



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.

A Charging Elephant

If anyone can say they have had a good recession it has to be India. In fact they didn't seem to have had a recession at all. In 2008/9 her gross domestic product grew by 6.7%, with an increase forecasted for this year to 7.2%. However, of course with this there have been constraints, with both the government fiscal deficit rising and the rate of inflation creeping up. Although these have been a concern they seem not to be at worrying levels for the moment.

India, to state the stunningly obvious, is no China. Yes certainly in terms of square kilometres, population and many other dimensional statistics both are huge, but thereafter they are best identified by their differences rather than similarities. In our somewhat patronising Western view we tend to lump groups of nations together and most fashionably and recently have done so with two others - Brazil and Russia - to form the investment acronym and fad of the BRIC countries.

Brazil and Russia are primarily commodity based economies, although the former does have a burgeoning middle class. The latter, although having a developing middle class, has a population which is in fact shrinking quite drastically. Not only does it seem that the Russians have given up breeding but, unlike us, they seem to attract few immigrants apart from those brought in by the security services. Both nations react to global demand for raw materials and certainly when China breathes in, Brazil breathes out (exports) iron ore.

Both China and India have growing and developing populations and with them will inevitably come the increased demand for consumer goods and other popular disposables. Such demand will develop according to the growing wealth of those nations, but will also be helped by the development of their consumer credit and banking facilities.

A key difference between the two is of course their political systems – one the largest democracy in the world, and the other the largest communist oligarchy in the world. Certainly the central control mentality of the communist system probably lends itself to a more efficient method of developing such a huge nation, but the functional democracy of India is to be considerably admired given the ranging differences of the nation and some of its more unruly parts.

China has funded itself through trade surpluses whereas India has been running a deficit for many years, albeit at a very affordable level. Part of this has been down to its remarkable savings rate - which is something of a distant memory for us back in the UK. Such savings have helped fund the development with a rate reaching an astonishing 36% of GDP until somewhat falling back more recently. With a middle class of some 450m, this is a huge lake of wealth which, if properly harnessed, will help fund significant development into the future.

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So for the Indians it has been 'Crisis, what crisis?' In addition, whereas the Chinese saw a dramatic rise in unemployment, although the figures are unreliable, such an impact in India seems to have been more muted.

It seems quite likely that growth levels in India could be sustained at a figure close to 10% and at that rate, the nation's economy will overtake the UK economy within a decade and potentially Japan's within two.

However, there are some worrying areas of concern that must be addressed. One that rarely seems to be highlighted has been the influence and spread of the Naxalite (Maoist) guerrillas who are apparently active in a third of India's 626 districts. This low profile insurgency claimed some 998 lives last year but has barely been recognised outside the country. Unless this sort of running wound is addressed then this could affect potential development, especially given the social pressures that are inevitable with such a fast changing economy and society.

If effectively addressed however, then confidence in the government can be further enhanced: if, though, this is just left to fester, then external investors will be attracted to other more stable areas of Asia – such as its neighbouring fellow leviathan.

Well with all the prevailing news of economic gloom that we are being fed in the UK, one could be forgiven for finding that most of the population is thoroughly depressed. It was thus rather surprising to see last week's consumer confidence figures being at the highest level since the beginning of 2008. This is despite the gloomy prognostications of all the politicians and certain journalists who love to focus on the darkest of threats even on the brightest of days.

However, there is another area where I think we short change ourselves and that is that we tend to regard our investments purely in nominal terms and not taking account of other issues. These could include inflation, but also, and more importantly for those of us in 'Blighty', the impact of our yo-yoing currency that can have a very considerable impact.

For those investors who are US\$ based, they will still be suffering especially where they have overseas investments. As the US\$ has recovered, so the value of those investments has diminished and of course this includes any of their dividends being repatriated. In US\$ terms in fact, world equities are still 25% below their 2007 high.

For the Japanese the situation is even worse. Unlike the majority of American investors who still seem somewhat bemused by the term 'overseas', the Japanese have had to invest overseas ever since their markets crashed back from their zenith at fractionally under 40,000 in the Nikkei 225 in 1990, to a nadir of around 7,000. For effectively twenty years their markets have gone nowhere. Their answer was of course to invest overseas but with a stronger Yen they have now found themselves in a position of being still 44% below the peaks of the Summer of 2007.

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In the UK we have always expected to have invested either directly or indirectly around the globe – obviously an old empire thing. Even in the FTSE100 we not only have a growing number of overseas companies but also large multinationals with the result that some 65% of profits from this membership are coming from overseas. So we have in fact been sheltered from the worst of the market storm and, if you add in the recovery in valuations since last March, the result has been that we have recovered all the losses since 2007. In fact the FTSE All-World equity index, on a total return basis including the reinvestment of dividends, is quite astonishingly at an all time high!

The pride before the fall when the Pound reached \$2.10 was illusory and had, for those who were watching, obviously gone far too far. The fall back since then has in fact been a great boon for us as a relief pressure valve which of course those heavily indebted Eurozone members did not have. If we hadn't had that chance to devalue, our investment and economic position could well have been very considerably worse.

And finally from the quirky state of California.....

A couple who tried to save water and money by removing their lawn are being taken to court by the city of Orange. Quan and Angelina Ha, who now have a scheduled court date, decided to replace the grass on their front lawn with wood chips in 2008. The Ha's said they'd just had a baby and began to think about her future and the effect of what is happening to their environment.

Thus they made a decision to replace their water thirsty grass with the far more environmentally friendly chippings. At a time when Southern California cities fine people for overwatering their thirsty lawns, the Ha's said they've saved hundreds of thousands of gallons of water and drastically lowered their water bill.

But the city cited them for violating a law that requires 'live landscaping' to cover 40 percent of the yard. The couple planted drought-tolerant plants last year but the city said it wasn't enough.

The city said it wants them to come up with a compliance plan. Ah yes, this is the land of the free!

Have a good week.

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