

Friday, January 4th 2019

Dear Chris,

As I walk around the Agora of Athens, with the sunlight reflecting off the marbled Parthenon, perched high above on the acropolis, there are statues all around me with severed heads, gouged eyes, and broken noses that litter this ancient marketplace. The fate of the Greek pantheon of Gods has been calamitous.

But there is one building that remains majestic, nearly intact after 2,500 years. It is the Temple of Hephaestus, son of Hera, God of craftsman...the original Tech God. This pagan temple was converted to the Church of St. George, with crosses on its columns for protection, thus saving it from Christianity's devastating devotion to its single God.

As the Roman Empire adopted the true faith, temples were sacked, books were burned and statues were defaced to destroy the demons within. St. Augustine of Hippo remarked "all pagans were under the power of demons" so the Greek statues housing these demons had to go. Out with the eyes, off with the nose, and, if strong enough, off with the head. Faith prevailed over Greek & Roman reason and a 1,000 years of an intellectual but pagan way of life ended, ushering in the Dark Ages. Finally the arrival of the Dark Ages makes sense to me; we burned the books and banned knowledge. All experimental inquiry came to a standstill, and we went from building the Antikythera (the earliest computer and a must see in the Antiquity museum of Athens) to looting temples and enjoying a bonfire of papyrus.

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We seem to entering into a similar faith-based approach to central banking. Interest rates, our 'old gods' which have been the key determinant for the price of money have lost their pre-eminence. Instead we are now trusting in expansion and contraction of the balance sheets of central banks.

At a touch of a button a newly minted government liability becomes an asset of the central bank. That asset then becomes secured collateral upon which our credit edifice can continue to grow. We all believe in the balance sheets of the central banks...we have to. The proposed reduction in 2019 of the Fed's balance sheet by \$600b, probably equates to about a 2.5% in the old interest rate terms. Combined this with the current level of rates and we can estimate the actual rate.

So the way we now should price money, and thereby correctly value our assets, has totally transformed. Interest rates are out and we must now trust our central banks' balance sheets. Faith has triumphed over reason. And each time our faith is tested the central banks must act or belief is shaken. Quite a conundrum for both parties.

For me, returning to from the blue skies of Athens is a true act of faith.

See you tomorrow - Mustafa