McInroy & Wood

PERSONAL INVESTMENT MANAGERS

"You see her eyes are open."
"Ay, but their sense is shut."

Macbeth

Amazing isn't it, how easily things can get out of kilter, how the concerns of the day, the pressures of the week, warp and twist a proper perspective and balanced judgement. You see the result in everyday lives, in business, sadly in sport too, and especially, maybe, in the investment world.

Upon return from a three-month sabbatical break, there was a reminder of all this in the greeting of kind friends. Many were keen to know, naturally, how it went. A refreshing break? Absolutely. Did you switch off? Sure did. Enough to do in North Uist? Plenty – this sometimes eliciting a you-must-be-joking "really?" from the more spirited enquirers, for whom a holiday without the ascent of a decent Himalaya, the composition of a best seller or three rounds of golf a day amounts to time wasted. OK, they say, but if not those, where was the fun of it – the real refreshment?

Well - er - actually, it was in not feeling the need of refreshment at all, apart, of course, from the customary indulgences of civilised existence. Life uncluttered by busy-ness and rebalanced by simple pleasures in a community at ease with itself – that was the refreshment.

Down the centuries, the great oases of pilgrimage, Lourdes, Compostela, Mecca, Benares, have provided similar refreshment for the world's faithful, and afforded the time and space to restore balance to mundane lives. Countless generations have learnt that, unless relaxed by the opportunity to stand aside and widen their viewpoint, tensions in the lives of busy people can all too quickly get twisted into a knot of obsession.

You don't need to look far for the workaholic who spends every waking hour "busy" in the office with no time for family, friends, fun: successful, maybe, and the bank balance bulging. But what about the life balance? Truly able executives appear unhurried; they take a wider view of their job and don't mistake industry for effectiveness.

Executives in the financial sector seem peculiarly prone to mistake the part for the whole. Certainly the well-being of the securities industry depends on safeguarding its client relationships, but do the bosses of the giant investment firms imagine that frog-marching redundant employees out of their offices like convicted felons assists their business? Such behaviour simply illustrates the fundamentally unbalanced nature of City life, where money distorts every facet of day-to-day existence into a caricature.

Happily, there are still plenty of men and women prepared to widen their interest beyond immediate reward, not least the young woman who has recently joined a local firm, relinquishing a far higher salary in London in order to pursue an interest in the ethical investment field.

Sport too has its share of the obsessed. One day last May, a fell runner appeared over the ridge of Eaval, North Uist's highest hill. He was gaunt and taut-featured, straining endurance to the limit but with neither the eyes nor energy to spare for the beauty around. What a contrast with the late Bill (W.H.) Murray, another athletic man, whose accounts of mountaineering expeditions in Scotland tell of a mind absorbed in the majesty of his surroundings. One sees a clump of heather under his feet; the other, the sweep of an infinite loveliness.

Given the need for a balanced perspective in most of life's pursuits, it is hardly surprising that sound investment calls for similar qualities. One is no more likely to reach the right conclusion by focusing on a single feature of the investment horizon than one is to comprehend a Constable landscape by peering at a smudge of paint in the corner.

Investment managers tend to concentrate their collective attention on the one or two topical factors that have already impelled the market to its prevailing level. They seize on those as justification for extending euphoria or depression indefinitely into the future. Remember the headlines - a new "paradigm" of technology-led productivity at the US market peak three years ago; imminent collapse of the UK insurance industry at the bottom of the UK equity market last March; incipient global deflation at the bond market peak this June; disintegration of the EU at the euro's trough in 2000. In each case, the surrounding psycho-babble drowned out the full story.

True, US productivity had grown remarkably, but investors were paying too much for it. Some UK insurance companies were in their death throes but the financial authorities could not afford to let them sink the UK equity market. World deflation was a possibility, but economic recovery much more likely – at their peak bonds were priced for the former, not the latter. The EU was (and is) in a mess, but the gap between the true purchasing power of the dollar and the euro had grown too wide.

Balance, in short, means keeping an eye on all the factors, sorting out which are weighty and which trivial, and isolating any whose psychological impact on the market outweighs its real importance – often the very factor headlined as the investment news of the moment. Distancing oneself from the mood of the day needs courage and an independent cast of mind, but it is the only sure way to avoid elephant traps – buying at the top and selling at the bottom.

Patient readers will no doubt be wondering where all this leads in assessing the investment options today. It leads first to an acknowledgement of the headline facts: interest rates are rising; equity prices look high by historical standards; US and UK consumers are borrowing and spending heavily; so are their governments; and there are a lot of nasty people about. So far so bad; but what about the bigger picture?

A background of low inflation based on rising productivity, an ample supply of labour and raw materials, and moderate growth, favours most financial assets. Equity shares deserve to be highly rated and, generally speaking, they are. After recent price falls and a corresponding rise in yields, fixed-interest stocks provide useful insurance against the possibility of an economic relapse. Rising short-term interest rates may damp down UK spending, but as employment and incomes rise, the impact even on residential property prices will be limited; more importantly for a global investor, the gap between the economic performance and political clout of the United States and the rest of the northern hemisphere is widening, not narrowing. It will widen further after the dollar's recent decline; lastly, post 9/11, Afghanistan, and Iraq, threats of terrorism have gripped the public imagination. It is at least debatable whether terrorism is a bigger risk than previously. Whatever the reality, it is certain that the present danger comes nowhere close to matching the threat once posed by the Cold War and the dark cloud of a nuclear holocaust.
Take this lot together and you get something closer to the full picture. It is a picture which offers the prospect of a reasonable return from sensibly diversified investment portfolios over the next year or two.

The point about a balanced approach to investment (and to most fields of human endeavour) is that it works. Anything less impairs the result. This spring, The Times reproduced that unforgettable picture of Tenzing Norgay at the top of Everest 50 years ago. He held the national flag above him. There was not a sponsor's name in sight. In July this year, the England cricket team appeared on TV sporting shirts emblazoned with the Vodafone logo. It was bigger than the three lions, England's emblem, sewn on the other side. For the cricketers, the message has eclipsed the game itself. For Tenzing, Everest was but part of a bigger picture. He made it to the top. And the cricketers….?

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