McInroy & Wood

PERSONAL INVESTMENT MANAGERS

McInroy & Wood – A short history

Alan McInroy was my stepfather. By 1987, he had retired from the Edinburgh-based fund management company of which he had been the architect and chairman. At the time, my own work in Edinburgh had ceased with the acquisition of my employer, an investment trust, by another company. After due consideration, I accepted Alan's invitation to join him in the formation of McInroy & Wood Ltd, 'Investment Consultants'.

We surmised that a gap had arisen in the provision of investment management for private clients, traditionally served by regional stockbrokers. A number of the local broking firms had disappeared, merged, or been swallowed up by London-based parents, and many of the respected veterans in the stockbroking community had retired.

There seemed, therefore, to be space for a new, relationship-centred firm. In early 1987, we pinned our plate to a gate of the family home in Gullane a few feet south of the entrance to Muirfield golf course, and waited.

Alan possessed a rare combination of gifts. He was a notably successful investor, and also a remarkable business manager and director. In the latter capacity, he was one of few in high places with the courage to face down the bombast of the late 'Cap'n Bob' Maxwell. Clear-sighted application of his gifts had provided him with the means to finance the formative years of this firm without undue concern for early return on his investment. Decisions about the firm's strategy, therefore, could be taken without any thought of compromising its professional principles in pursuit of shorter-term gain. That early freedom from financial constraint enabled foundations to be laid which serve our clients to this day.

Without either the desire or the means in 1987 to promote itself more directly, the firm relied for many years on a series of occasional articles to keep its name in front of interested readers. Collectively, these have served as the firm's masthead and they have been reproduced in a book to mark the 25th anniversary of the firm. Alan himself wrote the first piece entitled 'The case for discretionary investment management'. In it, he explained how a private client might employ a discretionary investment manager to care for a portfolio much as one might employ a gardener to tend flowers. It was a simple and graphic analogy.

For the firm, the main purpose of the series of articles was to nurture in clients a sense of continuity of approach and culture. We hoped that sense would help build the trust that must lie at the heart of any enduring personal relationship. Family control has also contributed to that end in enabling us to maintain continuity of service and direction in a way that a more fragmented ownership might have made difficult. Stable control has served to preserve our independence – a status we have always considered protective of clients' interests.

In the early years, we worked quite simply as a family 'co-op'. My mother kept the book (sic), my wife typed the letters, and the family housekeeper made the coffee. Alan chaired our board meetings, and also stamped and posted such letters as comprised a rather meagre correspondence. As the pace of our activities moved from imperceptible to leisurely and, by 1989 or so, to brisk, it became clear we needed to furnish ourselves with more formal and spacious premises. We chose Haddington as our base of operations for two reasons. Firstly it was, and is, an attractive county town in our home territory, richly blessed by a cultured and creative community. The second was that we drew a close link between the working environment, the contentment of our colleagues and the productivity of our joint efforts. In summary, we thought Haddington would help us to work well for clients.

Our first enquiry about renting space there (in one of the now 'nationalised' banks) was peremptorily dismissed. The manager of the Bank of Scotland in the same street was much more welcoming and, with further support from a local friend, Peter Burt, already a very senior officer at HQ, we settled down in a handsome Georgian building at 46 Court Street. It was our home for 18 years.

Staff numbers began to grow and the firm owes a large debt to those who threw in their lot with us in those early years. It struck the directors at the time that our female colleagues were considerably more industrious and tidy than we ever were. One of our early clients, Ro Henderson, became a celebrated office cook, and probably achieved more in conveying the overall quality of our endeavours than anything the rest of us did. Client lunches, incidentally, though hardly Lucullan, paid scant respect to asceticism and consisted of good, homely fare far removed from the health-conscious thin-gruel affairs which by then had become the norm.

The financial explosion of the later Thatcher, post-'Big Bang' years in the '80s and '90s, did not particularly suit small, specialist firms. Financial liberalisation had removed national barriers to entry and giant financial institutions marched through open borders into Britain, Europe, Japan, and elsewhere. In the City and across what had become a global financial sector, sheer size and financial muscle usurped the place formerly occupied by professional relationship and personal accountability. Nevertheless, there were enough of those left who retained an affection for personal service to form a growing constituency of clients. By about 1990 we could be considered, perhaps, a tiny but distinctive specialist in our chosen field.

