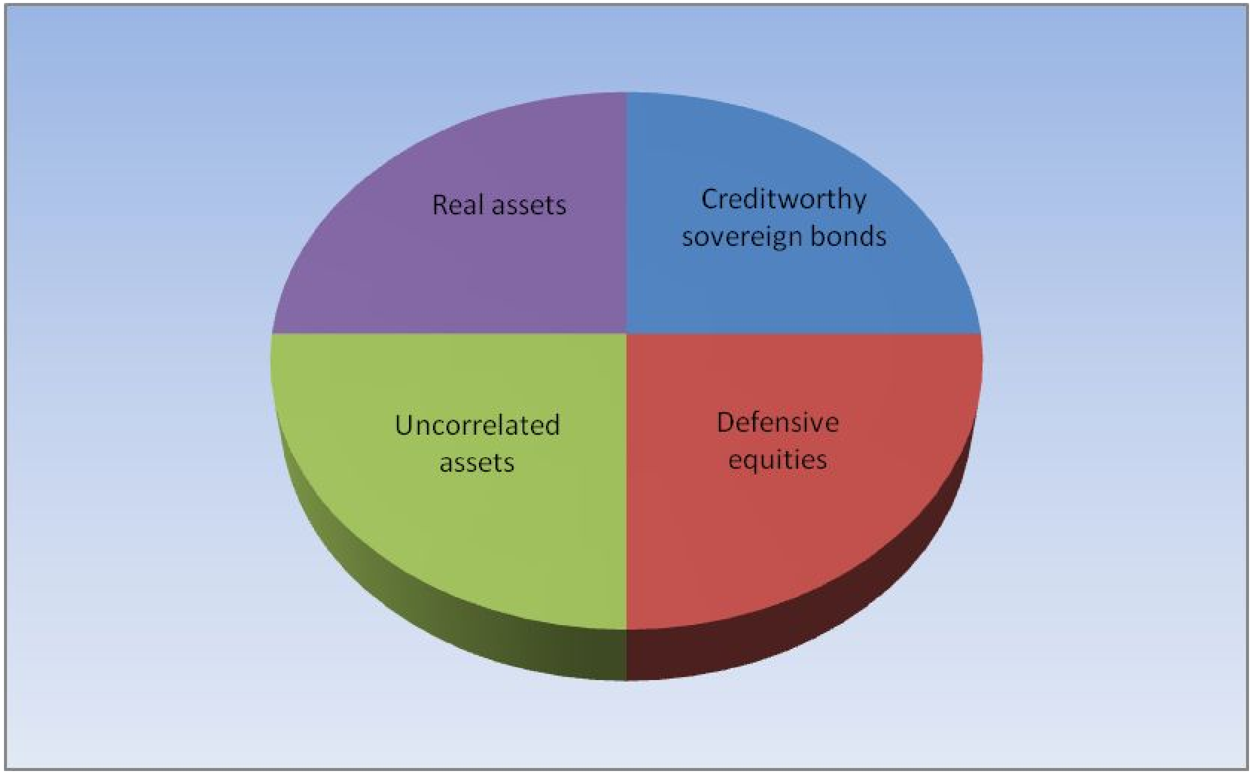


This approach works for both Credit ***and Currency*** analysis

Source: Stratton Street Capital LLP calculations (as at Jan 2011) and extended version of the External Wealth of Nations Mark II database developed by Lane and Milesi-Ferretti (2007)

How we try and square the circle

Our preferred route:



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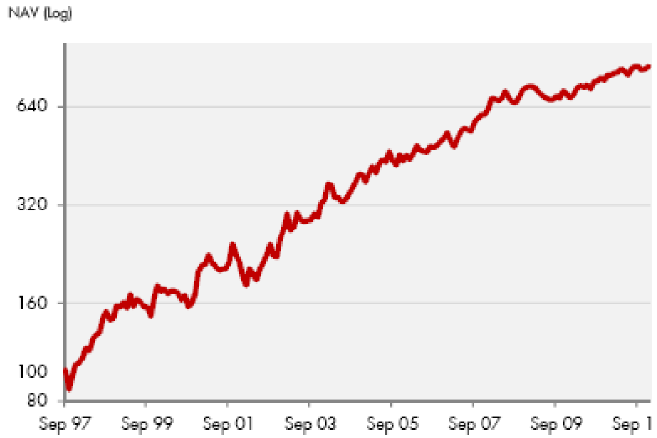
Uncorrelated vehicles..

