



Investment Commentary by Roger Nightingale

Infamy! Infamy! The hedge funds have got it in for me!

Kenneth Williams, as Euro Commissioner, in Carry On Misunderstanding Finance.

19th March 2010

Logic is important, but psychology more important still.

Is the messenger responsible for the news he delivers? Of course not. But, when the news is bad, there is a temptation nevertheless to blame him. And the people most inclined to do so are those who fear they're partly to blame for the disappointment. Witness the reaction in recent weeks of European Commissioners to reports of instability in the EuroZone.

People believe what they want to believe, and blame whom they want to blame.

They weren't expecting turmoil in financial markets, and were irritated by its manifestation. Once again, it seemed, a shattered Europe was failing in comparison with a booming Asia and a resilient America. Did Commissioners secretly suspect the cause of the problem to be the region's excessive bureaucracy and relentless regulation? Very possibly. That would explain their violent response. The hiccup had been caused, they asserted, by "subversive elements" in the investment community. The authorities had been ambushed and the sovereign debt markets laid waste!

For some time, the European Commission has, been looking for a stick . . .

Who were the guilty parties? The Hedge Funds! Their infamy was boundless. They'd exploited derivatives to create havoc; deployed financial misinformation to unsettle ordinary investors; then raided the markets to secure huge gains for themselves and misery for ordinary citizens. Their behaviour was unacceptable. Action would have to be taken to prevent a recurrence.

. . . with which to beat Hedge Funds.

The Commission claimed that the vast majority of residents appreciated the stability (sic) that the euro had engendered. Accordingly, it was anti-democratic of Hedge Funds to act as they did. Much stricter regulation would be required if they were to be disciplined in the future. They had to work *with* the community, not *against* it. If they couldn't mend their ways, they'd be outlawed.

It thinks, in Greece, it may have found one.

It might have been Robespierre or Stalin talking. Autocrats don't tolerate dissent; they know that, left unchecked, it can turn into insurrection. The Commissioners know that they've made a mess of the economy and the currency, and fear that things will get worse before they get better.

Much depends on what the rest of us are prepared to swallow.

Greece can be bullied into rebalancing its budget, but that'll neither revive activity nor restore confidence. The future looks grim: under current policies, there'll be a lengthy recession and endless uncompetitiveness. And the risk is that the longer the authorities try to suppress criticism, the more violent will the denouement eventually be.

Do we line up with the lynch mob or with its prospective victim?

What, though, is the future for Hedge Funds? Might they be banned from operating in the EU? And, if the *Directoire/Politburo* were to anathematise them, causing their migration to Switzerland or the States, what would be the reaction of HMG? Spineless, if history is anything to go by.

Don't look from leadership from British politicians; they're weak reeds.

Brown, if still PM, would do nothing to protect them. He doesn't understand them, but thinks they're dangerous. Cameron, if newly installed, might be little better. Initially, he'd probably offer a cast-iron guarantee of support; subsequently reneging on his promise.

Thank Goodness markets are rising!

The only good news is that the indices are continuing to rise. Central Banks in the States, Japan and China fret that growth can't be sustained without accommodative credit. For the remainder of this year, and possibly part of 2011, therefore, money looks set to be easy and markets strong.

The facts and opinions contained within this newsletter have been provided by Roger Nightingale; Buckles Investment Services do not take any responsibility for the contents.

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