



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.

There Is Value In The Gloom

After an appalling week of commentary on the UK, it is quite understandable for many to think that the country has something of a nasty whiff about it. With our government debt referred to as 'floating on nitro-glycerine', our economic growth racing along at an anaemic 0.1% and our politicians floundering amongst their pre election propaganda – none of this can inspire much confidence for investors wondering where to put their hard earned money. Just to rub salt into the wound the FTSE 100 has dropped some 7% since 11th January. However, it is at such moments when the herd has decided that they must all move in one direction, that I would urge you to turn around and look back the other way.

Wiser heads though would seemingly encourage you otherwise. I am as ever indebted to my very experienced colleague John Hatherly who brought to my attention the January Merrill Lynch Global Fund Manager survey. This highlighted that the UK is now the most hated equity market amongst managers, with a net 15.7% of them wishing to underweight it; a figure even greater than Japan! Of course, at the other end of the scale is the Emerging Market sector, which is the most popular but is also now the most expensive and more than the major developed markets (2010 PE 17.3 vs. 13.7 PE for MSCI World). Of course, Emerging Markets were the most successful last year – nothing like betting on last year's winner!

Yes we all know the UK economy is in a poor shape and we know our finances are shattered, but what has that got to do with the stock market? Economies and markets have of course a relation to each other, but they are certainly not conjoined twins. In fact the FTSE 100 is increasingly diverging from our troubled domestic economy, with some 65.7% of FTSE 100 profits coming from outside the UK. In effect this Index is a cheaper play on the global economy.

UK profits from overseas earnings will thus stand to rise if Sterling falls especially against the Dollar and there is a pretty good chance of that occurring. Add to this the number of UK companies that set their dividends in \$ terms (including BP, HSBC, Astra Zeneca and Standard Chartered) and certainly the returns look to be more promising. However, as in anything economic, there are two sides to every story and of course stronger Sterling versus the Euro will put UK companies at a competitive disadvantage in a market where something like 60% of our exports go! As ever, you win some you lose some! Perhaps I can add in one other area for consideration after the Cadbury Kraft deal and that is the attraction for overseas buyers for buying UK companies now available at a Sterling discount?

All of this adds up to quite an attractive list for supporting the UK market however, there are headwinds and negatives as well.

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Firstly the exposure of the FTSE 100 to oil and mining companies' means there is a real risk from a pull back in those sectors. Additionally many institutions seem to have been running down their proportion of UK equity weightings for more than a decade and this may yet continue further.

There was a mention last week of the continuing shortfalls in many of the mortgage endowment funds for many such savers looking to pay off their housing debt. As ever we end up hearing the excuses from the providers that the markets let them down. What is clear to those that want to look is that their asset allocation policies (assuming they had any) weren't just wrong but seemingly inept. Too much equity in the boom times and then selling it off in the bad times, further compounding the problem by failing to buy back in with the recovery! And we pay people to do this?

So Mr Bernanke has been reapproved in his role as Chairman for the second four year term with an extremely hollow vote of approval by the Senate with a majority of 70:30. With such enthusiastic support I am sure he is delighted to have the old Prince of Darkness, Paul Volker casting a looming shadow across his career. Quote of the week goes to Tom Sheridan when answering my daft question that I thought Paul Volker had died, "he did", Tom answered "it's just that he has been resurrected by Obama".

Now we wait for his plans to be fleshed out, but the intent is clear and with mid-term elections due in the autumn and Main Street howling at Wall Street, the banks would be better to start their reforming ideas sooner rather than later. The key point that we can distil will be the 'Volker rule' that deposit taking banks would not be able to engage in proprietary trading, or to own hedge funds or private equity funds. Obviously this will not be the final answer to address the question of systemic risk, but rather the concerns and actions that will have to go further with regard to capital requirements and above all effective and intelligent regulation and regulators.

Obama's State of the Union speech was as to be expected, an oratorical triumph which has been so much his hallmark. The question for his administration is being able to live up to the dramatic and theatrical rhetoric. One area though that should strike a note for some UK politicians were his comments on Capital Gains Tax abolition but more importantly the focus on smaller company incentives and encouragement to entrepreneurs. This too is a key area for the future of the UK economy and despite our debt burdened finances this is an economic sector we must seek to encourage. We know that if there are incentives the British will be entrepreneurial. A misquote from the film Field of Dreams, "if you build it, they will come".

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And finally.....jailbreak usually involves someone trying to bust out of jail, but police arrested a man trying to break into the Jackson County Jail in Medford recently. Medford police Lt. Bob Hansen said, "At 4:10 a.m., sheriff's deputies at the jail spotted a man scrambling over a tall fence that surrounds a secure lot where arresting officers unload potential prisoners and escort them inside. Jail officials met the man on the ground and contacted Medford police.

The man, James Merrill DeVore, 28, told police that he was distraught over the death of his mother two years ago and admitted that he had been drinking alcohol and smoking marijuana. He told officers that he needed help, so he went to the jail to ask for assistance. When he didn't get an answer at the front entrance, he decided to go around to the back and try to break in.

Medford police charged him with disorderly conduct and trespassing.

But even after the two criminal charges had been brought, he still didn't land in jail.

Have a good week.

Justin A. Urquhart Stewart
Director
Seven Investment Management Limited

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