

THE UKSA NEWSLETTER

UKSA
UK Shareholders'
Association

ISSUE 12

This edition of the UKSA Newsletter is devoted to UKSA's Policy Team. The members of the Policy Team are presented below in alphabetical order. Most are retired and all are active private investors for whom UKSA's aims are a significant interest.

You can get up-to-date details of the Policy Team's work by going to the policy table on the UKSA website (or clicking the image on the right).



The members of UKSA's Policy Team



Mohammed Amin MBE FRSA MA FCA AMCT CTA (Fellow) was a PricewaterhouseCoopers tax partner before retirement. He regularly writes, speaks, and appears in the media on politics, religion, Israel & Palestine, as well as finance and other subjects. His personal website is www.mohammedamin.com

Dean Buckner is a former derivatives trader for a hedge fund, followed by a career in market risk management, ending with a spell in regulation at the FSA then the PRA and the Bank of England. Now retired, he is working with Professor Kevin Dowd (Durham University) on a simplified derivation of the famous Black Scholes formula. Dean is UKSA's Policy Director.





Mark Cardale is a former corporate finance lawyer, mostly with a leading City firm acting for financial institutions, also running their small New York office. Later he was a partner in a small firm representing AIM companies. He subsequently wrote and spoke on governance and related legal issues, including two books in this field. He is a charity trustee.

Charles Henderson is a chartered accountant, a member of the FRC's Advisory Panel, an annual report review associate of Falcon Windsor, a member of the Pre-emption Group, a CRUF UK participant, CRUF ESG subgroup co-chairman and a member of BEIS Audit Contact Group. He is a former member of the FRC's Audit Quality Review Committee and was a senior executive of Invesco for 25 years.



John Hunter has had an international career in financial management and analysis with a global FTSE100 company. He most recently served as company secretary. In that role he was always heavily involved in, and briefly responsible for, investor relations. He is now a pension fund trustee.

Sue Milton has worked in the financial sector including as adviser on central bank governance at the Bank of England and as the operational strategy manager at CLS Services, part of a New York-based wholesale bank, set up to remove settlement risk in the FX markets. Sue runs her own business, providing governance and IT advisory services globally.





Peter Parry is a former business manager and management consultant. As a manager he worked in the UK, South America and continental Europe. For the last fifteen years of his career he ran his own consultancy business specialising in purchasing and supply chain management. He is a CRUF UK participant and a regular contributor to projects run by the FRC’s Reporting Lab.

Martin White is a general insurance actuary, having spent some time earlier in his career in a unit-linked fund manager and life insurer, followed by a period in pensions. A member of the original team that set up UKSA, his big passion is to change the balance of power between the financial sector and its customers in favour of its customers, through the power of transparency. He is a member of the Transparency Task Force advisory panel.



Agency	Title	Submission deadline	Response (status)	Information available	Response available
IASB	Classification of Debt	To be confirmed.	Not started		
IFRS/ISSB S1	Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information.	29/7/22	Completed.	here	here And the CRUF response
IFRS/ISSB S2	Exposure Draft IFRS S2 Climate-related Disclosures	29/7/22	Completed.	here	here And the CRUF response
FRC	Audit Quality Indicators	18/11/22	Joint with ShareSoc.	here	here
2022 completed consultations					
HMT	Solvency II Review: consultation.	21/7/22	Completed.	here	here
UKEB	Request for comments on UKEB's draft Due Process Handbook	23/5/22	Agreed not to respond.	here	
IASB	Supplier Financing Arrangements.	28/3/22	Completed. UKSA is also the lead author for the CRUF's response.	here	here and The CRUF response
FCA	CP2115 Compensation framework review.	4/6/22	Agreed not to respond.	here	N/A
FCA	CP 21/34 Improving the Appointed Representatives Regime	3/3/22	Agreed not to respond.	here	N/A
FCA	CP 21/36 A new Consumer Duty (Feedback to CP21/13).	15/2/22	Completed.	here	here
UKEB	IFRS 17 Insurance Contracts call for comment.	3/2/22	Completed. Joint response with ShareSoc.	here	here
IASB	Post-implementation Review of IFRS 9—Classification and Measurement.	28/01/22	Agreed not to respond.	here	N/A
DWP	Enabling investment productive finance.	18/1/22	Completed. Joint response with ShareSoc.	here	here

The Policy Work table

Here is an illustration of the table that you can find on the UKSA [website](#).

