

# February Monthly Review



8/9 Lovat Lane  
London  
EC3R 8DW  
Tel +44 207 220 9780  
Fax +44 207 926 6925

[www.charteris.co.uk](http://www.charteris.co.uk)

Date: 25<sup>th</sup> February 2010

Following the comments by UK Chancellor that “The Forces of Hell” were unleashed on him following remarks he made about the UK economy one wonders if he was one of the unnamed staff members who complained to the National Bullying Helpline.

On a more serious note what exactly is the outlook for the UK Economy and the various sub sectors of the capital markets more specifically the sectors covered by Charteris in its various funds.

1<sup>st</sup> The UK Economy – Here the outlook is for Low / No growth for the next 4 years or regardless of who wins the Election. All 3 political parties are committed to cutting the present fiscal deficit in half albeit at different speeds and by different means. The Conservatives would make a much quicker start on the deficit reduction and look more to cuts in government spending than increases in taxation. The Labour & Liberal parties are more geared to fiscal tightening in 12 months time with as great an emphasis on tax increases as spending cuts. **However it is simply not plausible that any Government could halve the budget deficit over 4 years & end QE without sending the Economy back into Recession.** Some sort of “Economic Cold Turkey” is therefore inevitable as it is in Greece, Spain, Ireland etc. It also makes sense from a *political* perspective to kitchen sink everything as early as possible in the Government’s term so as the economy is back to normal by the date of the next election ( circa 2015 ish ). It also makes sense in economic terms to start with immediate cuts as well, despite the wails of anguish from the unreconstructed followers of John Maynard Keynes .These individuals do not seem to learn anything from the failure of State Spending & Deficit Financing to achieve anything other than even greater malaise, due to the woeful inefficient use of resources by the State. As Milton Friedman once remarked “ No one spends someone else’s money as carefully as they spend their own “ **You do not cure an alcoholic by giving him more booze any more than you cure a debt ridden economy by borrowing more money.** If Keynesian Economics was the key to a successful economy Japan today would be enjoying the fastest growth of any major economy – instead it is trapped in a deflationary debt spiral on the road to nowhere. (Roads built incidentally as part of the Japanese Government’s infrastructure programme).Furthermore it is not just the public sector that faces a hard time, The UK personal sector is also weighed down with debt and UK citizens are now more pre-occupied with paying down debt than financing a spending spree on borrowed money. This is a by product of the 20% fall in house prices, and its effects on both the lending and borrowing dynamics of the banking market. Despite a £200 BN injection of liquidity into the Banking system we have seen no discernable pickup in the wider measures of

**Charteris Treasury Portfolio Managers Limited** Registered Office: 8/9 Lovat Lane, London, EC3R 8DW –  
Registered No. 1830771 (England).

*Charteris Treasury Portfolio Managers Limited is Authorised and Regulated by the Financial Services Authority*

the money supply. These are very powerful deflationary forces that will not go away for a protracted period of time.

Therefore Gilts should do much better than the herd predicts just as JGB's (Japanese Government Bonds) have done with a deflationary backdrop. No sign yet of any nitro-glycerine effect on yields. A major bear market in Gilts looks to us like a "Gross" misjudgement. The Gilt Fund run by Charteris is positioned accordingly and remains at the top of the IMA Gilt sector.

What about Gold. In theory Gold should not thrive in such an environment as most Investors clamour for Gold through fear of inflation. Charteris has just launched the "Way **Charteris Gold Fund** " and we are very excited about the prospects for this sector and feel that any deflation in the UK is irrelevant to the performance of Gold. Japan as everyone knows has suffered deflation for the last decade during which the Gold price in Yen has risen 300%. In short any deflation is quite capable of being localised as in Japan whereas Gold is a global market in which the price of Gold is determined by global factors. Local difficulties in the UK are simply not important to the price of Gold. Furthermore weak economies tend to produce weak currencies and any fall in the value of sterling will immediately cause the sterling price of gold to rise (all other factors being equal).

Lastly Equities – **Our Elite Charteris Premium Income Fund (FTSE100 with option enhancer)** which is currently top of its sector over 3 years (IMA Equity Income) is defensively placed having recently switched from an overweight position in mining shares into an overweight position in Utilities. We have no commercial property shares in the portfolio and are underweight anything dependant on the UK consumer. We plan to begin this years covered call option programme fairly soon with the aim of hitting the target dividend yield of 8%.

Yours sincerely,

Ian Williams, Chairman of Charteris Treasury Portfolio Managers Ltd