

That Money talks I'll not deny; I heard it once: it said "Goodbye"

Richard Armour—it's easy to accumulate during while the bull market lasts; difficult to retain when it ends

Those who've borrowed heavily for years are often thought to be good risks

The financial community was shocked last week to learn that the Emirate of Dubai was experiencing cash flow problems. It was well known that property developments there were under a cloud, that receipts from tourism and financial services were anaemic, and that oil revenues were modest, but there'd been no prior suggestion of a problem severe enough to warrant deferment. Indeed, there'd been a presumption that reserves were sufficient to deal with any temporary embarrassment; that, *in extremis*, the ruling family would guarantee the debts.

They're not. Always a surprise nevertheless

We should have known better. Economics downturns do not differentiate between rich and poor; nor developed and developing; only between geared and ungeared. Dubai, very heavily borrowed, was in the wrong category; like Iceland and Ireland, it was an icon waiting to be tipped from its pedestal.

Dubai's rehabilitation will be difficult

The markets are right to be worried. Things will get worse before they get better. Dubai's image has been tarnished. In future, its property developments will be perceived to be less desirable, its financial services less competent. If new finance can be found, its suppliers will want compensation for what they regard as heightened risk. That means it'll come in the form of equity, rather than fixed interest, and probably from neighbouring oil states. Dubai might end up merely as *manager* of its operations, not *owner* of them.

How much of our money have the pesky banks risked?

Who in the developed world will be the major losers? The banks, of course. They'd lent huge sums and won't get it all back. There's been no indication yet of which are most heavily exposed. But it would be surprising if the delinquent Scots, RBS and HBOS, weren't at the top of the list. If so, it'll be interesting to monitor the reaction of their compatriots in government. A year ago, the Darlings and Browns and Macphersons had told the taxpayer that his money was safely invested. Shares in banks had been purchased at favourable prices. They'd be sold subsequently at a profit. Some profit!

Mervyn King's right: they have to be broken up

The Governor of the Bank of England, addressing a Parliamentary Committee last week, hinted that he thought the bailout had been a mistake. When guilty of serious misjudgement, he said, banks had to be allowed to fail. To use taxpayers' funds to save them misallocated resources. Worse, it stopped depositors and counterparties and shareholders exercising their discretion. Absolutely right! Pity he hadn't said as much a year ago when it might have done some good!

It would be helpful if others in the Bank considered their position

The Governor's colleague, Paul Tucker, on the other hand, seems not yet to have seen the error of his ways. Talking to a different audience last week, he defended the decision to lend £60 bns to a couple of failing banks. If the loans hadn't been made, he said, the economics downturn would have been worse.

It's not too late to make amends

How does he know that? He doesn't, of course. It's what his forecasts indicate. And we know how good his forecasts are: they're useless. If they'd been any good, he'd have seen the crisis coming. He'd have recognised in the implosion of the sub-prime mortgage business in the States the possibility of a similar problem here. He didn't.

And the first step is acknowledgement of prior error

He defended also the secrecy of the operation. The Prime Minister and the Chancellor were told of it, but not Parliament, and certainly not those, the taxpayers, whose money was being used. It was essential that the public be kept in the dark, said Tucker. Otherwise, there'd have been a run on the banks and then salvation might not have been possible. What a disaster that would have been: the country would have had *three* viable banks, rather than *two*; and the national debt would have been tens of billions of pounds lower!

How will Beijing's central bank behave?

Elsewhere in the world, there were other financial problems building up. China's monetary explosion, necessary to keep GDP growing moderately and the yuan pegged to the dollar, was creating the sort of collateral damage that had afflicted the Americans in 2007. Beijing's officials thought aloud about cooling things down, but that caused ructions in finances around the world. It threatened also to set at risk the world's anaemic recovery.

It'll keep rolling the presses!

For that reason, Beijing won't tighten. Not, anyway, for the moment. Instead, the accommodation will continue, and so will the upwards momentum in the indices.

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