The table includes embedded links which take you straight to the underlying source documents, including invitations to participate in consultations and UKSA's responses.

Star Charts September 2022

Changes in earnings estimates

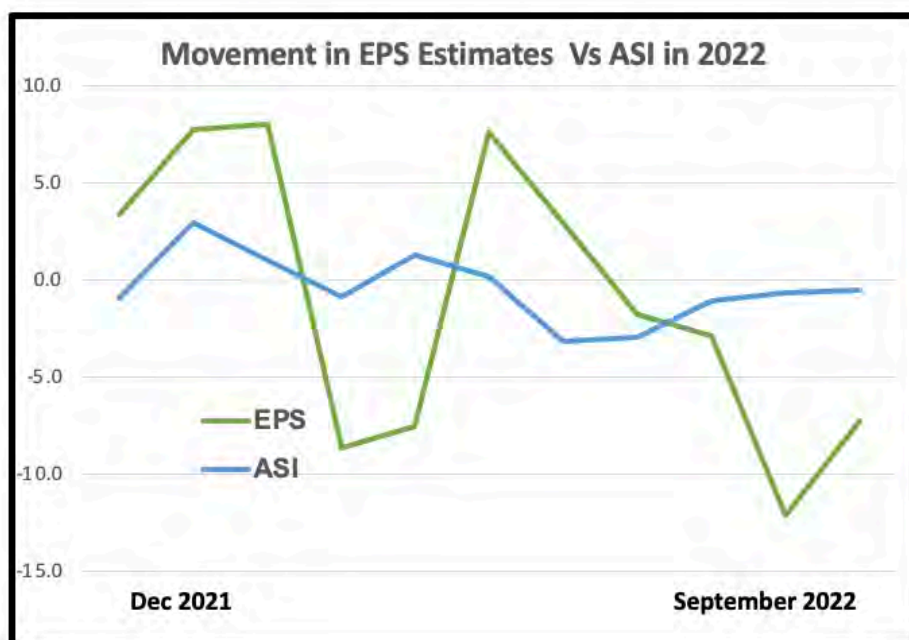
The monthly STAR chart that illustrates the change in the direction of analysts' earnings estimates over the next two years has recently recorded a very small reduction in the otherwise decidedly downward path. The latest consensus data show earnings for the largest 450 main market shares falling back by just over 7% compared with the average of the previous three months.

As noted in the September issue of the STAR newsletter, that lists the LSE main market thirty winners and losers so far this year, there is little correlation between the movement in the All Share Index and the vast majority of shares quoted on the market. It is partly because of this lack of connectivity that the trajectory of the blue line in the chart below appears to be largely at odds with the sharp downward movement in the estimated movement in future corporate earnings.



John Mulligan, creator and editor of STAR

We are grateful to John for sharing part of the detailed research that goes into STAR with UKSA members.

