McInroy & Wood

PERSONAL INVESTMENT MANAGERS

"Since that the trade and profit of the city consisteth of all nations. Therefore, go"

The Merchant of Venice

Doctors often get snared at drinks parties by friends anxious to find a sympathetic ear for their latest symptoms. It is an occupational hazard. One sweet old family doctor used to invent polysyllabic pseudo-conditions to deflect further enquiry. "Mild neurasthenolitis probably, my dear – usually goes in a couple of days." Similarly eager to find support for their own preconceptions, kind but credulous friends are apt to corner investment managers at this time of year and ask for their view on the "market" over the months ahead.

No harm in this, of course, or at least there wouldn't be if one had anything remotely original or profound to say. Bernard Baruch's reply in such circumstances ("It will fluctuate") has the merit of crushing dullness but, unless reinforced by the gravitas of a Wall St. legend, isn't likely to cut the conversation as effectively as a diagnostic gobstopper. The trouble is that it is a simple question with a complex answer which depends on what you mean by the "market".

UK enquirers will usually be thinking of the FTSE equity index; Americans, the Dow Jones Industrial Average. This restricted investment horizon was understandable during the years of austerity after WWII when a regime of tight exchange controls meant that only the local capital market was accessible. But since 1979 all that has changed. Rules restricting capital movements have been removed in Britain and relaxed in every major economy so that today the "market" includes the exchange of bonds, equities, foreign currencies, commodities and, more recently and biggest by far, derivatives and structured products, each freely traded without reference to national boundaries in financial centres linked across the globe.

Liberalisation of international capital flows has grown out of the seismic shift in the political landscape 30 or so years ago that threw Reagan and Thatcher to the surface and spread market-based economic prescriptions to every quarter of the globe. As a result, the so-called "emerging economies" have grown rapidly since 1970 and today account for more than half the world's total production. It is no surprise that entrepreneurship has flourished in the developing economies for they are its natural home. In them the aspirations of the people, policy objectives of government, and priorities of business are most likely to coincide. The value of their combined growth ($1.6 trillion) in 2005 exceeded that of the developed world. Emerging economies house 80% of the world's population but, crucially for investors, account for only 14% of the world equity markets' value. Today almost every nation has its own equity market. The best performing ones in 2005 weren't in the UK or Europe or even the Far East, they were Egypt and Colombia.

The shift towards market-based systems over the past 30 years has unblocked the paths by which money moves round the globe and radically altered the way the world does business. Formerly isolated and inward-looking economies such as Poland, India, China and Korea have been converted into a network of production centres for globally traded goods and services. Out of a virtually inexhaustible pool of low-cost labour, hundreds of millions of jobs have been created, each of them filled by a new mini-capitalist with a micro share in the free enterprise system.

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Growing jobs mean growing incomes – China's are set to double in 10 years. Thus the developing nations themselves are becoming markets for Europe and America. Our own Royal Bank of Scotland and Scottish & Newcastle have bought businesses in Russia, China, and India. By channelling the world's savings to the most productive areas, the spread of the enterprise system has released a vast latent potential.

Developing nations have benefited most in the process, but we have been gainers too. Consumers in the developed markets of the northern hemisphere have been supplied with ever cheaper goods and services and so with huge gains in our real purchasing power. Essentially limitless supply has been matched with apparently inexhaustible spending power and the consequent gains in company profits have fuelled a large rise in global security markets over the past three years.

While some labour-intensive sectors in the mature economies – electronics assembly and car makers, for example – have suffered from the rise in global competition, Britain and America retain two great advantages. Britain's legacy as an imperial and globe-spanning trading nation gives it historic links with many of the emerging economies where its burgeoning financial and service sectors have a particularly clear footprint. In many respects the City remains "broker" to the world. Similarly, the USA has the benefit of technologies developed from its industrial heyday which ensures its leadership in many business sectors high up the value-added scale.

Any view today about financial market prospects needs to be framed against the background of the biggest and generally most beneficial shift in the economic landscape that has occurred in a lifetime. There are, as ever, shorter-term uncertainties, chief among them the likelihood that American (and UK consumers) may have to tighten their purse strings after a prolonged spending binge, particularly if the need to replenish retirement savings begins to bite. But rather than become unnerved by any market hiccup, investors need to keep their focus on the bigger positive in which, over time, the immediate concerns are likely to be submerged.

Just as commercial and industrial companies in the developed world must learn to cope with a changed market or face extinction, so investors must reshape an approach long dominated by locality and history into one that embraces the risks and opportunities that come with the extension of private enterprise into a global economic system. To prosper they will need to sift out the Davids from the Goliaths and, seeing how the Japanese motor industry has brought mighty General Motors to its knees and Ford to fire 30,000 workers, look to identify among a host of yet unfamiliar companies springing up in the nurseries of global entrepreneurship those that will, in turn, bring low today's giants. This firm has itself been investing heavily in order to extend its capacity to do just that on behalf of its clients.

The market this year? It's different, it's risky, it's brilliant, it's the world.★

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★ this article is based on an address given at the Institute of Chartered Accountants of Scotland in January, 2006.

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