waterline

waterstone
INSOLVENCY

EDITION 3

INSIDE:

"It's only when the tide goes out that you learn who's been swimming naked."
Warren Buffett

0800 CLOSED

Reckless Trading: Again...

The first thing to understand about reckless trading is that is it virtually never prosecuted. As a remedy for creditors who have lost money in a liquidation, pursuing a director under Section 135 or 136 of the companies act is economically fruitless.

Section 135 specifies a director must not agree, or cause:

"...the business being carried on in a manner likely to create a substantial risk of serious loss to the company's creditors."

Section 136 states a director must not:

"agree to the company incurring an obligation unless the director believes at that time, on reasonable grounds, that the company will be able to perform the obligation."

There is a wealth of legal writing on the above short sections, and the more lawyers write on the subject and pour over the handful of decisions handed down the more areas there are for protracted legal disputes and avenues for defence.

Few pieces of New Zealand company law have been so analysed as the snippets of legislation relating to the personal liability of company directors of insolvent companies.

What constitutes create a substantial risk?

What constitutes unreasonable?

All business is risky, and all businesses face different levels of risks. An objective assessment of the risks facing a company is very difficult to do at the time, enormously complex after the fact.

There has been renewed interest in this area after the success of the liquidator in the case of Meltzer vs. Lewis, where non executive directors were held to account for some of the losses of their company. However, it is important to understand that the courts only held them partially liable, limiting their liability by both the duration of their directorship and the value of their shares in the operation. There was no punitive element in the award won by the liquidator.

It is important to remember that liquidators do not use these provisions because these prosecutions are expensive, difficult to win, and easy to defend.

Help from the Institute...

If the company's accounts had been prepared by a member of the institute of Chartered Accountants, then the accountant has an obligation to advise their client of possible breaches of section 135 and 136.

Going through the files, we find such advice more than you would imagine. This is a powerful tool in compelling directors to own up to their obligations to their creditors but it is not necessarily proof of reckless trading or a breach of Sections 135 or 136. The directors may have access to personal capital, access to information not available to the accountant, and so on.
There are more effective remedies, and Section 301 is perhaps the most powerful.

Section 301 - What's that?

This is a nice little piece of legislation that rips the corporate veil into little pieces. Much more effective than the more difficult remedy available under section 135 & 136.

Section 301 allows a creditor (especially useful in the face of a passive liquidator), shareholder or liquidator, to take action against a director if that director has:

"misapplies, or retained, or become liable or accountable for, money or property of the company."

If the action is taken by a creditor, and the result is that the director is ordered to return the property, the court can compel the director to return the property direct to the creditor.

This section also applies to others involved in the business. Specifically, a 301 action can also be taken against a liquidator, director, promoter or a manager of the company.

The case law reveals that the sorts of things a director can be held liable for include:

- Retention of secret profits
- Paying dividends out of capital
- Misallocation of money or property belonging to the company
- Granting preference to creditors (especially where personal guarantees are concerned)
- Failing to use proper skill and take proper care in the performance of their duties

This section can be used to recover funds that have been misallocated by the director, where there is some breach of trust, or possible malfeasance. It cannot be used, however, to recover a debt owed by the director (such as a current account) where this has been properly done and accounted for. It would apply where a director has taken funds, and accounted for it, but given the financial state of the company should not have.

This section cannot, typically, be used by secured creditors. It is reserved for the use by unsecured creditors, although a secured creditor can (using Section 305) elect to waive some or all of their security.)
The importance of this section is that it allows the court to reward the creditor who takes the action, and gets around the debenture holder & preferred creditors (mostly the IRD)

This can be important if, in liquidation, there is a GSA holder whose claim would rank ahead of all other creditors.

Section 300

This is a useful section that covers situations where the company does not maintain accounting records.

If a company does not maintain proper accounting records, and subsequently goes into liquidation, the court can hold that director personally liable.

