

Myths, trends and choices

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When you have the charge of managing money, coping with the high volatility experienced on the equity markets these days is not a relaxing task.

As we were hinting in our May Monthly Opinion, oil prices are a big concern all over the world. What surprises me in many European countries is how people call to the governments to solve the problem. This shows how desperate some businesses are, like fishermen, road transport, or in general all the people who use their vehicle to go working or to work. Calling to the governments, they demand fixed price for diesel, whatever the market conditions are. More surprising, is the attitude of governments who don't argue!

It is again as if economy was frozen and nothing should affect it. Maybe some days, government will have the courage to tell the truth and address the different myths we are hearing every day.

The first myth is that oil price is only a consequence of speculation. Even if the oil price decreases to 100 \$/barrel in the near future, it is a long term trend: sustained demand from global growth and especially from emerging countries like China, Brazil, Russia and India. We do believe nothing will stop emerging countries to continue their growth. This is also a consequence of the starting decrease of the Russian oil supply and a consequence of nationalism in producing countries that limit access major companies can have to resources.

The second myth is that we are reaching the point where oil reserves are not sufficient: in fact we have oil and gas reserves for the next 40 years at least. The difficulty is more political than technical to put these reserves to work.

The third myth is we can replace fossil energy by such energies as wind and solar: they re-present a very, very tiny part of the global consumption.

What we are experiencing these days means we are at the beginning of a *change in our ways of life*: we better adapt than try to resist, and use our human intelligence and knowledge to do it.

Favoring sustainable growth and use of common sense will help us facing these new challenges. There is no reason for example to subsidy the use of car to go to work. It makes sense on the opposite to have a coherent transport policy so the individual travel is strictly limited to reaching a nearby available parking lot and boarding public transport or car pooling. Endorsing energy saving, with better insulation, mass implementation of "passive" houses and alternative individual sources of energy is probably one of the best ways to reduce the impact of high energy cost.

The trend is on the long term to restrict oil to its transport usage. The bulk of electricity will be nuclear (cheap, safe, non CO2 generating) and the dependence towards oil producing countries limited.

What will be interesting also, will be the resurgence of city centers opposed to suburban developments, and may be the re- industrialization of our developed countries.

But I am speaking 10 to 20 year horizon, in other words the transition of oil based economy towards a renewable energy economy. This to say we believe there are great opportunities now in investments focused to environment friendly processes which can only be promised to a great future: wind mills for individual buildings, optimization of resources management thanks to technology, oil generated from vegetal scraps (and not corn or wheat)...

We remain very bullish on such countries as China, Brazil, Russia where we believe we must have exposure.

Meanwhile, the transition may be a bumpy road: we'll have a lot of inflation, triggered by oil price. Central banks will do their very best to fight it by rising interest rates. So, let's increase our exposure in properties financed by fixed interest rates loans and let keep off bonds. We are living very interesting times...

We care for you!

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