

# Charting the open waters

From the privatisations of the 1980s to the bursting of the dotcom bubble in the 1990s, Richard Beddard looks at how investors navigated their way through changing times, stayed afloat and thrived



**B**ack in 1979 even the civil servants calculating the trade deficit were on strike, but Margaret Thatcher's incoming government knew from the uncollected rubbish in the streets and the pickets at hospital gates that the economy was in crisis.

Inflation had peaked at 27 per cent in 1975 and corporate profits shackled by price controls had fallen to 8 per cent of GDP, almost half their post-war trend. Between 1964 and 1979, the stock market had lost 32 per cent of its value after inflation.

The Conservative Party's manifesto promised trade union reform, lower government borrowing and denationalisation, and it ushered in a decade of deregulation, free markets and tax cuts.

These policies could, in theory, benefit investors, but as the 1980s arrived, the party realised Thatcher's inflation-busting shock therapy would make things worse before they got better.

'In explorer's language, the valley threatens to be rather deeper than expected,' wrote stockbroker Rowe & Pitman in the summer of 1979. 'But the light across it is that much brighter.'

## STAR SYSTEM

John Mulligan, an agricultural economist who had worked as a merchant banker, could see across the valley. If there was one thing the previous decades had taught him it was that in the long-run private enterprise would earn him a higher return than government debt.

His research led him to invest in fast-growing conglomerates such as Tomkins and Hanson, which could take over companies and make them more efficient. People looked on them as stocks that no portfolio should be without, although later in the decade, as the economy worsened again, some of these conglomerates collapsed under the weight of their debt, sometimes scandalously.

Mulligan was caught out by British & Commonwealth. Dodgy accounting had inflated the value of one of its acquisitions, Atlantic Computer, which was probably worthless when it was bought for £417 million. British & Commonwealth went into administration in 1991.

Such experiences convinced Mulligan that he couldn't analyse enough

companies himself, especially as he was often working abroad. So he devised a system that would take the decisions for him, using the average of analysts' profit estimates to select companies with good prospects and cheap share prices. He dubbed his algorithm the share trading and ranking system (Star), which he later marketed to the public. The calculating machine worked. An investment of £1,000 in the Star in 1985 would have been worth almost £20,000 in 2000, compared with just over £4,000 invested in the FTSE All-Share index.

Although the Star outshone the index, the index had actually performed extraordinarily well. The 1980s and 1990s probably exceeded investors' wildest hopes back in 1979.

## STAGGING NEW ISSUES

Tom Owen, a law student at Exeter University in the mid-1980s, remembers the excitement as the government privatised company after company. 'It was different in those days,' he says. 'There were no charts then. You had to make your own by cutting out the shares page of the *Daily Telegraph* every day and plotting [the prices] on a bit of graph paper.'

'You felt you were on to something if you read that a share was going to go up. The height of sophistication was to subscribe to a newsletter on penny shares.'

His first experience wasn't a government privatisation, it was the sale to the public of part of Wellcome in 1986. The process was the same, though.

British Telecom had already been privatised successfully, and the public could see there was money to be made as new companies came to the market. Only one person in four got the shares, but Owen was one of them.

'I applied for £1,200 worth,' says Owen. 'I had two credit cards, so I borrowed up to the limit on both of those, and the rest of the money was [student] grant money or whatever. Part of the excitement came from not knowing how much you'd get for them until you went to the stockbroker.' Owen sold his shares within a couple of days, netting a profit of about £250.

'There was nothing guaranteed about it,' he says. 'You had to face the fact that the shares might go down, but you expected to gain. People got the idea, almost to the extent that they'd feel ridiculous not getting involved.' Some applicants flouted the law by sending multiple applications from the

addresses of friends and family.

Supposedly safe privatisations did go wrong though. When the government advertised its stake in BP, Owen waited until the last minute, as usual. 'You never thought it was totally without risk, and there was no benefit to applying early,' he says.

