



# McInroy & Wood

PERSONAL INVESTMENT MANAGERS

**“Slave! I have set my life upon a cast  
and I will stand the hazard of the die.”**

-Richard III

Others since Shakespeare have noticed that the world is a chancy place and that the outcome of virtually every human endeavour swings on the pendulum of fate. A P Herbert observed, in one of his (very) “Misleading cases in the Common Law,” that human marriage is in the nature of a lottery in which the participants stake their liberty and fortune without knowing what return, if any, each will receive, just as they might select a racehorse *“with no stronger reason for believing it to be the fastest runner than that it has an attractive name and elegant tail.”* Chance was no stranger to men of affairs in the 18<sup>th</sup> century, who used to bet on which among them would live the longest – the compact was called a *tontine* – and the survivor scooped the pool. Today, chance touches the purse, or at any rate the perception, of every family in Britain through the National Lottery which does no more than give official recognition to the hand of fate which men and women have been ever eager to grasp.

Ours is not to marvel at the hard-headed practicality which would fund the country’s artistic and cultural heritage on the fall of a ball in a hall; let others wonder at the altruism which donates 6% of the proceeds from a public raffle to caring charities. The debate about the lottery and the issue of gambling will take many a twist yet before it collapses with exhaustion, but it has already taken an interesting turn down our lane.

*“Everyone knows it’s just like gambling in a casino,”* said an elder churchman in a recent debate on the National Lottery. He was not referring to marriage, nor the lottery itself, but to investing in the Stock Exchange; most of the room agreed with him. What is the difference, he wondered, between the investors, savers, speculators who punt billions of pounds every day on the Stock Exchange’s wheel of fortune, and the little old lady blowing a pound on a ticket on a Friday night?

City sages might naturally be indignant at a suggestion that they belong to a class of punters and chancers, and some might be tempted to dismiss it as an example of the church busying itself with matters beyond its understanding and outside its mission. On further reflection, however, they might recognise some stark realities in the churchman’s view of financial markets.

The first is that to the man in the street, investing really does look like a game of chance with about as certain an outcome as the Grand National. The second is that “Sid’s” view of the City has not been formed by blind prejudice but on the evidence as he sees it. The damning nature of that evidence can be measured in a naughty little game we can all play at the turn of the year, by reviewing the various predictions made by the City’s brightest and best at the start of 1994.

The average forecast then was that the FTSE equity index would rise to 3750 (at year end it stood at little over 3000); the work’s bond markets would continue rising (they fell sharply); and the US dollar would go up (it went down), to cite three glaring examples. When the average City expert gets it all as wrong as that, outsiders will conclude that investing is nothing but a game of bluff played by charlatans.

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City institutions have done little to dispel that impression and have heaped ridicule upon themselves by advertising their financial products on the basis that they will provide an above-average investment “performance” which, by definition, half of them will always fail to deliver. Of course they look as if they are gambling when their results, compared with their own benchmark, are so unpredictable.

Unlike the financial establishment which finds it difficult to acknowledge the force of chance in investment affairs because to do so would undermine its promotional efforts, private client fund managers can take an objective view. They do not require to promote financial products to earn their crust, and can distance themselves from the fanciful claims commonly attached to them. Nonetheless they still have to justify their existence as practitioners in a field which seems to be governed more by accident than choice. What are they to say?

At one level, the very recognition of the mercurial nature of markets gives the private investment manager a *raison d'être*. Private clients ought to be protected from the impact of sudden and unforeseeable events, and any portfolio needs to be sensibly diversified. It is remarkable how many private investors think that owning a dozen or so UK equity shares constitutes a sensibly diversified portfolio. Others may cling tenaciously to a huge investment holding because it has done so well, even though they know that if anything goes wrong, their fortune will sink like a stone. Part of a manager's job is to protect people from themselves in the course of protecting their capital and if minimising risk and mis-chance sounds a rather dull and negative objective, it still has to be the first priority in managing private money. Unlike any claims about future capital growth, it is a service which a manager can promise to perform.

While accepting the random nature of the investment world over short periods, a manager can still claim to see rhyme and reason in the fall of events over longer periods and to be able, to some extent, to anticipate them. The lines on a graph plotting economic growth, company profits, and interest rates do tend to move, sooner or later, in the same direction as stock prices and there are rational, if imprecise, judgements that can be made about each of them. Having spotted a trend line, the manager can go on to assess how far others have already spotted it and moved accordingly – if he makes an accurate assessment, his clients who are prone to act as a herd, since any one of them will be nervous about standing apart. By the exercise of an independent cast of mind, the private manager can perhaps hope to avoid the madness which from time to time grips all crowds. One remembers, in this context, the glory days of the Japanese equity market in 1990 before it crashed. At that time institutional managers could not afford to be out of Japan; private client managers had no need to be in it.

In the end an independent portfolio manager's claim to existence rests on his ability to relieve his client or worry. That service may not consist solely of increasing the client's wealth. A private investor's contentment will certainly depend partly on the manager being able to demonstrate investment competence by protecting his or her assets and hopefully, in time, increasing them. But it will also rest on the care and attention to detail, not least in administrative matters, which the manager applies to his client's affairs. That again is something within a manager's control.

Lastly, a personal investment manager will hope to exhibit some of the skills of exposition and counselling used by practitioners in other professions which, when properly applied, go a long way towards relieving clients of needless worry about their financial position.

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In reply to the sceptic then, the embattled manager can suggest that the value of his work is very far from being rubbed out by chancy and volatile stock prices, and that even in the fast-moving and uncertain world of security markets much of worth can be achieved.

Readers of “Beachcomber,” who used to scour the edge of life's tides in the Daily Express for the bizarre and the ridiculous, may recall the scene where the dastardly Captain de Courcy Foulough gets fleeced at poker by the loathsome Dr. Smart-Allick. Foulough, staring incredulously when

the 4 aces which he has just produced from his sleeve are trumped by his adversary's royal straight flush, gasps, *"those are not the cards I dealt you, Smart-Allick."* *"Of course they're not,"* replies Smart-Allick sweetly, *"if I stuck to those I'd get nowhere."*

Investment managers might wish they had been dealt a better hand to play with, and from time to time might prefer to exchange it for something else. But on closer inspection the cards we have can be played quite effectively. Poker is after all a game of skill!

25<sup>th</sup> January, 1995