

JUSTIN'S COMMENTARY

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.



ANOTHER POINTLESS PENSION RAID

The latest populist idea for unemployment was floated last week when Mr Millipede suggested that seemingly endless bountiful fountain of pension pots can be raided yet again for apparent good works elsewhere. Raiding peoples' savings, be they pensions or just cash, is a last resort and usually a sign of economic incompetence (as we saw in Cyprus) or political theft - as we have seen by politicians like President Kirchner in Argentina, or various domestic politicians of most colours, yes including the Conservatives, and of course Gordon Brown more recently, who see pension savings as an easy way to grab cash.

In any fair world, you would think savings from income would be recognised and appreciated - not abused and raided. However, the Labour proposals last week are yet again signs of the lack of practical experience of politicians in real business or savings in the outside world. You can see that the politicians don't really understand such things as of course they don't have to worry about their already funded pensions.

The idea of taxing well off pension pots to fund a job start scheme may make for good sound bites, but just how often have we heard such ideas before? The key mistake is that they will create jobs to fulfil the scheme which, unless soundly based on a business case, will in due course just shrivel away. No the politicians, in this case Labour - but such skill is not restricted to red, have the telescope the wrong way around.

What you need to do is encourage the growth of the jobs in the first place, which then will employ the wasted talents of youth currently languishing in unemployment. Merely starting a job creation scheme is to give most just the hope of a false dawn.

No, it would be much better to encourage job creating investment. So develop a scheme such that if a proportion of pension money was directed towards local businesses that could employ locally, then you have a much more constructive scheme.

Thus with a hopeful result of:

- High net worth pension pots are being seen to be providing extra support for the weaker end of the economy
- Companies looking for development capital would have access to such funding
- Youth employment can be encouraged as companies start up and grow.

Now I appreciate that this is simplistic, but the concept is far more creative than soak the rich and promise a job for a few months.

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Resonances of The Ides Of March

With the Ides of March last weekend I am not sure many of Ukraine's leaders might see this as an echo from history. The toppling of that dictator led to another painful Roman civil war. We can only hope that this unfortunate country, which seems to be hanging on the wire dividing East and West, will not suffer a similar fate.

Realpolitik means that Russia will have her warm water port, however that does not have to lead to yet again Russia trying to peel away provinces from her neighbours, whether Georgia, Ukraine or Moldova. The difference is that many states signed up to protect the independence of Ukraine, including the UK. Didn't we sign up for the same with Belgium prior to 1914?

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Nervous on New Issues

Yes private investors should always be wary of new issues. They are marketed of course as the next "must have" for any investor, but are they really as good as they are made out to be? History would tell us that many do not live up to their marketing promise and serve only to disappoint later on. So how can we spot the mutts and pick the champions? Pets at Home and Poundland both floated last week and initially at least both went in opposite directions. Pets followed the dogs whereas Poundland positively flew off the shelf.

Firstly we should look at the reason they are being floated in the first place. Is it to raise investment in the business to help it grow to the next stage, or are you being asked to pay out the previous owners for a jolly retirement?

Secondly, who actually are the sellers? If it is a private equity (which a lot of them are at the moment) then what have they done to the business? Have they invested and improved it (those I would regard as the white knights) or have extracted value from it themselves as they ladened it with debt (dark knights)? The key phrase they use here is "to make the balance sheet more efficient" which is corporate financier speak for "we took the cash out".

The trouble is that at the moment many of the private equity firms have been suffering from a form of financial constipation (sorry, a bit graphic) as they have been unable to pass through their investments over the past five years because of the financial crisis. Usually they like to work on close to a 3 to 5 year cycle to keep their fee revenue up. Thus times have been somewhat lean for some as they couldn't "exit" their investments.

This year looks as though it's going to be a record one and I suspect they will try and float anything they have on their books whilst the markets are looking so buoyant. However watch out as they will be bringing to the market anything they think that could float - I wouldn't be at all surprised if someone even tried to float the Kon-tiki soon.

Investors beware, new issues are dressed up to look good, but they are rarely priced "to go" at a discount. That manoeuvre is normally left to the politicians trying to get their popular privatisations away - like Royal Mail, sold off with a second class stamp price.

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And finally... Sicilian amateur scientists have launched a model cannolo, a cream-stuffed pastry roll symbolic of the Italian island, into the stratosphere, capturing bizarre images of the dessert flying far above the earth.

Yes apparently there is a 'Sicilian Space Program', which so far has roughly cost a total of 350 Euros, "Sicily has always been a place of negative connotations, mafia and unemployment. We wanted to lift up Sicily in our own way," said film maker Fabio Leone, 34, who recorded the project. Attached to a large helium-filled balloon, a home-made spacecraft called the 'Cannolo Transporter' equipped with two cameras and a GPS tracker, captured stunning and comical images as the cannolo soared 29,768 metres above the clouds towards space.

It would appear that they had calculated that a real cannolo would be unlikely to survive the voyage, so the group made a model of the cherry-studded pastry with a polymer clay material hardened in an oven. The craft had to weigh less than 2 kilos to qualify for the easiest official permits required to fly into high altitude.

The body of the craft was made from an insulated ice cream box, which protected the camera batteries from temperatures that dropped below minus 50 degrees Celsius.

Atmospheric pressure decreased as the Cannolo Transporter rose, causing the balloon to expand until it eventually burst. It then tumbled back to earth, slowed by a small parachute. I am surprised they didn't call it Berlusconi.

Have a good week.

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