Funding the Future

Is the stock market past its sell-by date?

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The FT has reported that:

Britons have the lowest appetite among their G7 peers for investing in the stock market, according to a new study that showed personal wealth in the UK was mostly tied up in housing, pensions and cash.

UK savers invested just 8 per cent of their wealth directly into equities and mutual funds compared with 33 per cent in the US and an average of 14 per cent across the remaining five G7 nations, according to an analysis of national accounts by Abrdn.

There are two ways to look at this. One is that the British investor is enlightened and avoids the casino. The other is that they should, like others, want to join the gambling pit.

Some background information will help here.

Firstly, there are incredibly few new share issues in the UK, USA or pretty much anywhere else that are intended to raise new funding for actual capital investment in production or the creation of employment. In fact, companies repurchasing shares is a lot more common than companies issuing shares. Funding actual investment with loans is vastly more likely than it is with share capital. As a consequence the majority (most likely more than 99%) of all share (so-called) investment actually involves the purchase of shares already in issue, whose numbers are limited in supply by design, meaning that it is artificially engineered that their price is most likely to rise until, of course, the time that they do not. It would seem that UK investors have realised this, and those in other countries, and both especially the USA, have not.

Secondly, what this means is that the reluctance of UK savers to actually put their money into UK stock markets has almost no impact at all on activity in the real economy, to which stock exchange activity is almost unrelated.

Thirdly, UK investors have probably realised that the number of opportunities available for attracting new funds into UK markets is now very limited. Once auto-enrolment of almost every employee in the UK into a pension fund had taken place the opportunity for the share Ponzi scheme to expand further was effectively closed unless, like a tax increase, it is demanded that employees make increased contributions into such funds with absolutely no guaranteed return on the income foregone by doing so. The political likelihood of such an increase in contribution rate being agreed to in the current economic environment is low, meaning that there is now a growing awareness in the UK market that share prices must be hovering at around their peak.

Fourthly, UK investors have not bought the hype about AI, which is what has fuelled US markets. Most UK share investors, or potential investors, are older and remember what happened after the dot.com boom. There was a bust. They are not willing to go there again. The similarities in market movements in the USA are striking at present, with the probability that the outcome will also be similar being high.

Fifthly, people in the UK are not persuaded by the argument that people need more ‘stuff’, which is what most stock exchange companies supply. By definition, those who are saving the most have sufficient 'stuff' to meet their needs. They appreciate that much of the attempt to sell more ‘stuff’ is not going to be beneficial for companies, for the planet, or investors, and therefore realise that growth potentials are low.

On the other hand, sixthly, people in the UK realise that what we do need is investment in infrastructure, in housing, in health, in education, and public services in general, but because the government makes it quite hard for them to actually dedicate their savings to such things because of it aversion to borrowing and its narratives around this issue, they are forced instead to hold savings in things like cash and property, which are not delivering for the economy as a whole.

Last, and seventh, there may be quite rational risk aversion in the UK economy. When UK investors quite reasonably anticipate low growth, can see rising debt levels, high rates of debt default, the impact of the crushing burden of excess interest rates (which in themselves also encourage people to save in cash) and the very limited likelihood that our government will do anything to change these outcomes, coupled with a reasonable concern about international investing created by the toxic environment that Trump is promoting, then why not go for the safe option?

Media like the Financial Times see their interests as best aligned with those of the toxic Ponzi stock exchange, but rational people do not. I take the lack of willingness on the part of UK savers to put their money into stock markets as a sign of hope. People are looking for something useful to do with their money and are realising that the stock market is not providing them with any such opportunity. What we need are alternatives and a lot less whining from those who cannot sell their shares.