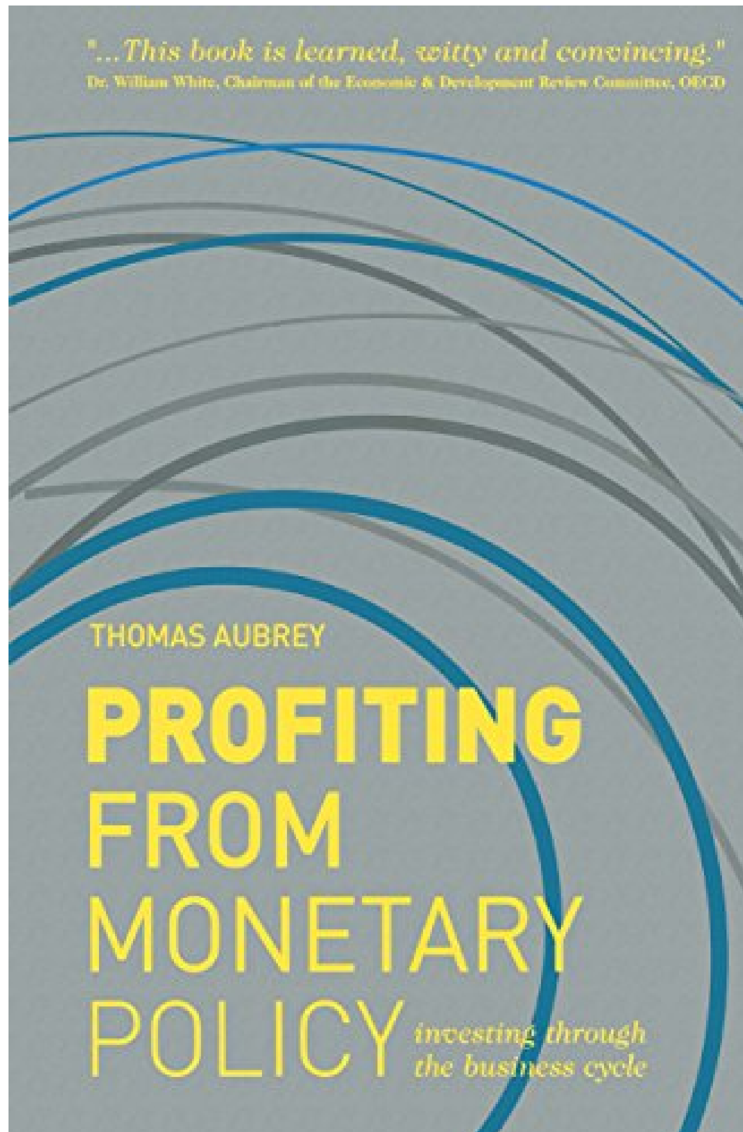
Profiting from Monetary Policy: Investing Through the Business Cycle

T. Aubrey
*ebooks | Download PDF | *ePub | DOC | audiobook*



DOWNLOAD READ ONLINE

#1428177 in eBooks 2016-04-30 2016-04-30File Name: B009UTUYJO | File size: 57.Mb

T. Aubrey : Profiting from Monetary Policy: Investing Through the Business Cycle before purchasing it in order to gage whether or not it would be worth my time, and all praised Profiting from Monetary Policy: Investing Through the Business Cycle:

