



McInroy & Wood

PERSONAL INVESTMENT MANAGERS

*“Will they yet look after thee?
Wilt thou, after the expense of so much money,
be now a gainer?”*

Merry Wives of Windsor

It is the absence of hurry that is so refreshing about the Western Isles. Nature's cycle imparts a steady rhythm to island life and the raw force of the elements seems to blunt the edge of human appetite, not just in the crofters and fishermen who work among them, but across the community. Expectations are still shaped by the genetic thread of a culture that has changed but slowly. Islanders share an awareness of the natural pace of things which helps arrest the march of consumerism and, like caulking on a leaky hull, holds at bay the incursion of a corrosive environment.

Life on the mainland, by contrast, generally involves working in highly structured jobs and a more fevered atmosphere. We are apt to overlook any natural rhythm that could temper ambition, and most of us simply want to get on with making the most of life's chances as quickly as possible. As paid employees that means broadly one of two things: getting better at the job and earning extra rewards; or exchanging jobs for another one governed by a higher pay structure. Likewise as investors, it means getting better at investing, or finding a new investment field that provides better returns than the current one.

Probably most employees and investors know roughly what return to expect in the ordinary course of events from their labour and capital: employees, a basic wage plus maybe 4% a year for inflation and productivity gains; investors about 5% a year from fixed-interest stocks and about 9% from shares in the very long term. Returns for both groups hinge on long-term economic trends, particularly the growth of national income, company profits, and the course of inflation, and they govern the average annual returns that can reasonably be expected in the natural run of things. Yet while the natural run of things may suffice for those who wait long enough, it hardly satisfies the human urge to earn more today. Furthermore, investors have their own reasons to try and improve, or at least protect their likely returns.

They invest their capital up front and, unlike employees, don't get paid a return on their investment on a pay-as-you-work basis. Their actual annual return doesn't move in a straight line but veers erratically from year to year. Over short periods the return on a quoted investment is governed not by effort or the application of reason, but by mood swings more typical of a children's pantomime than an orderly market.

Secondly, in trying generally to improve their investment technique, investors have to face the uncomfortable truth that they can't all outsmart the herd and outstrip the averages simultaneously. The arithmetic defies them.

Thirdly, there is a real risk over short periods that an investor will not merely get an unsatisfactory return, but that his capital itself may be depleted.

Faced with these uncertainties, many are prepared to grasp any expedient that promises to free their expectations from the dead weight of the financial averages, and to bend the inflexible framework of long-term economic trends in their favour.

Enter, centre stage, an alchemist brandishing strangely labelled bottles of elixir. Each advertises a claim to provide just those qualities that investors have long searched for: investment techniques that give access to a whole new universe of financial opportunity; accelerated gains; positive returns even when markets are falling; best of all, big profits without any exposure to market fluctuations. We are looking at the world of Alternative investing.

The labels on the bottle may be largely unintelligible – “Derivatives”, “Structured Products”, “Hedge Funds” and “Private Equity” among others. No matter. Financial journals invariably describe all these mixtures as “highly complex”, so no one need bother to peer too closely at the ingredients. Yet the ingredients do matter, if only

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