

Inflation, Savings, and Diversity of Investments

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Summary

This note on inflation, on savings, and on different investments, is intended as a basis of discussion for all members of the Royal Statistical Society of Belgium (RSSB). It analyzes the essence of our financial situation and then draws preliminary conclusions. In doing so we also evoke the responsibility we may feel towards the founding members of our society.

We then discuss the investment options for our Society to secure our savings against inflation in a time when bank savings interest rates are close to zero. Returning to the aspect of responsibility we then examine the question whether the creation of a “patrimoine” for a royal society in Belgium would be feasible for us, and, if so, how we could prepare for it. Is it probable that creating a patrimoine would increase the visibility and importance of the RSSB in Belgium and therefore support “Statistics in Belgium” in a significant way?

Ending with a historical remark found on the webpage of the RSS of London we draw attention to the important role Adolphe Quetelet has played in the foundation of this world-wide known RSS.

1. Introduction

At the last General Assembly of the Royal Statistical Society of Belgium (RSSB) in Ovifat (Hautes Fagnes, Belgium) in October 2018, we had proposed to seriously discuss between us our possibilities to maintain the

value of the savings of our Society. Moreover, the idea came up that we may think of ways to create a "patrimoine RSSB".

Let us start by pointing out the reasons why a diversification of our savings may be a good idea.

2. Savings and outlook

Our savings decrease in their value.

Why is this so?

The interest rate for our savings are now near to zero, just the same as we see it happening on our private savings accounts. We have no special rates because, as you can guess, no bank would currently see any incitement to offer us special conditions. Also - and here please remember the General Assembly of October 2017 in Leuven - the suggestion to increase our annual membership fee, which has been constant for almost two decades, found no support at all.

The plus/minus 2 percent inflation rate which is officially advertised by the government, may be below the inflation rate as we feel it when we go in a bakery or in a restaurant, or if we book a hotel room. This feeling is likely to reflect reality. We all know that an official inflation rate is a function of the „official“ basket of goods and services for consumers defined by and according to different criteria which need not be very relevant for a scientific society.

For our society, this rate is currently a euphemism rather than reality. Electric equipment prices and other mass-product prices, for example, typically do not increase much these days, and may even decrease. Since these things are well presented in the reference basket of goods and services, this drags the official rate down. In our Society our main expenses are, as you know, costs of personal, service charges, rent rates, and, keeping in mind the requests of support for planned activities of our scientists, travel costs, lodging costs, and others, hence the typical bread-and-butter costs for a scientific society. This is why for us the true inflation rate is most likely higher.

Having said this, even with 2 percent inflation, our effective loss in value of the Society's savings has become quite visible in only a few years.

The situation would be different if we still had a reasonable interest rate for compensation. My predecessors as presidents still saw real interest rates and thus did not have the problems I have to face now. Times have changed, and we should be aware of this.

3. What can we do?

As we discussed at the General Assembly in October 2018, we have no financial manager or counselor for our Society, and also, we see no easy way to have one. Moreover, on a more modest level, confining to possible investments in the stock market, nobody in our Society should be asked to look up everyday the charts and tables to see how things are going and then take decisions ... unless one of our members would, unexpectedly, volunteer.

Similarly, even if we had enough funds to invest in a student kot, or an apartment (which is currently not the case) lending the property, managing and maintaining it in clean shape takes time and means work. We probably agree that this would also be not a good idea either.

We conclude that investing in stocks, funds etc, most of these options do not make much sense for us. Possible exceptions are index funds mimicking the market which we would buy with the intention to simply keep them. And for „real“ real estate with constructions on it, that is a student kot, an apartment etc, we are also not in a favorable position.

Hence only investments involving minimal time needs to „manage“ them seem to be reasonable candidates. This reduces our options considerably. But before we go on to discuss options, let us first answer how much we could, with a good conscience, take aside for investments.