NET PERFORMANCE SINCE INCEPTION (USD)◊



Source: Winton Capital Management ltd (based on monthly data)

NET MONTHLY RETURNS (%)**

e = estimate

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Jan		1.50	-1.39	-3.96	4.38	-10.13	5.95	2.72	-5.18	4.16	3.86	3.90	1.06	-2.66	0.09
Feb		3.27	3.61	1.72	0.56	-6.04	11.95	11.56	6.61	-2.71	-5.96	8.10	-0.15	2.42	1.51
Mar		7.38	-3.98	-3.28	7.09	12.62	-10.80	-0.80	4.88	4.11	-3.94	-0.50	-1.55	4.89	0.27
Apr		-1.63	10.51	2.06	-5.31	-3.76	2.45	-8.62	-4.05	5.33	6.40	-0.78	-2.92	1.62	2.90
May		8.53	-8.39	-0.26	-2.61	-3.96	10.19	0.28	6.93	-3.01	5.12	2.12	-1.91	-0.91	-2.15
Jun		2.97	5.29	-1.27	-2.66	7.95	-5.20	-2.96	3.30	-1.19	1.91	5.19	-1.23	1.30	-2.55
Jul		1.51	-2.01	-4.58	0.66	4.71	-0.68	1.33	-1.76	-0.51	-1.16	-4.48	-1.50	-2.68	4.53
Aug		10.99	-3.47	3.23	0.56	6.04	0.62	2.76	7.53	4.47	-0.85	-3.06	0.37	4.91	1.47
Sep		4.51	-0.17	-7.76	4.64	7.63	0.26	4.04	-6.41	-1.16	6.92	-0.17	2.90	0.88	0.20
Oct	-12.97	-5.70	-6.20	2.09	13.75	-7.96	4.72	3.76	-2.87	1.42	2.52	4.03	-1.53	2.50	-2.48
Nov	9.96	1.15	13.93	7.33	-7.10	-0.69	-2.48	6.19	7.55	3.12	2.53	5.29	5.11	-2.06	0.98
Dec	8.14	9.50	9.04	16.81	-5.15	14.16	10.27	-0.08	-4.45	2.15	0.33	2.09	-2.52	3.77	1.68e
YTD	3.49	52.18	15.07	10.44	7.12	18.34	27.76	20.57	10.89	16.87	18.18	23.13	-4.11	14.46	6.38e

Source: Winton Capital Management Ltd

US$ lead series

GBP lead series (based on launch date of Aug 2004)

** Year-to-date figures are calculated by compounding monthly rates of return. 2004 includes partial returns of the Winton Futures Fund US$ class as part of the calculation and is not adjusted for changes in FX rates.

Why gold ?

1913

98%

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Why gold ?

Professor Jörg-Guido Hülsmann:

Precious metals arose as money “because [of] their physical characteristics.. Scarcity, durability, divisibility, distinct look and sound, homogeneity through space and time, malleability and beauty..”

Nobody was ever forced to use gold or silver, whereas “In all known historical cases, paper money has come into existence through government-sponsored breach of contract and other violations of private property rights.

creature of the free market.”

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Which structures ?

Probably **not**:

- Futures contracts
- Structured notes
- Warrants
- Gold certificates
- Gold mining stocks
- Most gold ETFs

“The relevance of gold is not in its price, but in its ownership.”

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Questions ?

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