Then, on Black Monday, the market crashed and investors who had been more eager with their documentation watched BP's price plummet below the price they'd paid. Although Owen bought shares in British Airways, British Gas and the companies spawned by the water and electricity utilities privatisations, as the sell-offs dried up in the 1990s, so did his interest in the stock market. 'It wasn't really investing,' he says. 'There was no research to do, no charges and anyway a student couldn't afford to leave hundreds of pounds lying around in shares.'

## FEELING STRANDED

Steve Harrison was a police inspector in Twickenham when a frothy stock market, a crash on Wall Street and a hurricane in the south-east of England triggered a 20 per cent two-day crash in the FTSE All-Share, starting

**The market crashed and investors watched BP's price plummet below the price they'd paid**

on Black Monday, 19 October 1987.

'You've got to remember that we still had typewriters,' he says. 'There was no internet. You couldn't telephone the stockbrokers. They'd taken their phones off the hook.'

Like Harrison, Peter Temple, a financial analyst and writer, had done very well in the smaller company boom of the early 1980s buying companies such as Control Securities, a property trading company whose shares more than quintupled in a few years.

Fortunately, he sold most of his shares to buy a house, but the bust was still a pretty nasty experience. He says: 'It was a particularly short and nasty bear market. The stocks that I had left in the market were absolutely crucified.'

Temple profited from smaller companies again between 1991 and 1996. He discovered Northern Leisure, which ran discotheques, when he was writing the City column for *Club Mirror*, a publication covering the nightclub sector. Having bought at 9p and sold at 36p, he thought he'd done well. 'But the sting in the tail was that it eventually went to 180p,' he says. 'I'd have been seriously in the money if I had actually hung on.'

But, having seen the euphoria of bull markets evaporate so quickly in 1987 he'd become cautious and, sensing more euphoria in 1996, 1997 and 1998, he switched most of his shares into with-profits funds and bonds, a decision that would be vindicated in 2000.

## RETIREMENT PLAN

As early as 1975, Steve Oakley had decided to take care of himself in retirement. He thought the state wouldn't be able to pay a decent pension because of the UK's ageing population. Then, in 1980, the government confirmed his doubts by decoupling the state pension from average earnings and coupling it to inflation.

As a squadron leader and logistics expert in the RAF, Oakley had been trained as a planner, skills he later used in the private sector and, briefly, as a financial adviser for Towry Law.

He says: '[At the start] I was very naive. My dad was a miner. He didn't have money, let alone shares, so I've had to do a lot of my own research.'

His opportunity came when, in the early 1980s, Brown Shipley offered one of the first regular saving schemes in a personal equity plan (Pep), the tax-free precursor to Isas.



He says: 'Having seen that the charges were high and the big bid/offer spread, I thought if I went for what a lot of people were pushing, which was capital growth, then when I retired I'd have to switch from capital growth into income. I thought that's no good, because I'm going to be paying another 5 per cent at that point. I took the view that if I reinvested the income, the odds were that I'd get similar capital growth to a pure capital growth fund.'

Ignoring most financial commentators, and their exhortations to buy and sell, he squirrelled money away into Peps and later Isas, adding cheaper funds from management firms he trusted – companies such as Artemis, New Star, Rathbones, LionTrust and Henderson.

### COMMISSION PROBLEM

In 1994, Martin Campbell was working for Norwich Union. He was in a similar position to Oakley, who quit financial adviser Towry Law in the mid-1990s



Wall Street: Gordon Gekko exemplified 'greed is good'

because of its increasing reliance on commissions to reward its advisers. The firm now operates a fee-based model. The problem was that the biggest commissions were often paid by the worst fund managers, often banks and insurance companies.

'Marketeers are supposed to find out what customers want and discover a way to deliver in such a way that you make a profit,' says Campbell, 'Yet all the research I was doing said that customers want simple, straightforward

and good-value products.'

