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EH You see **financial markets** are typically about six months ahead of economic markets so generally they'll predict or see economic recovery about six months in advance and **so the story that sort of fell out in 2008 in financial markets we're now feeling.** So, for example, rising unemployment is what we call a lagging indicator that occurs at the end of the chain whereas people like me look at leading indicators, what's happening at the front of it.

Mark Cagney (M) The **green shoots?**

EH The **green shoots** yeah and 2008 was an unmitigated disaster because stock markets collapsed from you know the **Dow Jones,** which was a big **American measure,** fell from 14,000 to about 7,300 or 400 and it's now around 8,000. But a number of very interesting things are happening.

EH Firstly, **unlike the 1930s** and a lot of the what I would regard as misleading commentary and comparisons, there is just an enormous **amount of cash on the sidelines in world markets** and it's absolutely staggering it beats the build up before the Second World War and that cash is now getting nothing if you leave it in the bank. **And we're talking about trillions of yen, euros and dollar.** The United States has been hoovering in money. This is US government treasuries. They create debt, the IOUs, give us your cash and we will you know will get back to you in 10 or 15 years time. They're now paying less than 3% for their money, the American government, and they're borrowing trillions. So this huge big lump of money is going into the US government and it's the biggest economic poker game in history because the money is going into the US government by investors, big **institutional investors on the assumption that we could be entering into a long-term deflation depression type thing and this is the safest place to put it.**

Yet the US government is taking the money. Thank you very much and is trying to create inflation, which is the opposite of what the investors are giving the money for. So who's going to win that and my bet is on the US government. They just keep creating enough money. Now that creates another problem later. So that's part of their stimulus package and the money they're putting into they're banks, that's another good reason.

Another reason is that the **Baltic Freight Index,** which is an index of you know futures on **freight movements around the world,** literally fell through the floor last year and it's now beginning to recover. **It's above its lows in 2002, which is the big last dip.**

Small stocks are beginning to outperform large stocks, which is very unusual in a recessionary market. Mortgage applications are on the increase again **in the United States** and in the UK because people are saying there's now value again in property markets, so we may be close to the bottom of falling house prices, **particular in the United States. I look at the United States a lot because that's where the problem started. That's where the recovery the early signs of recovery are going to begin.**

There is a rallying point around the new President, Barack Obama, so they're all the positives now the negatives are pretty overwhelming as well, so I won't bore everybody to death with those, but **there is still a very high risk that this is going to last a long time. But, I'm on the other side of the fence. I actually believe that financial markets this year are going to literally go through an enormous rally because they're hugely oversold. They have factored in a multi-year recession and all that cash is like a dam, it's going to have to burst out at some stage into something and it's going to come into property, it's going to come into blue chip shares and so on and you know the Americans aren't going to stay out at the malls for too long** cos it's what they do. It's like us staying out of the pubs, you know, and I think therefore that there is still a hope that the second half of 2009 will see the beginning of fragile recovery in the United States and in Europe.

M. Okay, so huge Barak is going to save us or America?

EH "But he's a rallying point. I mean he's just a human being, he makes mistakes."

M. Really? Read some of the press.

M. So if you do have cash then?

EH "Get rid of as much debt as you possibly can or shed as much of your debt as you possibly can."

M. How do you shed debt? A nest egg will probably wipe out my debt, but what happens then.

EH Well after retaining about six months lifestyle costs in cash, you should use whatever available resources you have to clear your high cost debt, your credit cards, your term loans, **not your mortgage,** but the higher cost stuff because at a time of low inflation and disinflation in other words 1% or 2% inflation, you know debt is very, very expensive and your bonuses, your earnings, your commissions are all being cut back so actually feeding debt is extremely, is a very hard thing to do so you should definitely look at bringing down your debt in so far as you can.

I think that one of the things the government could be looking at if it's not already done so, although I don't have a lot of confidence in the intelligence inside in the Department of Finance to be honest. I think there needs to be a cleanout in the Department of Finance for the incompetence of the civil service in the last government and the government itself, of course, but one of the things they could be doing is allowing people access to their pension funds. Small business people throughout the country could be allowed take their capital back out of the pension funds they have built up over the last five or six years as they're not getting the capital from the banks to bring down their debt as well as, you know pump money into their businesses, subject to maybe an interest penalty of 10% cos they got tax relief on the way in. And that's available, for example, in the United States and if it were available in Ireland, it would create a pool of money, a potential access to a pool of money of €40, €50, €60 billion, depending on where you actually open the key to the lock.

The other thing that you should be doing, I think, is you should be **buying gold** and I've been saying this for years now because gold is a hedge against declining dollar, rising inflation and uncertainty. There's only about four swimming pools in the world, Olympic size swimming pools of gold. That's the total gold in the world and you can buy gold as an exchange traded fund through a stockbroker like there's one called Lyxor Gold Bullion Securities, or you can contact a Dublin agent called Gold and Silver Investments and you can buy Perth Mint Certificates from the Australian government and you can invest in gold that way rather than take delivery of gold.

And about 5% or 10% of your investments should be in gold, should always be in gold anyway. I mean the Asians do this as a matter of course whereas we regard as quite unusual, **but gold is a store of value so its an insurance against catastrophic falls in the value of other assets.**

Also, another area I think that when we come out of this cycle, the next cycle is going to be marked by very, very high inflation because of the level of debt that's been created in the world and also because of the return to the commodity bull market, rising oil prices and you can protect yourself against that by investing in inflation-linked European government bonds who are very cheap at the moment and the way you invest in those is you there a fund that Standard Life operate called the Euro Inflation-Linked Bond Fund and it has a spread of largely French bonds that you can invest in through that fund.

M Well look, those tips and others indeed like, do consider changing careers society feature strongly in the February issue of You and Your Money as he is staying with us.