

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 Investment 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.



Bowie the Financier & RBS the Fantasists

Mr Bowie - A polymath of the arts – but also a financial innovator – The Bowie Bonds.

Mr Bowie will be remembered, of course, for his astounding musical output. Then to that we can add his acting expertise, as well as his live art display, fashion and design. From timeless anthems, to artistic embarrassments, he certainly covered the piste – I don't think the "Laughing Gnome" was ever going to be a classic Bowie track in the traditional sense. Released in 1967, this novelty single rarely saw the light of day and certainly not the spotlight of the best sellers, however it is worth recalling that it was only two years later that we saw the launch of Major Tom in the iconic 'Space Oddity'. However, to this varied musical folio perhaps we can also add his reputation as a financial innovator. He was responsible for the original Bowie Bonds.

In 1997 he found a new way to fund his career by selling the rights to future royalties from his already extensive body of work. These were the albums released between 1969 and 1990: 25 of them including Ziggy Stardust and Let's Dance. The original idea was arranged by US banker David Pullman, who went on to develop the idea with the likes of James Brown, Marvin Gaye and Iron Maiden. Rod Stewart did a similar move the following year and raised \$15m.

For Bowie though, the move was a huge success and raised \$55m (£37.8m) when the bonds, which had a yield of 7.9%, were bought by Prudential Financial. It was never confirmed but it was reported that some of the funds were used to buy back other songs owned by his former manager.

All went well until the rise of online music sharing which effectively destroyed the model as the copyright legislation protecting the songs was taken apart. Consequently the Bowie Bonds plunged in value and in 2004 the ratings agency, Moody's, cut their rating to BBB+ which is one notch above junk bond status. The bonds themselves expired in 2007.

What to do in nervous markets: ignore RBS' thoroughly irresponsible statements.

I value professional and considered views, no matter how controversial they may seem, however public companies also have to be aware of what their officers are saying and what potential impact it may have. The last few days have seen some interesting examples of corporate rhetoric, some of which, I think, has bordered on being thoroughly irresponsible. There is, of course, just one word that runs an economy, and that is confidence. Without confidence nothing happens and, in fact, the lack of it shrinks trading values, as well as any new investment – whether in stocks and shares or widgets and bricks.

This is the key word that all politicians have to try to engender in their policies and speeches, no matter how bad the news may be. Even if the medicine is unpleasant, it will be the right thing to do. However, if you just put out a statement forecasting general doom and disaster, you will not necessarily be forecasting the disaster but potentially ensuring that it will happen.

Equally one does not want sugar coated statements in moments of crisis, but careful tempering of the language is both crucial and responsible. Thus the statements last week from the RBS credit team when they wrote "sell everything except high quality bonds" and "this is about return of capital, not return on capital. In a crowded hall, exit doors are small", smacks of emotional reactions without considering their potential effect.

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Such frightening and inflammatory comments are thoroughly irresponsible when put into the popular press where valid arguments are open to very significant misinterpretation. Comparing investors with potentially being in a conflagration similar to one of those terrifying dance hall disasters is wholly inappropriate.

I hope RBS are will be more circumspect in the future.

Of course that is not to say that there are no risks, and certainly the level of household debt to income ratio is on a rising trajectory. The Bank of England has said that the UK recovery is not being driven just on debt and that we are not seeing a repeat of 2008. However, if unchecked then such figures could be more concerning.

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The markets are very nervous at the moment and although in my view oversold in many cases, the negative newsflow has meant that it has been the momentum of selling that has driven prices lower, even though the newsflow has not substantially changed. In such moments, now is the time to let the negative attitudes flow over you and focus on the underlying valuations. In markets at the moment, with the global economy not in such bad shape, the

valuations have become really quite attractive. However, in the face of this negative momentum I can see why investors can be nervous. My advice is to hold hard and wait for the sentiment to change. That could take sometime or just some minutes – none of us know. Thus there is no need to be frightened out of the market, in fact that is one of the most dangerous things you can do.

The statistics show quite clearly that if you miss out on some of the key days of gains over a period you will substantially limit your returns. As the S&P showed us between 1st January 1995 and 31st December 2014, some 5,036 days, if you had missed out just the best 5 days during that time you would have lost out on just under 40% of your gain had you stayed invested. Thus it is after such days of falls we are likely to see such positive days of bounce back, so if you are not in it you are not going to get it! (Source: www.ifa.com)

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And finally...I think we can all agree that managing one's profile is so important. But an American man, wanted for drink driving, has gone to extraordinary lengths to improve his personal profile with the authorities.

This has come about as the police recently posted mug shots of Donald "Chip" Pugh, 45, after an arrest warrant was issued following Pugh's failure to appear in court on a drink driving charge. Pugh is a person "of interest" in several other cases including an arson and vandalism, which is a polite way of saying he is a rather worrying individual.

However, his ego was obviously upset as he was unsatisfied with his police mug shot, and thus decided to send them a new photo that he felt was more flattering.

"Here is a better photo that one is terrible." Pugh wrote when he sent in the selfie. Pugh's post quickly captured the attention of the police.

"This photo was sent to us by Mr. Pugh himself. We thank him for being helpful, but now we would appreciate it if he would come and speak to us about his charges." the police said.

Police said Pugh, as yet could not be reached for comment as he is still at large. Frankly all they need to do is to put an even more unflattering picture up and his ego will probably blow his cover for them!

Have a good week.

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