However, such products didn't support big commission payments. Every time he proposed one, his bosses would remind him that the customer was the adviser, not the man paying the premium.

Richard Branson saved him later that year when the entrepreneur proposed a joint venture to Norwich Union that would offer investment products directly to the consumer. That venture became Virgin Direct. Campbell was recruited as product designer, and his first product was a Pep with a new engine.

Until the mid-1990s, index tracking funds were the preserve of large pension funds, but by tracking the FTSE All-Share index instead of trying to beat it, Virgin realised it could offer a fund with an annual management charge of 1 per cent. Compared with charges of between 1.5 and 2 per cent and initial charges of up to 5 per cent for actively managed funds, that looked very cheap.

'It was easy to demonstrate that customers were being ripped off,' says

# Readers remember 30 years

Money Observer readers reveal their best and worst investments of the past three decades and give predictions for the future

### Keep up the good work

Investment trust savings schemes with Henderson, Foreign & Colonial, Isis and Templeton have been my best investment decisions over the past 30 years: pound cost averaging, low management fees and professional management really work.

On the other hand, buying shares in Marconi, Cable & Wireless and, more recently, banks did not work out so well.

To policymakers, I would say curb the speculators and hedge funds that use short selling, derivatives and financially dangerous tools such as collateralised debt obligations. These are destabilising and can destroy the value of investments.

Governments should also resist calls to cut public spending too early, which could cause

a more severe depression.

In the next 30 years, the emerging markets will generate good returns on investments. Population growth coupled with economic growth will place huge stresses on the earth's resources and climate. Commodities will become more expensive, making investments

in these areas fruitful.

I have been subscribing to *Money Observer* for many years now. I generally read it from cover to cover, and I have benefited enormously from it as an education in investment and finance. I have also benefited financially as a result. Keep up the good work.

**Dr John M Crowther**

### Money well spent

It is truly frightening to think I have been subscribing for 30 years. But I think it has been money very well spent. I have made my own investment decisions over the years – some not so good, many pleasing and some 'stars'. The performance tables have been a particular help, along with your interviews with fund managers and other gurus.

Certainly *Money Observer*



has repaid its cost many times over – here's to the next 30 years.

**Paul Barker**

### The costly consequences of indiscipline

I have only been seriously investing during the past six years. I have been trying to get my money to work for me rather than just working for money.

My best investments were in the early stages of the 2003-07 bull run. In late 2003 and early 2004, I considered the market undervalued and invested

in FTSE 100, FTSE 250 and emerging market trackers. I also invested in investment trusts, such as British Empire Securities, RIT Capital Partners, Hansa Trust, Caledonia Investments and Rights & Issues. I invested in a number

### "Curb the speculators and hedge funds that use short selling and derivatives"

of unit trusts, including Jupiter Financial Opportunities, Jupiter Emerging European Opportunities, Marlborough Special Situations and a New Star Asian fund.

I sold a large portion of my holdings in 2007 – within months of the bull market peak. All of my holdings had gone up considerably.

Unfortunately, I also got cocky, and from 2006-08 bought a range of Alternative Investment Market (AIM) shares, instead of my usual trackers and investment trusts. I opened a Sipp and invested large chunks of it in Aim

shares. I also put a considerable sum in an Aim small company venture capital trust (VCT).

My dealing account and Sipp were hammered in the bear markets of 2008 and 2009 – I lost a very substantial amount of money. A number of my Aim stocks lost more than 90 per cent of their value, my VCT was hit for over 70 per cent and my pension was hit for 50 per cent. This taught me some very hard and costly lessons regarding the consequences of not investing in a wise and disciplined manner.

**Anon**

### Gain against the grain

My best investment was one that I was advised was 'very risky' – in ProVen VCT. My very worst was in what I was told was a 'safe bet': Royal Bank of Scotland. So there you go.