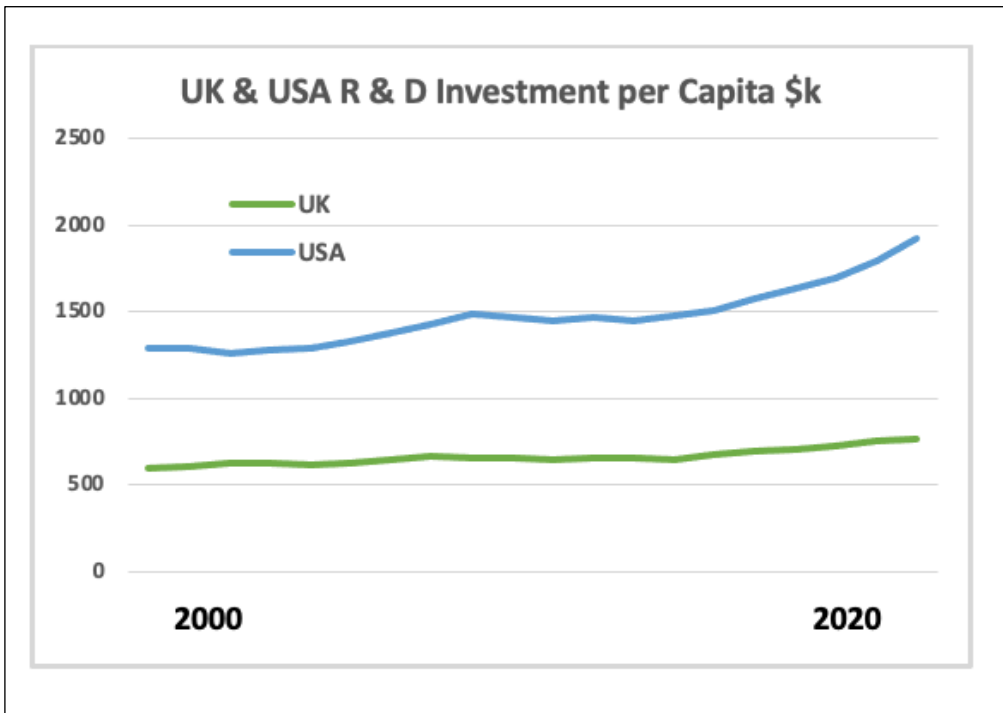


Source: STAR Newsletter chart derived from data supplied by Sharescope

The movement in earnings estimates has been calculated by comparing the estimated total earnings for the next full reporting year (Year 2) of all the companies covered with the mean of the comparable aggregated estimates over the previous 3 months.

Investing for the future

The STAR newsletter has been commenting on the vital importance of investment in research and development for many years. Earlier this year I included a chart comparing the R&D investment per capita between the UK and the USA over the past twenty years. Although not all expenditure on research and development leads to future economic growth, this measure is generally recognised to be a useful indicator of the relative trends in economic growth in the future.



A source of information on investment platforms

I have recently heard of a relatively new website that provides information on different online investor platforms. It is called **Compare the Platform** (www.comparetheplatform.com) and is intended to provide guidelines to those who are new to investment and are confused by the existing set-up. Apparently, the website has been operating for three years, but I heard about it through information on a second stage fundraising event through which the directors are hoping to expand their activities.

Frank Redington Prize Competition

Frank Redington was a very highly regarded actuary, who was Chief Actuary of the Prudential as well as serving a term as President of the UK Institute of Actuaries. A prize competition has been set up in his name, calling for essays containing suggestions for making improvements that serve the public interest in the areas of 1) pensions and 2) the financial sector overall.

For anyone interested, details can be found [here](#).

The noteworthy thing for UKSA is that two of our members have entered and been told they are on the shortlist. We don't know how "short" the shortlists are, but both have been asked to attend the results announcement event on 20 October, and to come prepared to answer questions in an impromptu discussion session in the event they win. Colm Fagan, past President of the

Society of Actuaries in Ireland, has put an essay into the Pensions competition, and Martin White, UKSA director, has put an essay into the financial sector competition.

If either win, wonderful, but even if not, we should have a story to tell in the next issue.

What can we learn about today from looking at economic and financial history?

The answer is a great deal! And it's hard to believe, but there is lots of literature out there demonstrating that the economic theory that dominates political decisions just doesn't explain how things like booms, crashes and recessions come about. Here's a link to an excellent short article by Geoffrey Hodgson on the Queen's famous question referred to [here](#). The article starts as follows:

“On Wednesday 5 November 2008, Her Majesty the Queen and the Duke of Edinburgh visited the London School of Economics to open a new building. During a briefing by LSE economists on the build-up to the turmoil on the international markets the Queen asked: ‘Why did nobody notice it?’”

On 22 July 2009, Professors Tim Beazley and Peter Hennessy wrote a widely published letter to the Queen in response to her question. In summary, their letter concluded:

“The failure to foresee the timing, extent and severity of the crisis and to head it off, while it had many causes, was principally a failure of the collective imagination of many bright people, both in this country and internationally, to understand the risks to the system as a whole.”

However, Geoffrey Hodgson and a number of more questioning, non-mainstream economists felt that the Beazley and Hennessy letter omitted the real problems that were hobbling the economic establishment from seeing how the world really worked. I'll reproduce just a couple of paragraphs from Hodgson and Co.'s response that will give you a flavour.

“We believe that the narrow training of economists – which concentrates on mathematical techniques and the building of empirically uncontrolled formal models – has been a major reason for this failure in our profession. This defect is enhanced by the pursuit of mathematical technique for its own sake in many leading academic journals and departments of economics.

There is a species of judgment, attainable through immersion in a literature or a history, that cannot be adequately expressed in formal mathematical models. It's an essential part of a serious education in economics, but has been stripped out of most leading graduate programmes in economics in the world, including in the leading economics departments in the United Kingdom.”



*Martin White, UKSA
director and creator of
Savers Take Control*

Back to today – and getting to the “so what” for investors

Today, if you choose to look a bit, there are many: two economists that are famous in recent times for seeing problems building up are Steve Keen and Andrew Smithers. Steve Keen, an Australian economist, was one of very few who foresaw the 2007/8 crisis building and published material in advance explaining what was happening. The most important ingredient was excessive private debt, by the way.

