Warner Matthews Diaries – Second Quarter 2022

Asset Allocation Musings

Perhaps I was a little hasty in my opening gambit last quarter, assuming life would once again return to normal and that the newspaper headlines would revert to more mundane topics such as the weather or celebrities falling from their selfie endorsed perches. It seems the world has become fully acquainted with rolling from one disaster to the next – the second derivative of the Ukraine War being a continued squeeze on the cost of living at a time when inflation continues to spike ever higher.

Finding a song that felt apt but not too gloomy required a bit more ingenuity this time round. The Oscars ceremony felt like an appropriate stomping ground for ideas. Putting to one side Will Smith's slapping antics, his lead role in King Richard, for which he received an Oscar (or has this being redacted…?), tells the story of the father of Serena and Venus Williams, the US tennis prodigies. As most of us know, there is no one way to raise a child, however there's a lot to be admired in Cat Stevens' *Father and Son* song, its lyrics are worth considering if you know anyone heading down that journey…

It is a riddle, wrapped in a mystery, inside an enigma

These were the wise words of Winston Churchill, making a radio broadcast in 1939 trying to explain and justify the Russian national interest after Russia signed a pact with the Nazis. Although the motivation is obviously clearer this time round, I thought it would be useful to understand how a handful of Oligarchs acquired and amassed their fortunes and how they became despised not just on home soil, but eventually overseas.

In the late 1980s and early 1990s Gorbachev's government turned a blind eye to the first shoots of capitalism, allowing businessmen to import goods into the country and sell them at a considerable mark up on the black market. This was known as perestroika, basically eroding the central planning backbone of communism. From this emerged a swathe of entrepreneurs whose new-found wealth enabled them to benefit from Boris Yeltsin's privatization program in the mid-1990s where he pivoted the economy from a state run to a market-based model. The government's voucher-privatisation policy was essentially a rigged auction, where these local self-made individuals bid for the state's assets using the underlying domestic price benchmarks rather than the prevailing global pricing metrics. Their bids were significantly lower than competing overseas bidders for the same assets, but in a system where the legal process played second fiddle, the "local" bidders were normally preferred. Overnight, these entrepreneurs became billionaires, and rather than reinvesting in the domestic economy, they took their billions overseas and begun to build up immense fortunes across the western world. As a result, they were never considered the equivalent of the archetypal US entrepreneur, namely Elon Musk or Steve Jobs, but were given the collective term of kleptocrats.

The tentacles of their reach meant that government officials and relatives also were "encouraged" enrich themselves as the lines between business and government became ever more blurred. These kleptocrats helped fund Yeltsin's re-election in 1996 and enabled Putin to rise to power. Although Putin's wealth has never been disclosed, Forbes magazine has estimated his net worth to be $200bn; not bad considering his Kremlin pay packet is $100k per year. So how has he become so wealthy you may ask? A quick glance at a fallen oligarch reveals some interesting facets. Mikhail Khodorkovsky was once the richest man in Russia. His fatal move was to underline the corrupt nature of Putin's regime, an accusation that led to his imprisonment on tax evasion and fraud. His fortune was expropriated, and it is said that Putin used this template to recalibrate the playing field to his advantage with other oligarchs (you keep 50%, I'll take the rest or else you end in in the clink with nothing – quite persuasive don't you think).

WARNER MATTHEWS LTD, 121 PROMENADE, CHELTENHAM, GL50 1NW
TEL: 01242 524 386 FAX: 01242 524 171 INFO@WARNERMATTHEWS.CO.UK WWW.WARNERMATTHEWS.CO.UK

Putin's private life is just that, private…he divorced his wife in 2013. However, the Pandora Papers indicated how various close contacts have amassed property portfolios from London, New York and Monaco, monikered Moscow-on-Sea. Fast forward to today and these assets are slowly being frozen with the hope they will one day return to the Russian people.

For anyone interested in this subject matter, I would recommend *Red Notice* by Bill Browder – a hedge fund manager's account of how he tried to navigate investing in Russia in the 1990s.

The Big Mac Index

I suspect this index is one which not many of you are familiar. It is premised on the economic metric purchasing power parity, known as PPP. Am I losing you yet, hold on I say; In order to make this mundane economic theory more relevant and digestible (very good Ed. as Private Eye would say), The Economist has tracked the price of Big Macs around the world for decades as a way of measuring the purchasing power of an individual in one country from another, or put another way the attractiveness of a currency versus another currency at a given time. It is not perfect as Big Macs differ in size and content depending on where you are in the world, but it does often reveal where currencies appear under or overvalued. Let me explain using their February data release: - A Big Mac costs $1.86 in Turkey versus $5.81 in the US. The Turkish exchange rate is 4.30 lira per dollar in terms of the Big Mac Index. However, the actual exchange rate between the lira and the dollar is 13.42 lira per US dollar. As a result, this indicates that the Turkish lira is 68% undervalued by the "market".

I wouldn't recommend you use this as a gauge to trade forex from your sofa, but if you're looking for a cheap holiday, the most undervalued currencies are Russia, Lebanon and Indonesia. There maybe a good reason to keep these destinations off your summer holiday wish list!

Spring Budget – not noticeably a vote winner

Set against a tide of price increases, the Chancellor stated that "tough long-term decisions" were necessary. There was no delay to the National Insurance tax hike, despite a rise in the threshold level. Fuel duties were cut by 5p per litre, only the second time in 20 years, however as one astute lorry driver remarked, this 5p cut would likely be negated by a 5p rise in pump prices the following week. There was no additional support for those on benefits which may explain the continued increase in food banks. All in all, a somewhat damp squib considering the current backdrop…

Student Loans – how to lighten the load

I thought I would share a recent extract from Martin Lewis from the Money Saving Expert for all of those with children heading to or at university currently racking up the debt pile. An effective way to tackle this is to find a balance transfer card with up to 35 months zero percent interest. This means you get a new card to repay the debts on old cards, so you owe it instead but at zero percent.

Your repayments then clear the debt rather than just covering the interest. Some providers will offer cashback as an incentive. The likes of Virgin Money, HSBC, Sainsbury's Bank all offer extended periods (over 2 years) of zero interest on their transfer credit cards with zero percent interest.