4. A reasonable upper limit for diversified investments

We have currently some 91 000 (ninety-one k) Euros on our accounts, and it seems this has been so (plus minus 10 000 Euros) for many years already. Our treasurer may have the history of our accounts so that we may check more closely. Since we expect no further particular expenses, it seems likely that we would not have to touch a possible investment of some 65k – 70k Euros, say, and this for many years to come. Nevertheless, a president of our Society should be risk-averse, and so I would suggest +- 50 000 Euros as an upper bound. Moreover, I think we should not invest all 50k at once but spread it in time and possibly in two or three different types. Moreover, a good part of it these should be convertible in liquidity on a short notice, when we need it.

This would leave us with a safety cushion of some 40 000 Euros for fluctuations on our saving accounts. As I understand, this is more than many other non-commercial societies would possess in total.

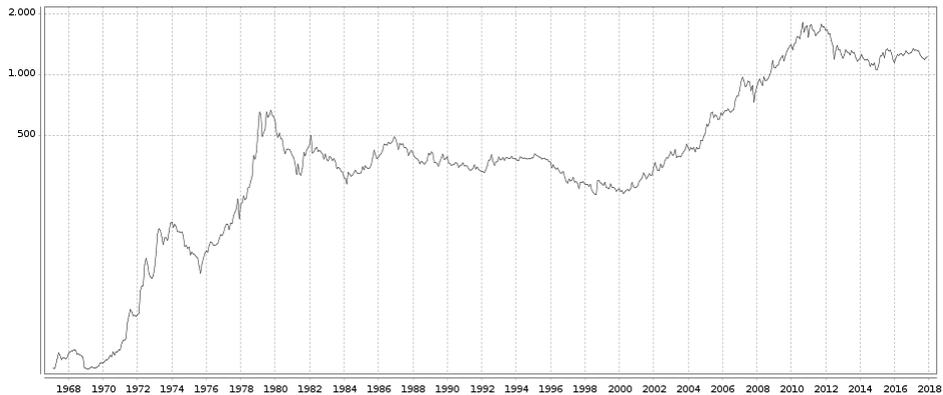
Of course there is always some risk. Something unforeseen may happen so that we would have to sell our investments, and then this may coincide with a bad timing to sell any of our investments. However, instead of over-ruling any idea of change by pessimism we should ask ourselves an important question: How probable is it that such an unlucky coincidence would happen? Would such a coincidence not be unlikely unless our Society, or the society as such (i.e. whole Belgium) would be in trouble for external reasons? But if the latter were the case, would we then be safer with all our savings being sitting on an interest-free saving account?

5. What would be suitable options for the RSSB?

Suppose we agree that taking aside some + -50 000 Euros for diversified investments may be a relatively safe compromise. What would be reasonable options for us?

(i) Gold?

Gold seit 1968



Gold Price history in Euro since 1968

(ii) Silver?

SILBERPREISENTWICKLUNG IN DOLLAR



Silver Price history in US Dollars since 1970

(iii) Other precious metals?

(iv) Diamonds?

(v) State bonds?

Well. The discussion is open.

6. How could we proceed?

First, our board must decide whether or not we should diversify. If the answer is yes then I think we should not lose much time before beginning with it. Please call me if you think you can help us with advice. Please do not send emails to me unless you do not succeed getting me on the phone:

My telephone numbers are 02-650 5893 (office) and 02-770 8923 (private); mobile 0472-448801.

I personally think precious stones would be risky, unless one of you happened to be a specialist and would like to advise us.

7. Comparing gold and silver

Gold and/or Silver (easy-to-trade coins like Kruegerrand or Maple Leaf, or bars of well-known accredited producers, like Heraeus, Unicore, or others) which you can buy and sell over the counter have the advantage that the prices (buy/sell) can be found instantly in the newspaper or on the internet. Gold has the additional advantage that there is no TVA on it. For silver we would have to pay the usual TVA (21 % in Belgium, 20 % in Germany, ...), and as far as I know this rule applies now throughout all countries of the E.U. This is clearly a great disadvantage of an investment in silver compared with gold because the cost of buying and selling several times would be too high.

