Justin A. Urquhart Stewart

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.

Sound like a Butcher, Cut like a Surgeon

So now we have it – the question is now the execution! Everyone knew the cuts were coming and most have accepted their necessity – after all, with the straightforward numbers of the government having an income last year of £548bn and expenditure of £697bn, everyone realises that we have a problem not unfamiliar to the Dickensian Mr Micawber. The problem is that the cuts are fine unless they involve us! Sadly of course they will affect us all in some way and it is at times like this that we should just recall how we got ourselves, with eyes wide open, into this mess.

Leaving aside the banking crisis and its astonishing fragility, the signs of economic overheating were there for all to see, and frequently highlighted, but who was able to prove to dear Gordon that our financial Emperor was somewhat sartorially challenged? Whether it was with the levels of household borrowing exceeding 100% of GDP, the increasing of bank lending at ludicrous rates, or a distortion in the balance of the economy from production to service – all of these were talked about and highlighted – but as Chuck Prince, the former CEO of Citigroup, said “As long as the music is playing, you've got to get up and dance” – so they did. We were even warned twice by the highly respected Bank of International Settlements of the fragility of the banking system and the banks themselves. Such is the power of complacency.

In fact there were no big surprises in the Spending Review, with most of the announcements already having been leaked or signalled in advance. The markets reacted mildly, with Sterling and gilts flat and the stock market up in line with international averages.

For example we already had a good indication that about 500,000 public sector jobs were at risk from the cuts and the previous Labour government had announced that the retirement age would be raised to 66, only the date was brought forward to 2020 from 2026. All government departments have been affected in some way with the exception of Health and International Development, but even here spending will be restrained.

As investors, we have a vested interest in seeing the budget balanced. If it is not, we may ultimately have to pay by suffering inflation and seeing the real value of our investments in gilts, bonds and cash wither away. Those on fixed incomes and pensions and those that have saved will pay for all the rest of the population.

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With the amount that is written about fund managers and their expertise, you would think that we should be awash with investment expertise and talent sufficient to make us all rich beyond our wildest dreams. Yet in fact a cursory look at the figures would imply the opposite.

Now there are of course some very talented managers, but in fact the results show that even over ranges of five and ten years, most cannot beat their chosen benchmark. What is 'most'? Well the figures seem to vary from 72% to 88% that cannot beat their benchmark - not an especially comforting number.

However, some additional research from Vanguard Investments shows that even successful portfolio managers fail to achieve that other key ingredient to successful investing , namely consistency. For example, the fund that came top over the period of 2000-4 with a return of 16.68%, dropped somewhat significantly to be ranked 236 in the following four years. A quick run down the chart and a similar pattern develops. Now of course we all know that there some managers who have bucked this trend and have built up a great reputation. Antony Bolton who ran the Special Situations fund at Fidelity is one such person but given a choice of over 250 managers you would have been lucky to have picked him.

What I also found especially interesting about this list was that a seemingly dull old tracker fund (i.e. a cheap fund that merely tracked an index) made it not only into the best performers, but also showed a level of consistency over the subsequent period. This of course would have been made all the more attractive if we had taken into account the amount of costs and charges which the investor has to bear. The tracker would have been very significantly cheaper over that time.

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And finally........good news, the end of the world has been postponed.

It's a good news/bad news situation for believers in the 2012 Mayan apocalypse. The good news is that the Mayan 'Long Count' calendar may not end on 21 December 2012 and this was the date when the world was expected to end. The bad news for prophecy believers? If the calendar doesn't end in December 2012, no one knows when it actually will - or if it has already.

A new critique, published as a chapter in the new textbook 'Calendars and Years II: Astronomy and Time in the Ancient and Medieval World', argues that the accepted conversions of dates from Mayan to the modern calendar may be off by as much as 50 or 100 years. That would throw the supposed and over hyped 2012 apocalypse off by decades and cast into doubt the dates of historical Mayan events.

That was a pity - I thought we might have been able to avoid the worst of the austerity cuts.

This article represents a personal and lighthearted view from Director, Justin Urquhart Stewart of Seven Investment Management Limited, and is based on current financial news and events around the world. Its content should not be used for investment purposes and you should contact an independent financial adviser before making any investment or financial decision. Seven Investment Management Limited is authorised and regulated by the Financial Services Authority. Member of the London Stock Exchange. Registered Office: 125 Old Broad Street, London EC2N 1AR. Telephone 020 7760 8777. Registered in England and Wales Number 4092911.

Have a good week.

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P.S. On the basis that the cuts of £84bn will be taken out of government spending over the next four years, and that these will be more or less linear, that amounts to £21bn per year. This contrasts with the $13.1bn (£8.3bn approx) which Goldman Sachs has so far set aside just for the first nine months of 2010 for staff remuneration. Perhaps we should just ask Goldman's to run our finances instead?

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