

## Parallel universes ...

### 1. Nonchalant stock markets?

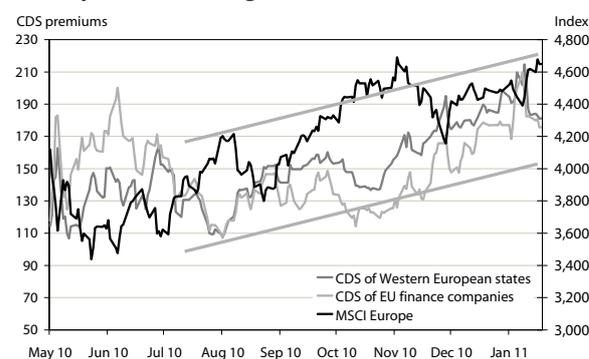
Just a year ago, we painted the picture of “well-being under the Sword of Damocles”. In the context of the threatening insolvency of the Greek state, we pointed out that there were in the eurozone other candidates for insolvency and its consequences: far more serious candidates in terms of their debt. The rescue of Greece might well prove every bit as illusory as that of Bear Stearns, the investment bank, which was promptly followed by the collapse of Lehman Brothers; the “Lehman Brothers” among the nation-states would then be Ireland, Portugal, Spain or Italy, or, far worse, all of them at once. This, then, was the Sword of Damocles, suspended by a slender thread, that could yet destroy the still fragile economic upturn, and with it, the cautious optimism on the financial markets.

Now – to overstrain the image a bit – the Sword of Damocles still dangles, as correctly postulated, but this does not seem to seriously disturb either the recovery of the global economy or the mood on the stock exchanges. Of course, when, for the umpteenth time, politicians proclaim the excellence or inadequacy of the European rescue package which they see as the only solution for the debt problem, this discomfits the markets and the common European currency generally suffers yet another fit of the vapours. But we are far removed from a situation on the global financial markets in which the European crisis is regarded as a real problem for all participants. Indeed, the prevailing nonchalance goes a great deal further: in the very country that is most likely to have to carry the greatest part of the cost of this economic mismanagement – Germany – both exports and, increasingly, the domestic economy are flourishing and the stock exchange is enjoying a new boom.

The figure below is an attempt to illustrate the contrariness of the situation. The development of credit risk premiums for the European debtor states and for the banking system that finances them is set against the rise in the European

MSCI stock market index over the same period. Does this depict frivolity, illusion or a justified belief in self-healing capabilities or external help?

### Hooray: risks are rising!



Note: Both CDS curves refer to the left-hand scale; the development of the MSCI Europe to the right-hand scale. Source: Bloomberg, analysis

“There’s a crisis, and no-one turns up for it”: this formulation might serve as a further misuse of a strikingly relevant image – Bertolt Brecht’s dictum on war and peace. In this Investment Commentary, we do not intend to use brute force to deconstruct the patent contrariness of the situation in the direction of a consistent perspective. Rather, we hope to show that our world as a whole, the global economy and the systems linked to it, including the financial markets, is heading for a state that allows the existence of parallel universes. Parallel universes that enjoy a degree of stability for a certain period, until a state of equilibrium begins to be re-established. We can state the key conclusion of our deliberations straight away: we are moving ever further away from a state of controllability in our circumstances. The only really dangerous illusion is precisely that of controllability. That applies in particular for investors and their assets.

### 2. Parallel universes are nothing new, but ...

Whenever we consider new phenomena, we rapidly come to the conclusion that “new” is a fairly misleading description, for there are few really new things under the sun. It is more a matter of accentuation, or perhaps the enhancement of what already exists. There have been parallel universes since the dawn of humanity. For we

are, by our very nature, designed for, or cursed with, the wearing of masks. Human reproduction functions by way of a masquerade – those needed for the survival of the fittest are not necessarily conceived in wedlock: women conceal their fertility, and men have neither horns nor an obvious rutting season, but pursue genetic dominance by clandestine means. The result is more or less stable parallel universes, in which appearance often counts for more than reality. From time to time they fall apart, and the truth (or at least some of it) appears. Human tragedies, great or small, then result, and possibly even crises of state and wars, when we consider Troy, for instance. It's happened over and over again; indeed, it's more or less the only continually fascinating literary theme and thus one of the key determinants of the *condition humaine*, of human culture.

