McInroy & Wood

PERSONAL INVESTMENT MANAGERS

K. Richard: ***"But shall we wear these glories for a day?***
Or shall they last, and we rejoice in them?"
Buckingham: ***"Still live they, and for ever let them last!"***

K. Richard III

Since the firm has recently passed the 25th anniversary of its inception, friends may indulge us in glancing at its past.

The first of these occasional pieces was published in May 1987 soon after the firm was established. Its title was "... How poor are they that have not patience!" and it warned of an over-extended equity market, commending the merits of a defensive investment position to patient investors who would eventually reap their reward. They did. Since then a further 35 articles have appeared and readers have been remarkably generous in expressing their appreciation of them. But any immodest glow of satisfaction has been doused by the knowledge that other, equally generous readers may have forborne to voice their distaste.

Certainly the object was to interest, amuse and, perhaps, inform. But there was, of course, a further hope that, if we struck a chord or two, payback might one day arrive in the form of good will and, eventually maybe, new clients. Readers have never been short of access to market comment, share tip lists and punditry of various sorts. For that reason the subjects of our own pieces have always been broadly treated, reflecting the firm's recognition that success at investing does not depend on answers distilled out of binary options in the manner of a digital computation, but on tentative conclusions drawn from observation of human behaviour in all its unpredictability, aided by experience and statistical analysis.

Even if the manner and pace of the firm's progress over a quarter of a century suggest that, at a superficial level, the articles have done the job intended, only events in the real world can supply any final judgement on their worth. However stimulating and provocative, financial commentary fails the acid test if its projections aren't validated by the outcomes.

Fortunately, perhaps, few of the articles sought to predict short-term market movements and some ventured no predictions whatever. One (in September 2004) offered a glimpse of the obvious in observing that no investment manager has even the flimsiest claim to be able to predict short-term market movements reliably: "from day to day, financial commentators – and that, dear friends is us – have not the foggiest idea whether a given market price is likely to go up tomorrow, or fall, or neither." Nevertheless, we have always believed that the big market swings, the inflection points, the turn of the tide of sentiment, can sometimes be anticipated by the eye of experience (January 1995, "Slave! I have set my life upon a cast and I will stand the hazard of the die"). Even so, like all financial prophets, we expected to be embarrassed by the hazard of the die from time to time, and we were.

The firm was lucky, no doubt, with some of its early pieces. One such pointed to the prospect of a big equity market correction and the huge potential return deliverable by bonds ("I do expect return of three times the value of this bond", March 1989). Perhaps the piece in July 2000 ("The imaginary relish is so sweet ...") highlighting the vulnerability of the bubble in technology shares was another lucky strike: "even if every household in Europe owned a mobile phone in ten years, the profits generated are unlikely to justify today's share prices." So too the piece (November 2007) deconstructing 'Alternative' investment markets. Overall, perhaps, the outcomes anticipated have worked out not too badly.

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In retrospect, however, we probably tended to be too cautious – and for undue caution read lost opportunity. More generally as we read back, we can see that we have been unable to avoid an element of the dispiriting negativism that creeps all too easily into comment of this sort. For most of the world's people, time has brought an improvement, not a worsening, in standards of living; global incomes are estimated by the World Bank to have risen fourfold over the past 25 years.

Themes addressed but not directly connected to securities markets have included the power of personality in politicians and businessmen, the environment, the limits of technology, and "Europe". Such topics may not have appeared to bear directly on the investment scene of the day. But seemingly extraneous factors often turn out to be the real game changers, the mood swingers that ultimately shift prices in a big way. A successful investor must presume that everyone can see the obvious and search instead for the unrecognised, undiscounted factor capable, nevertheless, of reversing the flow of consensus. We have applied our efforts to that search. Europe was hardly an unrecognised factor in the 1980s and 90s but one or two articles pointed to potential problems which have only recently crystallised in the starkest form: "the trouble is that we are unable to maintain a structure for economic co-operation and stability without being choked by the collar of necessity" (September 1993).

The evolution of the firm's investment competence, such as it is, has run parallel to that of the firm as a whole. Its distinctive qualities today owe little to any paradigm or business management template but much to a concern for people, clients and colleagues within and without these walls. Indeed the human aspect of our work is what has made it so rich and stimulating. Over the years, enduring relationships have been forged and in many cases trust has blossomed into friendship. Hopefully competence has provided the backbone for such relationships even if that is an attribute which should be taken for granted rather than claimed as a virtue.

Much of the articles' content amounts to little more than common business sense. Yet basic skills require some sort of moral compass if they are to be wisely applied. We have relied on a sense of personal accountability - to clients, to colleagues, to our better selves - to provide the compass. That set the bar of aspiration high and we did not always manage to clear it. Before the sickly scent of pious flummery wafts across the page, we remind ourselves of the failures, the misjudgements, the mistaken priorities and all the other markers of an occasionally errant course. Thankfully we generally found our way back to where the needle pointed, towards what clients and employees alike require – continuity, reliability and security.

As regards our investment approach, nothing has helped more to keep us from straying down alluring cul-de-sacs than an understanding that neither human appetites nor the basic economic variables change. No investment technique, artifice, formula or financial engineering can detach market movements from the endless tug-of-war between fear and greed or from the irresistible force of the economic cycle.

Quarter of a century on, we remember with deep gratitude the trust which our earliest clients placed in the firm. Many were frail in body and few were rich in monetary terms; any mishap would have cost them dear. But without their support and loyalty there would have been no firm. Whether we have justified their faith is not for us to say. So far, at least, we have seen no reason to change the course set in 1987 or the reference points that have guided it. The firm's first days were built on trust. If we succeed in earning the same trust over the coming years, as we hope to do, we can look forward with our clients not only to a financially rewarding future together but to extending an association which, for us at least, has been nothing but a pleasure.

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