



## ECOGNOSIS ADVISORY LTD

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ECONOTE No. 51 BREXIT: An Epistemological analysis ( Yeah, whatever...)

25/6/2016

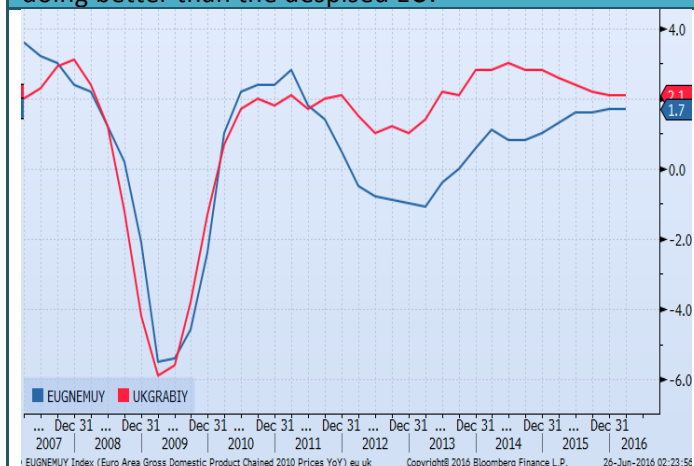
Summary	Investment Conclusions
The attention of the media has been focused on the economic, financial and political consequences of Brexit,. Econotes, being aware that its value added here would be zero, sticks to its "Greek" origins and seeks to look at the event from the point of view of epistemology, "knowledge and its interpretation". According to the notion that knowledge is justified true belief, in order to know that a given proposition is true, one must not only believe in the relevant true proposition, but one must also have a good reason for doing so. The discussion over the Leave issue fails to support the idea that knowledge was involved. But then, unlike economics, epistemology is not an exact science ( said he provocatively...)	The Brexit caused a paradigm break as opposed to a shift as nothing like that has happened before. Other than the blindingly obvious short positions on the GBP, EUR and related assets, there is not a great deal that can be suggested on the investment side that will not be guesswork. Econotes sticks here with the suggestions made in the past, on investment in real assets, or paper assets backed by specific real assets. These include land ( not developmental but farmland, niche uses of small plots etc ), mines, funds backed by wines, whiskey and diamonds and IT related metals.

### It's all Greek to me, bar the details

A "Leave" voter with no particular training in politics, economics, demography or sociology but with a negative attitude to being part of the EU, which the voter mistrusts, might believe that leaving the EU will improve the voter's economic and social conditions. Nevertheless, even if this belief turned out to be true, the Leave voter could not have *known* that the situation would improve after the Brexit since the voter's belief lacked justification. And saying this, is not a patronizing approach in that the "great unwashed and uneducated masses" voted blindly or were tricked by Boris and Nigel into doing so. Consider, if you may, the following random thoughts and/or facts. The EU was set up after WWII with the explicit purpose of stopping Germany engaging in another war. This aim was bolstered up immensely by the cold war which needed, with NATO, an economically united Europe as a bulwark against the USSR and its "Eastern bloc EU" the Comecon. The war ended 71 years ago and the cold war in 1991 with the collapse of the USSR. Possibly the EU continues, like geriatric generals, fighting the last war. Having said thanks to Hitler and Stalin for assisting in the birth of the EU, it is time now to move on. Politically incorrect as this may sound, what does the candidature of Turkey, Albania, FYROM ( Google this one, too long to write out here ), Montenegro and Serbia have to do with the WWII and cold war is not clear. Let us get even more politically incorrect. If now, encouraged by

Brexit, European right wing parties would want to turn the EU to a "white, Christian and culturally homogenous union" then why leave Russia out ? Orthodox Christian since the fall of the USSR, blonde and blue-eyed and having bequeathed to the world Tolstoy, Dostoyevsky, Tchaikovsky, Rachmaninov, the Bolshoy Ballet, to name a few of Russia's contribution to western culture. The "No" answer to Russia reflects the remnants of the cold war and Putin's willingness to use force.

Fig.1: UK (red ) and EU ( blue) GDP yoy % growth. UK doing better than the despised EU.



