THE SCOTTISH Investment Trust

IT'S DÉJÀ VU ALL OVER AGAIN

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Alasdair joined the Company in 2003 and became Manager in 2015.

He has 19 years of diverse global investment experience and a distinctly contrarian investment philosophy. He and his team take a highly active, differentiated approach to investment.

Alasdair has an MA (Hons) in Economic & Social History from the University of Edinburgh and an MSc in Investment Analysis (with distinction) from Stirling University. He is a CFA® charterholder and an Associate of the UK Society of Investment Professionals.

Even though the late Lawrence 'Yogi' Berra was an outstanding baseball player, he is possibly best known for his 'Yogisms' – apparently nonsensical comments attributed to him that contain a cryptic life truth. After all, who can disagree that "the future ain't what it used to be" and "you can observe a lot by watching". However, this outlook is titled with the Yogism that reflects the resigned inevitability of watching a re-run of a situation you've already experienced.

Those who have already read my previous articles will be aware that a simple philosophy underpins our approach to investment. At the core of this philosophy is a recognition that investors are not, in aggregate, dispassionate calculating machines but instead retain human emotions.

As humans, we have many differing emotions, desires and motivations but one apparent constant, which is maintained across cultures and geographies, is a desire to be part of the group. This crowding instinct has been a great benefit to humanity and living standards are unquestionably far higher than if we operated as individuals. Working as a group allows division of labour, specialisation and economies of scale.

However, we believe that this crowding instinct does not usefully translate into financial markets as the crowd is inherently a momentum beast. Crowds naturally gravitate towards what has recently been successful and shun what has recently been unsuccessful. The crowd voice, which is always alluring, is driven by individuals who seek to align themselves with success and disavow failure.

In financial markets, chasing momentum works. Until it doesn't. By the time an investment has performed sufficiently well (or badly) for it to become an accepted wisdom, conditions are ripe for the trend to change. It is this momentum mentality which creates the business cycle and the numerous bubbles (and subsequent busts) which have bedevilled investment markets.

We do not attempt to follow investment fashions and instead seek investments in which we can foresee long term upside. We actively seek unpopular areas because this is where the balance between risk and reward can be most favourable. Rather than perpetual trends we believe in cycles, which brings us neatly back to the déjà vu referenced in the title.

Investors currently exhibit remarkably low levels of scepticism about 'hot' investment themes, particularly in the technology area, which mentally transports us back to the late 1990s when similar enthusiasm reigned (it didn't last). The collapse of Long-Term Capital Management (LTCM) in 1998 and the subsequent Central Bank response, arguably, created the conditions for the dotcom bubble. Following the bailout of LTCM, the investment mood swiftly became feverish, with the best performing investments defined by their elevator pitch (a simple conceptual story with grand visions) and eyeballs (the gathering of unprofitable user views). Sales of IT hardware and services boomed both to salve the impending 'Millennium Bug' and due to an increased desire for personal computers. Those companies that had benefited from this trend became valued as if the good times would never end.

Things are different today, but in some ways they are the same. Once again, investors are excited by concept investments even if the most speculative of them all, the cryptocurrencies, have already disillusioned their fan club. Investors continue to reward the new 'eyeball' metric which, these days, is instead unprofitable user growth. Internet shopping, food delivery, ride hailing services, music and video streaming, to name just some, are all subsidised at the point of use by investors. Meanwhile, investors show scant concern that the premium smartphone boom has peaked and have only recently started to consider that companies operating in the 'Wild West' space of internet advertising may be about to meet the posse (courtesy of the Facebook data scandal). ■

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