**Mike Wallace**

### Emerging markets lead the way

My single best decision was not to reinvest the profit I made when German utility firm RWE bought my Thames

Water shares into tech stocks at the end of the past millennium. The worst was investing in Lloyds Bank (for the dividend) in late 2007 and not realising that I was going to be helping the government rescue HBOS at such great cost.

I would advise policymakers that providing good pensions has to be more central to policy, that financial literacy has to be the cornerstone of retail trading standards for the financial sector and that shareholder activism is important.

In the next 30 years, it is all about emerging markets, and



companies such as Baltimore Technology in the likes of Boots. But he was far too early. On many occasions between 2000 and 2003 the market appeared to be recovering before plummeting to new lows, and by March 2003 he'd lost a lot of money.

Today he uses a revised version of his Firework Formula and, just as Black Monday turned Templeton into a more cautious investor, the meltdown in technology stocks focused Tyler's attention on avoiding market panics.

His formula has evolved beyond its original focus on growing sales, trend-following and positive news flow to include old-fashioned virtues such as tangible net asset value and liquidity.

As prices had crashed, Tyler was unable to find buyers for some of his smaller companies. He's unlikely to buy many small, illiquid stocks again.

agricultural producers are going to become very attractive.

In *Money Observer*, I have always enjoyed reading Barry Riley, articles about smaller UK companies or emerging economies and interviews with fund managers.

**Francis Groves**

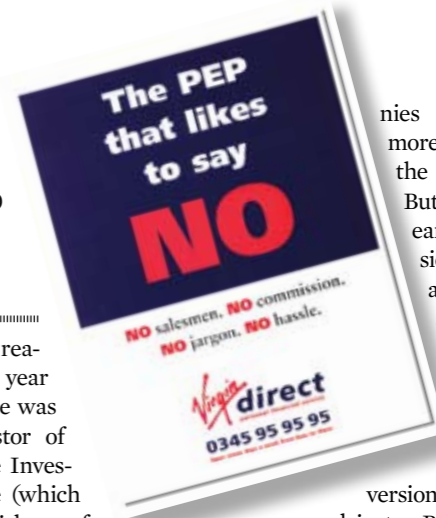
### BP bargain brought rich rewards

My best decision must be buying shares in my company, BP, because I was encouraged to buy the shares at what was effectively half price. For every share I bought, the com-

### "A number of my Aim stocks lost more than 90 per cent of their value"

pany matched it. This annual 'matched giving' process produced quite a sizeable portfolio over 20 years and, with the good BP dividend, now yields a very nice income. All the shares are in Isas, so I have no tax to pay.

**John Williams**



Virgin's Pep was hit in the dotcom crash





Railtrack was derailed by the fatal Hatfield train crash

relations and lobbying company he'd just founded was a low-cost online fund supermarket selling direct to investors. The shelves were stacked with actively managed funds.

Now that the price of active management had come down, Campbell discovered Anthony Bolton and switched his Isa into Fidelity Special Situations. The success of Bolton led him to question some of his old mantras and propelled him into the arms of another star manager, Invesco Perpetual's Neil Woodford. Although most of his savings were in his pension and still tracking the index, he'd taken his first steps into active management.

**CAUGHT IN A TRAP**

Geoff Weir is still waiting for his last payment from the liquidators. He remembers 2000 too: it was the year of the Hatfield train crash, which took the lives of four people and triggered the demise of Railtrack, the company that

ran the UK's railway infrastructure. Weir wasn't just an investor, he had worked for the company all his working life, starting off as a mechanical engineer at Bounds Green depot in 1971 and ending up as privatisation manager in Swindon.

**By withholding funds, the government precipitated Railtrack's collapse**

It was his job to brief staff, and by the time he left, 94 per cent of Railtrack's employees were shareholders, as was Weir.