What is new, though, is the way that by means of the internet and all the other modern means of communication, these parallel universes can transcend local constraints and have global impact – and are accessible to every individual. In Shakespeare's *Othello*, Iago thought he could manage parallel universes at the Venetian court for his own advantage; today the entire world is open to one and all for their own masquerades, on whatever scale. The belief that this is all a virtual phenomenon, a reality that can be expressed simply in terms of a few billion gigabytes, is utterly wrong. There is, in effect, no longer any such thing as unadulterated reality; masquerade has become the rule. And vice-versa, interestingly.

This is perhaps most obvious in those internet games that can last for hours or weeks, in which the players (mainly of Arab origin) must maintain an entire court of other players and assistants in their service, so as never to have to interrupt the game and thus endanger their score. Real money and real people are here deployed to operate parallel universes. There are games in which you actually have to buy diesel fuel, on your credit card, for the tractor in order to plough the fields. Those who only buy oats for a horse-drawn plough are at a disadvantage. The game platform on which these parallel universes are based generates tangible revenue; virtual reality and the real world join hands.

When the Initial Public Offering (IPO) for the internet platform "Facebook", skilfully prepared by Goldman Sachs actually takes place, it will then be clear that parallel universes have become as real as the Matterhorn above Zermatt or the Statue of Liberty in Manhattan Harbour. Facebook represents the current high point in the

establishment and operation of private and semi-private universes on varying scales. What appears on Facebook is often far removed from the real face of reality, and has far more to do with the deliberate creation of artificial perception. Facebook accommodates the *condition humaine* of the need for masquerade in absolutely breathtaking fashion. Anyone can present themselves as an alpha male, lord of all he surveys; anyone can lurk submissively in the shadows. There are literally no limits set to the multiplication of the self – which is no longer exclusively genetically motivated.

We are not here concerned with determining whether this explosion of parallel universes is a good thing or a bad thing – that we gladly leave to the moralisers. What must be said, though, is that masquerade is no longer a merely local phenomenon, but has achieved global dimensions, and "virtual reality" has clearly become a significant component of our own reality. We need to look further into this, starting with the question, which arises inevitably as a consequence: How *real* does so-called *reality* remain?

### 3. Power shifting to the Net

Until relatively recently the world was governed by the principle of territoriality. Separated by the Iron Curtain, most countries and their inhabitants were clear about where and to whom they belonged: to the relatively free, market-economy, democratic and socially structured West, or the nominally communist, but de facto above all totalitarian, oligarchic and nationalist East. Means of communication were still so archaic, and transaction costs between countries and continents so high, that global networks were inevitably constrained within narrow boundaries. Genuinely global at this period were only a few internationally active companies and those states that, as a result of their history (colonies) had developed such abilities, or which had been obliged by their claim to power to assume a more or less global disposition (USA).

With the geopolitical changes after 1989, by the beginning of the 1990s we already anticipated a significant diminution of the territorial principle, and with it of political influence. The historian Francis Fukuyama spoke of the "death of history", because economic exchange had become so much more effective than political (and ultimately military) confiscation that "historical events" would no longer be worthwhile, and so would not occur. That was premature and, we are happy to admit, over-influenced by wishful thinking. Deregulation had then achieved only a little momentum, and the hope was that the foresee-

able reduction in the importance of territoriality would provide an impulse for general liberalisation.

Things turned out differently for two reasons. Firstly, while released from the influence of the Warsaw Pact, the world still lacked a reorganisation of zones of influence, which encouraged the USA to initiate a whole series of “historical events”. Secondly, one of the key sectors of the capitalist system, the financial sector, came together with the state in the form of a collective based on a common destiny and shared benefits, which resulted in the excessive levels of bank and state debt that weigh so heavily on us today. Instead of the forecast reduction, the consequence for the last 20 years has rather been an inflation in the importance of these dinosaurs. History may perhaps one day come to see a causality between the threat to states of globalisation and their recourse to the financial system. In the sense that when control over taxes, debt, interest rates and regulation threatened to slip away, states sought, and found, their indispensability in involvement with the financial system. The indirect subsidy of banking by means of the implicit state guarantee was naturally welcomed by the big players in the financial system. However, let’s leave that to the historians.

