

**Boeckh, Anthony J. - The Great Reflation: How Investors Can Profit From the New****World of Money, John Wiley & Sons, 2010, [Finance] Grade ★★★★★**

There are many good books about bottom-up investing. It is harder to find really good books on top-down investing – tactical asset allocation. The Great Reflation, by Antony Boeckh, is my favorite. He was the editor, and owner, of Banker Credit Analyst (BCA) for more than 30 years. There are only a few that have his experience and knowledge with top-down investing. Like BCA, he focuses on changes in liquidity. “Money, credit and liquidity changes are the driving force behind all cyclical stock market movements.” Mr Boeckh is currently President of Boeckh Investments and co-authors The Boeckh Investment Letter.

This useful book is mainly about our scary economic future and how to create an efficient portfolio during the great reflation. “Wealth preservation over the next five years should be the single most important investment objective for almost everyone.” I believe this book is even more useful as a guide to your tactical asset allocation process.

The great reflation is Boeckh’s term for the next phase in the age of inflation. The massive stimulus from governments to prevent the economy from collapsing will create a new environment. We will see deleveraging of private sector debt at the cost of extreme deficits and high public debt to GDP. The purpose of the avalanche of new money is of course to pump new life into the economy after a near death experience. But what will happen because of this? No one wants a Japanese balance sheet recession or Weimar-like hyperinflation. Trying to reflate is truly akin to navigating in stormy waters. Boeckh’s scenario for the effects on the financial markets is convincing, and not just painted in black or white.

Many misunderstand inflation. Inflation is about the creation of excess money and credit. A process “that begins with an increase in money and credit above what is needed in production of goods and services. The second stage - rising prices – is

actually a consequence of the first stage of inflation and that is what confuses a lot of people.” There is also a need to make a distinction between the two types of inflation - higher consumer prices and asset inflation. They don’t always walk hand-in-hand. On the contrary, major asset inflations usually occur when the rate of generalized price is falling. Boeckh argues that inflation is the single most important factor in investing. The period of great reflation is not just about risks - it will provide ample opportunities as well. We will see new riches and admire new heroes of investment management.

Anthony Boeckh helps us build a framework for the complex tactical asset allocation process better than I have seen elsewhere. He has four cornerstones for evaluating expected returns. In order of importance, they are: (1) money, credit and liquidity, (2) valuation, (3) psychology and (4) statistical (technical) analysis. Boeckh is not a believer in a fixed static model. “I can assure you, based from experience, that they always break down. An eclectic approach that is based on common sense, strong logic, and objective data balanced by right-brain intuition and lots of curiosity is what works best.” Boeckh’s ideas helped me tremendously to formulate a measured market view.

Buy and hold strategies have not worked during the last decade and will probably not do so during the great reflation either. Boeckh predicts even more volatility. Tactical asset allocation will be a must. The major part of the book is a thorough review of the major asset classes and their forecasted relative strengths.

The Great Reflation is for everyone, both the student and the Chief Investment Officer. Impressive!

Michael Persson, May 12, 2012