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.

GONG XI FA CAI

Happy New for the Year of the Ram

Flags out and party time shortly as we can have a Chinese New Year party. For the Chinese astrologers this should be a bold year of decision - whatever that means. As ever we are being fed highly unreliable data on the Chinese economy with every minute nuance being over-analysed. The only sensible way of approaching information on China is to remember that it is a huge developing nation and therefore will continue to grow at somewhere between 5% and 8%. Anything below 5% would in effect feel like a serious recession for a developing nation and China is certainly not in that situation.

At present all the media headlines are still full of a Chinese slowdown with all their usual doom laden interpretation. China will still continue to grow, but such views keep that alternative Chinese stockmarket index, the FTSE100, from breaching its all-time high. Thus one small breath that China's economy might be 'recovering' and watch that index bust through the 7000 mark. Nothing to do with the UK economy but perversely it will impact indirectly on our confidence levels.

So maybe our New Year present will be an all-time FTSE100 high. Gong Xi Fa Cai.

The tiny teens and what it means for all of us as investors and investment managers

Many industries crave the chance for some stability and fear the prospect of any fundamental change. After all it's destabilising for businesses, it's destabilising for clients and it's unsettling for a comfortable and predictable career. If only things could stay the same! Well they can't and they won't.

Not only will the economy always be evolving so investors' fears and concerns will always wax and wane, but so will the asset classes as our Mosaic (http://www.7im.co.uk/media/146283/forecasting_2015.pdf) shows so perfectly that all too often this year's fashion fad is next year's 'tank-top'.

The variances and volatility of the asset classes is normal and what we have to live with, however there are other issues that we should be trying to address. In the new decade of the Tiny Teens, the investment industry is going to have to evolve into the new world or die.

Some like to look back at the sepia photographs of the old days of investment and stockbroking. The days of 'gentlemanly' capitalism some have called it. This is to ignore the facts that the city was white, very white, sexist, very sexist, and riven by class and religous discrimination. Apart from that commissions were fixed and, some would argue, so were some of the prices. In fact it had become a self feeding cartel that failed the UK economy in providing cost efficient capital to the greater part of the UK economy.

Since then we have had many reforms - from Baby and Big Bang onwards, and we replaced the autocracy of the few with a broader meritocracy, which sadly was taken to obscene degrees of abuse with outrageous packages of pay and bonuses.

Now we are seeing a greater breath of openness blowing through the market - a lot of which has been driven by technology and regulation. However, to this we can now add the change in the economy and thus, the investment industry participants, if they are going to survive, must adapt or die. They won't go quickly or quietly, but slowly they will realise that their cosy base of income, assets and profits will be leeched away by competition, costs and capability.

So what has to change?

In my view it is the need for a re-engineering of their investment models and the questioning of how they behave.

Now please don't mistake me, as some of this has already started, but there are still many murky areas of costs and charges which most are ignorant of. The old fund houses and stockbrokers have always had 'nice little earners' from trading commissions (either explicitly charged or just "in the price sir"), but add to that inactivity fees, administration charges, custody and nominee fees, costs of putting money in and costs for coming out again - in fact just about everything except breathing.

Then you can have the product fees of SIPPS and ISAs, and in effect your poor portfolio can be suffering a death 'of a thousand cuts'. No one fee for one family related to investment success - if it goes up you can earn more, and if it goes down you earn less. This can't be difficult! But it is if you have a cost base of marble floors and chattering fountains to maintain.

Then there were hidden little earners for the back pocket of the investment firms like stock lending. Lending stock for settlement has always been a nice sideline to ease the wheels of market settlement and use client stock to make a 'little turn'. Now at low levels of interest rates the earnings are small but in my view still significant and if you are using client stock for this then any income from it should be for the client! Actually last year this allowed us to put an extra £365,000 into our client funds. How much else isn't being revealed I wonder.

When it comes to how we run money our industry should be engaging brains to achieve investment aims in different, and lower cost, ways. There are many alternatives that can be used but many seem reluctant to change. It's not just using passive instruments, but also other quite usual and cost efficient investment tools in the institutional world which rarely seem to make their way into the retail world.

Things like futures and options contracts, which can reduce the costs of more expensive funds and portfolios. Then applying some intelligence for more selective 'smart' passives, which tailor their index world down to specific areas of risk and return.

Then of course there is the question of managing currency to both protect and enhance portfolio value. How often have I seen perfectly good portfolios go horribly wrong, just because the currency went "the wrong way"? A hedging policy is there to do exactly that - hedge the risks and try and maximise the chance of providing the expected outcome.

So evolve or suffer a lingering death as the Tiny Teens take their revenge on investment oldies of the last century.

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And finally...I personally am not a fan of the super hero films as they just make me feel so inadequate, however who I am to question their ability to carry off Lycra onesies. So it was with marginal interest that I saw a story about a man who dresses as the comic superhero Mr. Incredible. Apparently he has recently been sentenced to 3 years' probation after pleading guilty to attacking Batgirl in a Hollywood Boulevard turf dispute about whose bit of pavement was their patch.

Muhammet Bilik, 35, was also ordered to attend anger management therapy, perform 20 days of roadside cleanup and stay away from the so-called Hollywood Entertainment District where the spat erupted.

Prosecutors say Bilik attacked the woman clad as Batgirl, whose civilian identity was not revealed by authorities, following a disagreement over pavement (sorry - sidewalk) territory along a famed stretch of Hollywood Boulevard that draws tourists from around the world.

A video of the incident captured by a passerby and posted on YouTube (https://www.youtube.com/watch?v=1lJ2v59t_MM) shows Bilik, in his Mr. Incredible costume, slamming Batgirl into a rack of souvenir baseball caps. As the argument developed, both Chewbacca and Freddy Krueger tried to intervene. Surely they could have achieved something? Where is Superman when you need him?

Have a good week and have a very happy new year.

Justin Urquhart Stewart
Co-Founder
Seven Investment Management
www.7im.co.uk