

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.



THE NEW NORMAL?

The tiny teens - welcome to a lower, slower world of growth, interest rates, inflation and quite probably returns.

As we are in the teenage years of the new century we can see how this decade is going to be very different from the 'noughties'.

The decimal point seems to have shifted as all the expectations for the future seem to have got significantly smaller. So welcome then to the 'Tiny Teens', where most economic and financial numbers will seem to be smaller and experts will tell you no doubt that size isn't that important. Well it is and they will be wrong. This decade is going to be much harder to provide the same level of returns without some radical thinking by the investment industry to reduce its costs and manage both its asset allocation and investment structure even more carefully.

Time, then, to reassess our financial planning, both personally and for companies if this is going to continue for some years - and quite probably for the rest of the decade. More of this next week.

However, perhaps it is also time for the investment industry to wake up and realise that what they have been offering in the past may not be so suitable for the future. Many investment businesses, as illustrated by the largesse of grand offices, marble floors and fountains, may well find themselves having to restructure their base quite radically if they are going to provide tangible value for their clients without having to significantly increase their investment risk. So one question I have been asking of the investment world is what have they each been doing to reduce their costs and adjust their structures before they hit their 'Tesco' moment of realising that their business has been bypassed by the market, the technology and the wishes of their clients.

Signs of change

After the encouraging signs on housing values and transactions from the Republic of Ireland following their property implosion, it is heartening to see that even Spain is now seeing some modest resurgence in property sales. Figures from November last year show an increase of 14% when compared to the same month the year before. However, most of this seems to have come from the 'second hand' rather than new build market, which still implies that there may still be some time to go before the return to new builds begins properly again.

In the week in which Aer Lingus looks as though it has joined the IAG group with BA and Iberia, we have also seen the demise of Cyprus Airways, the troubled state owned airline, which has gone the way of Olympic and many other 'flag' carriers which were little more than degrading monuments of ill-placed national pride. So will that mean that this divided island is cut off - or at least the southern half? Certainly not, as other private airlines such as Aegean and Blue Air (the Romanian low cost carrier) will fill their place without the need for any more wasteful state subsidies. Cyprus Airways were ordered to pay back €65million in illegal state aid!

Some more Eastern interest

I noticed some interesting co-operation between two nations in the east coming through, albeit at different ends of the national scale. India and Singapore don't seem to have a great deal in common on the face of it. One is an emerging economy and the other one is already developed. One is still primarily an agricultural economy but with a burgeoning urbanisation of some large cities; the other has only some marginal agriculture but is an entire city state in itself.

It makes perfect sense therefore that the two nations are to collaborate on the building of new cities in India. Singapore is well experienced in crafting the infrastructure necessary for urban developments in an efficient and effective manner. I have always admired their ability to co-ordinate in such a logical way the transport, utilities and additional facilities necessary to develop an area - something which we have always struggled to achieve in the UK.

India will certainly benefit from such experience and the new proposed capital city of Andhra Pradesh will be an interesting test to see how such co-operative planning and investment can work. This may be another example of the opening up of the Indian economy by the Modhi government and can provide us with additional comfort that investment in the subcontinent will prove a positive addition to our asset allocation.

Another element of this has been our increased focus and asset allocation towards developing countries, often to be found in the east, and primarily it will be around several of the nations who are some of the main beneficiaries of the lower crude oil price. The Philippines for example imports 93% of its oil requirements, and figures from Oxford Economics show that this will be a key support for their economic growth, predicted to accelerate to an average of 7.6% over the next two years. The figures also show similar economic benefits from the cheap oil price as a key benefit for both Thailand and China.

So for selecting your favoured developing nations it seems the eastern oil consumers will be a key place to focus.

Some clear thoughts from our Governor

So do we finally have some reasoned thinking from a central banker? Yes our own 'adopted' Canadian head of the Bank of England has come out with his version of 'The Euro and the Emperor's new clothes'. Yes of course we all know that the Euro is a political construction far more than it is a financial one. If it were financial then it wouldn't have been designed like this, but as long as certain politicians want it then there it shall remain - at least for the time being.

Mr Carney however quite clearly stated in his Dublin speech that unless you have monetary and fiscal Union across the states of the monetary zone, then you are not going to have the necessary disciplines in place to make it work. One of the key issues that Greece's election has done is to highlight the partisan (albeit worthy) intentions of the other members at various levels. From German discipline down to Irish and Spanish recovery, as I have mentioned before, this event of the election and the Greek debt could be such a fulcrum moment when the ECB could do the 'big deal' of debt adjustment in return for effective Monetary and Fiscal union whilst leaving local budgetary policy within the local jurisdictions.

Do they have the "cohonas"?

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And finally...Singapore has fined a smoker S\$19,800 (around £9,700) for throwing cigarette butts out of his flat window, the highest ever such fine. The man was fined S\$600 per cigarette for the first 33 offences, and ordered to do community service for the 34th, all committed within four days.

The 38-year-old smoker, who was caught on surveillance camera, will have to clean a public area for five hours wearing a bright vest bearing the words "Corrective Work Order". Singapore, famous for its cleanliness, cracks down hard on even minor crimes like littering and vandalism, which is punishable by caning, and bans the import of chewing gum, in part to keep its public areas spotless.

On its website, the agency said it deployed surveillance cameras at nearly 600 locations and took 206 enforcement actions against offenders for 'high-rise' littering in 2014.

Oh I wish this could happen in Shepherds Bush where the butts and the chewing gum combine to create an amorphous sticky mass of vile goo which only ensures that both you and your shoes are firmly rooted to the pavement on hot summer days.

Have a good week.

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P.S. If I may, I just wanted to thank everyone for their very kind wishes for my birthday. Very much appreciated - and especially to my colleagues at Seven Investment Management when all 175 surprised me - all wearing red braces. There is more to a good company than just products and services - it also has character, manners and charm for, not just its colleagues but also for its business partners and of course its clients.

Rare, I find, in the investment world.

So thank you.

J.