



McInroy & Wood

PERSONAL INVESTMENT MANAGERS

*“I had rather be a kitten and cry mew
Than one of these same metre ballad-mongers.”*

K. Henry IV, pt I

Over the past 17 years or so, these occasional reflections have set out to explore the investment hinterland, rather than terrain well marked by routine comment and conventional analysis. A financial observer may view the sweep of history and world events as his proper concern, but his employment often rests on daily transactions and hour-to-hour price movements. So horizons get shortened and commentators find themselves covering their ground like the 4 x 4 drivers who cruise into the carpark of Surbiton Safeways on a Saturday morning, flashing bullbars and the promise of adventure and discovery. Most never leave the M25.

Successful investors avoid the crowded road and its drone of consensus, knowing that their opportunity lies in the lonely place which few frequent and fashion never visits. Such has been our preferred destination. Yet if our patient readers have found themselves far from the well-worn track, it is puzzling that they seem to have missed it so little.

All of them, naturally, are courteous to a fault, and any who would have liked their investment divinations to come with more crunch and less hunch have declined to say so. There is more to this than meets the eye and, in the course of digging for the reason beneath our readers' extraordinary complaisance, a little nugget has come to light.

People do not miss the market tip or the trend for tomorrow because they never believed it in the first place. They read short-term financial forecasts rather as they listen to the Archers – to add a dash of romance and excitement to a working day, to share the latest twist in the plot with their friends at drinks parties. Nobody believes it's for real. “FTSE to plummet today” – forget it, it probably won't. “Japan's recovery boosts Nikkei” – maybe, maybe not. “US trade deficit to collapse dollar” – it could, but there again, it hasn't. The truth is that from day to day, financial commentators – and that, dear friends, is us – have not the foggiest idea whether a given market price is likely to go up tomorrow, or fall, or neither. Why not? Because big markets are highly efficient and today's price for the dollar, for Shell shares, for gold, for wheat, for oil, already reflects the knowable relevant factors.

Over longer periods – months or years – judgements can be made and acted upon. At a company level, able people tend to go on doing the right thing, ninnies the reverse; industries wax and wane; new economic frontiers in the Far East or the old communist bloc open up. Such trends offer investment opportunities over the long pull and they can be exploited. But if you are hoping to find a reliable tipster for a day or two at the financial races, dream on.

Since most investors seem long ago to have recognised the shortcomings of financial punditry, they may come to wonder what, if anything, an investment manager actually can do for them. Happily there is a positive answer to this enquiry.

The first responsibility of an investment manager is to protect his clients' standard of living. For clients with relatively modest resources this generally means trying to ensure that their investment income keeps pace with the cost of living. In stable conditions when consumer prices are rising at 2% or less, this is relatively easy. In these circumstances, investments should be regarded as fixed assets whose capital value is more or less incidental to the income they produce. Indeed, this was the way that Scottish investment trust managers looked at their portfolios for much of the twentieth century, right up to the 1950s.

It is also the manager's responsibility to preserve the real value of a client's capital. Note the word preserve. The job starts with protecting what is there, not exposing the substance to financial hazard as a means of securing some anticipated reward which may never be realised.

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