

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.



NUCLEAR JAPAN – RUSSIAN WARM WATER PORTS – UK EQUITY & BEARDS

The end of 'datsu genpatsu' - escape from nuclear

Well I didn't expect it to last for very long and shortly we will be seeing the Japanese Premier reversing the earlier decision on nuclear energy production, after the Fukushima disaster in 2011. The immediate reaction after the explosions was to shut down all capacity, but given the country's lack of alternative fuel capability a volte face was always going to be on the cards.

Switching to alternative fuels like liquefied natural gas was an expensive change and in doing so further pushed up the price of the fuel. So a change in policy will reduce the pricing pressure on it and have a side benefit for Japan of reducing their balance of payments with less reliance on such imports.

Prior to the change, nuclear provided about 30% of Japan's power needs, and although we are unlikely to see a return to such levels in the short term, there is quite likely to be a change in policy. Later this month we will hear about the new 'Basic Energy Plan' which will probably lay out this change of strategy - yes it's a power strategy - I wish we had one of those instead of the pricing mess and provision we have at the moment.

Encouraging investment in UK Investment

Although we have been seeing growth, and it has not just been down to the consumer, the level of overall investment in UK business is still poor. This has not been a short term issue for the UK economy, in fact it has been a strategic fault within it for some time, the banking crisis has made things worse.

Although over the years the politicians have come up with their different ideas for encouraging money in, they tend to focus on the tax breaks rather than the structural issues. Whilst VCTs, EIS and SEIS schemes are all well and good, those are all incentives rather than structural mechanisms to get money into businesses.

I have written often before of the old regional stock exchanges in the UK, although I am not advocating their return. However, the encouragement for local equity investment certainly should be there. As I travel round the country I find that there is a direct interest in investing in local businesses by local people. They know the businesses, they know the local economy and there is a level of local loyalty and enthusiasm. I am not suggesting that this is the investment answer for all, but certainly for a proportion of people's portfolios this may well be an interesting alternative - but that can't happen without some structure.

With the Budget coming up and the Banking Bill not too far away, here is the opportunity to try and encourage this by formalising some of the Peer to Peer ideas on a regional basis. To this I would add a tax incentive but one which encourages longer term equity investment over five to seven years, which is what smaller local businesses need. The shorter views of the Venture Capitalist and Private Equity may help but their time horizons are often too short and their 'push for growth' is often at any cost rather than at a more reasonable rate.

Local equity investors want to participate and have in the past shown themselves to be longer term investors - just what our burgeoning SMEs need - longer term investors not shorter term punters.

Warm Water Ports & The Great Game continues

The unfolding history that we are watching in Ukraine is a continuation of unfinished business as far as the Russians are concerned. From the days of the Czars right through to the current day, there has been a national obsession over the vital need for securing the warm water ports for her navy. Russia has always been fearful of being surrounded on all fronts and as such being hemmed in by ice and politics. This was perfectly illustrated to me by my father by turning the map of Russia upside down to show how the world looks to the Russians - hemmed in by unreliable borders on one side and the great Eagle lurking behind them.

Now apply this to the current position regarding the Ukraine. Ever since they lost Port Arthur in the Far East they have relied upon the cooler but ice free Vladivostok. But in the West the frozen St Petersburg meant that they were more dependent on the warm water port of Sevastopol in the Crimea. As such Crimea was formally handed over to the Ukraine in communist days. So they can blame Khrushchev when Moscow transferred the peninsula - which is connected to the Ukrainian mainland by a narrow isthmus - to the Ukrainian Soviet Socialist Republic in 1954.

It's often said that Premier Nikita Khrushchev gave Crimea as a "gift" to his adopted country. Khrushchev's relationship with Ukraine is a complex one: he was an ethnic Russian from a town that is now part of Russia, but he rose through the ranks of the Ukrainian communist party and led the region as head of the party during the worst years of Stalin's purges.

Now Putin like previous Russian leaders will do what is necessary to secure their warm water port and if that means direct action and intervention, I can't think that issue would dissuade him in the slightest. The Great Game of Russia securing her borders and her access will continue, and in all likelihood it will be the Ukrainians who will bear the brunt of the Bear.

UK mortgages - a bubble or just rising momentum? All not quite what it seems

Last week's news on mortgages made for some concerning reading at first glance. The BBA's count of UK mortgage approvals in January jumped 57.2% year on year and that certainly set alarm bells ringing. This is the sort of figure that would make the Bank of England take notice given that such a rise will have a proportion of bad lending in there. How long before the PRA (otherwise known as the Prudential Regulatory Authority) steps in?

However, all is not necessarily quite what it seems. January's £10.85bn of newly approved mortgage loans has to be set against the £10.23bn worth of capital repaid on existing mortgages in the same month. When that's taken into account, the stock of UK mortgages grew by a paltry 0.7% year on year in January, down from the 0.9% gain in calendar 2013. January's 0.2% month on month rise in outstanding mortgages compare to a historic average over the last five Januaries of 0.1%. So from this we can see that although it is true that the momentum is rising, it remains still relatively slow growth.

* * *

And finally... Beard News from Reuters about a rather desperate fashion fad. Young men wearing pork-pie hats, knitted snoods and stylishly drab clothing are crowding doctors' waiting rooms in a burgeoning trend: Brooklyn hipsters seeking beard transplants.

Toting photos of perpetually scruffy-faced actors like Jake Gyllenhaal and Ryan Gosling, an increasing number of men in their late 20s to early 40s are undergoing the procedure that can cost up to \$7,000. "The demand for it has definitely increased," agreed Jeffrey Epstein, MD, a New York facial plastic surgeon who said he did 175 beard transplant procedures in 2013. "One reason is that whole hipster, casual way people like to look."

Demand for the out-patient procedure completed under local anaesthesia, which involves transplanting hair from the top of the head to the face, is growing quickly among those living in Brooklyn's coolest neighbourhoods.

New York's coolest go as far away as Florida to undergo the one-day transformation without raising suspicion.

"We're seeing Brooklyn hipsters," said Glenn Charles, a cosmetic surgeon from Boca Raton, Florida, who said a third of his beard transplant patients are from New York. "They are hiding away for a little while. It takes a week or so to heal up so you'll have remnants of the surgery show for a week. Some smooth-faced young men ask for bushy beards, others are looking for a chic square of hair under the lower lip, known as a soul patch", Charles said.

Some patients seek to fill in bald patches caused by scarring, sometimes from acne, others have difficulty growing any facial hair at all on their own.

Have a good week.

Justin Urquhart Stewart
Director
Seven Investment Management
www.7im.co.uk