The guidelines are this:

A) Lack of proper accounting records kept
and
B) Lack of proper accounting records contributed to the failure of the business
and
C) The director does not have a defence of
   a. Took all reasonable steps to keep proper accounting records
   b. Had reason to believe a competent person was handling the accounts
and
D) The court thinks it is proper to hold the director personally liable for all or part of the company's debts.

This action is taken can only be taken by the liquidator.

Directors, The Risks

The current economic turmoil has seen the quote below re-printed many, many times:

"It's only when the tide goes out that you learn who's been swimming naked."
Warren Buffett

We feel there are a few folks who have been caught by the retreating tide. Controversially we are going to throw a few rocks at corporate trustees in this edition of Waterline, but we are also going to look at the increasing risks facing directors and the likely challenges that will catch a few out.

Below is a brutally brief summary of the ways directors can be find themselves personally liable for their company's debts:

Breach	Remedy	Liable	Who can instigate
Inadequate Accounting Records (Section 194)	Section 300	Director and former Directors	Liquidator only
Preparation of Financial Accounts (Section 10 of Financial Reporting Act)	Section 300	Director and former Directors	Liquidator only
Misapplied, not accounted for or otherwise been dishonest or negliciant in relation to affairs or assets of company.	Section 301	Directors, former Directors, Managers, Liquidators, Receivers, Promoters	Liquidator, Creditors, Shareholders
Director allowed or agreed for the business to create a substantial risk to creditors. (Section 135)	Section 135	Directors	Liquidator only
Director agreed for the business to incur an obligation when he did not have reasonable belief the company can perform. (Section 136)	Section 136	Directors	Liquidator only

Trading Trusts

We have been coming across trading trusts of late.

A business can be run via a trust. This was a procedure that seems to have developed to assist trustees carry on the affairs of a deceased person's estate. Now we have trading trusts.

Creditors, especially unsecured creditors, of a trust normally do not have a claim against the trusts assets. They must seek recovery action against the trustees.

A limited liability entity can be established as a Trustee, avoiding any personal liability, and it is this company that holds the trading risk for the trading trust.

The director(s) sit one step removed from the trusts.

When the business fails, it is the trust that fails. The trustee company, liable for the debts of the trust, may be liquidated.

Under normal trust law, a trustee is indemnified by the trust. However, in a corporate trust this indemnity is usually limited, giving the liquidator of the trust company no access to the trust assets.

No doubt many lawyers think that this is clever. Indeed it is. It is also why so many people do not like lawyers.

However, we think that this structure provides protection only so long as a liquidator is not willing to look further.

A company director of a corporate trustee has obligations to his company. If his company is liable for debts of the trust, but has a limited indemnity, he is liable for trading whilst insolvent, ergo; personal liability provisions come into play.

Even better, it is possible that the trust may not be able to limit its indemnity to the trustee, making the indemnity void and allowing the liquidator to go after the trust's assets.

Better still, there are provisions for beneficiaries of a trust to be liable for the debts of the trust. This is especially the case if the beneficiaries (per chance the company director of the corporate trustee?) instigated any of the debts of the trust.

We are currently liquidating a corporate trustee. It is our position that we are entitled to all the documents of the trust during the time the company was the trustee and we intend to figure what was going on and who we can seek recovery action from.

If anyone reading has any ideas on how we can proceed we would love to hear from you.

Email us at enquiries@waterstone.co.nz

Speaking of Corporate Trustees

At the recent Insolvency Conference there was some mutual back-slapping about the success (or rather the avoidance of total disaster) of the Hanover moratorium.

Waterstone staff characteristically, but with a staggering lack of charity, challenged the performance of the Trustees.

It is fair to say our comments did not receive much sympathy from the assembled great and good, and to be fair Guardian, the trustees of Hanover, have some reason to hold their head higher than some of their colleagues in this area.

