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Where did the value and return go?

Written on May 22, 2017 by[Simone Wapler](#)|[*Central Banks*](#)*,*[*Simone Wapler*](#)

If you question the "zinzins", the institutional investors, the valuation of the shares is normal with regard to that of the bonds and the returns. In this world, that of paid professionals to manage the money of others, everything is only relative. There is no more absolute value. This is how one accepts a world of negative rates.

However, for those who save for a project or for their retirement, the return and the valuation are not measured in absolute value. Capital needs to pay more than inflation and provide a decent income or finance a project within a given time horizon.

Let us take the example of someone who practices a so-called liberal profession. He counts on the sale of his business at the time of retirement, and expects a return on his capital of about 5% to secure an income in his old days. This figure is not a hat but a historical average.

When the day comes, the sale concludes, he is at the of a capital whose return prospects are less than 2%. His "financial advisor" will explain to him that he must take the risk of actions, that in the long run, one is always winner, blablabla ...

This savvy financial advisor seems to have forgotten that if an unfortunate had bought the CAC 40 in 2000, at the time of the internet bubble, 17 years later, it would always lose ... hence the importance of buying low. Now, we are not at a low point, as Bill Bonner reminds us[in his*Chronic*](#). We are at the highest peaks on most indices ...

For there is, of course, a contagion effect between stocks and bonds.

Friday, I was talking about the['financial engineering](#)Which is for some large companies to borrow from the markets to repurchase their own shares.

A little more about this mechanism.

Apple, for example, issued € 2.5bn of euro bonds. According to the document sent to the SEC, the US stock exchange, this loan will be used to repurchase shares and pay dividends, all in dollar.

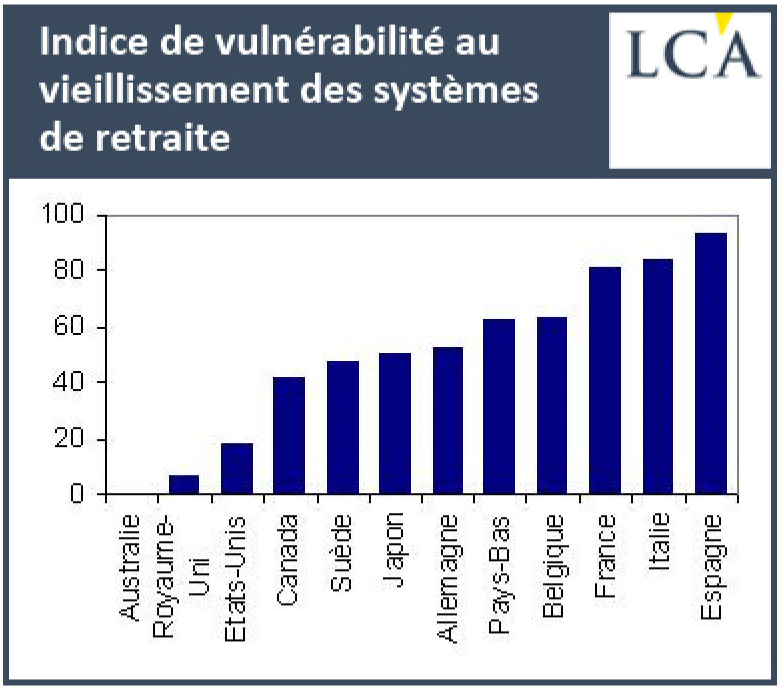
There were two tranches: € 1.25 billion over eight years with a coupon of 0.875%, and € 1.25 billion over 12 years with a coupon of 1.375%. Returns below inflation in the euro area, below historical averages.

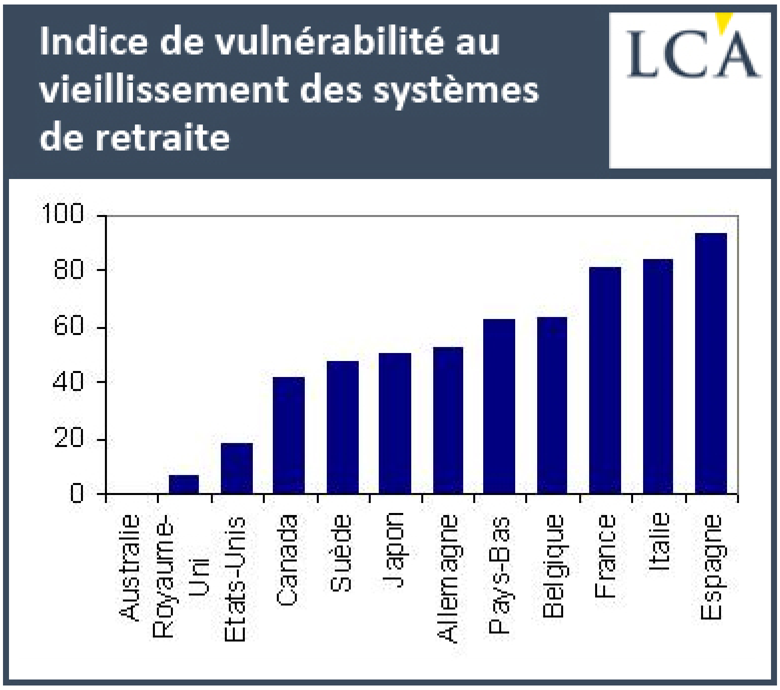
To get € 1,000 a month with a yield of 0.875%, you need a capital of € 1.37 million.

To get € 1,000 per month with a return of 5%, you need a capital of € 240,000.

You enter the difference for the one who saves ...

The pay-as-you-go pension system in France is an exception. Most developed countries use a funded pension system or at least a mixed system. In a funded system, employees save for their future annuities and return is the key to calculating the contribution. With the distribution, active employees pay for the elders and hope that the other generations will pay for themselves.





Source Eclairages Economiques[*http://www.eclaireco.org/*](http://www.eclaireco.org/)

[Editor's note: Do you know the "Brongniart Plan", the preferred retirement plan for the veterans of the Paris Bourse?Click here to discover it.]

The maneuvers of the European Central Bank ruin the pension systems and complementary savings of the euro zone, while making the happiness of the American firms that borrow at low rate in euro.

It is no longer the zinzins managers who will be accountable only to hope for capital gains on stocks purchased very expensive since the bonds do not yield anything.

In their defense, zinzines - forced buyers - say they are only "following the market", pretending and persuading their customers that everything is normal.

It is not so. Today, nothing is normal with regard to all historical norms. € 60bn in monthly payments by the ECB to lower interest rates is not normal.

The maneuvers of the central banks will lead western pension systems to bankruptcy.

Some readers with a social and generous background will argue that this is proof of the superiority of a pay-as-you-go pension system that calls for solidarity between generations and so on.

As a writer of a non-solidary, non-social chronicle and without any charitable pretensions, I write**NO**

This pay-as-you-go system, in which a generation claims to live on the hooks of another is simply unworthy and immoral. The dignity of a biped is to provide for himself. Demography will be responsible for killing this shameful system that is unsuitable for an aging population.