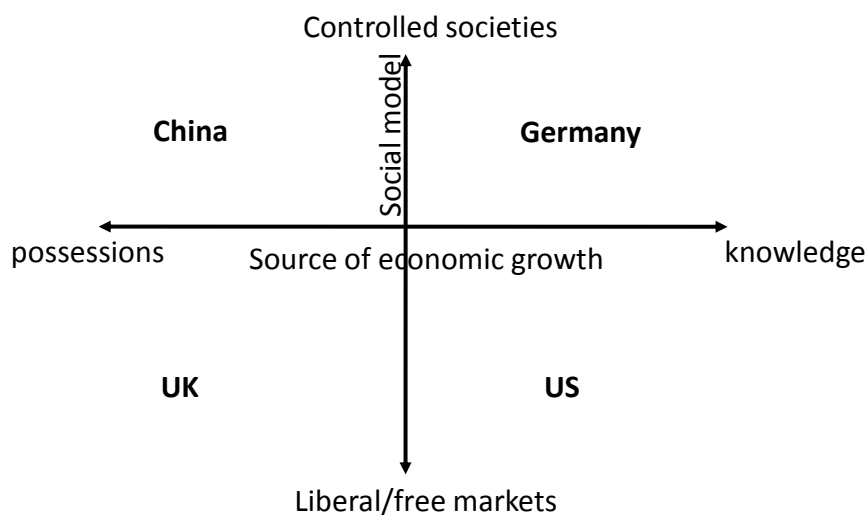


## Where shall I invest? A view from 1930

Below is a letter from a rich young man to his financial advisors, written in 1930 - just after the Wall Street Crash of 1929. He has four advisors, one in each of four major financial centres – Shanghai, Berlin, New York City, and London. Each has a different view of the long term future to 2010, and these lead to very different investments and outcomes.

### Four market paradigms in 1930



From the office of Lord Abacus Smythe  
Great House  
Middle England

1<sup>st</sup> January 1930

Dear Advisor

I have recently inherited a trust fund to the value of £1 million from my father. I would like to invest the whole amount so that it will be as valuable in real terms in 2010.

Recent events on the Wall Street stock exchange have made me nervous.

What do you advise?

Yours sincerely

(Lord) Abacus Smythe



From the office of Li Fan  
Global Trading House  
The Bund  
Shanghai, China

1<sup>st</sup> February 1930

Dear Lord Abacus Smythe

We are deeply honoured to have the opportunity to advise your illustrious self, and have put our best, most respected, analysts to provide the advice below.

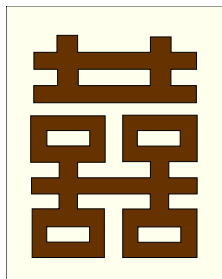
We would be happy to undertake the transactions for you, and deliver the resulting documentation to you by special courier at your convenience.

We believe that land and products derived from it – such as food and minerals – will continue to be good investments, and that you should invest £500,000 in shares in rubber, for instance through the Yokohama Rubber Company (China) Ltd

We advise you to buy shares in companies finding oil and gas, or in those providing electricity, to the value of £250,000. The Shanghai Electricity Company or Shell Trading would be good choices. We would advise you to hold the remaining £250,000 in gold at this very uncertain time.

Yours sincerely

Li Fan





From the office of Herr Dr Albert Schmidt  
European and Colonial Investments  
Fasanenstraße  
Berlin, Deutschland

1<sup>st</sup> February 1930

Dear Lord Abacus Smythe

We are deeply honoured to have the opportunity to advise you and have put our best young analysts to provide the advice below. With the changes that we can see emerging in the type of economies that will be successful, fresh minds are better at seeing opportunities.

We would be happy to undertake the transactions for you, and deliver the resulting documentation to you by special courier at your convenience.

We believe that the new emerging industries of chemicals, motor cars and electrical machinery will provide the best medium and long term return, and advise you to invest half of your portfolio in these industries. Bayer is a well respected chemical company and Mercedes-Benz is a solid company in the motor industry.

We also advise you to buy shares in companies finding oil and gas, or in those providing electricity, to the value of £250,000. The Berlin Electricity Company or Shell Trading would be good choices. We would advise you to hold the remaining £250,000 in gold at this very uncertain time.

