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.

HOW MANY MOBILE HANDSETS MUST A HUMAN HAVE?!

A stray news item piqued my interest a few days ago, one statistic stood out among the hundreds hurled daily at us by the new, old and adolescent media formats. In fact this particular item of interest is a direct contributor to the tide of information that swells around the world.

Last week, a branch of the United Nations, the International Telecommunications Union, released a report on the development of global communications technology. The attention-grabbing headline was that by the middle of next year, there will be more mobile telephone subscriptions than there will be people on the planet. To flesh that out with numbers, by 2014 there will be more than 7.1 billion mobile phones. Note, that's not the number of mobiles manufactured, and now discarded (such as the once omnipresent Nokia 3310, an army of which must be lying dormant in drawers around the world), it is the number of **active** and **functional** mobile phones, with an accompanying contract/pay-as-you-go setup.

At present, Planet Earth has 6.8 billion mobile subscriptions – around 96% global 'penetration'. Concentration varies widely though – and not perhaps in the ways one would expect. The region with the least exposure to mobiles is Africa, where 63% of the population have a phone. However, the region with the most exposure is less obvious. One would probably guess the US (109%), or perhaps Europe (126%), but in reality, the Commonwealth of Independent States is the winner. Never heard of it? In its former guise it was known as the Soviet Union...which covers such a vast area that people apparently need an average of 1.7 phones each in order to stay in contact with one another!

The larger theme here is that the saturation point in mobile phone ownership is approaching. For companies such as Apple and Samsung, the huge profit margins they have enjoyed for the past few years will start declining. When an industry reaches maturity, where there are no brand new customers to aim for, businesses have to maintain market share and revenue streams somehow. It will go one of two ways – more innovative products or more competitive pricing.

Competitive pricing is already happening to some extent. In the Developing Markets, particularly in China, domestic manufacturers are undercutting big brands such as Samsung and Apple by offering phones that deliver 90% of the performance at 50% of the price. Whether this shift will happen in the Developed World, where big brands have a larger political, legal and social presence is another matter. Challengers welcomed!

On the innovation side, the likelihood is that someone, somewhere, will do another Apple and bring out a device that shifts the paradigm. Current mobile development revolves around making processors faster, screens brighter, typing easier, essentially refining an existing product. That's not innovation. That's not the next big idea. Unfortunately, I have no idea what is – but we'll know it when we see it, and the rules of the technology game will change again.

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Central Bank Transfer: Sir Mervyn King leaves his office of Governor of the Bank of England next month, to be replaced by Mark Carney, formerly of the Bank of Canada. Much as Sir Alex Ferguson finished his tenure at Manchester United with a win, the most recent Inflation Report from the BoE will allow Sir Mervyn a graceful exit, as growth forecasts rose for the first time in a number of years.

Considering that these forecasts rely on interest rates remaining at all-time lows of 0.5%, and no further increases in the Asset Purchase Program (money printing) – this suggests to me that Mr Carney may have to find some more unconventional methods of stimulus, should he feel the need for them.

As Justin has often mentioned here, some more consideration of support for the small businesses would be welcomed. The current Funding for Lending Scheme allows banks to borrow funds from the Bank of England at extremely low rates, on the condition that they then increase their lending to individuals and Small and Medium Enterprises (SME's). This has recently been expanded beyond banks to other lenders, the length of the scheme pushed out to 2015 and the incentives weighted towards boosting lending to businesses rather than individuals (whom the Government is supporting through the Help-to-Buy scheme).

These are all positive steps, but given a recent conversation, I believe there are some other steps to be taken. A former BOE economist was explaining to me the current paradox in the UK, where productivity is declining yet unemployment is not rising as theory suggests. One reason that unemployment is not creeping upwards is because a number of people, mainly in the service sector, are becoming self-employed upon leaving their jobs (voluntarily or otherwise). These businesses will take time to get off the ground, so productivity will decline but employment remains stable.

It is fairly easy to understand the appeal of this route: many service sector skills are transferable, capital light, and technology means that anywhere from a sofa to a shed can be an office.

This approach to life and work is to be encouraged – and here is where, I believe, the BoE and government could help. It is not enough for loans to be available; these budding entrepreneurs also need to be informed about them, and much else besides. While they will be able to deliver the professional service that they are selling, they will never have encountered other complexities that accompany running your own business. Education goes a long way – asking banks to form a dedicated (properly dedicated, not TV advert dedicated) small business advice service in order to secure their low funding would be an easy way of getting the learning process started.

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And finally... An Air India flight was forced to make an emergency detour this week, and land halfway between New Delhi and Bangalore at Bhopal Airport. As a passenger, any 'emergency detour' fills you with nerves and anxiety which is usually soothed by the calming voice of the pilot over the intercom, assuring that all will be well.

In this case however, passengers may have had cause to be a little alarmed. The reason for the detour was that the pilot, following a toilet break, was unable to open the cockpit door. Air India released a statement saying *"the door had got jammed and all efforts to open the door, even from inside by the co-pilot, failed."*

Despite the co-pilot being inside, I doubt I would react well as a passenger if I were to see a man in a pilot's uniform pacing down the aisle in order to *'have a run-up'*....

Have a good week.

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