Human beings have a great capacity to accommodate extraordinary events, and come to regard them almost as normal. The slowdown in world trade has been absolutely eye-watering – Japanese exports in the three months to February 2009 dropped by 49.4%, traffic volumes on the A14 (the one which serves Felixstowe docks) are down by 49% on a year ago and scrap metal thieves in the USA are only getting 35% of what they received for their work in mid-2008. These random examples could be expanded ten thousand fold, and are a graphic demonstration that the failure of a single commercial entity (in this case, Lehmans) can have a disproportionate consequence on economic realities. The response from the authorities has been equally startling. New York last month asked members of the public to write down $1 trillion in figures (the correct answer is $1,000,000,000,000). What became clear is that these figures are too big for people to get their minds around, let alone their pens. The authorities are not yet running out of acronyms, but since each one has four letters and gobbles up at least $200 billion, this is unlikely to be a brake on their issuance.

World trade has had a heart attack, and the paramedics have applied their shock therapy. Wild events are rampaging through the world of money, but every morning in London the sun rises a little earlier, and shines for a little longer, taxi drivers still moan and the commuters go about their business as they always do. We at Ruffer while away the day by deciding whether the US railroad stocks are due a decent bounce in the market, or perhaps whether the Swedish Krone is somewhat oversold. It reminds me of the 1963 report and accounts of Gamble-Skogmo, a US retailer, whose report began with a trundle through their revenue growth, their dividend policy in the light of the revenue growth, and a couple of other housekeeping trivia. Then the report went on (I paraphrase): 'Some people have asked how Gamble-Skogmo would fare in the event of a nuclear holocaust. With stores in Alaska, Hawaii, Caracas and Fiji, we believe that Gamble-Skogmo is well placed…' Now that the Cuban crisis is a distant memory, the bathos is quite amusing. But we should not lose sight of the enormity of what is going on, and the moral inadequacy of believing that a money-making wheeze is a sufficient response to the crisis that the world is facing.

It is striking that the first property crisis comes a mere ten chapters (in Genesis) after the creation of the world. The judgement on Babel was not that some Old Testament Fred Goodwin had recklessly leveraged the enterprise, but rather that human beings have a moral warble fly which in certain conditions will breed a collective hubris of exuberant wealth creation. Now that we are mired in the inevitable consequences of its aftermath, it is hard to avoid the feeling that the authorities' attempts to present themselves as the Master Problemsolvers of the Universe demonstrate a similar hubris, since the money which they inject into the system, directly or indirectly, is money which has been created at the will of the authorities, not represented by any corresponding wealth. In the days when government bailouts needed gold, you either debased the currency (effective for about five minutes until the coins start rubbing against one another) or you couldn't do it. Today, the power of money creation is infinite, and so, in a sense, are the stakes. Just like weapons of war as the decades have gone by, so their power of destruction has increased.

The enormity of this is more easily seen by the common man than the sophisticate – so it was with the emperor's clothes. The clever chaps know that money creation does not require collateral. They know that when money usage declines – as it does precipitously in dislocative deflation – then you can print more of it to maintain its old equivalence. If business is crashing, and bad debts are destroying money, is it not desirable – no, essential – to create it in wholesale proportions? The honest answer is that we just don't know, but the ordinary man knows that a banquet is inclined to be followed by the bill. He can sense that his £20 is not the store of value that it was before tens of billions of new ones were created. He doesn't perhaps know how to express his uneasiness. One day he will – and on that day, money will begin its journey of inflation.

It is our task to build the core of the portfolios around this priority, and to protect that inflationary 'centre' with a wide range of assets whose primary job is to protect its value in the event that we are either wrong or too early.

Over the years these investment reviews have been the expression of my own idiosyncratic views, but I would like to introduce the reader to the team who are primarily responsible for the wholesome ingredients of the portfolios. Robert Tamworth runs the partnership effectively, and on a tight budget. It has earned him the nickname '*Discount Tamworth*'. He has been there from the beginning, along with Jane Tufnell, herself a stockpicker, friend and strong tower to those whose lives here are dedicated to the lonely task of stockpicking. I am thinking especially of Tim Youngman, whose ability to find value in Europe has been quite literally second to none in London – no, Europe, and Alex Grispos who should really be Warren Buffett's right hand man, but luckily works with us. At the epicentre of our investment process sits Henry Maxey, whose insights and technical understanding of the arcane world that we live in caused him to write 'Cracking the Credit Market Code' in April 2007, which will remain for its insights and timeliness one of the great predictive calls since the Captain of the Titanic cried 'abandon ship'. I have forgiven him for being better than me. Peter Warburton, whose economic understanding and judgement has been recognised by his membership of the Shadow Monetary Policy Committee has meant that we have two tigers burning bright on our 'big picture' calls. We are already indebted to the cautious boldness of Kentaro Nishida, our Japanese specialist. It is hard to know how we could possibly have steered our way through this opaque market with such stock-specific success without him. Trevor Wild, James Heal and James Verdier have recently joined the partnership, and make a really valuable contribution in their analysis of the equity universe. A determination not to be bound to any one asset class be it bonds or equities has led us to bring in the previous Global Head of UBS' Credit Repo Operation, David McClean. Mary McBain runs our Hong Kong office, and from there she continues her enviable ability to spot safety and success. And this is not an end to it on the research side: I am jolly proud of them, as the lawyers would say, 'jointly and severally'.

Above all, what I want to provide at Ruffer is a *service*. Although half the world seems to work in a service industry, the idea of being a servant seems rather Gosford Park and not at all what the doctor ordered in the twenty first century. I think it is a question of defining one's terms. To me, being a servant is not a matter of the forelock, but rather it is seeing a situation from the other chap's point of view. This is what I believe it is humanly possible to do all the time. To produce constantly good performance is, alas, not always possible, and I hope you will be gentle with us when we fail on this latter point.

Jonathan Ruffer
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