

Martin Currie's Whitehead warns about UK bias

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By [David Thorpe](#)

Investors are missing out on returns and taking excessive risk with income through an over-exposure to the UK, according to Mark Whitehead, manager of the £224m Securities Trust of Scotland.

Mr Whitehead said: "With the growth of platforms in recent years, and the general reduction in the costs of investing, it has never been easier for private investors to access the global stock market.

"However, despite the myriad of options, UK investors are continuing to maintain an overexposure to British companies.

"A home bias is perfectly understandable, due to the familiarity people may have with home grown firms, this adds significant level of risk, and limits that could be very costly to them over the long term."

He said that any single country stock market is liable be dominated by a relatively small number of sectors, but he said the UK is a particularly severe example, with 53 per cent of the FTSE 100 in financial stocks, consumer goods and oil and gas.

Mr Whitehead believes all of these areas are volatile.

He said the top 20 companies in the FTSE 100 account for 64 per cent of the total dividends paid by all companies in the FTSE All Share.

Mr Whitehead said: "This means that if something goes wrong with one of those UK giants it could have an extremely adverse effect on an investor's income stream.

"This is the predicament currently facing BP and Royal Dutch Shell, two of the UK's giants. Both pay an attractive dividend, but the current level is not covered by free cash flow.

"This means that they face the real prospect of cutting the dividend."

The trust has a majority of its exposure to the US, with no UK-listed company among the top 10 holdings.

He said political risk is one of the reasons he is swerving the FTSE 100 right now.

He said: "While nearly every country in the world may have an element of political uncertainty or surprise (President Donald Trump is a case in point), Brexit looks like it could overshadow the UK for years to come.

"We still have little idea of what a post-Brexit UK will look like, and this uncertainty has very real consequences for businesses and the economy.

"Weak sterling will feed through to high street prices, with rising inflation fueling demand for wage rises.

"The fiscal deficit will deteriorate as the UK economy slows, of which there has been signs in recent months.

"While the fall in sterling has been helpful for companies which derive a large portion of their revenues from overseas, Brexit still holds the prospect of seriously exacerbating the UK's trade deficit.

"Even if you pick the best fund manager in the world to manage a UK-only portfolio, the additional risks, constraints and flaws will be present - risks that are mitigated by widening the investment remit - and a global portfolio is the widest of all."

Jonathan Davis, who runs Jonathan Davis Wealth Management in Hertford, is an IFA with minimal exposure to the UK.

He said: "I am not convinced of the improving UK economy given what I see in commercial construction purchasing managers index and new car sales.

"They are both pointing to a lower year-on-year GDP than 2016. I agree that we have increasingly sustained inflation... which also hampers economic growth."

Philip Milton, who runs Philip J Milton & Co, an advisory firm in North Devon is an adviser much more relaxed about the outlook for the UK economy after Brexit.

He said: "I am sanguine – worried about the over-hyped parts of certain markets and stocks but still seeing good value opportunities in certain unloved sectors and stocks which will still be doing a job of work through the other side.

"On the economy, the biggest worry I have still is the one surrounding the residential property bubble.

"With two-thirds of our economy being predicated on consumer confidence and that embellished by the feel-good factor of owning and profiting from the vast gains in one's home's value and bloated 'buy-top-let' where of course there are absolutely no risks to the investor at all, the confidence that gives and the whole artificial path could come to a juddering halt."