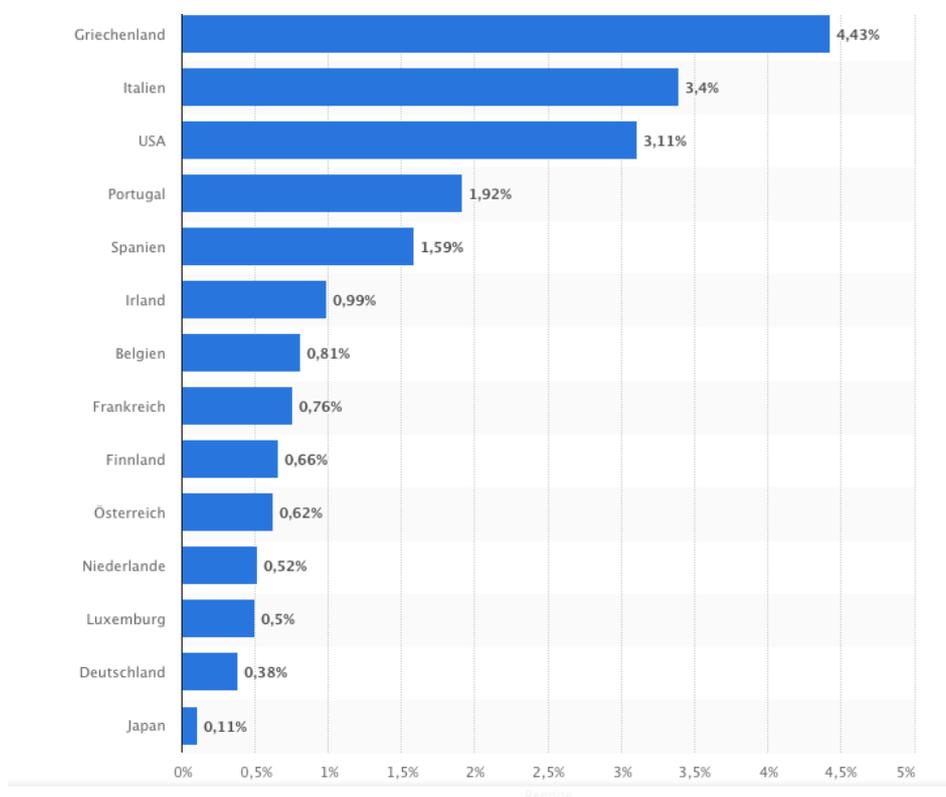
(NB: F. Delbaen, ETH Zürich, (private communication) to whom I had sent an earlier version of this note recently commented to me that there exist certain account types for precious metals which imply that trading becomes even easier. I will enquire to help with more details.)

However, silver may have its own interest. The volatility of the price of silver is typically much larger than the one of gold. Given that our main intention would be to buy and to keep it unless there is an opportunity to sell with a true gain, we would be in a “long” position, and then a large volatility is typically a valuable asset. This is well-known, but I have no further special knowledge about these things

8. State bonds

Finally, to be somewhat complete for our short list, we should also look at State-bonds as an option. They are relatively secure, I guess. However, the interest rate is currently also modest unless one chooses them from one of those countries which have still some “risky” sides.

The graphic below shows the variation of interest rates for several European countries. It dates from November 2018 and is seemingly already quite out-of-date because the rate for Belgium is (after tax of 30%) only around 0.455%, as I happened to see today in the newspaper.



European State Bonds / November 2018

My personal feeling is, that Belgian state bonds, or similarly rated state-bonds, though clearly better than our saving account with an interest rate close to zero, would be, *for the time being*, not yet a convincing solution for our problem. We should however keep an eye on them because things may change more quickly than foreseen.

9. Buy land, they are not making it anymore (Mark Twain)

Buying land is an interesting option if we think of trying to build up a real “patrimoine” for our Society. It is hard to think of anything else which seems to increase in value more reliably than land.

