The Daily Telegraph

Saturday 2 February 2019 *The Daily Telegraph*

Money

The FTSE 100 is frozen: what's wrong with the UK stock market?

EXPERT VIEW

James Anderson, manager of Scottish Mortgage, Britain's largest investment trust, says firms must think big

As the last millennium ended, the FTSE 100 stood at a record high of 6,950. At the time of writing it is at 6,890. That's not very good, even if we ignore inflation.

For sure dividends have been paid out each year, though not in as great a scale as might have been hoped given the frequency of rebasing and other such euphemisms.

At the end of 1999, the US S&P index was also at a record of 1,469. Today, it is at 2,630. That's rather better.

Is it unreasonable to ask, what is the problem with the UK stock market?

At the dawn of the Thatcher era, it was believed that British business could and should thrive once the state and unions were rolled back. The fervour surrounding privatisations was seen as supportive evidence of nascent capitalist high spirits.

Colleagues constantly told me that we should have more invested in the UK because of the supply-side miracle and the ensuing corporate virtuosity.

We've now had 40 years of corporate-friendly government. Yet we have an entire stock market that is frozen in time and returns.

We were promised entrepreneurial efflorescence. What we got was investment bankers and hedge funds.

My view is that these distasteful realities require much more comment than they commonly receive.

GETTY IMAGES

The technology behind Illumina was invented in a pub in Cambridge

We were promised entrepreneurs and ended up with bankers

The first realisation should be that stock market returns depend far more on a few remarkable outliers than on the progress of average companies.

Since 1926, just 90 companies have generated 50pc of the value added by the US market. Replacing one Marconi with one Microsoft really matters.

But that begs the question as to why Britain hasn't produced a Microsoft, while remaining world class at corporate disasters, from Marconi to the Royal Bank of Scotland.

The picture looks slightly rosier when we look at smaller companies.

The FTSE 250 has persistently, if not consistently, performed better than the FTSE 100 and, at an individual company level, there are more interesting, ambitious and distinctive small, and indeed unquoted, companies than is true of their often lumbering big brothers. But this in itself illustrates an old problem: British businesses appear to find scaling inordinately difficult.

For many years, one of Scottish Mortgage's largest holdings has been in Illumina, the global leader in genomic sequencing machines. Its core technology was quite literally invented in a pub in Cambridge.

But commercialisation under British ownership failed. Even where success at scale is within sight, the vision is lacking.

Arm Holdings was Britain's possible Microsoft, but Mr Son of SoftBank saw this more clearly than the management or shareholder base.

All too often this is where responsibility lies. Management aspires to safety, to quarterly capitalism and defers to fund managers desirous of bond-like predictability and the safety that secures short-term targets.

But my central reason is that I fear the situation may well deteriorate.

The bulk of big British companies have managed to produce some version of stability in their businesses and share prices in the 21st century, but achieving short-term stability becomes a threat, not a reassurance, if the pace of change becomes more dramatic. We suspect that this is starting to happen.

From energy to transportation to healthcare, the competitive moats and business models of yore are drying up and breaking up.

It's right to acknowledge the limitations of my predictive powers, but I fear the past performance of major British companies may be superior to their future prospects.

We need new companies at scale. We need innovative and determined entrepreneurs. As yet, they are not visible.

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