The establishment of our own unit trust management company in 1990 further widened our audience. We saw substantial economic advantage, for some of our clients, in pooling their resources where they shared similar objectives. After examining how this could best be done, we became convinced that the unit trust format would be far the most efficient structure for achieving our purposes. By this means, we were able to provide for clients with relatively limited resources well diversified, readymade portfolios which matched our preferred asset allocation models. The first pooled portfolio was created in 1990, and the second in 1994. Regulation required that these be made available to any investor who wished to use them and unit prices had to be published in the national press. As a result of their early success and the publicity attached, the firm began to acquire broader recognition beyond our home ground.

In 2000 we took an important strategic initiative in opening a London office, so establishing an active presence across the UK. The first director based in the South, like every additional one (total now five), had held a senior position in a substantial financial organisation. A strong presence in the South greatly enhanced our ability to service clients wherever they lived. Rather to our surprise, our base in Haddington seemed to be an attractive, rather than a disconcerting, factor in clients' perceptions.

A stroke of good fortune came our way early in the new millennium. By 2000, 'technology' stocks across the globe had soared to stratospheric heights in a cycle reminiscent of the Japanese market bubble which had burst only 9 years before. It did not require any financial wizardry to foresee trouble, and the firm did so publicly. The subsequent crash bit deep into the fortunes of many private investors and, sad though the consequences were for them, events at the time certainly helped to strengthen our reputation, such as it was.

If the seeds of the technology bust were sown by investors' extravagant expectations, those of the banking debacle in 2007/8 had their roots in a deeply flawed commercial culture. Fortunately again, the firm had come to realise before the music stopped that a banking culture which had so clearly prostituted the trust of its customers could not survive. Our clients came through that collapse without deep scars and it was largely their own alienation from the banking sector that tipped us off.

Only a limited satisfaction can be derived from escaping predicaments hurtful to others. But at least these catastrophic market turning points reminded us of the limitations of our own profession. Much of any value we have been able to add over the years has come simply from not doing silly things. If investment merit amounts to little more than the absence of folly, we have been happy enough with that modest attribute. Harbouring only what we hoped were realistic expectations ourselves, we were occasionally able to recognise unrealistic ones in others.

Preserving the real wealth of clients was never a mean undertaking. Often, it has been relatively easy; sometimes hard, verging on impossible. Any success we have had in achieving that primary objective derived largely from keeping an awareness of our own limitations in sharp focus. Rather in the tradition of the original Scottish investment trusts, we preferred to rely on our own competence in managing clients' investments. One reason was that we considered that investing clients' money in funds managed by third-party managers entailed a loss of control over the assets we were paid to manage. Furthermore, we always disliked the extra charges for clients entailed by 'subcontracting' investment decisions. This thinking gave rise to the adoption in 2007 of another strategic initiative which was to establish our own vehicle for investing in the world's developing economies. Fortunately again, this served its purpose well and so helped further widen our circle of supporters.

In 2000, my son, Tim Wood, expressed a desire to return to Scotland after several years of financial training in the City. His decision to join the firm as an investment analyst was very far from a foregone conclusion and we were both well seized of the pitfalls, as well as the potential rewards, of working together. In the event, any early apprehensions were dissolved as it became clear that Tim was enjoying the work, was establishing his credentials as an investment manager, and was quickly securing the respect of both clients and staff. After further considerable training he was appointed Managing Director in 2007 and Chief Executive in 2012. We have always recognised the calibre of a company's leader as being a crucial determinant of success or failure. Tim's appointment therefore was far the most important decision we had to take in looking to our future. It gives me no embarrassment to acknowledge now the firm's good fortune in possessing an able and committed leader with the qualities necessary to win and retain the confidence of clients and staff alike.

From the beginning 25 or so years ago, Alan and I realised that the only ultimate achievements worth the name would rest on our ability to give each client peace of mind, and to give everyone working here pleasure and a sense of worth in what they were doing. It is for clients alone to assess the success of our efforts towards the first, and some have been generous enough to suggest grounds for some small optimism about the outcome. As to the second, one can only say that for me, at least, things have worked out much as we had hoped. We are doing the same thing, in the same way, as we started doing over 25 years ago, alongside truly delightful, supportive and able people. Work has indeed been a pleasure and worthwhile. What more could one wish for?

Victor Wood
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Adapted from the foreword to 'Grown from Home – the first 25 years'