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.

A FOOLISH FTSE

I find it faintly foolish that the main index that is quoted to us every night is one that has only the vaguest connection with the country it is purported to reflect or represent. The FTSE100 is merely a listing of the largest companies (by capital value) that are listed on the London Stock Exchange. One could quite sensibly surmise that the UK's main index would thus have a significant proportion of UK related businesses, and reflect an equally significant proportion of the UK economy.

The reality however shows that this couldn't be much further from the truth. The FTSE figures from Thomson Reuters actually show that for this largest group of companies, roughly twenty something percent of their revenue is actually sourced from the UK. The reality is that this main index would be better described as a global index merely based in Britain and not representing the value of UK PLC. Some of these companies are in fact not British at all, such as SABMiller, Fredsnillo, and our old Chilean copper mining favourite Antofagasta.

"The FTSE figures from Thomson Reuters actually show that for this largest group of companies, roughly twenty something percent of their revenue is actually sourced from the UK."

So perhaps we should look to the FTSE250 to find our real UK companies? However even here it seems that only around 45% of the revenues from these companies are derived from the UK, and taking it further to cover the rest the FTSE All-share Index shows that only just over 50% of the revenues are from Britain. Now on one hand this is a great reflection of how international our markets and many of our leading companies are, and we should rejoice that we have such a broad church being represented.

However, I also find it extremely misleading. If like me you believe one of the prime drivers of an economy is confidence, then feeding the population misleading information about the state of our economy is, and I believe has been, rather dangerous. Currently we have a FTSE100 which has a disproportionately high make up of its members from the mining, extraction, oil and gas industries, and as we saw last week many of the commodity related companies have been very badly hit by the fall off in value as the much hyped commodity super cycle has found that its wheels have come off with a crash.

Thus the net effect of furrowed brows from unknowing newsreaders expressing faux fears and concerns over the state of our stockmarkets. To them stockmarkets are UK stock markets, are mainly comprised of UK companies and reflect the UK economy. As we can see this is not simply true. However for the viewing public, such worried tones will, if repeated each night serve only to sap away our confidence in anything to do with the economy. So in my view this is more than misleading, it is financially dangerous when we are striving hard to sustain the recovery of our economy in a very competitive environment. Let's then have a UK index, reflecting the success or otherwise of the UK businesses and its economy.

Finished with the Eurozone?

A petition signed by 50,000 Finns has forced Finland's parliament to debate as to whether they should remain in the single currency or not. A lot of the public dissatisfaction with both the EU and the Eurozone follows an extended period of economic weakness. In fact their economy shrank by 0.2% in the third quarter of 2015 meaning that the economy was on track to see its fourth straight year of contraction.

JUSTIN'S WEEKLY COMMENTARY

An IMF report has highlighted that Finland has been affected by weak demand from not only the rest of Europe but was also impacted by trade issues with Russia. Exports seem to have suffered with the decline of the once mighty Nokia and a fall in the paper industry. Add to that the increased cost of an aging population and there is also a considerable drag on growth. The result is that the debate on Euro exit is now a serious issue as the pressure from centre right and further right parties seems to be growing.

So there was a Northern Stock Exchange.
Just to follow on from my writing about the potential for a Northern Powerhouse last week, my brain vaguely remembered some history regarding a northern stock exchange that briefly existed for a while. In 1965 the Liverpool and the other northern stock exchanges did in fact come together to form the Northern Stock Exchange to focus more effectively in raising and investing capital for firms in the region. Sadly though this was amalgamated into the London Stock Exchange and in fact the Liverpool trading floor finally closed in 1985 just before Big Bang in London.

Unfortunately the Exchanges at that time were primarily run by stockbrokers and jobbers, the focus was on share transactions and commissions and not really on their primary purpose of an exchange - namely to raise local capital for local businesses in the most cost effective and efficient way possible.

They often dealt with often smaller companies, small numbers and values of transactions, which meant that according to their business model of depending on trades and commissions, they couldn't continue. If they had focused on capital raising it could have been a very different story, and the potential northern powerhouse would already have in a place a northern investment exchange.

* * *

And finally… Refusal to pay the bills of one's tailor was famously almost a point of honour among English gentlemen in past centuries and Winston Churchill was no exception, newly released archives show.
Britain's World War Two leader had racked up a bill of £197 by 1937 - around £12,000 at today's prices - with Savile Row tailor Henry Poole and Co before he was finally asked to pay up. He took offense, refused to settle the bill and never darkened Poole's door again.

Despite the arrears, the tailor had continued to make clothes for Churchill, said James Sherwood, a historian who has examined Poole and Co's archives. 'Churchill said it was for morale, it was good for us [Henry Poole] to dress him and he wasn't aware we were short of cash. He never did pay, and never came back – he never forgave us,' Sherwood added on Poole's website. Churchill was certainly in exalted company when it came to not settling tailors' bills.

The son of author Charles Dickens, for example, ran up a bill with Poole which eventually had to be paid by his father. When he was Prince of Wales in the 1870s, King Edward VII, made "infrequent payments on an account that accumulated over years". When a bill was eventually sent to the prince, he withdrew his custom and only came back 20 years later when he became King.

Other famous - and better behaved - customers of the tailor included author Bram Stoker, Prussian Prime Minister Prince Otto von Bismarck, American banker J.P. Morgan and Emperor Haile Selassie I of Ethiopia, who was visited in person by the tailors in the Ethiopian capital Addis Ababa.

When company founder Henry Poole died, his high-profile clients owed him a huge amount and the firm was in a bad financial situation, the archives show. The last surviving letter from Poole, written in 1875, said: "there will be nothing much to leave behind me. I have worked for a prince and for the public and must die a poor man."

What a bunch of bounders and cads.

Have a good week.

Justin Urquhart Stewart
Co-Founder
Seven Investment Management
www.7im.co.uk