Source: Bloomberg

## ECONOTE No.51

## And so ?

If the foregoing ruminations appear to imply that the EU is irrelevant now that the WWII and the cold war are over, **that is far from it.** The emergence of the US as the undisputed master of the world after 1990 made it imperative for the EU to present a counterweight, not because the Americans are “bad”, but because the Europeans could and should. And that brings us directly to Defence, or being less hypocritical about this, Offence. The EU failed utterly to create its own army and create an Offence force of creditable size and capability. It was all left to NATO ( that is the US), with the most professional army in the EU being that of the UK followed, but not closely, by that of France. Now UK is gone, and this leaves the EU even more politically irrelevant, but also at the same time making UK 's claim as world power weaker. Bar the Falklands, UK could, as part of an EU force, intervene militarily in the world but clearly cannot do so now except at the coat tails of

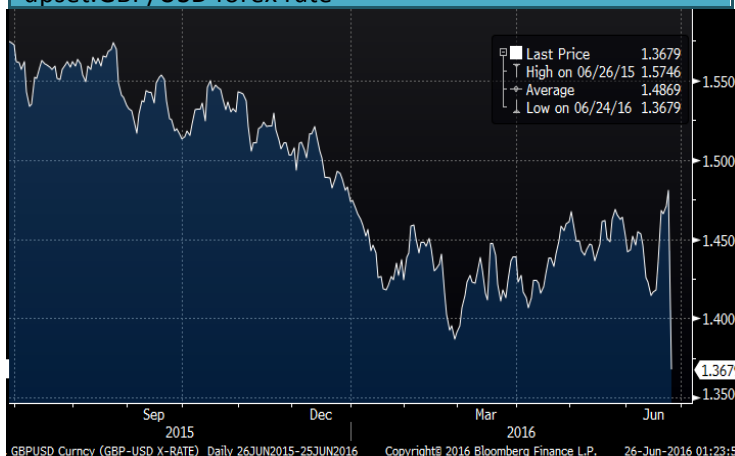
**FACT BOX: How not to be like Japan and a word for Prince Charles.**

**Challenge:** Name a big political event be it purely political or military-political in the post 1945 period where Japan played any, never mind important, role. **Answer :** None. **Why ?** Because Japan since 1945 did not have any armed force worth that name and hence could not enforce its will or join with others enforcing a collective will. Lesson: It is of no use politically to be wealthy and not to be well armed. Watch China learning the lesson that the EU never did.

**Prince Charles:** Scotland declares independence and does not need a crowned head of state, N. Ireland joins Eire, ditto. Prince Charles may not succeed to the throne not because of his mother's longevity but because there will be no kingdom.

the US. The Leave vote made the UK armed forces more than ever irrelevant **on their own** as they cannot on their own, intervene whereas they could within an EU context. Bluntly put, the UK will become more than ever the obedient ally of the US, **not** because the UK has no political will, but because its armed hand that would have given it global attention within an EU use, cannot now be used freely. So the Leave vote makes the credible UK armed forces less politically relevant, while weakening even more the EU. And yes, the UK still stays within NATO, but a NATO with a debilitated and weakened EU minus UK, more than ever dependent on the US, until and when, that is, President Trump takes over. But this will not be a different story. It will be exactly the same story as that of Brexit but with “American characteristics” as chairman Xi Jinping would have said.

**Fig 2: That's what happens when markets get upset.GBP/USD forex rate**



Source : Bloomberg

**Ahem, what else is there to say.....**

It will be clear by now that Econotes is appalled by the democratic decision of the voters in the Disunited Republic ( see Fact Box ) to leave the EU. However, as Churchill said, quoting an unknown source, “Democracy is the worst form of government except for all the others”. As my lovely wife Anabella has also said “Countries are like families and individuals, they fall into ill ways and can damage themselves collectively and individually”. There is no point in rendering our garments over the collective folly of the Leave vote but instead see how money can be made. See Econotes Nos 45 and 47 on investment in real assets. In-between, there is a lot of time for the useless, but utterly pleasurable, occupation of pondering on history and of its lessons thereon. My personal view is that there are no lessons whatsoever, except that while people learn nothing, when they knowingly repeat their follies, they will try not to get caught this time. This will teach you not to do it again’ simply means that this will teach you how to try to do it differently next time. And to finish with a Latin flourish, lest this piece gets too Greek-heavy, Cicero's words thrown at Catiline can be rejigged to “**Quo usque tandem abutere, Leave Voters, patientia nostra**” ( When will you, Leave Voters, mean to stop abusing our patience ?)

Well, they just have.

Andrew Freris (writing completed on 25/6/16)