2 of 2 people found the following review helpful. Liquidity = Money + CreditBy Leonard J. WilsonProfiting from Monetary Policy by Thomas Aubrey is an insightful review and analysis of monetary policy as practiced by the US Federal Reserve and other central banks. His key point is that money and credit are both essential elements of

monetary policy, and central bankers have largely neglected the role played by credit.Let me digress for a paragraph to demonstrate Aubrey's point by an example. Suppose I open a Home Equity Line of Credit with my bank that allows me to borrow up to a maximum of $100,000, secured by the equity in my home, at an interest rate tied to the prime rate. This line of credit gives me a degree of liquidity that greatly exceeds my cash holdings, checking account, time deposits, money market funds, or other constituents of the Money Supply (M1, M2, M3, etc). If and when I notify my bank that I wish to draw on my line of credit, the bank will respond by crediting my checking account with the amount of money that I specify. At this point, the portion of my line of credit that I have used has become money, but the unused portion is still only credit. My total liquidity has not changed but by drawing on my line of credit I have increased my holdings of "money" and reduced my available line of credit. I'll summarize this example with the equation Liquidity = Money + Available Credit.Aubrey describes credit as different from money in several ways. Money is by nature anonymous, fungible, while credit is something personal to the credit holder and the pledged collateral (e.g., my house). Ideally, credit should vary with changes in the value of the collateral over the business cycle. However, changes in the market value of the collateral may be difficult to detect and estimate. Financial firms' decisions to extend credit are influenced by actual rates of default and, even more, by their perceptions of the probability of default. Financial firms also tend to adjust the availability of credit and cost of credit in response to their experiences in the very recent past. Consequently, they are too eager to provide credit and to offer low interest rates at the top of a business cycle while the opposite holds at the bottom.Aubrey goes on to describe a theory of credit (liquidity in my terms) based on the work of Swedish economists Knut Wicksell and Gunnar Myrdal and Austrian economists Ludwig Von Mises and Friedrich Hayek.(Note: Von Mises and Hayek are also known for their libertarian political philosophies while, politically, Myrdal was a social democrat. None of their political views are part of this discussion, so regardless of your own political preferences, please ignore those of the cited economists, who include Nobel Laureates on both the right and left.)The Neo-Wicksellian Model, to use Aubrey's term, is based on two interest rates:1. The Natural Rate which represents the underlying potential of the economy but is not directly observable.2. The Money Rate which is the actual rate (or range of rates) offered by financial institutions.Both rates vary. The natural rate responds to changes in technology, the size and quality of the labor force, and long-term levels of demand while the money rate responds to the business cycle and actions of the central bank. When the money rate is less than the natural rate, business expands. When the opposite is true, business contracts. The real problem is how to determine the natural rate. Hayek admitted defeat. Milton Freidman in his quantity theory of money advocated that the Fed should keep the money supply growing at a steady rate consistent with the long term growth rate of the economy, perhaps about 3% per year. However, Freidman was looking only at money, not at credit, and his advocacy of a constant rate of growth in the money supply was inconsistent with the idea that the natural rate of interest is not constant. Aubrey suggests using the following measures as proxies for the Natural and Money Rates:1. For the Natural Rate of Interest, use the return on capital, calculated as the weighted average return on capital of all companies in the economy (or maybe the Fortune 500 to make the calculation feasible).2. For the Money Rate of Interest, use the five year moving average of five year government debt.Aubrey provides a fairly convincing back testing of his model (using both aposteriori observed data and apriori predicted data) and concludes with a prescription to money managers to switch between equities and debt based on the Neo-Wicksellian Differential, the difference between the Natural and Money Rates.Reviewer's Comment's1. From the point of view of monetary economic theory, Aubrey has made a significant contribution. Understanding that liquidity is the sum of money and credit (in my terminology) is a useful insight (at least to me).2. As far as a prescription for investment managers' strategic decisions, the idea of switching investments between equities and debt based on the Wicksellian Differential is interesting but not yet proven. Once proven (assuming it ever is), it will fall to the fate of all other investment strategies based on macro signals: Investment managers will learn to anticipate the signal, rendering it obsolete.2 of 2 people found the following review helpful. The Future of FinanceBy Justin MerrillMuch like the author, I am an economist working in financial markets and have an interest in monetary theory. So, naturally this book spoke to me. I recommend this book for its trot through the history of economic thought and the author's ability to fairly present multiple sides of a controversy. For example, Aubrey can find value in both Hayek's and Keynes's works. The innovative part of the book is the application of the Wicksellian framework to an investment strategy. Critics of Wicksell and his intellectual heirs have argued that the concept of a "natural rate" of interest is merely a pedagogical tool with no real world application since it cannot be measured. Aubrey demonstrates with theory, and applying it to analyze an array of historical business cycles, that the role of credit and asset prices needs to be reexamined with a Wicksellian lens.Most chapters will appeal to anyone broadly interested in economics and finance, while some chapters may only be of interest to investors. If you find a certain chapter to be too specific for your interests, then skip it instead of blaming the author like the other reviewer did.0 of 0 people found the following review helpful. Great start. Light on details.By CustomerWell researched and does a great job of laying out traditional equilibrium framework and why it is flawed. Then walks through wicksellian framework. However the execution is where this book falls short. Very vague discussion of data and sparse use of data at that. Even more vague on how to go about implementing this framework. Hopefully this is just the start.

