



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.

Fool's Gold

Depending on your age, the mention of the word inflation will have a different meaning for you. For anyone in their 30's, inflation has been more or less irrelevant. It has been quite low and frankly not much to get too excited about, but then again you will not have known anything different and perhaps wonder why some of the older 'fogies' seem to get quite concerned about it.

For any of us in our 50's, we can recall the double digit inflation of the 1970's with probably a somewhat mixed view. We will remember that the British economy was in a disastrous state, often with the tag of the 'sick man of Europe' being applied. From the three day week in the miners' strike, to several Winters of Discontent and a peak of union militancy – the place was a mess. However more positively, for those of us who were reckless students with irresponsible and profligate borrowings, actually it was a marvellous boon as, without any effort on our part, these debts seemed to dissolve in value even if the interest rates were somewhat punitive.

For those who were in paid employment, you looked forward to a somewhat variable payslip that seemed to change by the month, with inflation adjustments clipping in on a regular basis. You seemed to have extra Pounds even though costs were also rising but, so long as you could keep up, then all seemed to be fine.

However for those in their 70's, inflation will be remembered with a real and tangible fear. This generation were often the ones who had either finished or were close to ending their working lives and thus the prospect of living on a fixed income and with fixed capital in the teeth of an inflation storm was very worrying. For those fortunate enough to have inflation linked pensions, then they were weather proofed by their financial tarpaulin, but for those less fortunate then they were faced with the prospect of serious financial erosion.

So what is the real, corrosive effect of inflation?

Inflation even at low levels is an insidious acid eating away at the value of your money. For example, even at an apparently somewhat benign 2%, long term savings can be significantly reduced. From 2010 to say 2050 £1,000 would be reduced to £445.70 if no investment had taken place. Try the same calculation at 4% and your money would have been reduced to a mere £195.37 – and most would regard 4% as hardly a high level of inflation. Oh yes and just to frighten us all about the real damage of inflation – try 8%. At this level your £1,000 disintegrates to a pile of dust, valued at just £35.61.

The reason I wanted to bring this to the fore is that after that somewhat tedious political Budget, and as we enter the last run up to the General Election, we will hear much comment from the politicians about managing inflation. Here now we must beware those with forked tongues, as it will be an easy temptation for politicians to engineer some more inflation to try and magically get rid of our national debt. Inflation erodes value, erodes the economy and our wealth. It may be tempting to inflate our debt away but at what price? Beware Fool's Gold.

Banks - I think most would agree that we need more banking competition and slowly, through certain new initiatives like Metro bank, Tesco and no doubt Virgin, more will finally be happening. Even the initiatives announced by the Chancellor will encourage further entrepreneurial activity – but at what pace?

If banking supplies the life blood to our economy, then we need some more transfusions. The bleating that lending has increased is only partially true; in fact it seems to me that it has been the offers of lending that have actually increased and not necessarily the lending itself. Speak to many smaller companies and they tell the tales that it has been the increase in lending margins that has been the real killer. It may be an offer of lending but not one that people want to accept at that cost.

We need more banking now and there is one area where we could see smart action taken quite quickly. Gary Hoffman's very effective surgery at Northern Rock has now provided an excellent base structure to provide some real competition in quite short order. With the bank now separated from the bad 'stuff', recapitalised and restructured, here is a far more logical structure to try and add certain RBS and Lloyd's branches to. Quite quickly you could create quite a significant competition for the other banks, both on cost and service, and hopefully also have the effect of spurring the two government dependent banks into action to carry out their own surgery rather than their painfully slow sticking plaster and paracetamol cures.

And a tale from the train – the 'Transpennine Express' from Manchester to Preston – from the trolley lady, "You look like a banker so you can't have any fruit cake. In fact you are all bl***y fruit cakes." "No," says the conductress, "he's the bloke in red braces off the telly – he can have a free slice". Now I know the price of some media coverage – a slice of fruit cake!

And finally a story which can only damage your local Neighbourhood Watch scheme.....

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Boulder (Colorado, USA) Housing Partners plans to amend its rules so that tenants cover up when they're outside. Several passers-by told Boulder police earlier this week that 52-year-old Catharine Pierce was topless while tending to her yard. Last year, she was threatened with eviction for gardening wearing only 'pasties' (somewhat naively I thought these were enticing foodstuffs from Cornwall) and a thong. Eeww!

Police responding to Wednesday's reports decided Pierce wasn't breaking any laws. Mr Robert Pierce said he'll fight changes that would keep his wife from gardening outside topless, which is legal under state and city law.

Boulder Housing Partners Executive Director Betsey Martens didn't return a phone call on Friday seeking details on how covered residents would have to be. She told the Daily Camera newspaper that people have complained for years about the couple often going outside wearing only thong underwear.

Robert Pierce said the new rules wouldn't discourage the couple. "We'll stay the way we have to stay," he said.

The City Council is scheduled in April to consider expanding the city's anti-nudity ordinance, but a draft proposal to make it an offence for women to go topless in public was removed.

Have a good week.

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