What we can, and should, do now is observe and assess the phenomena that, despite everything, do indicate the prognosticated reduction in the importance of territorial bodies. First in the series come the many non-governmental organisations (NGOs), which have grown significantly in importance since the beginning of the 1990s. The most obvious of them, because that is explicitly part of the way they work, are the globally organised environmental organisations. No internationally active concern can afford to take the codes of behaviour and individual stipulations of important NGOs any less seriously than the laws and regulations of the territories in which they operate. The sanctions available to NGOs are not, as with states, the use of police methods to ensure compliance, but the use of biased media reports to damage business. NGOs have effectively achieved the power to make and implement law in significant areas of international interaction, and thus displaced territorial organisations. Thanks to practically unconstrained and cost-free communication, the tentacles of Greenpeace and the WWF reach into every corner of the earth. Bypassing the cumbersome official channels that territorial organisations are bound to, they can be active throughout the whole depth of their highly integrated value chain, and are thus often more effective than state organisa-

tions. Their spectacular actions in individual cases have a powerful generally preventive impact – the mere anxiety about once becoming the victim of such an action encourages “compliance” not merely with the rules of the state, but also with higher-order, often unwritten rules. Here too: we are not concerned with whether this is a priori a good thing or not. We merely observe.

NGOs of the traditional type have recently acquired considerable competition from constructs that develop and act far more spontaneously: internet forums, blogs and user groups. No theme or topic without a vast number of people ready to comment on it. The territorial discussion group has expanded exponentially and effectively exploded; via Twitter, Facebook and Google every statement and every comment achieves unconstrained global dissemination, regardless of whether it is true or false, informed or stupid. Worse still, the memory for all these statements is unlimited and undeletable; the only obstacle to their consumption is their sheer volume. And let us be in no doubt: the potential for mobilisation offered by these forums is immense. The American investment bank Morgan Stanley is currently getting first-hand experience of this. A frustrated Chinese client, the previous owner of the Dangdang company, which was valued by the US stock exchange at just on 100 percent higher than the IPO price, has set off an avalanche of protest of breathtaking momentum. Over 2,600 comments, some of them highly vitriolic, were posted within 24 hours. Even if everything has been done properly, the damage done to the bank concerned cannot be made good; the lack of any reachable addressees makes any sort of compensation unthinkable. Put differently: here too, state sanctions have lost influence, and the effective exercise of power through the parallel universe of the (virtual?) internet has gained.

#### **4. Wikileaks: a quantum leap**

The Enron scandal in America set off a wave of transparency, that washed around the world (in the form of the ubiquitous, uncritical acceptance of the Sarbanes-Oxley standards) and, among other things, brought us the unutterable complications of the “Internal Control System” (ICS). History may in due course see this wave of transparency as part of the inflation of the importance of the territorial dinosaurs, in the interest of their indispensability. There have, however, been signs of back-peddalling since the financial crisis. As there are significant uncertainties about valuations in many areas of the economy, and because a bit of room for manoeuvre is desirable, given

the high level of debt of the banks in particular, accounting standards have, in the last two years, been significantly relaxed, contrary to the “fair value” principle. Arbitrariness now reigns in the area of “financial investments”, often an important component of banks’ balance sheets. What is significant here is that, while it was previously hidden assets that were held intransparently in the interest of greater security, we now typically see over-valuations aimed at concealing the level of debt. Today’s masquerade conceals not a beautiful face, but an ugly one.

