

# JUSTIN'S COMMENTARY

**SEVEN**   
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.



## SOME AUTUMN PLANNING

Well that was another summer of volatility fading into the mist and during the dog days of August it was China that filled the headlines and columns of the increasingly slim looking newspapers. The "blame" as it seemed to be written was put down firmly to China and all its international implications. "China economy slowing" has to have been one of the most repeated phrases of the year.

Autumnal storms have already started to replace the summer squalls which will seem quite mild in comparison. Both meteorological as well as financial turbulence is to be expected. So welcome to autumn. This year though there has been a change, not so much in the economies around the globe, but rather in the sentiment towards them. Low growth and a slow recovery has been the order of the day, supported by low interest rates and low inflation. These after all are known as the decade of the "tiny teens". It may have seemed quite dull, but during this time additional monies (much from the QE programmes of the major economic areas) have found their way into supporting the market valuations, and then companies have helped themselves (or rather their executives have) with some generous share buyback schemes which have especially benefitted their share option plans.

Now however, although the economic news hasn't materially changed, the direction of the wind has swung around from mild "Atlantic trades" coming up from the south west, to a sharper and colder northerly leaving investors nervous and chilled in this new cooler climate. I am sorry if this analogy is getting rather stretched, but my point is that this year it is the change in sentiment and confidence that has altered, and not so much the news. Such a change in confidence was primarily due to all that hyperbole around the Chinese economy as well as the nerves over the forthcoming change in interest rate policy both in the USA and eventually in the UK.

So what as investors should we be doing now? Well as I wrote earlier in the summer, a good cash reserve would have provided an opportunity for buying some investments at a bit of a discount during those bouts of nervousness. A good UK measure to me is the simple view that the FTSE 100, which is so heavily Chinese-influenced, makes an attractive opportunity if the index starts with a 5 at the front of it.

As I have been writing this the FTSE has, led downward by Glencore, again found itself led by a 5. To this you can also see the euro markets' damage from the corporate embarrassment of the mighty Volkswagen. What I wrote last week was actually....

"You would have to have been quite quick off the mark to have nabbed that, but I wouldn't be at all surprised if we do not see some similar yawing and soaring of prices during an unpleasant autumn tempest." Hmm – welcome to the Tempest.

You may need some courage to enter this market though as already the Bears are out and about telling us not to buy on the dips, but rather to sell out on the peaks. It will be at moments like that, when the market and media commentators are all so frightened, that you have to look the other way and buy into their fear, just as we should sell into periods of both market and commentator complacency.

As I mentioned last week, a lot of the unreliable Chinese data appears to have been poorly interpreted depending on which kaleidoscope you were looking through. Another example I came across was the figure that Chinese imports of oil were down by 40%. A frightening figure and yes a true one - if you look at it in U.S. Dollars. However perhaps it would be somewhat more reliable and credible if we measured the actual amount of oil in terms of physical delivery in barrels. Looked at this way in fact their import figures were up by 10%, which would give us a very different picture from - 40%. So isn't it strange that in the face of such positive information, the markets and investors care to ignore the truth!

So what happens next? Well we all know the issues over property and banking issues in China so there is nothing new there, and we are already seeing a significant growth in the Chinese domestic service sector despite seeing the slowing in the industrial manufacturing side. So what we are likely to see is action by the Beijing authorities to stem the seeping failure of confidence and to attempt to turn around the performance of the economy. They have the policies and they have the financial firepower, and thus I believe that they will succeed.

**'So therefore such a period of doubt will end and a more positive tone will**

So therefore such a period of doubt will end and a more positive tone will return. As action is taken and confidence starts to return so we will see a reversal of some of these moves and especially in our own indices with the heavy weighting in energy and mining. However that may well be after we could have all suffered a bout of sea sickness from the autumn storms in our investment markets.

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**And finally...**a story about paint drying...Mike Carmichael apparently wanted to do something "weird" when he and his 3-year-old son slapped a first coat of blue paint on a baseball in 1977.

At that time, the ball was 9 feet across, and the record at that time for painting layers of paint was an estimated 18,000 layers. Now Carmichael, 68, thinks he is at close to 25,000, although he never set out to break the record.

The ball now measures 14 feet after Mr Carmichael, his family, friends and even visitors added more coats of paint over the last several decades. At its last weigh-in two years ago, the sphere of ever-changing colours was about 5,000 pounds (2,268 kg).

"I was always doing something weird, so I wanted something different to do," said the soft-spoken, self-employed painter. "We had no idea it was going to get this big, this popular or this heavy."

The ball, which now looks more like a giant gourd, hangs from the ceiling with heavy chains and an industrial hook. Mr Carmichael Sr. and others paint it every day. At one point, Carmichael considered cutting the ball in half to see all the layers of colour, but given its size, he dropped that idea. As for how long Carmichael plans to keep going, he is not sure – presumably until the ceiling falls in.

Have a good week.

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