

Reasons to be cheerful

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No one likes a hangover, even if the night before was great fun. In addition to drinking plenty of water and resting, the other main component necessary for a clear head is time. Arguably the recent turmoil in financial markets is the mother of all financial hangovers in that the excesses of the past are now catching up with us. However, time is likely to be a great healer here as well.

Some commentators are suggesting that it will take years to get markets and economies back onto an even keel and that all we can look forward to are doom and gloom. However, at Bloomsbury we see things slightly differently. As our clients and contacts would expect, we don't profess to be able to guess the future but we do think there may be a number of long lasting positives that arise from the unwinding of the financial excesses of the past ten years or so.

Here are our top ten reasons to be cheerful and optimistic about the future:

1. **More talented people available for worthwhile and productive jobs**

A consequence of the massive expansion and boom in financial markets was competition from financial services companies for the brightest and best educated people. With higher than average salaries, huge bonuses and stock incentive schemes, financial companies cherry picked the best candidates, resulting in fewer high calibre people to go into other occupations such as scientific research, teaching, medicine, social work, engineering, technology and business management. With a rapid contraction in financial services organisations, the competition for the best people is likely to reduce and thus our brightest and best might be tempted to channel their energies in to more worthwhile and productive activities. Ultimately this redeployment of human capital will be good for capitalism and lead to a rebalancing of world economies in the medium to long term.

2. **Houses will become affordable again for young people and those on modest wages**

Rents and house values have to fall to levels which reflect supply and demand. Rent and purchase demand is largely driven by affordability in the form of earnings and, in the case of property purchase, one's ability to obtain a mortgage. On the supply side, while it is true that we are an island and 'they aren't making land any more' (except in Dubai!), the supply of rental property is rising as owners can't sell at the prices they desire and this is likely to continue until property prices stabilise. If banks decide to retain investment properties on their balance sheets and rent them out themselves, expect rents to fall even further. The value of residential property will continue to fall until it represents such good value that buyers have the confidence and the financing options available to enable them to buy again. This process represents a transfer of wealth from the older generation to the younger generation, and is a reversal of what happened over the last ten years or so. It should also reduce the need for parents and grandparents to use their hard-earned capital to subsidise the younger generation's property purchase ambitions.



- 3. Builders are likely to start building property in which people want to live**

As Warren Buffet said, “All boats rise with the tide but it’s not until the tide goes out that you can see who has been swimming naked.” When any property was expected to go up in value in a few months builders got lazy. If they weren’t building huge six bedroom ‘executive’ homes that normal people couldn’t afford, they built city centre flats for which there was little real demand other than from speculators and novice buy to let investors. Builders are therefore likely to think carefully about what the market wants and to build only property for which there is actual demand at the prices at which they wish to sell it. This means that there should, over time, be a greater choice of suitable properties and better use of capital and resources in their construction, which in turn should mean an improved quality of life for their occupants.
- 4. Inheritance tax (IHT) is likely to fall as a consequence of falling real property values**

The rapid growth in property values over the past fifteen years or so has been a big factor in the increasing amount of IHT being paid by estates. As property prices fall back sharply, potential IHT liabilities will also fall and negate or reduce the need for complicated and expensive planning for most taxpayers.
- 5. A rise in the appreciation of and rewards for hard work, innovation and patience**

The days of widespread and reckless financial speculation and large scale unfettered risk taking are over, at least for the foreseeable future. With access to capital greatly reduced and corporate and family balance sheets in need of significant repair, we are already seeing a reappraisal of risk and associated returns. Consequently the culture of ‘something for nothing’ and instant riches is likely to lead to a sense of realism amongst individuals and companies and a realignment of priorities and resources, which should lead to long term benefits for societies around the world as inequalities are reduced.
- 6. Slower world growth should reduce pressure on the planet**

Slower growth, contrary to what politicians say, is not a bad thing if people are in general more fulfilled and have purpose and a sense of harmony with their fellow man and the environment. Slower growth, coupled with more efficient allocation of capital and resources, should lead to less environmental degradation and greater sustainability over the long term and a higher probability that humankind will survive and thrive.
- 7. Renewable energy comes to the rescue of the environment and world growth**

With world oil stocks depleting and increasingly under the control of unstable regimes or ‘religious’ despots, there will be greater pressure and political support to develop existing and find new low carbon sources of energy. The financial rewards, together with increasing costs associated with producing carbon, will lead to greater financial rewards for investing in this area. The resulting scientific and engineering advances are likely to accelerate world growth, reduce world tension and re-distribute the balance of world power.
- 8. Increasing life expectancy and quality of life improve understanding**

If people live longer and healthier lives, their accumulated experience and knowledge will be available for longer and as such increase the world’s store of human capital. This may well lead to improved understanding and help avoid past mistakes on the basis that those with experience and wisdom will be around for longer than has previously been the case.



9. **No return to mud huts!**

Putting to one side materialism, which is particularly prevalent in western societies, populations around the world are likely to have an increasing expectation of improving living standards in terms of housing, clean water, education, working conditions and air quality. As living standards improve, populations will not want to go back to basic or sub-standard living conditions. Thus capitalism, far from being under threat, is likely to prosper as long as it is free from barriers to free trade, movement of labour and restrictions on human innovation and entrepreneurialism.

10. **Big changes force people to focus on what is really important in their lives**

As Abraham Maslow observed many years ago in his work on the 'Hierarchy of needs', once humans move beyond their basic and personal needs they are able to move to the highest level of need, that of 'self actualisation'. This level results in a focus beyond one's own needs to those of one's fellow man and humankind in general. Happiness rarely comes from coveting money or possessions and even personal achievements and striving eventually cease to create real meaning and lasting consciousness in individuals. Victor Frankel, in his book 'Man's Search for Meaning' in which he recounted his observations as a concentration camp prisoner, concluded that men and women can always find the 'how' if they know the 'why'.

The recent financial schism and the resulting, probably very lengthy, fallout will cause many people to re-evaluate their lives. There will be a lot of personal pain and suffering as some industries, such as financial services, contract and adapt to the new world order and payrolls are trimmed. Many will lose their homes and retirement savings. In some cases the loss of material possessions and associated status will undermine their self worth and rupture personal and business relationships.

However, amongst all this carnage and significant change, for the ten reasons set out above, the world is likely to be a better place in the long run. Even if we end up with less money, fewer possessions and lower status the real benefit, particularly to those in western societies, is that hopefully they will stop living their lives in either the past or the future and instead focus on living in the present. As Eckhart Tolle states in his pioneering book 'The Power of Now' - 'Whatever you do and wherever you are, be there totally.' We couldn't have put it better ourselves!

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