

CFA investment forum: Brexit 'madness', the unnatural liquidity glut and why managers need to become counsellors

As Brexit looms the CFA Society Ireland held their inaugural investment forum where a panel of Irish and international investment and economic experts discussed 'The Future of Finance' at the Convention Centre Dublin writes CFA Society Ireland's BRENDAN MCGRATH.

The presentations were wide ranging but inevitably, given recent developments in Salzburg, Brexit was one of the dominant themes. Perhaps Rupert Watson of Mercer summed up the mood best when he said: 'The UK press and politicians are clueless about Brexit and Theresa May's Chequers proposal is madness.'

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Watson added 'A hard Brexit would be an utter catastrophe and the UK will suffer more than any other country outside of wartime.' Michael Kelly of Pinebridge Investments, which has assets under management of \$90 billion, added 'The finance industry is still woefully underprepared for what may be coming and for the first time the odds on a deal seem to have changed'.

But keynote speaker, economist and author David McWilliams was more sanguine about Brexit, particularly as it applies to Ireland. He said that while it's likely that there will be some sort of fudge from both sides 'Brexit is a golden opportunity for Ireland, and rather than spend time on what we can't change, the opportunity is there for Ireland to become what Shanghai was to the Chinese empire, or like a Hanseatic trading nation.'

Brian Corr of the Department of Finance, who chairs the working group on contingency planning for Brexit, said already there have been notable success stories for Ireland ahead of Brexit such as Citi and Credit Suisse - companies he described as 'instant reference cases of IDA Ireland'.

'Brexit will be transformative,' he added

pointing to the decisions by blue-chips such as Barclays, Merrill Lynch, Legal & General and Standard Aberdeen to establish Irish entities ahead of Brexit.

'The landscape will change with more fragmentation and Ireland will be the home to new activities,' he said, adding the IFS 2020 project has identified Fintech and Sustainable Finance as areas which may drive growth in the sector.

While Brexit may have been one of the dominant themes at the forum, other issues also came to the fore. Gary Baker, Managing Director EMEA of CFA institute presented some results of a survey of 2,500 people in the global finance industry which put the future of the industry in stark perspective.

Baker said that 55 per cent of those surveyed expect consolidation in the industry on the next 5-10 years while 54 per cent expect increased pressure on fee income and 39 per cent expect a decline in the number of investment professionals.

He added, however, that the survey also pointed out opportunities and benefits for the industry. '80 per cent believe that there will be growth in the demand for investment solutions while 60 per cent believe that DC clients will become much more engaged in the investment process.'

In the panel discussion, when questioned on the role of multi asset investments, Pinebridge Investments' Michael Kelly said: 'Portfolios have become much more diversified, we've gone from a situation where 80 per cent has been invested in home country stocks and bonds to investments in every asset class going. The number of markets is proliferating.'

Sounding a sharp note of caution, Kelly added: 'The biggest problem we have today is the global savings glut, we simply have too much money chasing too little money and central banks have created an unnatural liquidity glut on top of a normal liquidity glut. The returns on assets are plummeting and this can cause a stampede mentality. My message is keep your powder liquid'.

On the future role of passive and active investment funds, Rupert Watson said

there is a role for both, adding bluntly: 'Closet trackers must be weeded out, they're simply bad for the industry. Watson also added that the industry needs to educate investors that one-year performance isn't 'the be all and end all'.

This theme was taken up by Vineta Salala of GMO who said: We need to have some tough conversations with our clients and be more of an investment counsellor. 'We need to explain why we aren't investing in emerging markets on price/earnings ratios of 25 instead of in the US market on a price/earning ratio of 11. That can take months.'

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On the concept of a move from simply selling investment products to offering investment solutions, Salala said 'Investment solutions is not just a buzzword, more and more clients want us to understand their specific issues and provide solutions. That requires a lot of expertise and one must wonder about small niche players - will they still be relevant?'

It was left to David McWilliams to offer some challenges to the industry and the dangers of groupthink. 'Do we need unconventional thinking or conventional thinking, we seem to reward people who offer a linear form of thinking, the equivalent of human filing cabinets, and the result is we get groupthink at the top. Economists are terrified of breaking out of the tyranny of their peer group.'