

36 South Views

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Nihil admirari

Nihil admirari, a Latin phrase meaning 'to be surprised by nothing'

The secret to remaining happy, according to the Stoics, is "preparedness".

The Stoics of ancient times believed this and so too does Nassim Taleb – for his concept of antifragile is surely this: the ability to not only survive unforeseen events but if possible thrive from them.

And for the past thirty years events have overwhelmed the markets approximately every five years, catching the unprepared and punishing them... until now that is.

Now, even commentating on that possibility makes me feel like Keith Richard's mother warning him of the dangers of drug use!

But the Stoics are not widely regarded in classical literature for nothing. Their basic tenet is to be prepared by looking at the world as it is and not as you wish it to be and preparing accordingly.

The world as it is:

Since the Second World War, the attitude to debt has changed 180 degrees. These days debt is welcomed, even celebrated. Show me a populace that is FOR austerity, which really means they want the alternative... more debt.

2008 was the culmination of this over leverage and debt. Soros has quoted an estimate claiming that home refinancing in the US from 1996 to 2006 was US\$9 trillion!¹ The concomitant train wreck nearly derailed the whole financial system.

Central bank response was to create artificial conditions where massive debt could not only survive but thrive.

The world as we want it to be:

We refinanced the world economies with debt. This debt did not come at a price because interest rates were dragged to zero. These actions also won't create inflation because... because... well just because, and it won't make the rich richer and make the income inequality unsustainable because... I SAID just because, OK!

The world as it will be:

The world as it is now is like a drug user addicted to debt.

I have often said that it is more likely to be the financing of the drugs that is going to drag users under the waves rather than the effects of drugs themselves. So too with debt.

The amount of debt in the world will eventually create higher prices unless interest rates rise first to create deflation and then debt implosion and default.

Central banks are sworn enemies of deflation so they will fight this scenario tooth and nail. This leaves inflation which will drag up interest rates anyway – creating the debt implosion (at least nominally).

Unless of course we have a "Keith Richard's economy", which can persist with higher and higher levels of debt for much longer than anyone thinks possible. As a betting man I am not confident.

As a Stoic I shall expect the best and prepare for the worst.

¹ Soros, G. (2008) *The New Paradigm for Financial Markets: The Credit Crisis of 2008 and What it Means*, Hachette, UK: PublicAffairs™; p. xv

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