

S JOHNSON WEALTH MANAGEMENT LLP

INVESTMENT SPECIALISTS

Risk & Return - Balanced Investing

Investment News

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Introduction

Money



In this edition my intention was to look at crypto currencies but I have decided to broaden my horizon to money in general, looking at what is money and how it came into being. In the postscript I discuss varying attitudes and usages of money.

Markets Commentary

Global unemployment rate at historic low at end of 2018 – the robots are not yet taking over. Trump, China, BREXIT and monetary policy all still (g)rumbling on.

Money - What is it and where did it come from?

What is it?

Definitions of money vary from person to person. I define it as a medium of exchange; Martyn, my competitive offspring, looks on it as a way of keeping score. Other common definitions are a unit of account and a store of wealth.

Why do we need it?

There are a number of reasons, including convenience of storage, and avoidance of the inefficiency of the barter system as illustrated by the coincidence of wants - this occurs when two people have goods that they want to trade at different times, an example being a farmer whose produce is only available at harvest and a potter whose goods are available at any time - money allows the two parties to store their wealth and trade at any time. Money needs to be durable, divisible, portable, uniform, limited in supply and acceptable.

History of Money

Barter was the first stage of the development of money where there is evidence of hunters trading with flint weapons and tools in the Palaeolithic period (about 40,000 years ago). The Mesopotamian shekel – the first known form of currency – emerged nearly 5,000 years ago. In about 1200 B.C. in China cowry were used as a medium of exchange. Some 200 years later China produced replica cowry shells which can be considered the origin of metal currency.

In 118 B.C. banknotes in the form of leather money were used (again in China) and this is believed to be the origin of paper money. About 50 B.C. pieces of silver were used in Lydia (Turkey) which over time took the appearance of today's coinage. More valuable rather than base metals began to be common and often featured reliefs of Emperors or Gods.

Taxation inevitably followed money and the expression 'paying through the nose' arose in the 9th Century, when the Danes (who had invaded Britain) slit the noses of those who did not pay their taxes, both as a punishment and also a visual deterrent. HM Revenue & Customs are allegedly recruiting Danish tax officers.

Paper money was used in China from the 9th to the 15th Century A.D. when unfortunately the amount of currency in circulation exploded, causing severe inflation and paper money use ceased.

Today electronic money (digital cash) is exchanged over the internet.

What affects Money and its value?

Default - loss of confidence can lead to a run on banks – remember 'It's a Wonderful Life?' A couple of years back we went on holiday to Cyprus where we had hired a small villa – the lady owner wanted us to pay in cash (I assumed for tax 'mitigation' reasons) but it turned out she did not trust their banks who had 'fined' everybody with more than €100,000 on deposit... Interestingly the European Central Bank does not act as a lender of last resort as does the Bank of England.

Inflation: Inflation is a general tendency for prices to rise and the most well-known example is that of Zimbabwe in the mid-eighties where a wheelbarrow full of cash was enough to buy a loaf of bread when you left home but not by the time you got to the shop.

Currency fluctuations: I often get asked about (depositing in) foreign banks that are paying fantastic headline interest rates but what people also need to take into account is currency rate changes. A high interest rate is no go at all if the currency invested in falls significantly against your home currency – the one you use to buy food with.

Interest rate risk: This is where interest rates fall meaning in many cases that money loses value when inflation is taken into account. Many retired people with cash deposits know all about this in recent years.

Taxation: this is bad for your money.

SUMMARY

We need money, and we are very fortunate in the UK that our banking institutions are relatively stable and underwritten by the Bank of England. Money however is simply a store of value / medium of exchange and it is only worth what you can buy with it. Inflation is one of the things that significantly affects this value so people should carefully consider just how much they should keep on deposit since interest rates are today less than the rate of inflation. Finally, from a psychological perspective, money can sometimes provide 'happiness' via a feeling of security.

'Financial Medical'

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And finally...

Please continue the feedback – telephone us or send an email. In the next edition I look in more depth at money – in this case crypto currency – Bitcoin and the rest.

p.s.

Some people are quite focused on money. Son number two who works with me is, not surprisingly, quite interested in the functions, uses and conservation of money (his not mine). Son number one (Martyn's twin) on the other hand has a far more laissez faire attitude. If he were not apolitical I would label him as a communist since he believes that (for example) my beer belongs to anybody who can reach it. Martyn works out his cash-flow for the year at the beginning of each fiscal year; his brother works out how much money he has by swiping his debit card at the pub and awaiting the result. Martyn plans for his holidays months ahead whereas his twin borrows the money the day before he goes away.

These attitudes are not uncommon but my perception of younger people is that change is now more towards 'jam today'. This it could be argued supports our economy to an extent but my concern is that, as a politician recently said, 'winter is coming' – hopefully not a severe one.



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