

## Honesty and Integrity Investment (HNI Investment)

### Email for December 2017

Dear Friends,

Here are the details of performance of HNI investment based on the share prices as on 29<sup>th</sup> Dec. 2017.

<b>Annualised Returns (IRR) <sup>(1) (2) (3)</sup></b>	<b>HNI Portfolio</b>	<b>Nifty</b>	<b>Sensex</b>
FY13	-10.6%	-5.3%	-3.7%
FY14	112.2%	21.1%	21.3%
FY15	21.6%	25.0%	23.0%
FY16	86.0%	-7.0%	-7.7%
FY17	168.3%	21.9%	20.1%
<b>From Inception till 30th Sep. 2017</b>	<b>85.0%</b>	<b>13.5%</b>	<b>12.4%</b>
<b>From Inception till 31<sup>st</sup> Dec. 2017</b>	<b>86.1%</b>	<b>13.9%</b>	<b>13.0%</b>

(1) For all HNI clients and promoters (2) Inception was in August 2012 (3) Gross IRRs excluding the impact of HNI investment fees

I do not have much to say on the investment performance this quarter. It has been good and it has been so for most of the industry players. There is nothing to be proud of the recent performance. **Charlie Munger once said on role of luck in life – “The lucky duck was in a pond and they just raised the level of pond”**. The real test of investment abilities are ahead of us. We will have to see how it goes.

### In debt we live and we will die with it

Globally there has been a worry about the increasing government and household debts. The US is in huge debt, China's increasing public debt is a worry, talking about Japan is futile, India, Russia, Brazil you name a country which is not in debt. But what is really interesting is – if everyone has borrowed then where are the savers who have provided this debt?

Like in the famous Hollywood fiction “I, Robot”, I can leave you with the words of Dr. Alfred Lanning to detective Spooner – “That detective is the right question. Program terminated”. But fortunately that's not the intent. So let's explore some possibilities.

One possibility is the fact that all of the countries borrows and save simultaneously. That is true. But almost all of nation's worry about their debt indicates that on a net basis they are the borrowers. Otherwise why all these fuss about the increasing debt?

After all if someone is borrowing on a net basis, others must be saving on a net basis and lending (through banks). How the equation can balance otherwise? So where are the great savers who have saved trillions of dollars and provided loans to so many people and countries globally? Do they actually exist? Are they hidden somewhere in the Amazon? Are humans borrowing from Martians!!!

Of course not. The answer is actually very strange and unbelievable. The implications of it are more so. To cut it short and loosen the curtain, here is the answer – **we all are indebted to central banks and no matter how hard we try, we will never be able to repay her debt**. How?

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Let's take an example when the first \$ was created by Federal Reserve. The Federal Reserve prints 1 US\$ and lends it to a bank/US government at an interest of say 5% p.a. The bank/US government who have borrowed from the Federal Reserve is just a mediator between the Federal Reserve and common people to whom bank will further lend the dollar or government will spend it in form of deficit to be collected from the citizens in form of taxes. So effectively Federal Reserve has printed the dollar and has lent to common people at 5%. So where are the savers in this transaction?? Nowhere!! Federal Reserve has not saved any money. It has simply printed the money. So the first borrowing was created not by saving but by printing money. No wonder when Federal Reserve prints hell lot of money, borrowings across the world goes up and it's hard to find savers because there are not any. It's just the money and borrowings created out of thin air.

Now let's take this example to next level. Assume that Federal Reserve has printed \$100 million dollars and have lent it to hundreds of people (indirectly through banks and government) at an interest rate of 5% for 1 year. Now after one year, borrowers must repay \$105 million dollars (interest of \$5 million). In order to avoid default, borrowers by whatever means possible, suck out all the money available in the entire economy, for repayment of their loans. Still they cannot collect more than US\$100 million because that was the entire amount of dollars ever printed and circulated in the economy. So they go back to Federal Reserve saying that - I cannot repay more than US\$100 million because that's the only money you ever printed. There is no more in the market. ***How can I pay you 1.05 apples after one year in exchange of 1 apple, if only you can produce apple and if you have only produced one till date.***

Federal Reserve understood the problem. So she says "No problem". I can print as many as you want. So here she goes. She prints US\$5 million more and lends it to people at 5% p.a. and said - "Go do more business with these US\$5 million and repay your earlier unpaid US\$5 million debt and this new US\$5 million debt after one year with interest of 5% p.a." Now after two years, people owe US\$10.5 million. Borrowers again suck out all the money from the system to repay their loans but cannot collect more than US\$5 million because that was the only money remaining in circulation after US\$100 million repayment last year. So now the non-repayable debt increased to US\$5.5 million at the end of second year.

Fortunately Federal Reserve was still accommodative. She printed more money and so by the end of third year the non-repayable debt increased further to US\$6.05 million. The process can continue indefinitely year after year, centuries after centuries. At the end of 100 years, the non-repayable debt would balloon to US\$690 billion (power of compounding).

Thus the people and governments will always remain indebted to central banks no matter how hard they try to repay their debts. Moreover power of compounding and increasing amount of printing by central banks will result in ever increasing burden of non-repayable debt.

So why worry about the debt at all. No no no. Money in circulation and its compound interest is only one part of debt. The debt provided by actual savers still holds importance and all countries and individuals should worry about that. But one thing is clear so long as the current monetary systems exist, so long as the central banks exist, the world as a whole will never be able to repay her debt in full. Believe it or not!!!!

Is this monetary system of ever increasing non repayable debt sustainable? If everyone will always remain indebted to central banks then who owns the perpetual money guzzling central banks? What are the implications of this ownership? If we exclude this non repayable debt from the system as a whole, who are the net savers and where are they?

## **Honesty and Integrity Investment (HNI Investment)**

Well –“That detective is the right question. Program terminated”.

That’s it from my side. Feel free to get in touch with me if you have any queries. And yes wish you all a very happy and prosperous new year!!