Yours sincerely

(Dr) Albert Schmidt





From the office of James Aldridge III  
US and Global Securities Inc  
Wall Street  
New York City, USA

1<sup>st</sup> February 1930

Dear Lord Abacus Smythe

We are indeed pleased to have the opportunity to advise you, and have put our best young analysts to provide the advice below. With the changes we can see emerging in the type of economies that will be successful, fresh minds are better at seeing opportunities.

We would be happy to undertake the transactions for you, and deliver the resulting documentation to you by special courier at your convenience.

We believe that the new emerging industries of chemicals, motor cars and electrical machinery will provide the best medium and long term return, and advise you to invest half of your portfolio in these industries. Du Pont is a well respected chemical company and Ford is a solid company in the motor industry.

We also advise you to buy shares in companies finding oil and gas, or in those providing electricity, to the value of £500,000. The Pacific Gas & Electricity Company and Shell Trading would be good choices.

Yours sincerely

James Aldridge III





From the office of Barclay Chambers  
Foreign and Empire Investments  
Lombard Street  
London, UK

1<sup>st</sup> February 1930

Dear Lord Abacus Smythe

We will be pleased to offer you advice as requested.

We would be happy to undertake the transactions for you, and deliver the resulting documentation to you by special courier at your convenience.

We believe that land and products derived from it – such as food and minerals – will continue to be good investments, and that you should invest £500,000 in land in the centre of London.

We would advise you to hold the remaining £500,000 in gold at this very uncertain time.

Yours sincerely

Barclay Chambers





## How did the investments compare?

We have used the US cost of living index in 1930 and 2010: the portfolio needs to increase 13\* the original amount to maintain the same level.

The gold price has gone from \$20.65 to \$1150, or up by a factor of about 55

Property prices in UK have gone up by a factor approximately 400.

Shell Trading has been represented by the FTSE 30 and 100 indices, which increased by approximately \*42

Du Pont and Ford, Bayer and Mercedes, have been represented by the Dow Jones index which has increased nearly \* 250.

The Yokohama Rubber Company returns are based on land prices

The advisors therefore achieved very different returns:

### 1930 portfolio

Inflation	13	US cost of living
Land (+ minerals, food)	400	house prices UK 1930 to 2010, CLG data
Energy/utilities	42	Royal Dutch Shell, model on FT 30 industrials - FTSE 100
Cash (gold)	55	price in US\$
Brains	250	model on Dow Jones

	Land	Energy	Cash (gold)	Brains	Value
Shanghai	50%	25%	25%		224.25
Berlin		25%	25%	50%	165.75
New York City		50%		50%	146.00
London	50%		50%		227.50



## What does this mean for investment in 2010?

In 1930, and to a decreasing extent towards 2010, markets were different from each other. More recently there has been the mantra of "markets allocate resources to where they are best used".

Does this work going forward? Some factors that will affect the answer:

- Increased transparency will reduce the advantage to FS players from privileged information
- Automated trading – currently for large sums – will become used for much smaller sums, destabilising retail FS markets.
- Where will the enormous amounts of investment for infrastructure in developing countries come from?
- Energy is increasingly a political rather than economic force.

What would be the scenario axes for 2010? For 2030? Would they reflect different geographies or different types of pan-global economy?

Please join us as we explore these questions, in order to answer the same question for 2010:

- where should we invest to maintain value?
- What does this mean for financial services?

You can sign up by emailing us at [l3f@samiconsulting.co.uk](mailto:l3f@samiconsulting.co.uk) or commenting on the Long Finance Futurists wiki --

[http://www.zyen.info/mediawiki/zyen/index.php/Talk:Main\\_Page](http://www.zyen.info/mediawiki/zyen/index.php/Talk:Main_Page), then discussion.

The Long Foundation Futurist Forum

Martin Duckworth (SAMI Consulting)  
Ilaria Frau-Hipps (University of Cambridge)  
Michael Mainelli (Z/Yen)  
Gill Ringland (SAMI Consulting)  
Chris Skinner (F S Club)  
Oliver Sparrow (Challenge Network)  
Chris Yapp (SAMI Consulting)

June 2010.