Nevertheless, transparency is still much prized in public perception. It is treated as an important good, if not a human right, and anyone who opposes greater transparency is a priori a suspect gangster. Any and every organisation, and state ones in particular, is fundamentally suspected of abusing its power through intransparency. Mechanisms and organs for the control of state (and if need be economic) power are automatically regarded as inadequate. The proponents of greater transparency are motivated by profound mistrust and a generous portion of anarchism. Superficially, we might regard these efforts to achieve greater transparency as an attempt, in part, to do away with the parallel universes that have undoubtedly found their niches in the ever more complex structures of the state, and which undoubtedly can (even in democratic systems) take on illegal attributes. We need, however, to look more closely at the question of whether the efforts at disclosure result in fewer, or, on the contrary, in more parallel universes within complex structures.

“Wikileaks”, the internet community for more transparency in the state, the economy and society, represents a quantum leap comparable with the fall of the Berlin Wall or the destruction of the Twin Towers on 11 September 2001. How so? Because with Wikileaks, the world will have to be organised differently. States and other, particularly large, organisations have lost control over their own data. A significant portion of sovereignty has simply disappeared. Even with every effort in future at more secretive organisation – far better encryption for internal mails, much more restrictive distribution lists, key issues dealt with verbally – an indefinite public claim on data will remain, and the originator or owner of confidential content will always be susceptible to blackmail. Via Wikileaks and the internet, the most insignificant cog in the works of a vast organisation can turn into a powerful usurper. Like Corporal Bradley Manning, who leaked the 251,287 internal reports and situation assessments by US authorities, no doubt because

he’d been mobbed by his comrades on account of his sexual inclination. What organisation is without its own Bradley Manning?

Wikileaks has undermined the formal processes and systems for revealing abuses established by democratic state bodies organised under the rule of law (review commissions, auditors, parliamentary investigation committees, impeachment proceedings). The end – transparency – appears to justify any means; Wikileaks makes no distinction with regard to the legitimacy of the state or economic bodies concerned. While we may experience a degree of *schadenfreude* with regard to Wikileaks’s sceptical attitude to the USA, there would be nothing wrong with some additional transparency on, let’s say, internal processes in Russia, China, Iran, North Korea, and other countries about which we are far less well informed than we are about Washington, overrun as it is with commentators of every shade. To this extent, we may wonder whether Wikileaks does not contain a self-destructive element (effective against open Western societies). Like NGOs, Wikileaks is at its most effective in open societies. Where censorship and arbitrariness rule – and where transparency would really matter – its impact is seriously limited. We are familiar with the resulting asymmetry in favour of authoritarian regimes from the time of the German and Italian terror groups. Wikileaks will have to live with the suspicion that it may be in the service of the dark side.

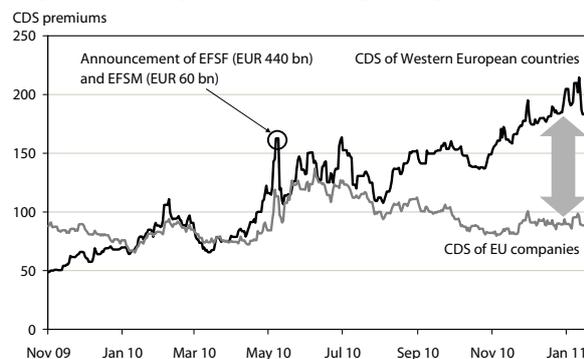
Discussion of the Wikileaks phenomenon has not yet progressed far, but some outlines are now detectable. Firstly, like certain internet forums and globally active NGOs, this community is not a state entity in the strict sense, because it lacks territory, instruments of power and tangible authorities. But in terms of impact, its power and its sovereignty cannot be denied, and so we speak of “war” between Wikileaks and its opponents. Secondly, Wikileaks is far removed from being a viable alternative to the control mechanisms and authorities of a democratic state under the rule of law. Its disclosures are arbitrary, take no account of other legal rights worth protecting, and pay no attention to the principle of proportionality. The provision of the material may often involve criminal activity; Wikileaks cannot (yet?) offer whistleblowers any protection. Thirdly, like most internet platforms, Wikileaks has an immense problem with sheer volume. Ninety percent of the material published is trivial, and dangerous only to the extent that it reveals the deplorable intellectual and educational level of its authors.

