

BY RICHARD "JERRY" HAWORTH

Central banks have fallen on a massive economic grenade. . .the security of the depositors in the banking system, thus ending any vestige of capitalism as we know it.

I suppose if you live in Holland you have to put your fingers in every dyke just in case the leak is the one which devastates the whole country.

It is sad though as it was so avoidable. If we had politicians who only spent what was available to be spent and central banks who let interest rates determine the supply and demand of capital, credit in particular.

The author of the book "Immoderate Greatness" William Ophuls sums it up beautifully:

*"...political conditions and with declining returns on the civilization's investment in complexity, even capable and honest leaders have no viable way forward. Although the problems may be insoluble, something must be done, and since expediency no longer suffices, they resort to stupidity—doing what has never worked in the past, what cannot succeed in the present, and what will destroy the future both morally and practically.*

*First, by engaging in unnecessary wars or imperial ventures that drain the civilization of blood and treasure.*

*Second, by buying off the populace with bread, circuses, and entitlements, thereby promising more than can be delivered over the long term.*

*Third, by deliberately debasing the currency—that is, consciously adopting a policy of inflation.*

*The stupidity of the first should be self-evident: glory and booty notwithstanding, war is always physically, socially, and morally destructive. The stupidity of the second is that it will end in bankruptcy. But the stupidity of an inflationary policy requires amplification, for it is the most insidious.*

*Inflation is always an evasion of reality—an attempt to maintain an artificial prosperity that objective conditions would not otherwise allow. Leaders resort to inflation because they are desperate. They have been backed into a corner by events and lack the moral courage or the political support to institute fundamental reforms, which would require them to inflict pain on the mass of commoners and vanquish powerful elites. (In addition, as previously noted, those in power instinctively understand that reforming a corrupt polity can precipitate chaos and collapse, so they legitimately fear embarking on change.) Charged with governing a populace accustomed to living well beyond its means, overwhelmed by a multiplicity of difficult problems, hemmed in by a host of vested interests, burdened by a deteriorating physical and social infrastructure that is increasingly costly to maintain, encumbered with ecological, thermodynamic, and fiscal debts that have come due, rulers bereft of backbone, ingenuity, and capital attempt to postpone the impending crisis by inflating, whether this takes the form of clipping coins, printing money, or loosening credit<sup>1</sup>."*

We are seeing all three in evidence.

I see no escape from inflation even in the face of a recession as it has become structural.

The only dilemma facing investors is where to place their money to avoid becoming a victim of this systemic complacency. Where? I am as clueless as the next "expert" investor with regards traditional asset classes.

I am keenly aware though that high volatility follows a complex system's descent via entropy into less complex systems which is what we seem to be transitioning to.

To that end a sleeve of long volatility exposure should be in the everyone's portfolio.

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<sup>1</sup> William Ophuls, *Immoderate Greatness: Why Civilizations Fail*. 2012. Pages 56 to 82.

**Disclosure**

All of the calculations, figures and charts presented in this document are entirely hypothetical, simplistic, unrealistic and have been made retrospectively, with the benefit of hindsight. We are in no way suggesting that it is possible to mitigate or avoid losses altogether. The idea is simply to illustrate the concept that losses can have a greater effect than gains on CAGR over the long term. Nothing in this document should be taken as investment advice, or an invitation to invest in any particular strategy or product.

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