

Let's talk wealth management



As founder of Wealthflow LLP, Duncan Glassey's advice features regularly in finance journals and national press. If you would like to talk more about specialist wealth management and financial life planning you can call Duncan direct on : **0845 468 0037**

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Is Nationalisation the end of free enterprise?

We are also hearing questions and concerns regarding nationalisation of some of the large banks and a more general concern; are we drifting in some sense towards a socialistic or non-free enterprise way of organising our economy and if we are what should I do about it as an investor?

We are seeing some commentators criticising the current UK Government for allegedly pursuing radical economic policies.

We have the cover story of Newsweek telling us that the United States, whether they like it or not, is inevitably moving toward a welfare-type European State, and Newsweek declares that government intrusion will almost surely limit economic growth.

This certainly sounds like a discouraging outlook for equity investors.

This is not a new concern however, after almost every major downturn in the economy questions surface wondering whether the free enterprise system is an appropriate way to organise and direct the nation's resources.

Let's ask a question, let's suppose that we do indeed have a much greater degree of government intervention in the years ahead. What would it mean for investors?

Well let's look at countries around the world some of which have a very different approach to ours in organising the economy, and ask can we identify clear differences based on returns?

If we look at countries and rank them by their performance over the last 10 years, the UK ranks 19th out of 23 countries. The US ranks 20th out of 23 countries. We see lots of countries doing better; Norway, Sweden, Denmark, Canada that would appear to have a considerably greater degree of government intervention than we see here in the UK. However, this list is equally dispersed with countries that have less government intervention; Australia, Singapore and Hong Kong. So based on these returns over this particular time period it doesn't appear that government intervention itself is a big predictive factor of stockmarket returns.

Now 10 years isn't a very long period and some may criticise this example as an aberration over one particular 10 year period, so let's also look at a 39 year period, this is as far back



as we have data, beginning in 1970. We have a somewhat smaller list of countries due to data constraints but we have a very similar message, the UK ranks towards the middle, and once again we are beaten by countries like Sweden, or Denmark or Belgium or Norway or France that have a greater degree of government intervention than we experience in the UK. However, we also see this list of top performers dispersed with countries with less government intervention; Hong Kong, Switzerland and Singapore. So it's not clear that we can use some estimate of government intervention as a reliable way to distinguish share performance in one country relative to another.

Consider this; generally speaking do investors see government intervention as a negative and so demand higher expected returns to compensate them from the risk they perceive from government intervention? So you shouldn't avoid investing in other countries as an investor. This is the logic behind broadly diversifying around the world, just like broadly diversifying among companies.