Nevertheless, we believe that Wikileaks does represent a quantum spring in our brave new world, because it clearly establishes a sovereignty in data ownership parallel to the territorially oriented world of the state. It is beginning to look as if territoriality is being replaced with control over data and its appropriability by individuals and organisations. This needs to be put on record.

### 5. From reality to illusion

As we observe how, thanks to the internet, more and more globally effective institutions with quasi-state attributes come into existence and develop real power, we also see more and more signs of disintegration in the previous reality of territorially based stability. The past year may represent the turning point with regard to the assessment of states, in that for the first time in history, the markets have begun to assess the risk of insolvency for states as higher than for private companies. What is remarkable about this situation is that it concerns not merely individual states, such as Greece or Iceland, but a whole community of states. Furthermore, the European rescue package mentioned at the start has not only done little good, but has been counterproductive. Indeed, with every “improvement” to the package, the credit risk premiums for the likely donor nations – Germany and France in particular – have risen. What would happen were the European Central Bank not to continue swallowing the bonds of the worst debtor states does not bear thinking about. Belief in the feasibility of a rescue remains seriously limited, whereas the suspicion prevails on the market that in the event of failure or even partial success, the attempt will prove to have been extremely expensive. The figure below shows clearly that this assessment is neither arbitrary nor panicky, but, given the persistence of the situation, must be accepted as a consensus opinion.

#### High credit risk premiums – a long-term phenomenon?



Note: EFSF = European Financial Stability Facility, EFSM = European Financial Stabilisation Mechanism  
Source: Bloomberg

Such signs of disintegration, in the form of threatening insolvency, are by no means confined to the Old Continent, but also characterise the situation in the USA. What is lacking in Europe, but is present and functions smoothly in the United States, is the Federal refinancing system via T-bills and credits to quasi-governmental institutions. Despite its exorbitant debt, the USA is currently in no danger at federal level, not least because its monopoly currency ensures that there will always be enough external purchasers of dollar debt. The more immediate threat in the USA is the situation of some of the states, which are only able to conceal their insolvency by means of jiggery pokery, as recently exemplified by Greece (see the *Neue Zürcher Zeitung*, no. 12, 15.1.2011, p. 29). In parallel with their miserable financial situation, more and more states fail in the provision of the simplest, and in principle most natural services; the infrastructure, public safety, healthcare, education are in a miserable condition, and far from any hope of improvement – rather, the opposite.

Failure in the basic tasks, continual meddling in matters that should be the prerogative of the private sector, doubts that the obligations incurred can ever be even nearly fulfilled: that is a summary of what we mean by signs of disintegration. It affects the whole Western world – with the exception of Switzerland! Not least for this reason is Switzerland’s currency currently so attractive. But is this positive perception really justified? In our view, at best partially – in regard to the provision of basic services. Because they function close to ordinary citizens, most state services are relatively efficient, and the administration is reliable and not corrupt. The infrastructure as a whole is in good shape, the state schools deliver acceptable results, and healthcare is of a unique quality globally, and that for the entire population. Happy Switzerland.

However, this reality too is deceptive. For when it come to the state’s meddling in private affairs, Switzerland is up there with the rest of the world. Indeed, precisely because our administration functions relatively precisely, the nominally somewhat less dense regulation is in reality far more damaging than abroad, where more lax practices are the rule. Far worse, however, is the implicit incurring of debt through baseless – that is, not properly financed – promises. Not only the politicians responsible, but also the majority of citizens avert their eyes (deliberately or through ignorance) from the parlous state of the pension system, which is being increasingly eroded year by year, and in this way are effectively strangling themselves. In the second pillar, the private pen-

sion fund system, a politically determined and excessively high conversion rate means that the contributing generation cannot save enough. Those conversant with compound interest can estimate the sum that this generation will one day lack. The view generally held in Switzerland that the first pillar, the state old-age pension, is soundly financed, is sadly also misguided. Were the current generation of pensioners to be paid out now, and the generation now contributing to have their contributions so far repaid, the result, according to our calculations would be a gap of some 1,000 billion francs. 1,000 billion francs represents around 200 percent of Swiss GDP.