Motivated to look further, and with assistance from www.interest.co.nz (an excellent reference site) we did a quick tally of the billions of dollars exposed to failure from finance company's using trustees: (see right)

Finance Company	Trustee	Covenant Trustee	Perpetual Trust	Guardian	Others	Total Exposed
National Finance	Covenant Trustee	25				25
Provincial Finance	Perpetual Trust		296			296
Western Bay Finance	Covenant Trustee	48				48
Bridgecorp	Covenant Trustee	458				458
Nathans Finance	Perpetual Trust		174			174
Five Star Consumer Finance	Covenant Trustee	51				51
LDC Finance	Perpetual Trust		19			19
PropertyFinance	Covenant Trustee	170				170
Clegg and Co	Covenant Trustee	15				15
Capital + Merchant Investments	Perpetual Trust		2			2
Capital + Merchant Finance	Perpetual Trust		190			190
Numeria Finance	Perpetual Trust		7			7
Lombard Finance	Perpetual Trust		127			127
Kiwi Finance	Perpetual Trust		2			2
Fairview NZ	Perpetual Trust		7			7
Belgrave Finance	Covenant Trustee	21				21
Dominion Finance	Perpetual Trust		224			224
Beneficial Finance	Covenant Trustee	24				24
Geneva Finance	Covenant Trustee	138				138
OPI Pacific Finance	Perpetual Trust		335			335
MFS Boston	Perpetual Trust		40			40
St Lawrence	Perpetual Trust		240			240
Hanover Finance	Guardian			465		465
Hanover Capital	Perpetual Trust		24			24
United	Perpetual Trust		65			65
North South Finance	Covenant Trustee	86				86
ING Funds	ING (NZ) Admin P/L				520	520
Guardian Mortgage Fund	Public Trust				249	249
Guardian Mortgage Units	Guardian			56		56
Compass Capital	Guardian			20		20
Dorchester Finance	Perpetual Trust		176			176
Strategic Finance	Perpetual Trust		330			330
Orange Finance	Covenant Trustee	50				50
Mascot	Perpetual Trust		70			70
'000		**1,086**	**2,327**	**541**	**769**	**4,722**

Remember, our Gross Domestic Product is around 170 billion.

Let's look at Perpetual Trust First.
Their annual report is helpful: let's take a couple of things, possibly out of context:

Key Financial Results	**2009**	**2008**
Net Profit	$3.6m	$2.6m
Revenue	$15.5m	$14.4m
PGC investment	$7.6m	$7.0m
Return on investment	47.7%	42.9%

Corporate Trust

Perpetual's Corporate Trust division achieved a 10% increase in revenue for the year. Funds under supervision now total over $19 billion.

The revenue growth came both from new clients and increased business from existing clients.

The key factors in Perpetual's success were the continued implementation of a business plan which focuses on strong customer service and employing people who can execute the plan.

With the Retirement Villages Act coming fully into effect, and growth in the managed funds sector, the opportunities for business growth for the coming year look positive.

Isn't that excellent. 19b under supervision! Sadly, 2.3billion of that not under very close supervision. Hopefully the other 16.7 will do better.

Nothing there about, "opps, lost nearly 2% of the country's GDP, must do better."

Of course, we do not mean to merely take Perpetual to task but Covenant only lost half the amount, and they deserve some credit for taking a less knee-jerk approach, especially in the cases of North South and Geneva where non-receivership arrangements seem likely to get a better result for debenture holders than allowing members of the insolvency profession gouge on grandma's retirement savings.

However, let me quote from Neville Harris, Registrar of Companies;

"In our view, Covenant and Perpetual were slow to detect adverse financial issues developing and they responded too timidly to circumstances where investor's interests were being put in jeopardy. Covenant and Perpetual did not appear to have enough experienced staff, or adequate understanding of the risk profile of the finance company lending, to deal effectively with what turned out to be widespread failure within their finance company client list."

