JUSTIN'S COMMENTARY

SEVEN VII IM
Investment Management

Justin Urquhart Stewart 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 30 years whilst in corporate banking and stockbroking, and has developed a unique understanding of the market's roles and benefits for the private investor.

TRYING TO CATCH A FALLING KNIFE

For many investors, managing currencies is the imponderable factor. They can go up and down, often erratically move against each other and there is little apparently that you can do about it! Or if you do try and do something about it, the actions can be quite expensive and not always succeed.

The phrase is often used (and often by me as a limp excuse) about trying to forecast currency movements as being more like trying to catch a falling knife. For many private investors trying to have your own currency hedging policy can be pretty pricey and certainly time consuming. Even for most advisers, the opportunity of running a currency hedging and a management programme is often beyond the capability of their systems and platform - as well as their own personal experience.

For some more adventurous investors (or are they just foolhardy?) there is always the 'opportunity' of using one of the retail foreign exchange online trading platforms. Now for professional investors with experience these have been an astonishing technological development. However I have been concerned over the promotion for some of these platforms, often from overseas, which always sound very butch and enticing for the individual to be able to 'trade like the professional'.

The adverts on some of the more specialist television channels portray both the slick and the beautiful against a background of exciting trading markets ready for you to participate in, with the tempting goal of garnering trading profits alongside the investment banks with all their teams and capital.

Beaches, babes and boundless riches are yours for the taking if you just sign up to the foreign exchange trading platform of your dreams - or maybe they turn out to be nightmares. Some will even offer 'educational programmes' to learn and hone their 'trading skills', but much of this is illusory and the results rarely seem to support the claims.

To add some paraffin to this already heated conflagration, punters are often encouraged to increase their 'get rich quick' odds and leverage or borrow to further ramp up their bets in the hope of magnifying their gains - without necessarily appreciating the downside of this when the markets reverse and the punter is wiped out.

Ah but fear not, they have an answer to protect you - the stop loss orders which you are often encouraged to take - for potentially another small fee. The effect of the stop loss though is to ensure that successful trades are capped, and although the downside may have been protected, the benefit of any such leverage would have been lost.

Actually for many such platforms they don't care as they just want the trading and their real benefit comes from the spread in the dealing trade, which is why they often promote themselves as commission free - which is certainly not the same as free!

The reality though is frightening for many of these platforms, be they for FX or any other form of spread betting. The figures show that most of their clients lose money, and thus they depend upon a constant replenishment of new clients to replace the burn-outs. Figures from France indicate that nearly 90% of clients actually end up losing money with the average loss being at around €11,000. Additionally the figures seem to show that there was no correlation between trading experience and making money, and that those who carried on trading just saw their losses pile up higher!

Frankly these online gambling sites are no more than that but with some slick advertising built around them to add an air of credibility and apparent strength. This industry encourages the worst aspects of 'investing' as of course it is not investing but punting in an unregulated and dangerous world, which contributes little to the reputation of the investment world, by enticing inexperienced customers into dangerous areas, and of course manages to avoid taxation which proper investors have to suffer when buying shares for real investing.

However, for running investment portfolios correctly, in my view, currency management is essential. After all for most investors a broadly diversified portfolio across the globe and across a broad range of asset classes will have a significant currency exposure. By way of example, we had hedged around a third of our US Dollar exposure in November. Although there was still a decent case in favour of the Dollar, we were concerned that the Dollar had moved too far, too fast and had become a very widely-held position, with a lot of good news already in the price. We were wary that the Dollar could experience a correction.

More recent data confirms that the US economy is performing well. GDP data in Q4 was stronger than expected, confidence surveys are running at high levels and the labour market is continuing to recover. Low oil prices will give a further boost to the economy and will improve the US balance of payments too. The Federal Reserve has changed its language around how long we should expect to wait for interest rate hikes.

So the Dollar may perform well if the US economy continues to outperform, and interest rates start to rise. However, we were also attracted to the Dollar as a possible beneficiary, if weaknesses in Europe (for example around the upcoming Greek election) led to further bouts of market volatility. The Dollar doesn't always strengthen when risky assets come under pressure, but it has the potential to do so, as investors flock into traditional safe havens.

Thus on Christmas Eve, we removed our US Dollar hedges (with the Dollar at around 1.5540 vs. Sterling) - so will benefit if the US$ strengthens: for most portfolios, this means we now have around 15-16% exposure to US$, in addition to holdings of Asian currencies with a strong link to the Dollar. It's very early days, but with Sterling-Dollar closer to 1.50 as I write, the trade has been a good one so far. The cost is small, especially when spread across the portfolios, but the opportunity for risk control as well as taking advantage of opportunities is very valuable. That then is an investment structure, not a currency punt.

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And finally…some of us may have portraits safely hidden in the attic to hide our sins and vices from prying eyes. Others however have had such personal vices exposed when even the attic cannot hold them all. Seemingly a Chinese man who stole hundreds of pieces of ladies' underwear had his secret exposed after an emergency exit ceiling where he had been storing his hoard collapsed, state media reported.

The man named Tang and in his 30s, admitted to having mental problems since he was young and that he did not know how long he had been obsessed with women's undergarments. Police in the city of Yulin said they found more than 2,000 pieces of panties and bras in the roof where he had stuffed his collection.

Residents in the housing complex where Tang lived had complained about the mysterious vanishing of their undergarments. Apparently he used a master key for the apartments in the complex to sneak in and steal the underwear when residents were not there. Not so much cash in the attic as pants in the attic.

Have a good week.

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