The corresponding estimates for Germany are 300 to 400 percent, and for the USA, including the healthcare system, 500 to 600 percent. True enough, but that doesn't make things any better – unfulfillable promises remain problematic, regardless of the extent to which they cannot be fulfilled. For they are basis for the dangerous transition of an institution previously perceived as a haven of stability from the high pedestal of reality to the abyss of illusion. Our Western states have degenerated into parallel universes, in which all that counts is the appearance of stability. Those blessed with the gift of reason no longer believe this.

It is interesting to observe the way in which those bodies whose credibility has been thus weakened seek – reflexively, we might say – other means of ensuring their survival. They themselves become increasingly like NGOs, or combine into NGO-like constructs. G20, the OECD and the IMF operate in strikingly similar fashion to Greenpeace or the WWF. And states deploy the possession of data in the place of territorial authority. Schengen, the battle against the so-called international financing of terrorism, and the USA's FATCA taxation project are clearly all moves in this direction. The blurring of boundaries between differing parallel universes is in full swing.

## 6. What about the central banks?

In the context of “signs of disintegration” and “parallel universes”, the focus increasingly turns to the central banks of the Western states. They played an active role in so-called system stabilisation in the wake of the crisis over state and bank debt. Essentially, not only did they ensure the provision of sufficient liquidity in the banking system – the classic function of central banks – but they also allowed themselves to become involved in preventing the insolvency of over-indebted banks and states. In the “Quantitative Easing” (QE) programme, the Fed continually

purchased its own Treasury bills, at times taking more than half of what was auctioned. The European Central Bank, to which is ascribed, for reasons that escape us, a more restrictive monetary policy, invested in the debt of European countries. The balance sheets of these central banks have expanded by multiples in recent years.

QE can be justified on monetary grounds – and this is, of course, being done enthusiastically – by raising once again the ghost of deflation. But QE can also be regarded as a tool for the bailing out of distressed debtors by a body that, with a central bank's legally established monopoly, can make available unlimited liquidity, through which overindebtedness can be made to disappear, almost like a “free lunch”. It works like this: rescuing the system enables the economy to recover significantly, thus reducing or eliminating the payment problems of distressed debtors. All you need to do is wait long enough, and the central banks can do that.

A bail-out like this would, of course, involve an enormous “moral hazard” issue – who in future would behave with economic responsibility in the knowledge that the central bank would always provide a “free lunch” as a way out of a difficult situation? There are also, in our view, two or three other questions to be answered. These concern the existence of the central banks and their credibility as institutions of decisive importance and havens of stability. Firstly, look at it how you like, the financing of domestic debtors by a central bank contains an element of tautology. This is particularly obvious when the Fed buys up and stores Treasury bills. Both institutions, the American Treasury and the Fed, belong to the American people. In consolidated terms, nothing has therefore been financed. That is an unusual state of affairs, to say the least. Secondly, there is no doubt that with the aggressive expansion of its balance sheet, the Fed has incurred counterparty risk. What happens in the event of a major default? Will the gap be monetised by means of the printing presses, or will the Fed be recapitalised? If the latter, by whom? The overindebted state? Thirdly, as the expansion of the balance sheet was principally aimed at the interest rate level at the long end of the yield curve, liabilities with long maturities are likely to be in the majority. Consequently, the positions carry an interest-rate risk. The question is, can an independent monetary policy be expected when any rise in interest rates might induce insolvency?

Most economists dismiss these concerns. They say that central banks do not need equity; the

ability to issue money is sufficient. Objection: this theory predates QE. The rise in balance-sheet risk requires appropriate provisions. Not for nothing has the European Central Bank announced a capital increase. This makes even less comprehensible the final results of the Swiss National bank (SNB), whose balance sheet has more than doubled over the last three years. Instead of making provisions at least to the extent of previous years, and allocating any remaining surplus to the Federation and the cantons under the existing agreement, it decided on a distribution of precisely 2.5 billion francs, with the allocation of the residual few hundred millions to provisions for currency reserves. Simply in terms of figures, this will not, of course, shatter the SNB. What is shattering is the attitude of the responsible bodies, for whom the consistency of the distributions is obviously more important than the ex ante requirement under the central bank legislation to make provisions to ensure the stability of the institution.

