

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.



FANGS & FILTH

Well last year, with the joy of hindsight, should have been very straightforward for the equity investor. All you actually needed to do was to get stuck into the FANGs and avoid the filth of having to deal with grubby stuff being pulled, drilled or sucked out of the ground.

The industry loves a good acronym, and for last year's success an investment in the FANGs, namely Facebook, Amazon, Netflix and Google, would have been a great call with a very satisfactory result. Then if you had avoided getting your hands dirty with anything to do with the extraction and commodity sector it would have saved you a considerable amount of grief. Those were the two key stories for 2016.

So what a difference a week can make. Last week saw the worst start to stock markets around the globe since the dreaded crisis year 2008, with the domestic Chinese markets erratically plunging and being interrupted only by the so called safety structures known as 'circuit breakers' in the market plummet. From this trading frenzy most of the markets were in a state of 'frit' with the added nerves caused by the geo-political issues in the Middle East, and some birthday explosion for a petulant petty dictator in North Korea.

Some commentators saw these runes as the end of a benign period and the start of something more unpleasant, no doubt leading to doom. Some blamed the Chinese manufacturing weakness and the nation's dependence upon it, without considering that China's economy is now far more dependent on the Service economy rather than the production of low cost widgets.

The reality for China is that their stock markets have no real value connection to their economy, and the economic concerns being highlighted by doom mongers are merely the same issues that we have known about for some time.

So that brings us to the events of the first week of the trading year in the US, and this has shown an astonishing reversal of fortunes. The FANGs have withdrawn their bite, falling by some 5% or more and it has been the deeply unfashionable, dirty fossil fuel stocks that have outperformed.

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Perverse one could say if you were to follow the tale of the continued Chinese economic weakness in manufacturing, then it should be those same dirty stocks that should be weak. So we should go back to the data where we can and reassure ourselves that the Chinese economy (and

remember it is the world's second largest economy) is still growing, albeit more slowly and lower, although we have little reliable data to go on.

So with the US economy, the Chinese, the Japanese, the German and the UK economy all still growing, we should take comfort that the top five economies are in reasonable health - now put that into context against stock market volatility. Time to look through the short-term storms and look to the longer story.

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Mr Osborne has warned of the difficulties ahead, and no doubt some will interpret this as a sign that he may have concerns that we aren't aware of as yet. I think that he is just setting an expectation of lower and slower growth and in that I think he is probably right. However, market commentators should not confuse slower and lower with shrinkage and decline.

So one wretched week into the New Year should not be extrapolated into the entire twelve months. Maybe when we get to the end of January and we recall the old phrase "where January goes, so does the year" we should look again, but old market rhymes are no sound basis for investment decisions when there are so many other global factors at work.

The Slowing 'March of the Makers'

It was a catchy sound bite phrase from George Osborne, but one which is looking rather tired when we saw last week's slower UK manufacturing data. There has no doubt been a resurgence in manufacturing, one only needs to look at the GDP figure rising from 9% to somewhere close to 11%. Better but hardly a rebalancing; John Longworth, the Director General of the Chambers of Commerce, quite rightly has called upon the Chancellor to focus on the high tech engineering sector. The hot spots of these developments do need to be fostered and where government can really help is to ensure that they have things as basic as reliable (not intermittent) power provided at competitive prices, especially compared to the continent. This was a key issue for causing pain in the steel industry. Another idea would be the further encouragement for more research and development, as well as some innovation around medium-term capital funding for the manufacturing SMEs.

If ever there was a key focus for the UK economy it is on the high skills, high technology and high value added businesses.

So government action in areas of infrastructure, including IT with faster roll out of high speed fibre and education levels to match the demand from industry. It's not about subsidy - but it is about investment.

* * *

And finally...So who put the 'ow' in owl? No this is not some awful Christmas cracker quiz, but actually a true tale of an owl with a certain 'attitude' problem. Apparently an owl in an Oregon park in the USA started to attack joggers last winter. Now though, just when you thought it was safe to go out again in Oregon, the flying felon has returned and is now turning its talons on government workers.

The barred owl has clawed at least three people outside the State Capitol in Salem in a series of attacks since late November; city parks department spokeswoman, Tibby Larson said.

"It's silent. You're just walking along, minding your own business, and an owl comes silently at you from behind."

The Oregon attacks are taking place near state government offices in Salem, but the owl is probably more interested in impressing potential mates than in making a political statement, Larson said, noting such attacks occur during courtship season (as in twit-to-woo I presume...?)

"If you're in that neighbourhood, we're advising you to wear a hat or carry an umbrella," she added.

Salem's aggressive barred owl first struck local residents last January and February in incidents that inspired MSNBC anchor Rachel Maddow to unveil an 'attack owl' street sign on her program.

Maddow granted the Salem city parks department permission to print the image on actual street signs, these have been posted in areas where the owl has struck.

"Sales of 'attack owl' street signs have raised more than \$20,000 for local parks, and local brewery Gilgamesh Brewing paid tribute by naming a pale ale that it released this year 'Hoot Attack'," Larson said. The barred owl is also known as the hoot owl.

"Everybody loves the owl - well, I'm sure those whose heads are clawed up don't, but everybody else," she said.

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While the injuries have been minor in this year's attacks, the scratches have the potential to become infected.

Police in Salem are monitoring reports of owl attacks, but "as yet we haven't arrested any owls," said spokesman Lieutenant Dave Okada.

Have a good week.

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