Twenty One Lessons From Financial History For The Way We Live Now

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Number One

Spend as much time analysing supply as you spend analysing demand- the China impact

Number Two

There is no relationship between GDP growth and the return from equities- price is what you pay and value is what you get

Number Three

Pepper’s law- estimate how long the unsustainable can be sustained- double it and take off a month.

Number Four

‘Never, ever think about anything else when you should be thinking about incentives’- Charlie Munger

Number Five

Governments like markets only when they deliver the prices they want- governments do suspend market prices

Number Six

The ratio of corporate profits to GDP ratio must mean revert in a free society- one way to do this is inflation

Number Seven

In assessing the appropriateness of monetary policy assess both the price of money and the quantity of money- banks make money

Number 8

The most dangerous form of speculation is the search for yield- ‘John Bull can stand many things but he cannot stand 2%’ Walter Bagehot

Number 9

The real danger for investors from populism depends upon the strength of the constitution and the rule of law

Number 10

The countries most likely to default on their debt are those that have defaulted on their debt- institutions count

Number 11

High equity valuations fall slowly when the surprise is inflation and quickly when it is deflation- our current repression creates a slow decline

Number 12

Never buy emerging market equities if the exchange rate is overvalued- an exchange rate policy is a monetary policy

Number 13

Tourism is the best guide to whether an exchange rate is over-valued or under-valued- always visit to Rockefeller Center at Christmas

Number 14

Always buy equites below 10X CAPE unless the future holds– communism, war or a surrender of monetary independence with an overvalued exchange rate.

Number 15

Democracy is more suited to the operation of capital controls than the free movement of capital.

Number 16

When private savings are exhausted monetization of government debt and high inflation/hyperinflation follow- savings are not yet exhausted if conscripted

Number 17

Technology never ultimately defeats inflation

Number 18

Monetary systems fail about every 30 years- the rules of the old system leave a legacy of bad habits for those in a new system

Number 19

Money is almost always in disequilibrium

Number 20

Never trust a forecast with a decimal point-especially your own.

Number 21

Extrapolation is the opiate of the people