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# INSIGHTS & OBSERVATIONS

YOUR GUIDE TO FINANCIAL MARKETS AND INVESTMENTS

May 2018

**W**elcome back. As Mr Dickens so succinctly observed in his 1859 novel **A Tale of Two Cities**, 'It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness...'

Sound familiar? Well, we today can fit many current events into this apt description originally applied to a period leading into the French Revolution, and set in London and Paris.

Our political landscape across the world has increasingly become the seat of foolishness as the quality of leadership remains in a downward and accelerating spiral. We should all expect to pay more in future for progressively more disappointing decisions which produce unhappy outcomes.

Conversely the benefits of technology expand and enable us to enjoy products and services which improve our health and safety, and which continue to become more affordable for us all. Despite the usual unintended consequences of scientific progress, society today is much more secure and prosperous directly as a result of compounding the work of generations of scientists from our distant and near past.

So yes, today we have these two very large trends conflicting and in apparent opposition, yet we can again

draw on histories' examples for clues to the eventual resolution of these dichotomous trends.

History says the foolishness is temporary, and the wisdom along with its 'best of times' will continue and overcome the shorter term political problems.

I've veered off on this tangent after rereading the two featured articles of this month's issue, which as usual you will find on the next page. In reading many

dozens of articles and research every month, I have recently noticed the pattern Mr Dickens so eloquently described 159 years ago. Investors have generally prospered during the past several years, while simultaneously government debts and societal stresses have grown.

With rising interest rates the stakes also climb and the tension between the two forces noted above could become more vivid, as politicians' promises start being broken more frequently due to

degraded national balance sheets. Investors should be aware of these risks and must pay attention to social as well as economic trends.



Have a good month and enjoy the better weather!

*Philip*

## May's Articles

**A**s interest rates finally start to climb after 35 years(!) of steady declines, the lessons of history should be revisited by investors who understandably have little or no personal experience with this 'new' environment.

Interest rates peaked in 1981 around 20% as the US Federal Reserve attempted to finally quash the inflation which had traumatized investors and economies throughout the 1970's. It was a brave move to push rates this high with acute short term pain for homeowners, businesses, and debtors. Fortunately it worked, and after 1-2 years of record interest rates inflation fell as recession commenced and excesses were purged from the system.

History regards the decision to force rates up to record levels as courageous and a successful example of tough love. Had this decision not been taken, or if policy makers had lost their nerve, the likely outcome would be a replay of the infamous Weimar Republic hyperinflation and collapse of Germany's economy in the 1920's, and subsequent political disaster of the 1930's.

Focusing on that political fallout for Germany and the world, in the article linked below **Professor Harold James** examines the path from weak economies to authoritarian governments and leaders. While he has chosen to focus on the US and the UK as his current political worries, I would suggest the near-dictatorships in Russia and China carry much more risk. That said, his analysis includes interesting and important observations which find growing parallels in today's world.

With most governments at risk from rising interest rates given their precarious debts, investors are wise to familiarize themselves with these sorts of previous historical events triggered by economic shocks.

<https://www.project-syndicate.org/commentary/weimar-republic-lessons-for-today-by-harold-james-2018-05>

**S**an Francisco based money manager **Ken Fisher** is a veteran investor. His firm has long focused on quality stocks as the basis of their 'value' investment approach.

One of the many pleasant outcomes of a long career as a successful investor is the opportunity to meet and learn from accomplished people. As an investment business grows, clients relationships also grow and often expand to include very successful business owners, corporate leaders, and entrepreneurs. I also consider myself quite fortunate to have many of these relationships and have certainly advanced my education thanks to clients in diverse arenas.

As you'll read, Mr Fisher sounds to have had similar experiences during his tenure as manager to many thriving families. His observations about human nature and the vital role creativity plays in the advance of society are important and underappreciated. Throughout history we've been consistently confronted with huge problems and disaster scenarios, yet life just keeps improving for virtually everyone. Of course there have been setbacks and plenty of mistakes and worse along the way, however as he points out, we always solve the big problems and continue to advance to the betterment of society.

<https://www.usatoday.com/story/money/columnist/2018/04/01/how-profit-off-horse-dung-your-retirement/471559002/>

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### WHAT THEY SAID

*"Science and technology revolutionize our lives, but memory, tradition and myth frame our response."*

Arthur M. Schlesinger