For investors, the privatisation was a success, as Railtrack's share price rose from £3.80 to more than £17, taking the value of the thousand or so shares Weir owned to £17,000. But in 2001, the government re-nationalised Railtrack and he got just £2,600 in compensation.

**We must curb financial industry excesses**

Policy-makers should focus on making poorer countries self-sufficient, rather than giving them aid. We also need to address the issue that companies can make vast profits producing things but take no responsibility for the social costs: if tobacco companies had to pay for related lung illnesses, their approach to what they produce could well change.

As you might guess, I am a bit despondent about the next 30 years, if we carry on as we have, but I can see no simple

way to curb the excesses of our current 'profit at all costs' approach.

The most useful aspect of *Money Observer* is the regular concentration on the costs of investing, whether it is the commission paid to advisers and how that must affect their recommendations, or the total expense ratios on products showing that exchange traded funds, trackers and investment trusts are cheaper vehicles.

Good luck for the next 30 years.  
**Nigel Scott**

**Home is best**

Our best investment was buying our home 38 years ago. We couldn't afford to go higher than £4,000, but its value has increased dramatically. Our second best investment decision was to maximise our cash Isas. My other half and I are now enjoying a substantial amount of tax-free interest (even though interest rates are low).

The worst investment decision was not to cash in my other half's HBOS windfall



**"He regarded the bank shares as 'family silver' and thought that banks could never go bust"**

shares when he retired a couple of years ago. The value then was around £12,000 and it is now around £2,000. He regarded the bank shares as 'family silver' and thought that banks could never go bust.

**Long-term winner**

I have been investing on the

stock market for 30 years. For most of that time I have been a subscriber to *Money Observer*. I have also subscribed to other financial magazines, but I can say that *Money Observer* has without doubt been the best and most reliable.

My best decisions are probably two purchases of Weir Group. The first was in 1983, which was sold at a significant profit in 1986.

About 10-15 years ago I purchased a second holding for a little over £2. I watched the shares fall in value to little more than £1, where they stayed for some years. However, I sold some last year for £8, more than recouping the total cost of shares.

I still have the remainder in my portfolio and, in spite of the massive fall, they are currently valued at about £4.50 a share. They have provided extremely good dividends over the years.

My worst decision was to purchase shares in Xyllyx in 1984. I still hold the shares, which are now worthless.

**W E Brunger**



**Where do we go from here?**

As we emerge from the latest financial crisis, seasoned investors are looking for a new dawn.

While Peter Temple is sheltering his pensions in bonds, collectables

and exchange traded funds (ETFs), John Mulligan is rejigging Star, which suffered its worst performance in 2008, when it fell 50 per cent.

I think the whole centre of profitability

and economic development is shifting to the east,' he says, so he's creating an international Star of companies from the Fortune 500 list of companies.

Ben Tyler's Firework Formula has taken him further afield too. He made a profit last year, because he bought European bond ETFs in late 2007. This summer he was buying Asia-focused investment trusts, such

as Templeton Emerging Markets.

Steve Oakley, who leveraged his RAF training to start investing, says: 'If you have a plan, it is no more difficult to make money now than it ever was. None of us know what will happen in the next 20 years, but I'll give you two predictions: the market will recover, and when the recovery comes, I think it will be much more rapid than people expect.'



'I'm still very annoyed', he says. Railtrack's share price had been falling since Hatfield. Speed restrictions and engineering works were costing so much that the company was losing money. In

2001, the government withheld funding, applying to the High Court to put the company into administration.

By withholding funds the government precipitated the collapse in Rail-

**Richard Beddard**

Richard Beddard is companies and markets editor of *Interactive Investor* and writes the regular *Share Sleuth* column for *Money Observer*. He's a keen private investor with a large interest in UK smaller companies and a smaller interest in companies listed in the US.



track's share price, allowing it to be re-nationalised cheaply, says Weir. He acted as spokesman for a committee that raised over £3 million to take the government to court.

