The Most Reliable Investment Is Right Below Your Feet

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Akhil Patel is the odd one out here at Southbank Investment Research. He uses a completely different way of looking at the markets.

But if he's right, then his way of thinking is all you need as an investor. It tells you what to buy, when to buy and how long to hold it for. This is no trading strategy though. Holding periods are measured in years.

Akhil has already put a use by date on the current bull market in the FTSE 100. And he predicted how far it would go too.

Historically, the track record of this of investing is hard to argue with. The man who first introduced it to me abandoned his successful family business making lingerie, so it must be compelling.

But it's the "why" that fascinates me. Why does Akhil's way of thinking work so well?

On Monday, I asked Southbank Investment Research's editors about the **central bank** driven stockmarket rally. Akhil replied just moments too late for yesterday's *Capital %26 Conflict,* but it makes for fascinating reading.

He argued the very premise of a central bank driven stockmarket rally is false:

> *You can't have a nine-year bull market in stocks just down to central bank intervention. Not even primarily down to central bank intervention.*
>
> *Recovery, rising corporate earnings and the ability of companies to keep wages (and other costs) low – and profitability high – were the primary drivers.*
>
> *Low interest rates and share buybacks were also a secondary factor, albeit that you can get a bull market in stocks with high interest rates and without buybacks as well.*
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> *Just ask the Japanese about it all. Their stockmarket went nowhere after the mid-1990s when they started central bank intervention. I can explain why at another time. It's all to do with the real estate cycle (in reality a land cycle).*
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> *Based on that cycle, the current bull market has another couple of years to run. Stockmarkets run up through each expansionary phase of the cycle. We are looking at a top sometime in 2019, albeit with a correction or two along the way.*
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> *During this time, central banks will pull back from the market and may start to raise rates. The bull market will continue during this. And people will continue to worry.*
>
> *Finally, people banging on about central banks printing money really don't understand how money is created in our system. Over 90% of the money in our system is created (out of thin air) by private banks.*
>
> *In the aftermath of a financial crisis, such as you invariably get at the end of a real estate cycle, private banks pull back from the market and money is lost to an economy. Central banks have tried to plug the gap. But didn't even come close to doing so. Hence the below trend growth in money for the economy, a lack of credit for businesses and low growth.*
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> *Why should the massive stimulus enacted by central banks be insufficient to plug the gap? Well, it all boils down to land and the land cycle and why the banks created the money in the first place (to enable people to acquire land).*
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> *Land always takes the gains of economic development. As economies grow the value of land relative to other factors of production grows. So these numbers always get bigger: Land/house prices to GDP; debt to GDP; bank balance sheets to GDP; costs of bank bailouts etc etc.*
>
> *Hope this is useful. Do get back to me if you have any questions, want to follow up or tell me why I am wrong!*
>
> *Akhil*

I can't wait to pepper Akhil with more questions about his understanding of markets. Hopefully you'll join me for the opportunity at our conference on 6 October.

If you can't wait, and want to discover where the FTSE 100 will finish its bull run, you can read about Akhil's predictions here. They certainly offer a roadmap of what to invest in.

Learning the hard way

Although Akhil and I disagree on what's driving markets, we largely agree on the direction those markets will take. (I should add that he has a far better understanding of my way of thinking than I do of his, so it's best for you to judge for yourself what he describes here.)

Alongside Akhil's understanding of things, there are those who think the **central bankers will manage to exit** their involvement in markets and the economy in coming years.

Then there are those who think central bankers will be forced to return to **quantitative easing** (QE) or some sort of similar policy as soon as markets dip each time they try to end the policy. That's my line of thinking.

Between the two, markets will go up.

But a third option is emerging, which needs debunking.

The Financial Times returned with another story of a government bond shortage in the eurozone on Monday. The thinking is that the European Central Bank (ECB) will run out of government **bonds** to buy. The constraint could force the ECB into abandoning any easing of financial conditions, even if inflation is struggling to reach the target.

This sounds absurd given the extraordinary levels of debt European governments are in. Has the ECB really bought all those bonds?

The explanation lies in an arbitrary rule. What a surprise that is given we're discussing the eurozone…

To stop the ECB from unfairly helping only certain nations by buying their bonds, and to stop the ECB from monetising too many bonds, there are government imposed limits on what it can buy. The bonds of all nations must be bought in proportion to their country's size, up to a certain limit.

That limit is approaching for many countries. And the proportions are getting too far out of whack because the ECB prefers to buy the more creditworthy bonds of, say, Germany. The ECB is already increasingly turning to riskier Italian debt because German, Irish and Portuguese debt is reaching its limit.

A sudden stop to ECB policy could rattle markets badly. Should you be worried about the ECB's ability to carry out monetary policy given the approaching limits?

Nope.

The rules are arbitrary and can be changed. The ECB can purchase other assets, such as the corporate bonds it's already buying.

The constraint is a false one.

If you believe that **central bankers are dominating the markets**, and that their determination to avoid a crash is strong, then their buying power shouldn't be of concern to you. Their budgets are infinite. Their constraints arbitrary and often self-imposed.

But perhaps it's not central bankers that are driving the markets at all.

Until next time,

Nick Hubble
Capital %26 Conflict