Interestingly, it appears that in Belgium land without a construction on it, goes up (in percentage of increase) more quickly than houses, apartments, etc. Whether you live in Flanders or you live in the Wallonie, the increase of prices for farmland, “fonds de bois” (i.e. forest parcels on which the trees have been cut and not yet re-planted) , and other pieces of land is sometimes almost incredible.

However, although I have already invested quite some time in trying to find a suitable parcel which we could afford with our modest budget, so that I could talk to you about a specific idea, I have not seen a single offer which would seem to me like an opportunity. It is “opportunities” what we should try to find, because “record values” (i.e. values associated with objects which are better than all others seen before on a given time horizon) have arguably a larger variance than non-records. Having said this I must add that I may be biased by personal longer-time experiences in applying my own modest method (Bruss (1984)).

As I just said, so far we have not seen anything we would suggest to think about. However, you may agree, we should not give up. Times may change. Although there is no reason why one should expect average prices of land to decrease, the difference in quality can also make the opportunity. And there may be more offers. So for example, you may have heard that the “scolyte” which was favoured by repeated draughts in the last years, and in

particulr in 2018, has killed needle trees (épicéas) en masse in the Ardennes. Owners are (legally) obliged to cut and thus change forests in “fonds de bois”, and several of them are so discouraged that they will not re-plant.

Again, they will probably not sell cheap. However, as we all know, once the sample size increases, statistical outliers have a bigger chance to occur.

Therefore, please help us to keep our eyes open.

10. Conclusion

Guess the conclusion of the author.

Yes, you guess right.

The author believes we should try to diversify our savings to keep their value, and also, that, given the situation, we should do this as quickly as possible.

Moreover, he believes that a “patrimoine” for our Society would strengthen solidarity between our members and, indirectly, reinforce the reputation of “Statistics in Belgium” in a new direction. We are no regional club. We are a National Society, we have become a Royal Society, and we have a mission. And probably we agree that we want our Society to survive and flourish.

Our mission, summarized as “Statistics in Belgium”, was inherited from our founding fathers. They had decided that something should be done about Statistics. They felt “responsible” for the common objective statistics and science, and, in 1937, they founded our Society. So far we owe them almost everything, even the savings we have. Should we not also take our responsibility for what they have given to us.?

We may say yes, but we *have* given: Look at the many distinguished statisticians we have! This is certainly true, and we can be almost sure that they would be pleased to know this. However, we think we should also try to

do better in our effort to maintain the health and the prospects of what they left to us.

11. And what would Adolphe Quetelet think?

We do not know. All we know is that we are glad and proud to have the Quetelet Society in Belgium. I personally believe Quetelet would have supported (of course !) the idea that we should try to do everything we can for our Society RSSB, exactly as he would have supported ideas of the board of the Quetelet Society to do whatever they can for the Quetelet Society.

The name of Adolphe Quetelet is, by the way, connected with the foundation of the RSS of London in a way many of us would not have known. Nobody less than our big sister RSS of London herself explains this on their homepage under the heading “History” (see reference below)

Citation from homepage of the RSS London:

The Society has a long and distinguished history as one of the prominent statistical organisations in the world. From its beginnings in 1834 to the current day we have made sure statistics continues to be promoted and applied for the public good.

Beginnings

In 1833, the British Association for the Advancement of Science (BA) created a statistical section, following a presentation by the Belgian statistician Adolphe Quetelet to its fellows. This proved so popular that a year later, a Statistical Society was founded by Charles Babbage, Thomas Malthus and Richard Jones with the Marquis of Lansdowne as President. ...

Wikipedia (see reference below) says:

Instrumental in founding the LSS were Richard Jones, Charles Babbage, Adolphe Quetelet, William Whewell, and Thomas Malthus. Among its famous members was Florence Nightingale, who was the society's first female member in 1858. Stella Cunliffe was the first female president. Other

notable RSS presidents have included William Beveridge, Ronald Fisher, Harold Wilson, and David Cox.

Acknowledgement

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