



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.

## **China rising, China flexing**

No I am not going to go on about the usual tiresome tracts we hear and read about China. Yes we all know it is going to be big, butch and powerful, but I am amazed at the almost fawning expressions of confidence and appreciation that are trotted out – mostly from those presumably trying to entice us to put all our money into their funds.

Leaving aside the economic issues, some of which are still concerning (and now even certain Chinese commentators are worrying about the rocketing house prices and their financing in new developments), it has been noticeable over the past couple of years how the Chinese authorities are beginning to flex their political influence and muscles.

Last week's threat of sanctions against the United States for their proposed arms deals with Taiwan is a case in point. Of course Taiwan is a politically sensitive subject but such a swift threat of retaliation smacks of authoritarian decision-making and certainly lacking some of the more mature and sophisticated diplomatic persuasion which they can and have used in the past.

Such a move, although making good populist headlines in the state controlled media, in fact could easily back fire. Boeing for example has been mentioned for possible sanctions, and it would be most negative for China to lose the parts and support for their existing fleet of Boeing aircrafts. Although China has stated their intention to build their own planes and to have their own Jumbo by 2020, their commercial aircraft capability is still in its infancy.

As members of the World Trade Organisation (WTO) China would also know that any such move could result in action against them by the US and others. These points, though, are symptomatic of the sensitive relationship between the G2 partners, and although they are both playing to their audiences, we cannot allow such a vital relationship to deteriorate into a protectionist-led trade war.

President Barack Obama last week vowed to 'get much tougher' with China on trade and currency rules to ensure U.S. goods do not face a competitive disadvantage, however Li Jian, a researcher with a think-tank under China's Ministry of Commerce, told Reuters "Even if China wants to adjust its exchange rate, it is nearly impossible for Beijing to meet the demands of the U.S. - this is China's own business."

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Add to this trade quibble the more recent comments about contacts with the Dalai Lama, the continuing rumblings over the Paracel and Spratly islands in the South China Sea (about oil rights), the arguments with Google and we can see a rising trend of the Dragon starting to flex its muscles of influence which the naive may not appreciate in Europe and the US may not understand in terms of their global influence and reach. After all who is going to be the next man on the moon? Well he probably ain't going to be American.

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The power of dividends may well start to show this year. From the nadir of this most recent equity run last March, we have seen a pell mell of investing back into equities away from the dreadful cash rates of the money market funds into which investors had scuttled during the worst part of the financial tempest. With double and even treble digit rises in all the popular sectors, and especially emerging markets, there has been a dash from cash into just about anything. However, somewhat left behind in this have been those less exciting areas which are often overlooked in times of such frenzy.

In this area are to be found those companies which are often seen by punters and traders as supremely dull businesses with little growth excitement and all the investment characteristics of a tortoise. These then are often the utilities, telecoms and those large companies involved in infrastructure and engineering projects.

These companies, despite the economic slowdown, have relatively steady income streams and although not unaffected by economic conditions, they are in areas of essential need and requirement.

Also those infrastructure and engineering companies such as Seimens and Klockner have been benefiting from all those government expenditure schemes designed to reboot their economies. Many of these contracts though aren't just on home ground but elsewhere around the world and especially in China where a huge amount of investment has been diverted in building infrastructure – almost anywhere.

Thus these leviathans carry on steadily, but instead of overall growth in the share price, there is a greater attraction to the seemingly more reliable and often rising dividend stream. Some sneer at a few pence here and a few pence there – but this of course ends up being a few pounds and thus you can benefit from the investment industry's greatest ignored rule – the power of compounding over the years.

Often we have been used to these types of companies in the UK - in the water and electricity sectors for example - but since privatisation many of these have been gobbled up by foreign  
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companies. Here then is the clue; let's go and invest in the continental companies with such dividend streams.

However, as the weeks go by I am becoming more concerned about the sustainability of our broader equity rally, and although US corporate figures have been better, they have generally been against a background of declining estimates. This trend, along with the spreading concerns over sovereign debt will, I fear, cast a greater pall over the markets over the forthcoming months.

At the time of writing the FTSE 100 has dropped over 100 points as concern rippled through the markets about the shallowness of the US recovery to do with jobs, and the softness in commodity prices hitting mining companies. This shake out illustrates the weakness and lack of confidence in the markets. Beware.

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And finally.....the headline of the week has to be ..... 'Dog Shoots Hunter'

A hunter is recovering from non-life threatening injuries after being shot by his dog recently. The County Sheriff's Department said the 53-year-old man was hunting with a partner near Los Banos (in California of course) when he set down his shotgun to retrieve his decoy ducks. The shotgun was loaded but according to the authorities he had in fact put the safety catch on. The victim was about 15 yards away, retrieving his decoys, when his female black Labrador retriever stepped on the gun.

Authorities said the dog had disengaged the safety catch (now that is clever), but then also managed to pull (or I suppose hit) the trigger at the same time, firing a shell with #2 shot. The man was struck in on the left side of his upper back. I wonder if the dog said "Pull".

Have a good week and Gong Xi Fat Choy – a very happy New Year of the Tiger to you.

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P.S. Some not especially unsurprising news from Australia. In a recent survey Australians say they'd rather give up sex, their car and their friends than lay off alcohol for a month. Well, you have to give up something for Lent.

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