

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.



Blowing away the complacency & a Happy New Year of the Wooden Horse

Blowing the New Year complacency away

I have found it a very interesting contrast this year to last January. Then in 2013 the news was filled with dire warnings of doom and gloom, as the IMF and the OECD both pointed to lower figures: roll on 12 months and apparently all has been forgotten and the old figures were apparently all completely wrong and now the new figures are obviously all perfectly correct. Some care here I think! However there are positive signs as we are seeing modest recoveries from the financial fiasco in the developed nations but of course this has been with the benefit of the most extraordinarily accommodating monetary policy.

The only way to properly view the economic statistics is with a long lens concentrating on the trends and not being driven by every eddy and flow of daily economic headlines. What I found concerning was the growing sense of complacency with the key issues, whilst if not being resolved, then at least being satisfactorily addressed. Well the market shake of last week was a good reminder that greater analysis is required especially when it comes to managing of the tapering of QE and the flighty movement of assets away from risk. The emerging markets reacted not as a whole but in different ways each reflecting their own economic and financial issues.

Occidental investors though often seem to review all the emerging markets as an amorphous blob and thus we have seen quite significant amounts of sales. Some have used Argentina as an excuse, but the reality is that this country is an economic basket case at the moment with a failing and fading populist leader thrashing about for some support from anywhere. I wouldn't be at all surprised if we get another Malvinas call for national support to divert attention away from the domestic fiasco. Actually Argentina isn't even technically an emerging market (closer to submerging, I suspect) as along with Pakistan it has achieved the somewhat dubious accolade of being demoted from Emerging to Frontier classification. Frankly any nation with large current account deficits and significant overseas debts is going to be regarded with suitable suspicion of risk and thus suffer volatility.

Now with India, South Africa, Russia and Turkey all taking action on rates last week for different reasons, you can see that action is being taken – it felt like a series of economic trip switches all going off at the same time. However probably the greatest influence over this sector is going to China and its slowing rate of growth and its changing type of growth.

The key is probably the control of the huge amount of credit growth in China. Although the banks have been taking the limelight, the bigger issue is the reining back in of the shadow banking sector, where the levels of credit risk and effective measurement are most concerning. Thus efforts to try and rein in credit growth will have an effect externally just as much as internally.

Those nations that have been living on the financial opium of Chinese demand will be the first to feel the withering effects of withdrawal symptoms. Thus from Australia and Indonesia, to Chile and Brazil, the effects will quickly spread. This though does not mean that all these countries are to be ignored or written off, but rather that the

optimistic and enthusiastic investor returns of previous years will need to be curtailed. There will be some great value here - but selectively not universally.

I, though, would underline that these actions should come as no surprise and that investors should remember that the world economy is still growing and healing, but that there was inevitably going to be strain when someone took the "goodies" away.

Learning to lead in Leicester

Can you teach people to be an entrepreneur, or is it as much as anything else a frame of mind for those willing to take a chance? Well it certainly takes a type of personality, and not just some of the psychopathic tendencies of a manipulative bully, but rather the constructive innovator who can inspire a team of talent around them.

However it would certainly have helped me if someone at an earlier stage in my life had been able to point out some of the now seemingly obvious pitfalls that business innovators have to go through. It was therefore fascinating to be asked to speak recently at the Peter Jones enterprise academy at Leicester College. Here is a college with precisely this focus to provide practical help and assistance to budding business builders at a variety of ages. What I found so interesting was that this was not some rarified school for the wealthy and privileged to show off their egos, but a very practical view as to how those willing to have a go can develop their capabilities. This did not necessarily mean setting up as a start up immediately, but also a realization that yes maybe it's worth working for a company first to gain experience and learn practically how things operate before you decide to take flight yourself.

What was undeniable was the enthusiasm blended with a level of reality. Such a crucible of talent development can only be of benefit to our economy which is too often starved of such positive enthusiasms.

Good luck to them.

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And finally...my nerves at venturing out in the wild countryside have yet again been underlined with worrying news from Germany about the danger of cattle. An explosion in the German countryside caused quite a stir when it became apparent that Methane gas from 90 flatulent cows exploded in a German farm shed on Monday, damaging the roof and injuring one of the animals.

High levels of the gas had built up in the structure in the central German town of Rasdorf, then "a static electric charge caused the gas to explode with flashes of flames," the police force said in a statement.

One cow was treated for burns, a police spokesman added. Neither was available for interview.

Have a good week and Gong Xi Fa Cai – Happy New Year of the Wooden Horse (auspicious news for those escaping from prison camps, but possibly not so for those living in modern Troy in Turkey).

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