A passing bishop told me (and you'll no doubt pick up its significance immediately) that the Romans had two words for the future: *futurum*, which they thought of as events which rolled away from one's present circumstance, and *adventum* which were those surprising things which came towards you, and caused consternation or delight according to the extent of their benevolence. The adage 'red sky at night, shepherds' delight' is based on *futurum* – the ability to use present facts to predict future events. It's no good at telling next week's weather, and it is possible that the observant countryman can see that any particular expression of red sky is not a prelude to weather delightful to shepherds. The Romans regarded the *adventum* as unknowable: pillage, plague, a cow wandering onto your allotment, twins. You were not in control – it came out of the blue.

With all respect to the Bishop, I think the Romans were wrong in their analysis. Many 'unseeable' events are, in fact, predictable: the seasoned Middle East watcher will have had a real sense of the ISIS threat to the region's stability: the earthquake-watcher was only too aware of the risks resulting in the Nepalese crisis: so, too, the observer of the imbalances leading up to the crisis of 2008. To prepare for this, one needs to understand not the present day, but the past. Where you find your insights, in yesterday's facts, or today's, determines one's style of investing more absolutely than anything else – we are *adventum,* not *futurum,* investors…

This brings a different set of disciplines. The immediate future is much more 'knowable' (from present events) than the long-term; but we would rather perceive where the world is trending, albeit at the expense of knowing the path by which we get there. A preoccupation with past events makes the present day diminish in importance – the past and the future become one great *continuum*. The past gives clear signals about what will happen in the *adventum,* as the Christian message heralds: at the second Advent some very surprising things will happen, things that will be no surprise to those who have heeded the narrative leading up to them. And no-one knows when it will happen.

For ten years, the key variable has been the amount of debt in the world – and how that will be resolved. We have written on several occasions that, ahead of 2008, the question was 'how will the dash for debt end?' Since 2009, the question has been, 'How will the enormous debt levels be resolved?'

There are only a few ways this can happen. Mother Nature tries to impose a regime of default – but the central authorities can see that this will lead to deep deflation – so they have taken steps to make sure that this does not happen. We know what we did not know five years ago – that the policies they adopted bought time, but they did not solve the problem. The time that was bought might have resulted in booming conditions – after a crash, there is usually a boom – but an unresolved debt crisis is a chronic deflationary backcloth. The problem of 2009 – too much debt – remains today's problem.

The debt looms as menacingly as it did at the time of the crisis. It has changed its shape, with the financial sector healthier, at the expense of governments, but we sit uneasily between the worry that this debt problem cannot be resolved, and the cheer-me-up knowledge that it's not problems that need solving – its crises, and the road ahead looks crisis-free (providing you don't still live in Greece).

I put forward an idea. It is more than an idea, but less than a thesis. The Victorians were mistrustful of debt because something seemed to be created from nothing: how can a man with no money buy a horse? If he has the money, wealth is transferred and the moral philosopher is satisfied – but in the circumstance of the loan there seems to be money and horse, whereas previously there was only horse. The Victorians forgot to look at the whole transaction, which involves collateral. The horse buyer had to put up his barn as collateral, or perhaps, if a fit young man, his future earnings.

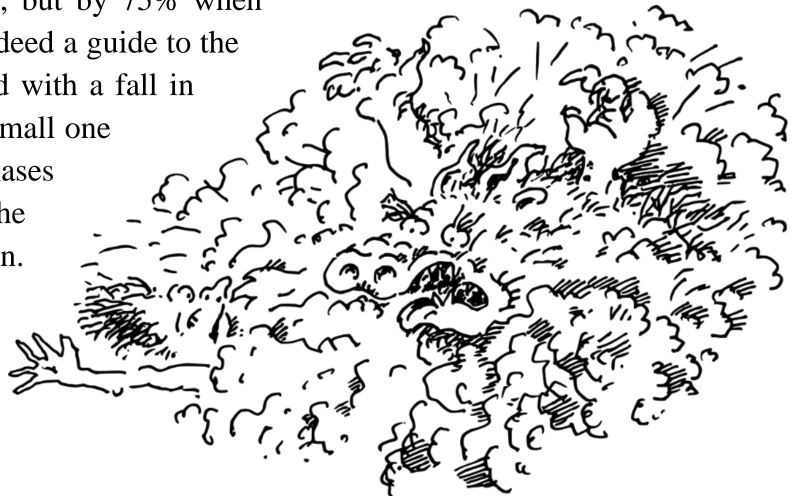
In an undistorted world, where there is no collateral – or no good collateral, the loan is liable to default. We have seen that the authorities will not let this happen, but it does not alter the fact that a loan without collateral is more in the nature of a gift; in this light, too much debt is, in reality, not enough collateral. We therefore call a troubled loan with inadequate collateral a gift.

This insight makes sense of a number of anomalies. Why, for instance, did one-third of all euro denominated government short-dated bonds in March have a negative nominal yield? The answer is that there was a famine of proper government paper needed as collateral. Quantitative easing had taken out swathes of it, and whenever there's a shortage, the price goes up. The thing to remember is that it is the circumstance, not the bond which is the reason for the expensive price. A bottle of water during the Siege of Mafeking reached a fancy price – the bottle became almost worthless when Mafeking was relieved; it had nothing to do with the water *per se*.

These conditions will, however, persist until the underlying tensions are resolved. Until these 'transactions' become stable, instability will be reflected throughout the financial system. And, wearing a different hat, considerations of collateral once again take the centre of the stage.

Resolution will happen in one of two ways. Either the debts/gifts will be stabilised, and eventually repaid, or their issuers will eventually default. The latter will only occur if the first proves impossible to engineer. To stop this, loans will need to have new underpinning – which is another word for collateral. Loans which were established long ago, (and always under the law of contract) cannot simply be revitalised with something that isn't there. If, though, there can be a change in the terms of trade between borrower and lender – external to that contract – then it is possible.

This can be achieved if interest rates are held below the rate of inflation. It inflicts a tax on the savings – which in the UK in 1976, rose to an astonishing 19% (inflation 21%, after tax income for cash deposit 2%). This imbalance was reversed to the borrower, whose assets (all other things being equal) rose by 21%, and whose rate of interest averaged 8%. (During the 1970s' bear market in property, asset values dropped by only 15% in nominal terms, but by 75% when adjusted for inflation.) If this period is indeed a guide to the future, one must remember that it started with a fall in markets, a big one, which looked like a small one in the context of persistent bear phases throughout its life. The overall mood by the end was not one of fear, but of exhaustion. That was then, and now is now – it is a reminder that, *futurum* or *adventum*, we are all pygmies when confronted with the hippopotamus of future events.



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