

# 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.



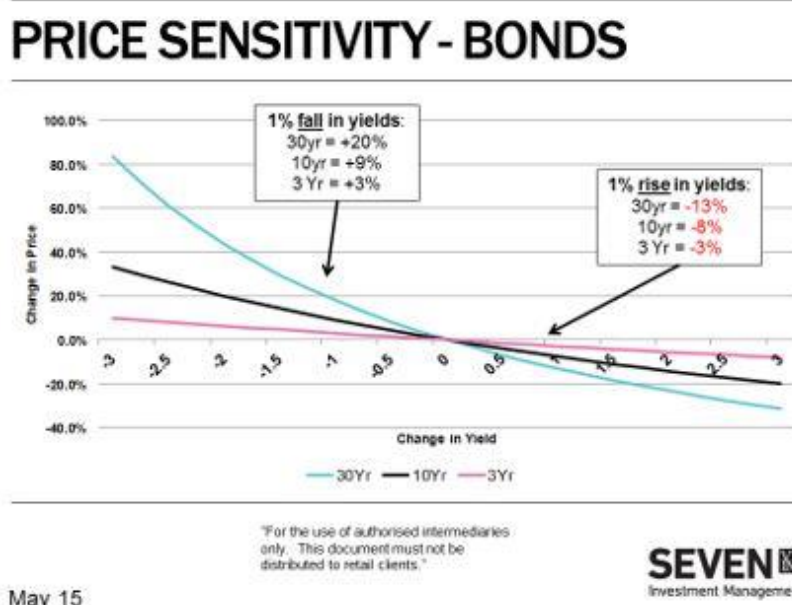
## BEYOND THE BOND BEARS

**Wisdom after the event!** To those who have been invested in the fixed interest market, the warnings of the dangers of rising yields have been widely telegraphed over the past few years. As yields fell, so the capital values of the bonds rose, and thus a wonderful bull market in these traditionally conservative investments developed. However as the yields fell ever lower, thus the risk of a reversal in this sector grew. The effect of course would therefore be diametrically the opposite to their falling yields, and thus as the yields climbed back up then the value of those bonds would consequentially fall. Not only that, the size of any such moves would be exaggerated by the duration (length of time of the investment) such that the longer the date, the greater the price move in either direction. (See the graph below.)

Of course in the case of Government Gilts and other sovereign issues, these are often held as the "safe and secure" holdings for many portfolios and especially for those with pensions, trust accounts, charities and often personal injury funds. The point being that those least able to experience such volatility could be those most exposed to such gyrations and fluctuations - or more to the point, losses. Of course for the wise investors, action should have already been taken so that longer dated investments would be swapped for far shorter dated paper (i.e. close to cash, as they could mature in two to three years), which would still be affected by such adjustments but at a far lesser degree.

Last year we thought that such a change would occur, but we called that wrong as the low yields just got lower and for some even went negative, such that you had to pay certain governments for the privilege of holding their paper debt!

But now over the past couple of weeks, we have finally started to see some moves which - as ever - were described in newspaper hyperbole as a "bond rout". Then to add to this we had some of the bond houses so wisely telling us after the event that "we told you so". Well we all knew it, but nobody knew when - least of all these latter day wise men who are always so wise after the event. Anyway at least at 7IM we had been able to take protective action beforehand, even though that has been somewhat too early.



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The point as ever from this is that precise timing of the market is impossible, but that is no excuse for inaction to try and mitigate any potential risk. However, we are in uncharted territory, with low rates, still low yields (albeit some having risen) with little sign of real inflation and little chance of any immediate rate rise. The central bankers all know that any precipitative action to raise rates will very likely push these economies back into recession, so they will hold hard and preach a rates rise at some stage but not yet. This is what many of those bond markets will thus react to. However there always comes a stage when logical investors turn around and question why on earth they should be paying for government paper with negative interest rates.

### **Taxing the workers? No, taxing the non-workers!**

The UK governments over the years have striven with various levels of success to try and encourage people back into work. From tax breaks to taking benefits away, the alternatives seem to have been legion. However, it seems that Belarus has taken a new route to try and discourage idleness - the parliament has just passed an act which requires "work capable" people who work less than 183 days in a year to pay an annual fine of \$250. Generously the disabled, the retired and those with young children are exempt. The wording in the statement from parliament reads "it's necessary to stimulate citizens who are capable of work and that they fulfil their constitutional obligation.....etc." Apparently it was passed by the parliament by a vote of 100-2 (a brave couple of MP's there I presume) as this is a country where the president, Alexander Lukashenko, is very used to getting what he wants. However if there were any reasonable justification for such a law it would be around the issue that with a potential workforce of 6 million there are only 36,000 registered as unemployed, as some 25% aren't registered at all and thus are outside the system, presumably in the black market and not paying any taxes.

### **Baltic fears**

Estonia and Latvia have both recently been reacting to further fears of Russian provocation in their area. These small states, and recent members of the EU and NATO, have both been fearful of the actions of the Bear next door. Latvia has taken action against a website proclaiming the People's Republic of Latgale apparently to represent and declare independence of the large minority of Russian speakers in the country. This group of non-citizens are predominantly Russian and represent some 13% of the population - as such they have no voting rights. A group that President Putin has commented on his need to "protect". Sound familiar?

As for Estonia, they are organising along with their neighbours their largest ever military exercise and drills, however the numbers involved seem paltry in comparison to that of their ursine leviathan next door. In addition I note that Poland, Lithuania and Ukraine have agreed to form a military brigade of some 4,500 troops due to be operational by 2017.

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**And finally...**A winning Conservative candidate in Britain's general election said on Friday he would like to thank the anonymous voter who drew a penis next to his name on the ballot paper and had it counted as a valid vote.

Glyn Davies, elected in the Welsh seat of Montgomeryshire, said he was grateful for the support, even though he was not sure the artist had intended it.

"One voter decided to draw a detailed representation of a penis instead of a cross in my box on one ballot paper," Davies wrote on his Facebook page.

"Amazingly, because it was neatly drawn within the confines of the box the returning officer deemed it a valid vote."

As Glyn Davies won by 5,325 votes, the unorthodox support was not vital. But still, he wrote, "if I knew who it was, I would like to thank him (or her) personally."

No, I don't think so.

Have a good week.

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