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.

China, Gold, Banks & a Comet

China property. If ever there was a need for some clear warnings, it has to be around the Chinese domestic property market. I have some serious concerns about both private and public Chinese property and some of the infrastructure as well. It goes up quickly without any of those tiresome local planners getting in the way, but the standards and quality have to be rather worrying.

From poorly made flyovers to Singapore style apartment blocks fit for one climate but built in another - to this you can add a worry over the lack of a regulated property code and legal structure. Those considering investing in Chinese property should think of just one word of precedent – Spain. Now to add to this fetid market, the authorities have introduced a capital gains tax to try and curb the more rampant speculation that has been going on. The result? It has just got worse! The new rules have allowed an exemption on any individual's first property, resulting in married couples now arranging a quickie divorce, not for culinary or other domestic disputes, but rather so that they can both get their property exemption from the new 20% CGT.

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Gold – less sheen? As the global economy appears to be healing and the stock markets are, as ever, trying to get ahead of themselves, it would appear that many private investors are finally falling out of love with their holdings of gold. Gold has always been regarded as the ultimate "safe haven" in that a solid real asset is more reliable than those more intangible and unreliable values of stocks and shares.

Over the past few years, this enthusiasm for gold has been further encouraged by the simple access to the glistening stuff, not through buying little ingots to hide in the house, but more safely through the purchasing of the easily traded physically backed Exchange Traded Funds (ETFs). Since their first launch in Australia back in 2003, they have become enormously popular with investors wanting an easy and liquid access to this market.

This has now reached a staggering 2,491 tonnes of gold in ETFs. To put that in comparison, the Indian annual gold jewellery demand for weddings, etc., is 552 tonnes.

However since the start of January some 140 tonnes have been sold out as the price of the metal has been falling – down some 18% from the high in 2011.
This may be an encouraging sign that investors are feeling more confident but, as they have now learnt of ETFs as being such an easy way of finding this safety hedge, it will be interesting to see how quickly this could flip back if the economic and corporate growth that the market is currently anticipating fails to materialise.

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Surgery not sticking plaster. Last week's pronouncement on RBS by the Governor of the Bank of England had some familiar resonations. Four years too late but at last there has been a realisation that something should have been done that was far more radical about the blundering leviathan that was the Royal Bank of Scotland. This is not so much the joy and benefit of hindsight, as this was in fact being proposed at the time. However, reorganising the banks needed swift and decisive action to be really effective, as has been (if not perfectly) successfully demonstrated by the actions by the Americans on their own banking system.

There has of course been a lot of work done but seemingly without the dynamic need and assertiveness to push through reforms fast enough. This has certainly hampered the banks recovery, but along with it the potential recovery in the broader UK economy.

The swift creation of the "bad bank" to dump all the financial manure in should have been a priority, and not just sorting it out internally over time. This would have relieved the rest of that burden and allowed a new organisation to get on with its main priority in getting the British financial plumbing functioning again.
Then after that they should have been splitting out the dysfunctional investment banking side and thus leaving the opportunity to create two medium sized domestic banks for commercial banking with some astonishingly familiar brands, namely RBS and Nat West.

This was a good point from Mervyn King, but just four years too late.

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And finally...Comet News.
A German travel agency is selling tickets for a flight to give 88 astronomy buffs a close-up view of one of two rare comets expected to pass Earth this year.
Eclipse Travel, based in Bonn, is organising a flight on March 16 as comet Pan-STARRS passes through the solar system, 100 million miles from Earth.
The last comet to dazzle Earth's night-time skies was Comet Hale-Bopp, which visited in 1997. Comet 17P/Holmes made a brief appearance in 2007.
The Boeing 737-700 flight will zigzag at 11,000 meters (36,089 feet) altitude for the viewing of only 88 of 144 seats on board filled to ensure all travellers are close to a window. Tickets for the two-hour flight cost between $470 and $663, according to its website.

"If the weather is very good and the air is clear you can certainly see the comet from Earth," Air Berlin's Karsten von dem Hagen, "But at an altitude of 11,000 meters you are most likely above the clouds. The air there is thinner, clearer and cleaner, which enables better observation of the comet."

NASA scientists said the comet could send an amazing tail of gas and dust into the night sky but the cosmic show could be less than dazzling if the comet falls apart under the heat and gravitational pull of its plunge toward the sun.

The comet Pan-STARRS, discovered by astronomers in Hawaii in 2011, is the first of two comets expected to pass Earth this year. The second is ISON, which is forecast to be one of the brightest comets ever seen and could even outshine the moon when it flies by in late November.
Have a good weekend,
Justin.

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