

Economic Views for Investors

by Roger Nightingale

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The City of London has survived worse things than . . .

The “Who’s Who” of international financial centres changes exceedingly slowly. In the last forty years, the constituent cities of the Premier League—London and Geneva in Europe, Hong Kong and Singapore in Asia, New York and Chicago in the Americas—have not altered. There’ve been no promotions from junior divisions, nor demotions to them.

. . . the malice of Brown and the envy of Sarkozy.

Why this should be so is not known. There’ve been rapid changes on the general economics front, but none seems to have affected the location of centres of financial excellence. In the seventies and eighties, for instance, Japan’s industrial supremacy did little to boost Tokyo’s position; nor Germany’s engineering virtuosity in the same period anything to help Frankfurt. It was much the same story within the US. Over the years, population and GDP may have drifted westwards, but not finance. New York City today remains as unchallenged by Los Angeles as it was a century ago.

The reality is that financial centres enjoy massive inertia.

Political considerations are probably also irrelevant. The City of London was not seriously hurt by the lunacy of Harold Wilson, nor helped much by the good sense of Margaret Thatcher. Similarly, Geneva’s sometimes radical politics have not impinged on its attractiveness; nor authoritarianism on that of Hong Kong and Singapore.

Economics, politics and tax are largely irrelevant.

Law, on the other hand, is important. Its principles have to be widely understood, and its practice has to be generally consistent. Language also is a significant consideration—in the back office as much as the front one. English is currently dominant, and will probably continue to be so for a few more decades.

Law matters; and so does regulation

Regulation is arguably the most relevant factor of all. Where it is run by mindless bureaucrats, concerned more with protecting their own reputations than the portfolios of investors, financial centres never take root; where run by only moderately incompetent amateurs, they thrive. Things operate best when the regulator knows (but not too well) those he regulates. Nowhere is it done well, but some locations contrive to be much worse than others.

The story that the City of London will shift elsewhere is a spoof.

Taxation is a minor consideration. The proposition that the City of London’s pre-eminence was borne of a low-tax regime is obvious nonsense. The idea that throngs of City folk will set up shop elsewhere in the world to avoid a 10% impost on their marginal incomes is risible.

In the short term, the constraints (institutional and

Where would they go? To New York? Possibly; but they’d not be able to do London’s business from there, not unless they were prepared to get their offices by 3.00 in the morning! To Geneva? Not in the short term; it doesn’t have the capacity to accept anything beyond a trickle of arrivals, and few Englishmen (educated in Blair’s era) would have the language skills to cope with such an environment. To the Isle of Man? In the long term, perhaps. English law and language, set in the context of sympathetic regulation, suggest that, ten years hence, it might be a viable centre; twenty years after that, an important one.

In the medium term, the Isle of Man may pose a challenge.

In the meantime, of course, London will be affected by a variety of external factors. Near term, for instance, there’s to be an election. Cameron will doubtless win, but what he’ll do in office is not clear. Will he take a long-overdue axe to the public sector? Will he reject the stream of financial regulation emanating poisonously from Brussels? Will he ever say No and mean it?

What, in the interim, can we expect of Cameron?

The early indications are not good. He seems to think he can rebalance the economy by merely tinkering with it. He seems to imagine he can halt the encroachment of the monstrous Commission by appeasing it.

Is he mouse or man? Does he believe in anything?

Not so. He needs to provoke an early confrontation with both to set the tone of his administration. Sacking a million public sector workers, sending BA into bankruptcy, and refusing to pay Brussels its monies might do the trick. Such actions would grab the attention of those he needs to impress; they’d indicate that, unlike his predecessor, the new PM wasn’t a patsy. Will he deliver? Don’t hold your breath!

Markets will probably advance. But sentiment is poor.

In the meantime, markets are drifting sideways. The world economy is anaemic, but the outlook for profits is excellent. Stock price indices would probably be headed sharply higher but for anxieties about the credit environment. Investors fret that dozy central bankers might accidentally tighten money, sending economies over the precipice, and valuations likewise. The chances are we’ll be safe; but it’ll be white knuckle ride.

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