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MELLON ON THE MARKETS

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This month, I am composing my column on the train from Edinburgh to London, having just made my thirtieth visit to the Edinburgh Festival. Every year, the Fringe gets bigger and wackier, and every year the ticket prices go up – in fact, quite a lot!

This ticket price inflation contributes to a noticeable change in the demographics of the audience – i.e. they are getting older (as am I!). When I first started going, tickets were generally a pound or two, and now they are between ten and fifteen pounds. Young people simply can't afford them, so apart from being denied decent affordable housing and a free education, they are also denied culture. Ah well, there's always drink!

And this brings me to the point of this anecdote. Inflation may appear to be low, but if you are a consumer of services, or of housing, or of coffee shop time, or of public transport, you will not find it to be so. Sure, electronic goods and textiles have been falling in price (not any more though!) and this has masked the true rate of inflation, which is much higher than the official stats suggest.

This is why Mark Carney should be fired – at once, preferably. I talked about the plague and curse of academic/investment banking central bankers at the @MasterInvestor Show this year, and how they were manipulating economies into long-term stagnation with their ever running printing presses and distortion of the Wicksellian rules on the true rate of interest and allocation of capital.

Well, Mark Carnage is at it again. He has stupidly *cut* interest rates and reinstated QE at a time when he should be *raising* interest rates and *selling* bonds. He left Canada in an almighty mess, and he's going to do it to the Brits unless Theresa May gets rid of him.

What the British government should be doing (and I know not all of our readers are British, so I'll be quick) is borrowing as much as they can – possibly as much as £1 trillion – at 1 per cent for a hundred years, then use the money to *cut* taxes (corporate tax to zero) and to kick-start infrastructure and really improve education.

And by education, I mean continuous education throughout life, because the modern @FastForward world demands it. We all need to embrace a process of updating our skills; otherwise those darn robots are going to turn us into redundant proles.

I am happy to write a short piece for Mrs May if she summons me (in my dreams!) on just how we can turn the UK into the world's fastest growing major economy, but the first thing she needs to do is to exile Mr Carney.

Now, to the broader world. August has been a quiet month, stock market, bond market and currency wise, but beneath the seemingly calm waters there has been some interesting activity – mostly, of course, involving our crazy squad of investment bankers. As I have said, Mrs Yellen seems to get it – the world needs interest rates to go back to "natural" levels. This needs to happen before savings are destroyed, productivity goes even further down the tank than it is, and capital stock erodes with old age. I'm pretty sure there will be another interest rate rise in the US this month.

But Teflon Draghi, Mark Carnage and Kamikaze Kuroda really don't get it – and keep on pushing on the same bit of frayed string. In my opinion, only fiscal stimulus, taking advantage of ultra-low interest rates to get the necessary finance, will work. Don't worry if debt ratios blow out, ultimately inflation will erode the value of the debt. There is a limit beyond which growth isn't really possible though, but the UK, the US and even Europe haven't yet reached it.

It's probably 250% government debt relative to GDP, and so for Japan renewed growth maybe a forlorn hope. I do still believe that the Japanese market will outperform, and I would stick with it, especially Sony, which has been going well for us.

There is a window of opportunity for the Banking Bozos to right the wrongs (at least in part) that they have done to us, but it is a narrow one. Interest rates in bond markets are going to start going up soon, no matter how many bonds are bought by the central bankers. I can already see evidence of this, as JGB yields (a short recommendation @MasterInvestor Show) gently rise.

Inflation, returning to my earlier point, is coming back, and it could in the relatively near future really bite. The best counterbalances to this are of course gold and silver, and as my top recommendation of the year I would be actively adding to positions. You can buy physical gold (Britannias and Sovereigns are great being CGT free and VAT free), ETFs, miners (Condor is my favourite), or even proxies such as platinum. Gold has been drifting a bit recently, but it will go to 1500 an ounce in the next year, I believe.

Meantime, shorting bonds is a good ploy – if you can do it. 10 year Spanish bonds, 10 year bunds, 10 year US Treasuries and 10 year gilts, along with JGBs of any duration, are my picks.

It is also interesting to note that **Medivation (NASDAQ:MDVN)**, a strong buy at @MasterInvestor a few years ago has been bought by **Pfizer (NYSE:PFE)** for $14 billion in cash. One of the early founders of Medivation, Dr Greg Bailey, is my partner in **SalvaRx (LON:SALV)** and in **Portage Bio (OTC:PTGEF)**, both now listed, and both excellently run and exciting biotech opportunities.

But the takeout of Medivation suggests something else: Big Pharma really, really wants to get its hands on established drugs and cash flows (Xtandi, Medivation's drug for prostate cancer is selling about $2 billion a year). This means that other deals will follow. I think **Gilead (NASDAQ:GILD)** (much bigger) is a banker here. It's cheap (7x earnings), loaded up with cash (it has bought back $25 billion worth of its own shares in the last year) and has some innovative stuff going on. A top recommendation now.

Next month, I'm going to get my colleagues to help me to do a piece on writing put options (or selling them, put another way) as a way of generating income in shares you like. It will be a bit technical, but I promise you it will be worth reading. You can use the same technique in FX and in metals, and I'll show you how to mitigate risk in this strategy as well.

As I said, life is about continuous learning, and this is a relatively recent strategy for us. We are doing our best to keep up with the times!

Happy Hunting!!

Jim Mellon

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