Auditors and others get a serve as well, but our favourite line from his report is:

"Trustee accountability is relatively weak. Shortcomings in the performance of a trustee company are unlikely to be uncovered or pursued by receivers who are appointed by the trustees, and who look to trustees for further assignments."

A needless slur on the insolvency profession Mr Harris! Shame on you. Generally, Insolvency Practitioners are exactly the type to bite the hands that feeds them, regardless of the loss of business going forward. Insolvency Practitioners are perhaps the least commercial of all professions. (As a rule of thumb, Insolvency Practitioners are those too slow, too old or too unattractive to make an honest career building relationships in law or accounting. And never let an Insolvency expert run a business. It is like having a mortician for a GP. Never going to turn out well.)

Needless to say, no Trustee is going to give Waterstone an appointment any time soon but I think there is a class action just waiting for someone to take.

Something Mr Harris did not say is that the real moral hazard rests with the Trustee companies themselves. Where do Trustee companies get their appointments from? Finance Companies. I won't say it, but you know what we're thinking.

Wasan

As you might imagine, we come across a lot of people who are less than honest with us. Of all the professionals people feel the need to be honest with, Liquidators probably come dead last.

As a result, we feel we are pretty good at spotting those who are having trouble with the facts. Indeed, we recognise and have a healthy respect for dishonesty as a key skill in those we deal with.

It was a rare pleasure, therefore, to meet the redoubtable Mr Edward Kang, the principal of Wasan international Co Limited, Wasan Construction and Development Limited, Wasan Dubai Limited, (you get the idea, there were thirty in all).

Once upon a time, there was a trend for firms to have 'Mission Statements'. We do not have one at Waterstone, or none that we wish to publish. However, coming back to Wasan, if Wasan had a Mission Statement it would read something like this:

"Take people's money and then lie about it."

Mr Edward Kang has been an immigration consultant for twenty years. Still is despite what you are about to read. His business model, so far as we were able to determine, was to take thirty thousand dollars or more from Koreans, promise them immigration status, and then do nothing. If they were in the country, Wasan would keep their passport for good measure, and still do nothing.

We encountered a lot of heartache and anger from people who had dealt with Wasan and Mr Kang. Much of what we know we cannot report here, Mr Kang has shown a willingness to litigate and we do know he has receipted millions of dollars that are not accounted for.

We can say that Mr Kang is the worst immigration consultant we have met. He sat high in his Queen Street offices as his long suffering clients sat in a state of immigration limbo. Some of them found themselves being deported back to Korea. Some lost their life savings. None of it seemed to faze Mr Kang and his practised American accent and his impeccably tailored suits.

Alas for Mr Kang, he also had the misfortune to be facing an endless series of legal attacks coming at him from a raft of unhappy creditors. Finally the High Court put Wasan International into liquidation on a Friday. Allowing for a long weekend, Waterstone turned up in force on the Tuesday morning.

Alas for our heroic Mr Kang, after so many years of getting his own way, there must have been a sense of smug invincibility. As he was unaware of this action he was surprised to see us walking around his offices, going through his documents, talking to his customers, chatting to his staff and reading his emails.

He was outraged. Pleasant, sociable, but outraged.

Then came a series of lies told to us by Mr Kang.

- First he denied the company was in liquidation. Not true. We knew that.
- Then he told us all of the assets in the office belonged to a company not in liquidation. (Not true, we found the accounts).
- Then he told us his lap top was owned by him personally. (Not true, we found the receipt).
- Then he told us the lease was in his personal name. (Actually, his lawyer, who shall remain nameless but not blameless also told us that.) Again not true, we found the lease.

Mr Kang even lied when there was no reason or advantage to do so. He would tell you it was Wednesday when it was Friday out of habit.

Mr Kang lied to us. Many times. He can sue us for that if he likes.

Well, that was Tuesday. On the Wednesday we cleared the office, stripped the building clean save for several hundred immigration files. We met with the Korean Consulate who agreed to take the documents and assist their citizens as best they could.

