



Justin A. Urquhart Stewart

Justin is one of the most recognisable and trusted market commentators on television, radio, and in the press. Originally trained as a lawyer, he has observed the retail market industry for 20 years whilst at Barclays Stockbrokers and developed a unique understanding of the market's roles and benefits for the private investor.

Reversing the decline for Mutuals?

A great history but in a tough environment. The world of mutuals has not been an easy one. Many have glorious chronicles of the past dating back into the developing financial world in the Victorian era. The concept has been robust and certainly the view of shared ownership has been attractive to businesses in various areas of commerce. From the Co-Operative movement which covers virtually everything from supermarkets to funeral directors, financial businesses and even one of the UK's largest department store chains, John Lewis, the mechanism has appeared to be a successful business structure.

However, this equitable model has found itself open to attack both directly and through market competition from its more aggressive capitalist cousin, the joint stock public company.

We will all recall the fashion fad of 'demutualisation' whereby apparently "inefficient" old building societies could be transformed into modern dynamic financial companies. Not only would they wake up a sleepy hollow but provide far more aggressive competition to the existing banks. Additionally the old members (many of whom never even realised they were part owners) would receive a windfall payment by way of cash or shares, and so would the staff, and so everyone would be happy. Oh and if that wasn't enough with some bright financial engineering, they would also be able to 'make their balance sheets much more efficient', which was a polite way of saying borrowing a lot more. And so a raft of flotations came through, with Northern Rock, Halifax, Bradford & Bingley and even Abbey National many years ago.

However, you can see the pattern here. None of those names exist any longer in their original form. Many others were scooped up by banks, like Cheltenham & Gloucester and Bristol & West, leaving a rump of building societies gamely fighting for a shrinking cause.

The demutualisations actually started off rather well. They brought in new products and aggressively took on the banks. Northern Rock, for example, was known for being a low cost mortgage operator and took positive pride in being the bank that liked to say "No". No, that was, to other products and services – just mortgages and deposits (not insurance and all the other banc assurance twaddle) and a bank that seemed quite fussy who they offered facilities to.

Sadly though all that changed, as we know – and the rest is painful and recent history as corporate greed overcame corporate common sense and worrying about risk was just for wimps.

The result was that many seemed to have abandoned the old disciplines of balance sheet management, funding themselves increasingly from the wholesale money markets and far less so from their original depositors. Add to that the lending practises to the unsuitable and

unreliable, and the opportunity for disaster was clear – and well signposted some months before Northern Rock actually collapsed.

Since then the rump of building societies have been struggling. Dominated by the Nationwide, the band has now reduced to some 52 firms with some very well run and managed, such as the Coventry, but others suffering from lack of scale and a market squeeze.

The banking crisis is pressing in on them from various fronts. In terms of deposits they are suffering as they are unable to offer the attractive rates of before - and especially against government owned and guaranteed institutions. This means they have less deposit money to lend out. Meanwhile, the institutional money markets are still constricted with nowhere near as much available as before -thus other funding is necessary.

Some Societies have issued Permanent Interest Bearing Shares (PIBs) in the past, but these do not form part of any Tier 1 capital. Others have created more inventive structures including the Yorkshire and Chelsea who with their recent merger issued Contingent Convertibles (or CoCos) which convert into Profit Participating Deferred Shares (PPDS) in due course. However, these are less popular as it means that in the future part of the societies' profits will be streamed away to pay for them.

The latest idea (with of course the necessary acronym) are MODS or Mutual Ordinary Deferred Shares. These will have a capped coupon but will be loss bearing if the society goes bust and thus for regulatory purposes can be regarded as capital. If these are finally approved it would mean that at last this excellent financial sector can have more life breathed into it but without endangering their mutual status. This in turn will provide more competition for the banks, more liquidity and volume in the market – but it will take time.

Perhaps someone could now come up with a Rocker to go with the Mods?

Following on from my concern over the Chinese losing their interest in funding the US deficit by their falling value of purchases of Treasuries, I noted last week in the China Daily that far from buying, the Chinese have announced that they are selling \$34bn of US bonds. This will mean that Japan will overtake China and become the US's largest foreign bond holder.

Seemingly Japan boosted its holdings in December by £11.5bn to \$768.8bn, leaving China with a mere \$755.4bn. I also note that apparently the UK increased its holdings to \$303bn from \$227bn – and there was I thinking we didn't have anything left!

China, it would appear, has taken advantage of the rising Dollar, but the key question for the US administration is whether this is the start of a new policy to put pressure on the White House or just a decision to take advantage of a change in the currency value. The larger question remains though - who is going to continue to buy their huge debt?

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And finally’Men run risk with anatomy-boosting pants.’

LONDON (Reuters) - Hundreds of British men are risking a Valentine's Day anti-climax for their partners by stocking up on anatomy-boosting underpants ahead of the most romantic weekend of the year.

British department store group Debenhams said it had seen a 76 percent surge in online sales of the £18 pounds-a-pair underwear in the past week.

The pants work by using a lift and hold feature at the front, like a male version of the cleavage-boosting Wonderbra. "The briefs mean that no man ever needs to feel inadequate again on the most passionate day of the social calendar," said Rob Faucherand, head of men's accessories buying at Debenhams. "However we can't be held responsible for what happens once the pants come off," he added.

That's why I prefer to wear a kilt.

Have a good week.

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