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.

SWITCH OFF TO SWITCH OFF

Well despite all our enthusiastic festivities, it looks as though 2015 will start in a world of worry. No doubt the newspapers will be labouring on the woes of the world and highlighting all the areas that could possibly go wrong. Such talk was perfectly demonstrated by some of our politicians going on about the 'flashing lights on their dashboards'. Thank you Prime Minister. I, though, would recommend that we all ignore a lot of this hyperbole and look through this hysteria to what is really going on.

In the past few weeks we have had markets bungee jumping overnight with 'billions of pounds added/subtracted' (cross out as appropriate) as the markets leapt around with all the precision of a pinball. Despite news over oil prices, Russian belligerence and anticipated recession, and fears of Chinese slow downs, actually there has been nothing new in the news. What you are seeing and we are all being unnerved by are erratic movements exaggerated by a lack of trading liquidity in stock markets. The underlying truth is that the global economy is growing at around 3% and that should also apply for next year as well. Frankly, you would be well advised to turn off the financial news for the next few weeks as I suspect that when you turn it back on again in January, not much will have changed, and you have saved further pressure on your pulmonary system which will already be being pressured just by the thought of such festive family frolics - oh no!

Honey I sold the assets too cheaply! A Privatisation and how not to do it? Well last week we had Lord Myners' report on the Royal Mail flotation, and, along with it, some targeted criticism at the structure, process and net result of it all. Seemingly it could have netted a further £180m for the tax payer and whilst not a lot of money it should not be ignored; though it is a mere drop in the budgets of the Treasury.

The report criticises the book building process which was not very efficient at establishing a real price and ended up making and receiving commitments to and from potential investors which were open to abuse. Although the advisers seemed to avoid much criticism, I think quite rightly there should be concern over issues such as the fact that that a house like Lazards were both advisers and also as investors. Even if you believe in 'Chinese Walls' which in my experience are well known for their weaker mortar, both politically and in the eyes of the investing population, it hardly improves confidence to have the same house both selling and buying.

There was a group of 16 priority status investor firms (one of which was Lazards) that were given larger allocations on the basis that informally they would be holders of the stock for a longer period. This though broke down very quickly as it became apparent that a dozen of them quickly sold out with all the audacity of the old 'stags' of the 1980s, where punters weren't investors but just short term chancers. This I regard as a pathetic level of professionalism.

Now of course there is another 30% still to go, but I suspect that there will be few willing to go down a similar path, if there were a chance that they might attract a similar level of opprobrium so close to an election.

Then there is talk of the next partial sale of Lloyds which is being posted at around £3 billion. This could be turn out to be a quick earner for the government and bring in cash to shore up the worrisome deficit figures. However, even this is still just a form of financial tinkering, although I do grant you it is on quite a significant scale of tinkering.

With the election ahead surely there is a moment to think strategically about the national debt as well as looking to close the deficit. The latter can be addressed only in three ways - cut the expenditure, grow the economy or a combination of the two. Serious short term cutting can be done but needs to be done swiftly before public sympathy is lost. There was such a moment after the last election, but the moment was lost. Thereafter, if you wish to continue with austerity and not upset the social status quo then it is a gradual process - otherwise the voters will spank you.

For growth it is about pulling those levers that affect that vital word, confidence, and that has to be focused on the consumer in terms of housing, spending and a feeling of reassurance that the politicians at least seem to know what they are doing. This is occurring here at last but in comparison to the US, at a slower speed which, although it may have given us growth, has provided less tax benefit to the Treasury - at least for the moment.

So looking at the debt rather than the deficit, we have to, as I have mentioned before separate out the hardcore wasted debt incurred by profligate politicians, as opposed to more valuable investment debt providing a return to the economy. Investment debt is to be encouraged so long as it is tied to investments that will make a return to the economy, but the rest we must whittle down, and this is where a major privatisation programme can be used.

Supposing you took that huge amount of government assets from the remnants of banks and all the other state assets (like the Met Office and MoD property and land) and transferred them to a body which already holds such assets, like UK Financial Instruments, and they were to sell off the entire asset base not as a populist privatisation but as an investment fund of UK assets, then at a stroke of a pen you could wipe out a significant proportion of our national debt and even reduce the annual interest charge which is now over £40 billion per annum.

The result? The government would have less debt, pay less interest, whilst the investor (of all sizes and especially 'Sid') has a portfolio of British assets which could provide a good return into the future, and the 'privatised companies and assets' themselves end up with just one shareholder and not 400,000 as did the Royal Mail. Oh and it would be cheaper than a privatisation share float.

So privatisations can be a real boon, but not done the old way ...Some radical common sense please.

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And finally...the BBC reports of some rare democratic news from the less then open nation of Belarus. President Alexander Lukashenko who has run Belarus virtually unchallenged for 20 years, finds himself with a potentially unfortunate, if not dangerous opponent at next year's elections, - a wizard like Gandalf.

"Gandalf for President!" is the campaign slogan of the 'Belarus, My Country' opposition group, which has a 50,000 strong online following. The organisers know the wizard from JRR Tolkien's Lord of the Rings and Hobbit novels doesn't qualify for election, so they're seeking a local candidate with similar qualities of wisdom and leadership. "It's a cushy job," they promise, adding that they've chosen the character because he's "a good wizard and a friend to the Hobbits, who as we know are like Belarusians" - an apparent reference to a study which suggested Belarus had a 'Shire-like climate'.

The group took its cue from the unsuccessful campaign by a 'Darth Vader' presidential candidate in Ukraine, but the stakes are higher in authoritarian Belarus. Previous unsuccessful candidates, Andrei Sannikau and Alyaksandr Milinkevich have faced arrest, persecution and imprisonment since daring to stand up to the long-serving leader. President Lukashenko is a close ally of Russia - a point not lost on the organisers, who quip that 'Gandalf's' main task will be to 'confront Mordor, which lies somewhere near Moscow'.

And now on to our own election, where we have a richness of choice; possibly we could end up with 'Wallace & Gromit'.

And here is to a very Merry Christmas to you.

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