

# 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.



## **Summer slump or Summer sale?**

Well what a week. We all know markets don't carry on up in a straight line and there was always going to be a pull back at some stage, but as ever, nobody ever knows quite when it's going to happen. The 'why' bit is a little more predictable in that we can see some of the issues ahead of time, but it is always going to be difficult to judge the impact on value and confidence.

Firstly the withdrawal of Quantitative Easing (QE) and the resultant stimulant induced financial highs, was always going to pose a threat of financial cold turkey and the consequent market nerves. But of course QE hasn't actually been withdrawn or even cancelled, it's just that good notice has been given. However, the Feds are no fools and the last thing they are going to do is endanger recovery by changing policy too soon. Bernanke's knowledge of the Depression will have given him some clear examples of how not to do it. The rate rise and government expenditure cuts in 1937 are the obvious example - these actions threw the US significant economic recovery back into recession.

So the initial knee jerk reaction from markets was to be expected but the scale of the effect in the emerging markets has really been rather dramatic - both in their equity and bond markets as well as certain local currencies.

However, what was not properly recognised in the media was the amount of leveraged and margin trading that had been built up - especially in the US - and thus, as markets fell, calls were made on borrowers to maintain their collateral. This inevitably has a knock on effect as forced sellers will often trigger lower prices.

But - once the popular furore was over, it was interesting to see the reaction from most sound investors as markets stabilised and the talk was of buying in - not selling out. Compare this attitude of mind with just three years ago. Back then there were many who were looking for reasons to sell out, and such volatility just underscored their fears. Now contrast that with today; many see such volatility as a reason to buy and to look at such dips not as a Summer scare but rather more of a Summer sale.

Another area of fear has been coming from that putrid smell emanating from the deeply suspicious Chinese shadow banking system. In fact a lot of the Chinese banking structure has been regarded with concern for some time, as much of it is opaque and suitably inscrutable. There have been worries over the secure nature of many of the banks for some time. So just add to that a helping of corruption, a few fluid ounces of political interference from the Communist Party, a mere teaspoon of effective regulation and you have a recipe for a beautifully presented financial fiasco at some stage. Season this with an accounting system that could have written by Edward Lear and we have a Chinese banquet fit for nothing.

In many ways I think we should be more concerned about the risks within China itself than the frets of traders having their financial heroin being threatened.

So what is the main message from all of this? Don't get panicked by short term traders causing market volatility. The global economy is still growing, and even healing from some of the worst of its injuries, but many painful sores will still remain.

I will be searching for some bargains this Summer.

### Infrastructure

Please give us some simple affordable and achievable infrastructure. I know this is an old whinge of mine, but as yet I have yet to find many who support the idea of HST2 making any material difference to the infrastructure and development of the economy. It will be, eventually, over budget and over hyped. Even the technology belongs in the last century. Why are we not doing what we are known for - innovating again and advancing some of the theories around magnetic levitation?

However, for something equally daft, I see that a Chinese billionaire (well at least for the moment he is) is proposing digging a canal through Nicaragua - yes that's the one next to Panama, which already has one. Perhaps we could offer them HS2?

### Inward investment

I mentioned inward investment a few weeks ago, but came across some interesting figures from the UN which show that the UK reversed a global trend and saw a 22% rise in inward investment last year, reaching a level of \$62bn. In comparison Europe as a whole saw quite a significant decline.

However, we should put these figures in perspective as although they are rising, they are about a third of what they were before the peak level in 2007 at \$200bn.

In a global league level we also rose from 10th to 6th. What I found interesting was who was ahead of us. In ascending order - British Virgin Island, Brazil, Hong Kong, China and the USA (and three of them used to be ours!). This is certainly a vote of confidence, but we should also be aware that much of this is further reinvestment by companies like Nissan and BMW - although there are also new developments and initiatives, as can be seen in some of the new property developments in London.

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**And finally...**certainly an appealing headline from Iowa: "Man sells coffin with bones".

An Iowa man's online classified ad offering an oak coffin for sale neglected to mention the full skeleton inside, so police interrupted the deal and seized the bones. The Council Bluffs Daily Nonpareil reported that the coffin belonged to the now-defunct Council Bluffs chapter of the International Order of Odd Fellows, which promotes anonymous giving to the poor.

Dave Burgstrum placed the ad on the Craigslist website to sell the coffin for \$12,000 because he's trying to raise money to pay the property taxes on the fraternal organization's hall.

Burgstrum said the coffin was made in the 1900's and had been used in the group's rituals to represent death. The bones had been in there for years.

Burgstrum said lodge records suggest the skeleton was donated by a doctor who retired in the 1880's. But Council Bluffs Police detective Michael Roberts said human remains cannot be sold without proper identification.

"If they had papers of origination, then they would be OK to own," Roberts said. The skeleton was sent to the Iowa State Medical Examiner. Pottawattamie County forensic investigator Karen Foreman said it's unlikely the skeleton will be identified, but the race and gender can be determined. And if the skeleton is Native American, federal law requires that it be returned to the tribe.

Burgstrum said the laboratory is welcome to keep the skeleton. His interest has always been in selling the coffin. "I'm ready to wheel and deal on it," he said.

Have a good week.

**Justin Urquhart Stewart**  
**Director**  
**Seven Investment Management**  
[www.7im.co.uk](http://www.7im.co.uk)