

Sunday, 21st February 2016

Dear Chris,

New York is experiencing one of those crisp, cold days as the political heat in the rest of the country rises. It brought to mind two pieces we wrote in the past - 'Resurrecting Reflation' (Nov. 2012) and 'Gamblernomics' (Feb 2014). In these we outlined how Japan's Q.E. of the 1930s, embarked upon with the best of intentions, eventually allowed 'noxious actors' to come to power. We wondered out loud who, following this current bout of Q.E., would eventually draw up a chair to sit down at our table today.

Well three years later, the American primary results of Iowa, New Hampshire, Nevada, and South Carolina have begun to write up the American dinner list, with Donald Trump and Bernie Sanders being guests of honour. But what are they are channeling?.....It is fear and anger.

It is a fear that 'I am not keeping up;' it is an anger based on a seeming lack of growth of wages, a lack of savings and a static standard of living. Is the fear and anger justified?...Yes. But this fear and anger is a symptom of the over reliance of growth upon credit. It is a discussion of the role of credit that is absent.

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Understandably, the topic of credit would bore the crowd, it is much more entertaining to speak of wall-building and banning.

Credit and energy systems provide our standard of living. It is when one or both begin to falter that our fear and anger surface and we begin to look for answers in the least likely of places.

Q.E. can alter the credit system for a short time but not indefinitely. By concentrating its benefits, Q.E. is perceived to be unfair, and unfair plays to our fear and anger and leads to the arrival of unwanted dinner guests.

I wonder who is coming to dinner in Europe and Asia?

See you on my return - Mustafa