



# McInroy & Wood

*“Will you with counters sum  
The past-proportion of his infinite?  
And buckle-in a waist most fathomless  
With spans and inches so diminutive ...?”*

Troilus and Cressida.

Basil Hume was truly a man for all seasons. The Cardinal was mourned by millions because he was able to relate spirituality to the requirements of everyday living, to connect his experience of the divine with the circumstances of the day and the press of events. His was a great and unusual gift.

It was recognised by so many because each knew how easy it is to lose touch with the flow, to set events in the wrong context, to be left looking daft as the mainstream moves on. Like the Scots reporter on the sinking of the Titanic – “Aberdeen man lost at sea”. Or when designer stubble and ragged blue jeans first arrived – a few scruffy odd-balls, as one thought, rattling the cage of convention; ten years on, icons of modernity filling the pages of Hello!

Groups too can lose the plot, whether they consist of dotty religious sects, doctrinaire political parties, or the trades union barons of the 1970s paddling resolutely up a Niagara of public resentment. If one wants to see a stunning example of reasoning detached from reality, look no further than the world of money managers. This is the world, one gathers, where instant information, current to the latest nano-second, gets converted into value judgements that can shake governments; the world where capital locks like a homing missile onto the target of maximum return.

One might suppose that the most obvious such target for European money managers would have been the United States. It has been the largest economy in the world since late last century. Today it is three times as big as Japan, four times bigger than Germany, and six times bigger than the UK. Over the last ten years the US has grown roughly twice as fast as Japan and Germany; inflation is running at less than 2% and employment has risen to record levels. Little wonder that the US stockmarket, which now accounts for 50% of the world market by value, has risen in the 1990's by 18% a year. American investors have had a ball. But British and European money managers have not even been at the party.

In the 1960's and 70's, UK money managers managing billions of pounds belonging to the biggest investment trusts commonly held 30% or 40% of their portfolios in the USA. The average in the 1990's has been more like 10%. Currently, UK pension funds, the country's biggest investors, hold a staggeringly small 5% of their investment assets in the US equity market. True, other important world equity markets have done well in the 1990's, not least the UK where share prices have risen 14% each year over the decade. But none has matched the rise in the USA.

Missing out on the longest ever bull run in the world's largest market is some achievement when one remembers that behind it lie many of the brightest and best paid brains in the country. Millions of pensioners will be considerably less well off than they might have been as a result. How come that UK managers lost touch so badly with what was happening in the USA?

It was because they lost touch with the moving spirit of the American people. With their unbuttoned, no-nonsense practicality and can-do mentality, Americans have by nature responded better than virtually any other nation to the dynamics of the supply-side revolution and the enterprise culture of the last twenty years. During the 1960's and 1970's, spanning the time from Presidents Kennedy to Carter, the American economy was stifled by growing bureaucracy, crippling taxation, and soaring

government spending. Without the oxygen of personal and corporate incentives, it floundered like a beached whale, an impotent hulk in an alien environment.

Those years before Reagan were the ones which shaped the way European money managers looked at the USA. But they weren't the defining ones for America's potential; anything but. Once tax reform and the withdrawal of government gave the private sector room for manoeuvre, Americans rediscovered their capacity for growth, for productivity, for innovation, for thrust and enterprise, qualities observable in other nations, but characteristic above all of their own.

So much is history. Its lessons may provide the answer to today's biggest investment question, which is what happens next if the US equity market falls. Many investors seem to see ahead of them an American stockmarket at the crest of a fifteen year wave, ready to break and bury them on the bottom. Not so many seem to recall the essential attributes of the American psyche which have created and sustained the richest nation in history.

Wall Street will not, of course, move onwards and upwards for ever. It looks high enough in the short term. Further out, the more successful American industry becomes in creating wealth for its shareholders, the more it will attract the envy, and eventually the resentment, of those threatened by the assault of unbridled capitalism - consumers worried by agrigenetics and cell manipulation, computer and software users who find themselves ripped off by monopoly suppliers, the American poor who can't stake a claim in the gold rush because they have no access to a worthwhile education. Sooner or later the worm will turn and if capital does not apply its own moral constraints, they will in the end be imposed.

But for the time being, best listen to Alan Greenspan, Chairman of the Federal Reserve Board in the United States. "The extraordinary complex machine that we call the economy of the United States, is, in the end, made up of human beings struggling to improve their lives. .... Americans believe they are part of a system they perceive as fair and worthy of support. Our grandfathers bestowed upon us a system of government and a culture of enterprise that has propelled the United States to the greatest prosperity the world has ever experienced."

Unlike European money managers, Alan Greenspan is a man in touch. He has kept alert to the changing requirements of the most powerful economy on earth without losing sight of its essential nature. He is the Basil Hume of Wall Street.

So, as a hurricane approaches the south-eastern states and clouds gather over New York, investors glance nervously at their market weather charts. Maybe the next few months will be squally enough to panic some and they will flee the scene, like those motorists flooding up the Florida highway.

But US money managers will soon be trekking up Madison Avenue, through the heart of Manhattan, past the towering monuments to American achievement, on towards the still loveliness of the New England fall. For them the change of season will provide a healthy corrective to fevered days downtown, a time to give thanks for the abundance of America's riches, and a chance to reflect on the extraordinary vitality and resilience of their nation. Whether the stockmarket drops gently with the leaves of autumn or more violently as new storms blow in, they and most fellow-Americans are likely to grab the opportunity to buy a cheaper stake in the world's most efficient money-making machine. Who knows, their friends in Europe might even join in this time.

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