

# JUSTIN'S WEEKLY COMMENTARY

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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.



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## CAUGHT IN THE RIGGING – LIBOR OR LIBENT

Well what else can we say that has not already been said and written about the bursting LIBOR scandal? Probably nothing but I need to vent some frustration. The surprise shown by some in the banking world, frankly I regard as being just as scandalous; we have known that there have been 'issues' surrounding the system of setting the LIBOR rates for many months.

The polite mechanism of phoning around for rates is delightfully archaic, but perfectly workable in a rather bumbling British way so long as we all had 'jolly good responsible chaps' playing by the rules. This pleasantly simplistic attitude is of course somewhat naive, especially when responsible participants are replaced by rapacious dealers ready to rig the market for their own ends. Combine this with either ignorant or ineffective management and you have the makings of a perfect financial fiasco. I may hark back to a seemingly golden gleaming, albeit illusory, era of "Dictum Meum Pactum" (My word is my bond) in comparison to where we are now, when some people's word is about as reliable as a sub-prime bond.

The memories of halcyon days improve with age, and sepia photographs of men behaving well hide the significant shortcomings of that time, but that is no excuse for the lack of maintenance of the most important word in business and especially in the world of finance, banking and investment - integrity.

There is a right way to behave, and all of us excepting sociopaths, have the judgement to know what that is. This situation has arisen not just because of the behaviour of certain traders and dealers whose animal instincts will take over unless restrained; it is down to ineffective and unintelligent management.

I have met some who have shrugged their shoulders and feel that this sort of thing is inevitable. Well it is not. Those involved can stand up and say no, and those with the courage of their convictions will get up and go and find a better and right way of doing business.

My main fear is not the reputation of a single bank or banker, or even the rest of them as this tawdry tale is told over the forthcoming months, it is rather the reputation of the United Kingdom as a professional and reliable financial services centre. This industry is a vital component of the UK economy and needs to be treasured, cherished and developed, and not left to be abused by greedy short-termists with no view to their place in society and the impact on the economy.

LIBOR is not an esoteric financial construction, but a fundamental building block of the financial system and impacts on private lives just as much as corporate ones. Everything from personal loans to mortgages can be affected, time then for the serious redesigning of the LIBOR structure. Now we need to see a well structured process of interest rate formation which is reliable, viable and can rebuild sound confidence in the operations and functions of the UK banking and financing system.

So when does a chief executive resign? When you have trashed the share price, the dividends and the brand? What is the responsible thing to do? Not hard I think.

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And finally...Karl Marx bank cards prove a hit in Eastern Germany.

My colleague Alex Scott spotted a delightful Berlin, June 15 Reuters report about the return of Karl Marx. Two decades after the fall of the Berlin Wall, some Eastern Germans are once again carrying round images of Karl Marx - if only in their pockets.

The disappearance of communist former East Germany has not deterred them from using credit cards emblazoned with the image of the man who forecast the end of capitalism and the triumph of communism.

More than a third of customers at Sparkasse bank in Chemnitz opted for the picture of a bronze bust of the bearded 19th century German-born philosopher. Marx's stern face is depicted gazing towards the logo of MasterCard.

Before the fall of the Berlin Wall, citizens of Chemnitz - then known as Karl-Marx-Stadt - and the rest of East Germany would have seen Marx's face on their 100-Mark banknotes.

Flattened during World War Two, Chemnitz was rebuilt as a model socialist city and still boasts a seven metre-tall bust of Marx in its centre. The city has been economically depressed since the end of communism and its population has shrunk by 20%.

The east has witnessed a wave of nostalgia in recent years for aspects of the old East Germany, or DDR, where citizens had few freedoms but were guaranteed jobs and social welfare. The trend is not limited to the region.

"We've even received inquiries from clients in Western German states asking whether they could open a local account with us to get a card bearing Marx's features," Sparkasse's Wirtz told Reuters.

A 2008 survey found 52% of Eastern Germans believed the free market economy was 'unsuitable' and 43% said they wanted socialism back. I wonder just how popular you would be turning up at MasterCard's headquarters in Purchase, New York, with a picture of Karl on one of their cards. Perhaps this is the start of the new fashion fad for political leader credit cards - a Mao card, or even a North Korean Kim card which comes with built in debt already on it.



Have a good week.

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