That, as far as it had gone, should have been the end of the matter. But we underestimated the indestructible Mr Edward Kang.

As Mr Kang had enjoyed some press previously, TVNZ expressed an interest (after we told them about it, several times, sent them donuts and promised them cake). We agreed, reluctantly (hmmm) to be interviewed on television over the issue of Wasan. Imagine our surprise, and frankly delight, to find out on the Saturday morning that Mr Kang had signed a new lease for the same premises, (Wasan Dubai Limited, this time) had drilled the lock and had barricaded himself back in Wasan's offices.

This gave us the opportunity to call in the police to evict him (he had been trespassed and the landlord was unable to sign a new lease, as we had not disclaimed the old one), call in the Korean Consulate officials to claim the immigration files, and most importantly have Owen Poland on hand to film it all and show it on the six pm news as Mr Kang was led from his fallen kingdom by the police.

The cold hard truth is there is little we can do to stop Mr Kang continuing to ply his disreputable trade, (another defamation opportunity for Mr Kang). We have handed over a large number of files to the Serious Fraud Office who hopefully can hold him to account. In some cases they best we can do is hold a spotlight on someone we feel needs it, but the spotlight soon passes.

Voluntary Administration Regime Moves Into Top Gear

The Voluntary Administration (VA) regime continues to move slowly forward. Despite the receding tide of economic fortune this excellent piece of legislation is simply not getting used. This is a shame.

Waterstone had the opportunity to undertake an interesting VA over the Christmas/New Year period. It was one business, three companies, called the Jones group. Their claim to fame was the fact they were the publishers of two high profile magazines, Dish and Top Gear.

The principals of the business were creative, and effective at getting high quality magazines out to market. Where they struggled was the nuts and bolts of running an business and paying the bills. You can see where this would head. Straight to us.

Their major creditor was their printer, a firm called Image-Centre. Image-Centre saw an opportunity and wanted to acquire the business rather than let it fail and be forced to write off their debt.

Fortunately for the principals of Waterstone, attractiveness, posture and dress sense are not skills required to pass Doca's.

A complex restructure was proposed that would see Image-Centre take over the business in return for waiving some of their debt and underwriting some of the creditors. If the new Image-Centre run business made a profit, this would flow back to the creditors. Existing debtors would be collected and paid to creditors (excluding Image-Centre.)

Most of the creditors accepted this restructure. Not totally happy with the arrangement, the consensus was that the Image-Centre proposal was fair, did not unduly favour Image-Centre, who also took on some commercial risk, and was the best hope for a distribution to the other creditors.

However, like many informal arrangements, one hold-out creditor would not agree, and used their position to try and force a settlement on more favourable terms.

At this stage, the company went into Voluntary Administration, and Waterstone stepped in to run the business.

We proposed a DOCA almost identical to the arrangement proposed to the creditors prior to VA. Again, most creditors agreed. The lawyers for the hold-out creditor, Maxim (now immortalised in the case Maxim vs Jones) declared that they were going to 'go hard', and further, they were going to 'go all the way'. (They also compared themselves to Denny Crane at one point. Pop-Eye the sailor man would have been a better pop culture reference.)

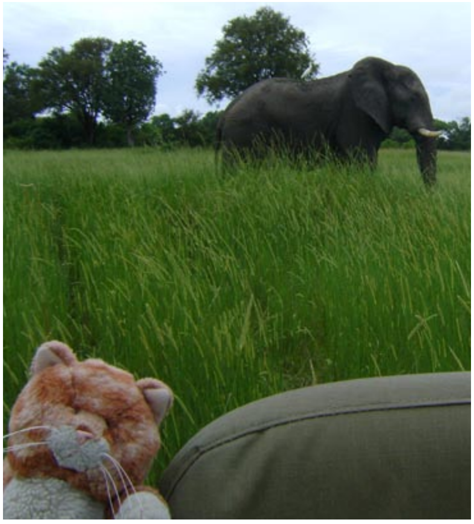
Maxim took a curious case against the company in VA, claiming as they were the graphic designers they owned the 'feel and vibe' of the magazines, (We are not making this up. Really. Feel and Vibe.)