The instrumentalisation of the Western central banks to stabilise the system and, in the case of the SNB, to co-finance the political sector, results in conflicting aims, which raise doubts as to the independence of the monetary authorities and their concentration on the only goal that really matters – the maintenance of purchasing power. So, signs of disintegration here too, precisely in the area in which the free West was miles ahead of the emerging-market countries. The turbulence on the currency markets over the past months is no accident. The world is beginning to have doubts about money, just as it did three years ago about the American real estate market, two and a half years ago about banks' balance sheets, and just a year ago about the creditworthiness of some European countries. The stability of the value of Western currencies is threatening to degenerate into mere illusion, a parallel universe of pretence. In our view, it is by no means absurd to consider a situation in which the next global currency is not an Asian one, but a "virtual" currency, generated on the internet. And this parallel universe might one day be a good deal more real than the increasingly virtual euro and US dollar.

### **7. There is a haven of stability!**

Signs of disintegration wherever we look – we might also mention a couple of conspicuous issues with regard to the rule of law, such as the unutterable verdict of the German Constitutional Court with regard to the stolen data CDs, in which (as far as we know, for the first time for a very, very long time) the unholy motto that "the

end justifies the means" was applied. But enough of that. For we are feeling really rather optimistic at the beginning of 2011. Despite everything. Or, perhaps more to the point, precisely because of everything! For if we consider what all has changed, often significantly for the worse, over the past two or three years, it's really amazing how well the global economy has survived this period.

That applies particularly to the countries of special interest to us – Switzerland, Germany and, at some remove, the USA. Fear of recession has disappeared from all the relevant forecasts; there is at most the occasional mention of a possible reduction in growth due to special effects (currencies!). It's fairly obvious that the economy has largely disconnected itself from the rise and fall of parallel universes, or has learnt how to deal with them. Of course anxieties remain about Europe's excessive debt; of course there are still worries about the euro; of course we know of the unreliability of the promises made regarding the social systems of the Western societies; of course we keep a close watch on the rise in the power of certain NGOs; of course, we hope not to be the next victims of leaks to Wikileaks. But all in all, we know how to manage these things. The crises of 2001 to 2003, 2008 and 2009 have toughened companies' strategies.

Despite adverse circumstances, we have not only survived, but even increased productivity in the crisis. And above all: in most places there is a good likelihood of being able to achieve sustained positive cash flows in the future. The vast numbers of the poor and underprivileged in the great majority of countries around the globe want one thing only: greater prosperity. To become richer. The will to achieve this was crassly underestimated during the crisis, and is probably still today. Precisely thanks to the parallel universes that the internet has brought into being beside the existing, ossified, self-rejecting and disintegrating institutions, there's no stopping this dynamism. There is a high probability that positive cash flows can continue to be generated in this environment.

"High probability of positive cash flows": this is no parallel universe, and there's nothing virtual about it. On the contrary, it's the only thing that can really be described as "real". This, in our view, is the real haven of stability, against which all the nominal promises of all the state debtors and central bankers pale into insignificance. Never since we have written the Investment Commentary has there been such a striking difference between content-free declarations and tangible

performance. Dürrenmatt's *Durcheinandertal* of parallel universes may expand further; previous structures may become increasingly irrelevant – we put our trust in those who react to change with dynamism, and who have shown that they can do this: businesses. Those who seek “real value” for their assets must back businesses, though they are not in individual instances controllable (and from this perspective, not “stable”). Nominal value belongs in parallel universes that offer just the illusion of stability. Real value renounces the masquerade of control-

lability. We recommend it in multipacks – that is, globally diversified. For the big wide global financial market is the most efficient means of “control”, if we may put it like that.

KH, 24.01.2011