

# Stockpicking — you may as well forget it

Everyone is buying Facebook — and that makes me nervous

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I try to avoid going to too many meetings. I have a depressingly short attention span — and when I get bored I get argumentative, which is a bit exhausting for everyone. So when I looked at my diary at the beginning of this week it was clear that I was going to have to cancel a few things, or just try harder. I decided to try harder (if you were in any of my meetings please don't get in touch to let me know how I did).

So I went to a breakfast meeting to discuss the value that the fund management industry adds in the UK. I met with several different fund managers to talk about various funds (infrastructure, small-caps, global growth and so on). I went to lunch with some of my fellow investment trust directors. I had coffee with some super-clever market strategists. And just to round things off I drank too much wine, too fast, with an Australian hedge fund manager (the wine was needed to counterbalance the freezing hail on the walks between meetings in Scotland).

All of this threw up some fascinating snippets. I learnt that much of the fund management considers its main problem not to be costs and incompetence but “communication”. If only!

I learnt that contrarianism remains as rare as ever. Two seemingly completely different managers offered me Facebook as one of their top stocks: one because of the advertising heading its way, the other because of the “one winner” nature of modern technology. What would you use if you didn't use Google Maps, he asked? And what would you use instead of Uber? Instead of Facebook? Instead of Amazon? Instead of Rightmove? When the disruption is done, there'll be no number two. “So own the number one.” That's a good argument — but the fact that [everyone is buying Facebook](#), however clever their varying arguments, still makes me nervous.

My next interviewee, Tom Walker of the Martin Currie Global Portfolio Trust, suggested L Brands, owner of Victoria's Secret, as his top tip. I spent a few minutes looking at Victoria's Secret knickers in Bologna airport earlier in the week. I won't ever buy any (and I'm hoping no one else will be buying me any either). But I can see the argument for holding shares in a

global brand selling cheapish luxuries such as this (particularly given that [they are down](#) 20-odd per cent in the year to date).

There were also endless conversations about fund fees (still too high!) and Brexit. The general consensus from these real people working in real markets, by the way, is that nothing bad would happen [post-Brexit](#), so the sensible thing to do is to buy UK stocks and the pound every time they fall pre-referendum. All in all, it was interesting stuff — worth leaving the house for.

But having these meetings at the moment is also slightly surreal. The macro environment is so stunningly unstable that all conversations about stockpicking and fund fees seem a little beside the point. Why talk about a percentage point change in earnings here and there for an Italian company when the euro might not make it to the end of the decade?

Last week I interviewed [Lord King](#), former Bank of England governor. His view on the euro is pretty straightforward: either there is full fiscal and political union in Europe (in other words, the Germans have to put up with transferring 5 per cent of their income to the weaker countries and they have to put up with receiving it) or it is “reasonable” to expect the euro area to collapse.

So it is clearly reasonable to expect collapse. And what’s the point in trying to find winners in the overpriced UK stock market when it looks increasingly likely that it will be taken out by the bond market anyway? My colleague [Gillian Tett noted this week](#) that there are only two US corporates left with triple-A ratings on their debt.

And in one of my meetings this week Société Générale’s Andrew Laphorne and Albert Edwards pointed out to me that US corporate debt interest is “out of control”. Net debt is now as high as it was in 1999 (it’s at a record high in the UK too, relative to Ebitda) and companies are outspending their cash flows by record amounts too.

There is a view that this doesn’t matter — with interest rates so low the debt is manageable. But debt isn’t just about rates, it’s about the ability to refinance. If asset prices (and hence the value of the collateral for the debt) fall what happens to the ability of horribly overleveraged firms to keep their finance costs low? Quite. It would, says Mr Edwards, take only a “mild” recession for the US to see a wave of bankruptcies.

Then there is monetary policy. Japan paused briefly this week in its road to perdition (the [Bank of Japan didn’t cut rates](#) again). But it’s hard to see where, if they really want inflation, they go from here without proper helicopter money. And if that happens, all conversations (of the type I have also had this week) about corporate governance and dividends in Japan are irrelevant: when money printing gets extreme stockpicking really is pointless.

So what do you do? The answer to this is simultaneously depressing and uplifting. Carry on more or less as though none of it was happening — for the simple reason that you just can’t know when it’s all going to blow. You will want to note that markets are expensive. You might want to have a bit more cash on hand than usual. And you’d be silly not to have a little gold (which is up 20 per cent this year).

Other than that? Look for value (it always outperforms in the long term) and diversify. I own Scottish Mortgage — which holds the kind of market leaders mentioned above. I own shares in Personal Assets Trust as a counterbalance (no Facebook here) and I own shares in a group of other investment trusts (including the ones of which I am a non-exec — at least I know they are reasonably well run).

I’m looking carefully at a group of funds suggested by another man in another meeting — GCP offers specialist infrastructure funds with a view to creating long-term stable and inflation adjusted returns. That makes sense to me. The money printing ahead is likely to

mean both more infrastructure spending (you have to do something with the money) and some inflation. And finally, of course, I own gold and gold funds. That's it. There's not much else any of us can do.

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