However, a legal case cannot be brought against a company in VA without leave of the Administrator, or the courts. Maxim had neither, and their case failed. Rather badly actually.

This is important because it establishes that the High Court is closely following the Australian rulings when it comes to Voluntary Administration. Although the judge did refer to the weakness of Maxim's actual case, the overwhelming reason for their failure, (other than their lawyers thinking they were Denny Crane) was the principal that the creditors needed to have the opportunity to consider the DOCA without the threat of a court case hanging over the company.

This comes back to a key point of Voluntary Administration: the Moratorium. Once a company moves into VA, all actions against it cease. Legal action, action to recover assets, enforcement of personal guarantees, and the payment of historical debt.

Although the moratorium only lasts five to six weeks it allows the company, its creditors, directors, staff and other parties to calmly consider the implication of the company's situation and to decide on the best course of action.



Our mascot, Prudence, on safari in Botswana

How To Protect Yourself From Dealings With An Insolvent Company

Dealing with insolvent companies is an increasing problem for many firms. There are three risks in dealing with a firm that later fails:

1) Securities granted can be voided

This is a rarely used provision. However, if a company is insolvent any securities it gives can be unwound by a liquidator. This applies to General Security Agreements and to securities given to existing assets. It does not apply to those who lend money to a firm to buy a specific asset (a PMSI).

2) Money paid can be clawed back

This is commonly known, where an insolvent company pays money to one creditor, giving that creditor an advantage over other creditors. Where such a payment creates an advantage a liquidator can ask for the money back.

3) The Six Months No Net-Off rule

This is a tricky provision, Section 310. If a company is trading with an insolvent company, and there is a series of mutual debts, then only the debts older than six months can be netted off the debt owing to the liquidated company.

So, let's assume you are trading with a company that has gone into liquidation. That company owes you ten thousand dollars. Six thousand was incurred the week before liquidation, the other four a year before liquidation.

However you owe the company twenty thousand dollars. The liquidator can demand from you sixteen thousand dollars. You cannot net off the $6,000 incurred in the last six months of the companies life.
If this is a court appointed liquidation, the six months starts at the time legal action commenced, and not from the date of liquidation.

There is one defence to this provision, and that is if you can prove that you did not know that the company was insolvent. This puts the onus of proof on the creditor and not the liquidator.
Below are some options of trying to protect yourself when dealing with an insolvency company:

The old 9/10 rule
Possession being the 9. If the money is in your bank account it is up to the liquidator to get it out of you. Even if he does (making the assumption the liquidator is a he) you at least still have the use of the money.

Get the money from a third party
If the director pays you personally for a company debt the company cannot claw it back off you. (If the director falls into bankruptcy then the Official Assignee still can but it is one layer of protection.)

A personal guarantee
Remember a personal guarantee needs to have some key elements (see adjacent article.)

Get a security
And register it on the PPSR. This allows you to take back goods unpaid for if the company fails. A security over goods already supplied is probably not worth much but one over goods yet to be supplied should be enforceable if the company still has possession of it.

A work around
If you are dealing with an insolvent company try and get to do work for their customer. An example would be a building company. Try and contract with the home owner and not the builder, paying the builder a commission.

Proof of solvency
If you think that the company is insolvent, get the director to sign a statement declaring that it is solvent. If he won't get a new customer, if he does you at least have a defence from a liquidator.

Personal Guarantees

Personal guarantees can be powerful tools but they need to be done correctly if you want to rely on them subsequent to company failure.

There are three elements that a Personal Guarantee needs.

A) Must be explicit. It is not enough to bury a term in the terms of trade signed by the director that says something like: "The person who signs this agrees to be personally liable for the debt"

   Ideally the person signing should sign twice. Once on behalf of the company and once in their personal capacity as guarantor. And it should be clear and explicit that they are personally guaranteeing the debt.

