



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.

Double Dipping?

I always thought that a double dip was some terrible faux pas at a cocktail party with limp celery and the warm houmus. Now I know better – it is of course a non specific economic term that appears to have now become common parlance. It certainly has little precision, as some imply that it could mean a dip back into recession and others that it is a mere slowdown. Either way though it seems to be talked about in the terms that imply that only dark days and doom lie ahead.

So are we likely to have a dose of double dipping? The answer is quite likely yes as many of the forward indicators seem to be rolling over from their previous upward trajectory, but whether that implies another collapse down into recession is unknown - but from the current situation this may well be avoidable. Subject though to the ruthlessness of the government's heralded cuts, we are in fact more likely to see something altogether far duller in the form of a slow and grindingly unappealing and somewhat insipid recovery.

Personally what I have read so far into the political and economic prognostications is that we are seeing a lot of bravado and pontificating in order to create the atmosphere of economic danger. This is quite intentional by the government as they come out with their incantations of stern determination and intention – they must look in control of the situation in order to reaffirm international confidence. This has already had an effect with Sterling rising quite surprisingly and the threat of a debt downgrade seemingly to have receded.

One area that has surprised many has been the swap around in the attitude to the UK Gilt market from one of almost unanimous condemnation only a few weeks ago, to now being regarded as an international safe haven - at least for the time being!

So what can we all learn from this? Well certainly that the 'given' knowledge is not always correct and that there is always a need for suitable contrarian views to be at least considered. Such events have an amazing ability to ensure that egg is firmly placed on faces – something I know to my own cost. However, I am pleased to say that I am in good company for such mistaken views. Who am I to question the prognostications of the highly regarded investment 'guru' Jim Rogers when he said not too long ago "Sell any Sterling you might have; it's finished." Or the world's largest fixed interest manager (Pimco) whose founder Bill Gross said that UK Gilts were "resting on a bed of nitroglycerine". A slavish adherence to both such comments from such influential people would have resulted in some disastrous investment results.

Yet another reason for having a broad asset allocation policy so that diversification avoids the worst of such failures.

The equity markets have been extremely skittish of late and have made it challenging for investors to look through the fog banks of economic fear, and see through to the value of the underlying companies. From fears of impending Chinese bubbles bursting, through to weakened US growth and Euro concern, these have all been enough to frighten investors away. However, for those actually willing to look at the strength of many companies, especially the larger multinational ones, buyers have been coming back in. In fact a quick review of the larger UK and European companies reveals a rising trend in the amount of cash being held by these companies. Many have already bolstered themselves with debt issuance last year and are keen to remain out of the hands of unreliable banks who may have little consideration for maintaining credit lines in times of any further systemic banking failure. Economies and companies are obviously related but they do not usually move in tandem. The result has been that for every fall we have been seeing a switchback of prices flicking back after a few days – not very comforting but a sign of markets being unable to have the confidence of which way the economies are moving.

The Coalition Government has already been making noises about potential sell offs to try and raise more money for debt control. Sadly of course we managed to sell off the family silver some years ago and we appear to be down to the butter knives and teaspoons. The value of NATS (the Air traffic controllers), the Dartford Crossing and the High Speed 1 Line are all of some value but not on the scale of a national utility. Of course there is always the more sensitive Royal Mail, and even the Tote - which has been talked about as being ready for sale for as long as I can remember. However there is of course one other major piece of silver that we seemed to have missed behind the sofa.

This, of course, is Network Rail. You will remember that the last government renationalised – sorry took into administration the old Railtrack, which was originally floated back in 1996 in the dying days of the last Tory administration. Back then it was floated with just £2bn in equity and took on frankly a creaking and rusting infrastructure which quite literally fell apart a few years later with some horrific crashes and fatalities.

The failures of British Rail and Railtrack were though, mostly as a result of the indifference to the railways from nearly all the post war governments for any proper investment in infrastructure and capability.

Back in 1999 the annual public funding into Railtrack was just £900m. Compare that with the £5-6bn that Network Rail has been using up – not unsurprisingly then we now have one of the most up-to-date railway structures in terms of maintenance compared to most of Europe.

So what could be the effect of selling this off? Well the debt (over £22bn) could be transferred off the governments book which would be quite helpful and then potentially a sell off could raise possibly a figure in the range of some £14bn.

I wonder if there is anything else behind the sofa?

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And finally.....the wisdom of youth. My colleague Alex Scott had a conversation recently with his daughter Millie (aged 4).....

Millie: why were you on the phone so late?

Daddy: because Daddy's markets are being strange and we're not sure what to do

Millie: why are the markets being strange?

Daddy: because some people are worried about the banks

Millie: why are they worried about the banks? I'm not worried about the banks...

Daddy: I'm not that worried, but some people think the banks might run out of money

Millie: that's silly; they haven't run out of money. If they have I think they'll find some more.
[Quite sensible until here, and I think we'd agree with her analysis, even if she doesn't know about the ECB].

However, Millie continues: they could go scuba-diving in a wishing well....

Of course - now I am surprised that with all the world's great financial minds, not one has thought of that bailout measure.

Have a good week.

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