The Financial Crisis has led to a decade of poor returns for pension schemes and lower retirement incomes. Credit-based investment strategies that track the business cycle, are allowing preservation of investors' capital. This book provides analysis and investment strategy plans to generate equity-like-returns with bond like volatility.

"A fascinating new book" - John M. Mason, Seeking Alpha "Thomas Aubrey, a credit analyst, argues that investors have been led astray by the belief that economic growth drives asset-market returns . . . instead, investors should focus on the credit cycle." - The Economist "Can modern-day Austrians use advanced financial techniques to more accurately predict a crash? U.K. financial consultant Thomas Aubrey has devised a method in his great new book . . . Aubrey focuses on the credit cycle as a way of determining whether to be bullish or bearish . . . It appears to be the first book-length effort to apply Austrian/Swedish finance theory." - Mark Skousen, Markskousen.com "This book is learned, witty and convincing. Mr Aubrey draws adroitly from historical data and the history of economic thought to discredit much of 'modern' macroeconomic thinking. Rather, he supports a 'Neo-Wicksellian' view that puts credit and leverage at the heart of serious economic downturns. His practical guidance to asset managers, hoping to profit from identifying emerging disequilibria, is an added bonus." - Dr. William White, Chairman of the Economic and Development Committee, OECD and former Economic Advisor for the Bank for International Settlements "Thomas Aubrey has done an impossible thing. He has used good but somewhat forgotten theory to the practical purpose of telling people who may wish to invest how to avoid the pitfalls of boom and bust. His book is readable and useful and he argues his case convincingly. Read him and you may learn more than just good economics." - Professor Meghnad Desai, London School of Economics and Political Science "The ideas of Knut Wicksell - Sweden's most famous economist - have come to play a central part in modern economists' understanding of the business cycle. In Profiting from Monetary Policy Thomas Aubrey performs the much-needed service of bringing those same ideas to the attention of investors, so as to better enable them to anticipate, withstand, and even profit from, financial booms and busts." - George Selgin, Professor of Economics, University of Georgia and Senior Fellow, The Cato Institute. "A useful post-crisis read which uses economic theory to explain boom and bust." - Stephanie Hawthorne, Pensions WorldAbout the AuthorThomas Aubrey is the founder of Credit Capital Advisory, a consultancy specializing in the relationship between credit markets and the wider economy. He has substantial experience running credit and economic analytics businesses and has served as the Managing Director of both Fitch Solutions, a provider of credit risk and quantitative analytical solutions and Datastream, which is widely used by investors and professional economists for asset allocation. These experiences have underlined the importance of analyzing streams of data rather than over relying on analytical models, particularly given the dynamic and unpredictable nature of credit. Previously he worked as a management consultant turning around failing businesses in Asia, North America, and Europe, affording him a unique perspective into the creation and destruction of capital. He holds a first-class degree from the London School of Economics and an MPhil from the University of Cambridge, where he mostly studied the history of political and economic thought before studying mathematical economics at Birkbeck College.