They lost the case and Weir no longer invests in regulated utilities. These days he prefers multinational companies, such as miners Rio Tinto and BHP Billiton, which he believes are more free of political interference.

**1989-1993 BERLIN WALL FALLS ...**

The fall of the Berlin Wall in November 1989 heralded the beginning of a year of momentous revolution. All across eastern Europe

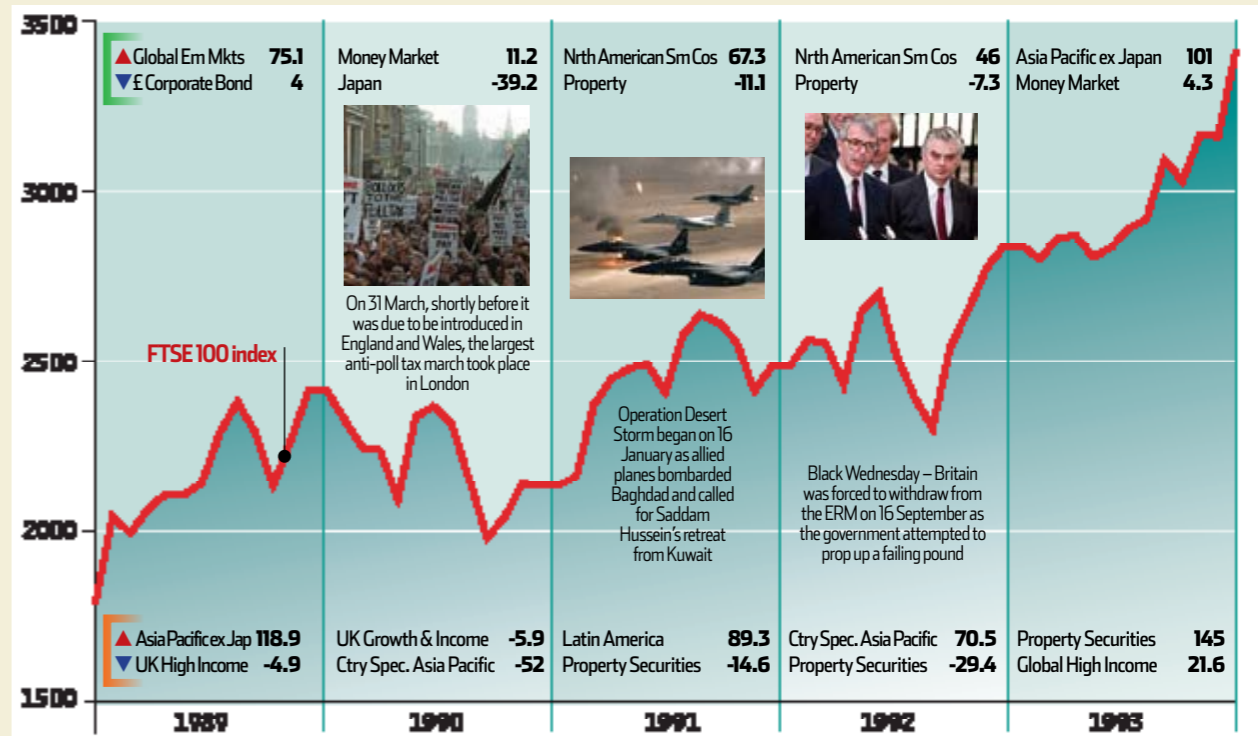
communist governments fell as the people pushed for change.

But it was different in China. A student march for democratic

reform in Tiananmen Square, Beijing, ended in the deaths of hundreds as the Chinese Army opened fire.

In the early 1990s the UK

went into recession after joining, and then on 'Black Wednesday' leaving the Exchange Rate Mechanism. A housing market crash followed.



Legend: Fund sectors (% change) Investment trust sectors (% change) ▲ Best ▼ Worst The chart is based on calendar monthly changes in the FTSE100 index. Data source: Morningstar