



Justin A. Urquhart Stewart - Commentary

Justin 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 20 years whilst at Barclays Stockbrokers and developed a unique understanding of the market's roles and benefits for the private investor.



An Unfashionable Truth

As the full horrors of the Japanese earthquake still unfold, we can only look on in dismay, especially as the deadly tsunamis spread out across the Pacific. The enormity of this is as yet immeasurable, and frankly the focus should be on the human tragedies that are no doubt being played out across the nation and the region.

One subject I was writing about this week has been investor attitude towards Japan, especially as many have scorned such investment. Perhaps today therefore we must have a more important and relevant look at this nation and ensure that we are ready to provide whatever support their government may judge to be helpful.

A few months back my esteemed colleague and highly respected investment professional, John Hatherly, had the courage to stand in front of a coterie of investment 'punters' (and yes I use that term specifically), and gave them some good old fashioned investment home truths. The audience was made up of that style of investor who seem at their happiest trading in companies that few have ever heard of and operating in investment 'styles' that seem to owe more to either warlock's hokum or complicated software programmes than sensible and more understandable portfolio strategies.

I am sure I am offending some with this, but there are very few that can really master the intricacies of some of these investment systems and techniques – and that of course includes me. All too often at such gatherings it is the innocent and the gullible that are attracted in the hope of either becoming the next Warren Buffett or by finding the next corporate investment rocket that will dazzle everyone, make them a fortune – and yes of course as the rest of the phrase goes 'come down like a stick'.

However, returning to John, he quietly stood there in his uniquely understated manner and told the audience some home truths about effective investing as opposed to betting and 'punting'. One area he did especially highlight was to look at those investment sectors that are seemingly friendless and unloved by most investors. To do this publicly is brave, as those who have the temerity to raise the contrarian and unfashionable view then suffer the derision of their peers who far prefer the sometimes fake fraternity of the herd.

Actually, what I find especially annoying is that often the populist speakers will claim to be contrarian – just in order to gain the attention of the audience - and then promptly come out with their current fashionable refrain. I have particularly found this around the opaque world of the ‘Absolute Return’ funds and their managers. This is a title that means little, misleads many and can often absolutely make no return.

It was Japan that John highlighted. This nation has for many years been written off by many as a tale of post war boom followed by decades of drifting in the Sargasso Sea of economic decline. After all, the facts are clear; the Nikkei Index on 29th December 1989 peaked at an intraday high of 38,957 but then crashed down along with its over inflated property market to a mere 7,054 on the 10th March 2009 – a fall of over 80% (it is now currently around 10,200).

From then on, we heard only of the ‘lost decade’ of no growth and endemic deflation, with structural and demographic figures just pointing to further sustained weakness. In fact, most of the 1990’s Japan did see a real growth in its economy (as measured by GDP), although this was lost by the effects of the recession in 1998/9.

John Plender in last week’s FTfm, highlighted some fascinating figures which put the economic picture in a rather different light. He mentioned that during this deflationary decade, consumer prices did not start to fall until 1999, and that even when the deflationary grip did begin to tighten and become entrenched, Japan’s economic growth did not collapse. Taking this further, he highlighted that OECD figures for GDP per capita (rather than pure GDP) “marginally underperformed the US in the 10 years to 2008, and marginally outperformed the US over the last five years”.

Another issue frequently thrown at Japan as a reason for structural weakness has been its demographic profile. Although the population of those of working age has been falling since 1995 (and thus the dependency ratio of those pensioners on the workers rises), this may well have started to peak. Compare this with other economies in Western Europe and of course China where the position is potentially much worse.

Of course though, all is not perfect. The political system has been weak and ineffectual with a seeming inability to grasp some of the difficult decisions over debt, deflation and subsidies. Public debt levels are awful and their banking system stills seems undercapitalised, so much still needs to be done. However, Japanese corporates may also be changing their ways with more foreign rather than domestic investment, and we may be seeing a more shareholder friendly attitude develop.

It may not be the punters' crock of gold, but Japan certainly 'ain't crocked'.

With fires burning in North Africa and tensions rising every Friday throughout the Arabian states, so rhetoric and headlines purvey an ever more frenzied view. The possibility of oil at \$200 per barrel prices are cast around with gay abandon and are designed to scare. Even the Russians are getting in on the act by stating of course that they can be seen as the reliable partners for Europe for the future. A long handled spoon required here.

The facts are though that, subject to industrial scale self destruction, whoever runs the oil rich nations will still need to sell the stuff – and as quickly as possible. It is thus the supply that is crucial rather than varying unpleasantness of some of the leaders and their regimes suppressing their population's views. So as long as no one blocks the Straits of Hormuz or bombs the major Saudi terminals then supply should still be maintained.

And speaking of domestic security and the contentedness of population – I note that at the Chinese National People's Congress it was agreed for the first time that they will be spending more on domestic security than military (and that has been rising significantly as well).

Oh yes and to nail the point of a somewhat annoying US commentator on the static value of the Chinese currency - it has with its 'managed float' re-valued 3.9% against the US\$ since last June. This may not be enough in the eyes of certain US politicians who will be happier to talk of protectionism against China, but it must not be ignored.

And finally.....who says the UK legal system can't move swiftly?

It came to light recently that last year Judge Douglas Marks Moore, 60, wrestled with 34-year-old Paul Reid as he tried to escape from Woolwich Crown Court in London.

"The jury were just leaving when the defendant jumped up and ran across the clerk's bench to get to the judge's door" said prosecutor Rupert Gregory. "As he went through the door, his honour Judge Marks Moore grabbed him round the throat to try to bring him down".

Together they went down three steps and then Mr Reid broke free and ran down the judge's corridor. The judge gave chase. Just as Mr Reid was about to open a push-handle fire door, Marks Moore rugby-tackled him around the throat and waist and brought him crashing to the ground, landing on top of him.

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"He held him there, struggling and protesting, until the prison officers managed to catch up, secure him and return him to custody" Gregory added.

"The only thing preventing Paul Reid from pushing that fire door to the outside world was a judge in a wig and full robes".

Reid, who denies he was trying to flee court, had already pulled off a similar escape from a London court two years earlier.

Now that's how you can make the law more exciting. Better than most of the courtroom plots on our televisions. Perhaps we could extend this to judicial wrestling or even fencing (especially in theft cases). This should certainly now form part of the official judicial training.

Have a good week.

Justin