JUSTIN'S WEEKLY 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 20 years whilst in corporate banking and stockbroking, and has developed a unique understanding of the market's roles and benefits for the private investor.

PLEASE DON'T HUNT FOR THE RED OCTOBER

October has always been the month most associated with slumps and crashes, and this year we see the 25th anniversary of an especially notorious event which shook the complacency of the financial world. For those with very long memories, it is also the 105th anniversary of the 1907 Panic when the gloriously named Knickerbocker Trust collapsed, along with a run on the banks which was finally halted by the famed John Pierpont Morgan (or JP Morgan to you and I).

Additionally, if you needed any further confirmation of the fears of the Red October, then just a few days after the pain of Black Monday in 1987, the anniversary of the 1929 Great Depression comes along. What a cheery time.

It really was the season of storms back in October 1987, both meteorological and financial. Southern England had been ravaged on the Thursday before by fierce hurricane force winds and consequently that weekend the sound of newly purchased chainsaws filled the air throughout the Home Counties. What better omen could there have been for a financial tremor that was about to hit on the following Monday.

In August the US Dow Jones index reached an all time high (2722) and that was some 44% over the close of the previous year. From that peak the market started to fall back, and on the 14th of October it was jolted by a 3.5% record fall and another smaller aftershock the following day. Owing to the storm, London had closed and thus couldn't react to these events effectively and when New York felt another shudder and a further 3% fall, everyone in London who was paying attention knew that Monday was going to be a worrying morning. I gathered my team around to watch the opening salvos of trades knowing that much worse was to come as the Hong Kong market had already fallen dramatically.

What happened next was frightening as of course all the new investment structures had provided an astonishing level of overconfidence leading to complacency. That Monday the Dow dropped by 22% and by the end of October Hong Kong was down 45% and London 26%.

It had been a year since the over hyped Big Bang had opened the City fully to the new world of integrated investment banks, and the age of the 'yuppie' complete with brick like mobile phones and appalling manners. Alongside this we also had the programme of the Thatcher privatisations proffering new shares to the 'Sid' shareholders who applied in their millions for a few hundred shares in a variety of ex-nationalised companies. Popular share ownership was rising and the City was awash with capital, cash and complacency.

Additionally, it was also awash with paper as the huge privatisations produced a proliferation of paper share certificates creating vast settlement backlogs and unreconciled accounts, some of which I suspect were never ever finally resolved.

Throughout the year, the markets had been reaching greater volumes and values. Added to this there appeared to be a rash of rights issues and capitalisations in smaller and often less well regarded companies that added only some further complications to many hard pressed back offices.

The blind faith in the system that created such complacency is of course a phenomenon that over recent years we are still familiar with. However, historically when you look back at the charts, because 1987 had been such a boom and bust year, the markets looked almost flat on the year, thus disguising the trauma that went on in that bloody October.

So what can we as investors, learn from this? Well firstly, markets don't go up forever and the steeper the rise the more perilous the fall. Secondly, investing is not a month by month bet, but a longer term view of value being created, and thirdly, the power of interest and dividend reinvestment compounding is far more valuable than the vacuous volatility of fretting stock markets.

Additionally investment isn't just about the stock market but rather an array of investments across a range of asset classes around the globe being carefully watched and tended.

However, if there is one thing that can put all these fearful populist headlines of financial calamities into perspective, it's careful financial planning. Short term fears rarely overcome longer term strength.

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And finally...a Ukrainian court has handed down a suspended three-year prison sentence to a student who fried eggs over the eternal flame at a World War II memorial to protest against government policies.

Hanna Sinkova, 21, was found guilty of desecrating The Tomb of the Unknown Soldier in Kiev. Sinkova, a member of radical youth movement called The Brotherhood of St. Lucas, said her actions were meant to draw attention to the plight of impoverished war veterans.

"Its symbolical meaning was that soon, very soon, veterans, old people, poor people will queue up in front of this flame to cook food there because they will have nowhere to live, nothing to cook on and nothing to eat," she said on Friday.

The average monthly pension in the former Soviet republic was about $140 last year, according to official statistics.

Sinkova said she would challenge the court ruling. State prosecutors said they wanted an actual jail sentence and would do the same.

Seems like quite a practical use for an eternal flame to me.

Have a good week.

Justin Urquhart Stewart
Director
Seven Investment Management Limited
www.7im.co.uk