   Now that we have a Voluntary Administration regime it makes sense for the guarantee to cover the possibility that, if the company's debts are changed as a result of a successful company restructure via a DOCA, that the guarantor is liable for all of the debts incurred by the company up to the date of Administration. There have been cases in Australia where personal guarantees have failed because the guarantee only covered the debts owed by the company, which can be reduced by a DOCA, as opposed to debts incurred by a company, which remain incurred, even if not owed with the passing of a DOCA.

B) Must be for consideration. The person signing must gain some advantage for the signing of the guarantee. Usually this is no more than you agreeing to supply credit to the director's company. However, where a debt has been incurred, a personal guarantee can be worthless if no consideration is given for the guarantee.

   Two solutions to this are to get the director to sign a deed to guarantee the existing debt, or offer some consideration with respect to the existing debt. Two common options are to agree not to enforce the current debt in return for a time payment by the company, or to agree to extend further credit.

C) The person signing must be a person who benefits from the guarantee. Personal guarantees have been attempted to be enforced against accounts clerks who rather recklessly sign them for the companies they work for (these tend not to stand up.)

Our strong advice is spend the money with your lawyer to get your terms of trade and personal guarantees locked tight. And most importantly, get them signed. It is depressingly frequent that we see the most beautifully worded and comprehensive guarantees. Unsigned. Worthless.

Is Cash Really King?

We are hearing a lot at the moment about wealth destruction, asset values falling and the like.

If you look at the sharemarket, property values, indeed any class of asset, you can see dramatic reduction in the value of these assets.

Here is a question: is cash any different?
Those under thirty five will struggle to remember what is was like once upon a time. When dinosaurs ruled the earth, the Soviet Union was something to be feared and Daniel Ortega was the reviled president of Nicaragua.

However, if we cast our minds back to those glorious days, before the cell phones, internet banking and Viagra (how did we manage?) we will remember there was such a thing called inflation.

The idea is pretty simple. The government prints money. It uses this printed money to buy things (roads, social welfare, Vietnam war). Business people see all this new activity so they hire new staff and invest to increase capacity.

It works too, because investing by business people actually creates jobs and generates real economic growth. But not enough to soak up the extra money the government printed, so prices rise.

Very quickly people figured this out, and the next time the government printed money prices just went up, no new investment happened.

The government, then, put its hand on its heart and promised not to print money again.

Problem was, no one **believed** them. So they left monetary policy in the hands of people like Don Brash. And when Don Brash says he will not print money and he does not care how many people lose their jobs, you know he is telling the truth. If Robert Muldoon said it, well, he would wouldn't he?

Now we come to the credit crunch and the Americans have borrowed Robert Mugabe's printing press. They have a deficit equal to 12% of their GDP and most of this comes in the form of fresh, crisp notes with the sanguine face of Benjamin Franklin on it.

Any student of Economics 101, (well, any student not txting during classes) will tell you where that will lead us. Inflation. And lots of it. This is why we have been seeing a fall in the value of the US dollar. It reflects a fall in the value of the US dollar as a store of value, not necessarily a reflection of the confidence or otherwise in the strength of the US economy.

Right now there is no suggestion that our own Reserve Bank is printing money. Indeed Dr Alan Bollard has been adamant he is not, making our own currently better than that of the shrinking greenback.

However, there was once a lot of money to be made borrowing money in return for a real good, and then waiting for inflation to destroy the value of the debt, leaving the asset intact.

Con men call it a bait-and-switch. China got baited with the prospect of holding all those trillions of US dollars, only to find the US pulled a switch. Money is just paper when all is said and done. In return for trillions of bits of possibly worthless paper (indeed maybe not even that, just electronic recordings), China handed over to the Americans huge amounts of actual goods that their citizens sweated to produce for the last ten years.