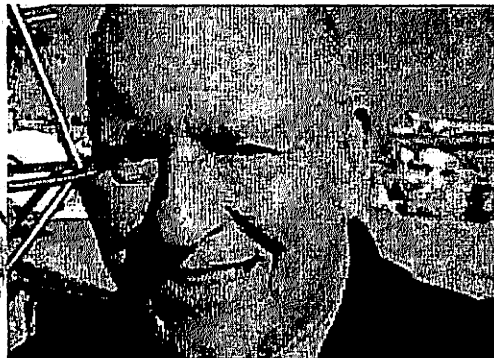
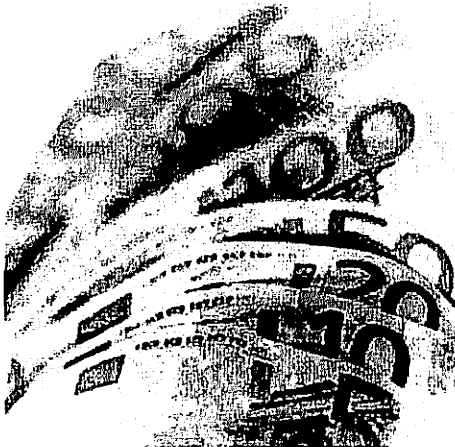


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About Me

Lee Clarke

As a fully-authorized and registered UK financial adviser, I get sick of the poor quality journalism today resulting in much confusion regarding money and politics. The sanitised commentary which passes for "advice" filling the personal finance columns is accepted as gospel by far too many people who as a result see no reason to consult a properly-qualified and trustworthy independent financial adviser. As a result, many people are financially exposed and will run out of money while still hoping to enjoy life.

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Wednesday, October 29, 2008

The economy - where next?

In 1989 the Japanese economy started collapsing and in many respects it has never recovered, so at the Top of the Table meeting in Austin Texas earlier this week I was fortunate enough to be able to network and discuss the world economic situation with Toshihide Yui, a Japanese analyst. Perhaps more importantly I wanted to know whether we could learn how the Japanese came through this dark period in their recent economic history. Around twenty of us arranged a private session with "Toshi" and this was for me perhaps the most valuable part of the entire conference.

Firstly, it wasn't so much that their economy crashed, rather that it had become dramatically over-heated. For example, the value of real estate in the Tokyo district had reached a level that exceeded the value of all the land and property in the entire United States! Clearly, that was unsustainable. So a massive correction, almost 88% downwards, took place in both property and in shares. Interestingly though, whilst the capital value has risen only slightly in the last 17 years the income from shares, along with the GDP of Japan has been steadily rising. Might we see a similar scenario here?

Probably the biggest warning to the West though is in respect of our system of structured products where assets are geared up by borrowings to create a monstrous potential liability. Take Credit Default Swaps ("CDS") for example. These little-known instruments are a form of insurance to cover the much publicised sub-prime lending. The total potential liability on all the CDS's is \$54 trillion. Yes it's a big number, so big in fact that it exceeds the entire world gross domestic product (GDP) which stands at \$48 trillion. It's hard to imagine how such an enormous liability could be allowed to run up. Yet, it pales into insignificance when compared to the \$400 trillion in derivatives, another manufactured and potentially lethal form of investment.

Yet it's not all bad news. Firstly, not all the sub-prime business is bad. In fact sub-prime mortgages have so far made a profit despite the potential for loss. Also, most derivatives and CDS's will survive unscathed. Yet, the system **MUST** be changed to prevent such potentially devastating products being used in future, and as I write this governments across the world are working on legislation for this. Lest you think this may have been the rantings of a lone Japanese economist, these figures were later confirmed quite independently by Carly Fiorina, past CEO of Hewlett Packard and a strong voice in favour of a return to logical, ethical and greed-free business.

At the same meeting I met Ray Kurzweil, a friend of Bill Gates and a man with many technological inventions to his name. Ray is probably best known for his accurate predictions, almost to the month, of the development of technology. Interestingly, Ray regards the current economic downturn as a pure distraction. Technology, he claims, has moved forward in an unstoppable exponential line, largely unaffected by economics. Thus, future technology is always far less expensive than today's. Ray demonstrated a couple of phenomenal examples of technology soon to be available. Firstly, a mobile phone that can take a picture of a document then read it out



loud, so blind people can have immediate access to printed matter. Secondly, a phone which translates your spoken word into any other language. This means that I could pick up the phone and speak to someone in China and he would hear my voice in Cantonese, and vice versa.

Meanwhile, bio-technologists have been developing Respirocytes that are no bigger than a red blood cell. These little robots can re-set faulty genes, clear blocked arteries and kill off cancer cells. Now ... we are a way off having these little fellas in our blood just yet, however they're on the way and Ray Kurzweil predicts by 2025 we will be using them regularly.

Solar panels are about to come into their own again. New developments in solar technology mean that while up to now we have only been able to use about 1% of the sun's energy, we should shortly be able to harness enough to satisfy almost all the planet's energy needs.

So, while the government bolsters up the economy for the short term, it seems technology may be coming up fast to move us forward. I remember many years ago when the arrival of the computer was accompanied by a prediction that 50% of the workforce would be unemployed. In reality new jobs and new industries were created and the world has never been the same. It appears to me we may be on the edge of a similar bio-tech breakthrough which could propel the world into a new, exciting phase. We may have to live with a few months, maybe a few years of economic downturn. The reality however is that we have a phenomenal future.

Back to the economy, my prediction is that we will see a general rally of the UK and US stockmarkets through to mid-2009, then we may see a set-back again although certain sectors of industry, in particular bio-tech, should prosper. In the short term Japanese funds should do quite well, as they have temporarily dipped in value. Interest rates in the UK will fall and indeed US interest rates fell again today. Inflation will rise especially in the UK where the government intends to spend money it doesn't have. This will make stocks and shares attractive again as they are the only investment that consistently delivers a rising income, along with capital growth. We may have to wait a few months but in reality the situation for 2-3 years from now is much more positive. In the meantime, equity and property funds are at a discount and it's a really good time to buy, with appropriate professional advice.

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