

A man's intelligence is measured by his ability not to flap in times of crisis.

On this basis, until recently, many Europeans (Trichet, Barroso, Merkelet et al) looked very clever. Cameron and Clegg still do.

Most of the time, Europeans are sensible . . .

Europeans have many fine qualities, but an understanding of market psychology is not one of them. They distrust laissez-faire and opt instead for dirigisme. In industry, that works well, but in finance it doesn't.

. . . but, when they get it wrong, they . . .

They don't value the investor, but disdain him. They see him, not as an identifier of problems, but a creator of them. In a crisis, their knee-jerk response is to deny the existence of an imbalance, and to ban the activities of the speculator. They invariably fail.

. . . get it horribly wrong.

The euro is a case in point. It was always going to implode. The only uncertainty was the time it'd take to do so. We didn't know how quickly investors would react, nor how quickly the authorities would throw in the towel.

The euro was their folly.

The Franco-German decision to apply punitive regulation to hedge funds was ill-judged. It wasn't just hedgers who were taking positions against the euro; everybody was. Anybody who could see the numbers and analyse their implications was bound to be wary. And anybody but a Eurocrat would have realised that the measures taken would be counterproductive. Psychologically, they validated the anxiety.

They shut their eyes to its illogicality.

The subsequent ban on short-selling made matters worse. It suggested that the situation was desperate. Until then, the flight of capital had been moderate; subsequently, it became immoderate. Beforehand, the majority was saying that the problems were serious but containable. Afterwards, a significant minority thought them uncontainable.

And blamed everybody but themselves for its failure.

The problem now is much worse than it ought to be. Investors don't trust anything the Commission or the ECB says; nor anything stemming from national governments. There is a fear that the euro will be re-jigged and that some market participants, those who've dealt unwarily, will be on the wrong side of the new arrangement. Accordingly, there's a reluctance to buy anything European.

Now, they've combined economics and a financial crisis.

Even German bonds are spurned. Why? Because, in the event of a reversion to national currencies, the euro's value is going to be uncertain. Will a "German" euro be worth more than a "Greek" one? Perhaps so; perhaps not. Better to wait; or, in extremis, to demand a compensatingly high risk premium.

The banks may be teetering again.

There is an additional problem. The economics crisis is not over. The huge slump in activity two years ago was followed by only an anaemic recovery. It was much feebler in the "old" world than in the "new" one. It was particularly disappointing in Europe. As a consequence, the banks there may be in trouble again.

They should have been allowed . . .	In 2008, investors (quite logically) refused to lend to the banks. The authorities circumvented the market's apprehension by issuing debt themselves and giving the proceeds (absolutely outrageously) to the banks. Now, though, the lessons having been learned, investors won't lend to the authorities!
. . . to fail two years ago.	If the banks are in trouble again, it won't be possible to save them a second time (thank goodness). And the countless billions of taxpayers' funds spent on their behalf then will have been wasted. The consequences for the economy will be frightful. There'll be no respite on any front. No possibility of tax reductions. Nor any of interest rate cuts.
Britain is barely any better placed.	Britain will fare slightly less badly than Europe. It hasn't been handicapped by being locked into the euro. And its authorities tend to be more open-minded about markets. That said, the judgements of the last Chancellor and Prime Minister were appalling, and those of their recent replacements little better.
The two C's are a Comedy Act.	Cameron and Clegg are faffing around playing at being philosopher-kings. They're redesigning society in their own image: jokily shallow. They appear not to be worried about the economics situation; nor fussed about finances.
Hopefully, they'll grow into their jobs.	They're still indulgent about public sector waste. They think that higher rates of VAT and Capital Gains Tax will balance the books. They aren't panicking about companies moving their domicile overseas.
A bit of backbone wouldn't go amiss.	There's no near-term promise of toughness. No thought, for instance, of closing down British Airways. None of imposing a higher retirement age on public sector workers. The formula that worked so well in the Thatcher era is rejected as much by Cameron as by Clegg! It's a corollary, of course, of coalition.
Buy the currencies that others will buy.	Securities markets are in trouble. In Europe (especially) and in Britain (tangentially), there is anxiety about national debt and commercial banks. Low interest rates may no longer be enough to compensate. The US dollar is going to be the favoured unit for the big boys; the Singaporean dollar for the small ones.

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