Andrew Smithers, together with Stephen Wright, published in 2000 their book “Valuing Wall Street – protecting wealth in turbulent markets”. This was based on a study of around 200 years of stock market behaviour, and claims, I think convincingly, that there are ways of telling when the stock market as a whole is extremely over- or under-valued. They only make this claim for the market as a whole, not for individual companies. They put forward the idea that (this is simplifying it a bit and putting it into my words) companies in aggregate have a sort of intrinsic value, to which their stock market values revert occasionally. However, market values can be way above or way below this intrinsic value. And the fact that they are well above doesn't mean they can't go higher. But there is a level of expensiveness where the odds are not good, and equities become very risky indeed.

It's a tricky challenge. Smithers and Wright explain that the return achieved by companies over time, in aggregate, is pretty good. The historical pattern does vary by country, but it's a positive real return after tax. And that's the return that shareholders get over time. However, there's the additional question for shareholders of how under-/over-valued shares are when you buy them and when you sell them.

Since “Valuing Wall Street”, Andrew Smithers has written a number of books, the latest being “The economics of the stock market”.

Andrew has been retired for many years, having once run the investment business of Warburg – which is one of the components of today's massive Blackrock. He set up a consulting business, Smithers and Co, to give strategic advice to fund managers. That business is now closed, though you can find many of his writings still at www.smithers.co.uk. What motivates him today is to share his conclusions about how the business and financial world works, in order to inform public policy. He joins Steve Keen, Geoffrey Hodgson and so many others in saying that dominant economic theory just doesn't reflect the real world. One of his major themes is that the way in which senior business executives are paid (massive bonuses for increasing earnings per share, and stock options, for example) is really damaging for society as it leads to under-investment and ultimately to lower productivity and consequently a lower wage economy overall than our competitors. Unsurprisingly, it is in the UK and the USA where these problems are at their greatest.

If you search “Steve Keen economist” and “Andrew Smithers economist” on [YouTube](https://www.youtube.com), there are many talks and discussions to listen to, some dating back quite a few years. They are both thought of as outsiders by many, but are getting increasingly listened to. These things don't change quickly, it seems!

Monday 10 October – free forthcoming online discussion with Andrew Smithers

There is a think tank called the “zyen” organisation that holds some really interesting discussions. I’d not say it was politically aligned to any particular group. Their discussions are generally available on YouTube, and their website is <https://www.zyen.com>.

I recently received an invitation to dial into the above event on 10 October, and asked whether it would be OK to share the details with UKSA members. “Yes, please do”, came the response, so here goes:

On their website you can navigate to past and forthcoming events, but the link for Andrew Smithers’ session is [here](#). If you follow that link, you will see that you can book to attend. I wonder whether our PM and Chancellor will be listening!

To encourage you further, a description of the event is shown below.

Avoiding Financial Crises

Webinar

Economic policymakers must rely on theory to guide them. If the theory is bad, policy can be disastrous. This is the situation today. The current consensus model of the economy (“CM”) leads to periodic financial crises. We risk having another soon. We must replace CM with a better model, and I propose we use The Stock Market Model (“SMM”) which is explained in detail in *The Economics of The Stock Market* published this year by Oxford University Press. If we use SMM we will have a much better theory, a much improved understanding of the economy and we will be able to avoid financial crises.

Speaker:

Andrew Smithers founded Smithers & Co in 1989. Before that he ran S G Warburg's successful asset management business for many years (now part of BlackRock). A regular financial commentator and columnist, and author of many academic publications, he co-authored *Valuing Wall Street* with Stephen Wright (March 2000). He wrote *Wall Street Revalued: Imperfect Markets and Inept Central Bankers* (July 2009), and “Can We Identify Bubbles and Stabilize the System?” in *The Future of Finance*, published by the LSE in September, 2010.

Other books include *The Road to Recovery: How and Why Economic Policy Must Change* (September 2013), and *Productivity and the Bonus Culture* (July 2019).

His latest book, *The Economics of the Stock Market* was published by Oxford University Press in March 2022.

Andrew seeks urgent change to accepted economic theory and the regular financial crises which policy based on it causes.

Don't forget, Associate Members can take advantage of half-price full membership of UKSA in the first year by clicking [here](#).

The UKSA Board

4 October 2022