

Daily comment

Friday 30 May 2014

Strategy, The Merchants Trust, technology – Apple

Strategy: [Alastair George](#)

Strategy – Disturbing tranquillity

Collapse in volatility makes us uneasy. Since Q412, global measures of asset class volatility have fallen to levels not seen since 2007. This decline in volatility is in our view policy induced and has driven risk premiums lower, to the point where policymakers are becoming more concerned about financial stability. Yet again, investors have been willing to seek out ever riskier securities to maintain returns in a global search for yield when confronted with low interest rates. This has been a difficult time not only for active managers who are struggling to find value, but also for dealers contending with shrinking trading volumes.

But a very traditional interest rate tightening cycle is clearly in view. Unemployment is declining in the US and UK to levels that in previous cycles prompted the Fed and Bank of England to tighten monetary policy. Policymakers are slowly realising that to have a smooth upward glide for interest rate policy, the first increases should start sooner rather than later. *In our view, tightening monetary policy may be the trigger for rising volatility and increased risk premia.*

No change to cautious portfolio strategy. Having the patience to keep portfolio risk modest while interest rates are increased from emergency levels may be the route to medium-term outperformance. Within equity markets we continue to strongly favour large caps over mid-caps (despite the recent underperformance of the latter) and large cap M&A continues to be supportive of valuations.

The Merchants Trust MRCH:LN 512p Mkt cap £543m – Invitation

Edison will be hosting a lunchtime presentation for The Merchants Trust on Thursday 12 June at our office at 280 High Holborn. The presentation will be made by Simon Gergel, manager of the FTSE 250 Investment Trust.

Please revert to me ([Jeremy Silewicz](#)) or [Hannah Philp](#) if you would like to attend.

Technology – [Richard Windsor](#)

Digital Life services are what Apple needs to secure its future. Next week sees Apple host its overhyped WWDC developer's conference in Silicon Valley. It is at this conference that Apple typically launches its software innovations, leaving devices for other events. Hype has focused around wearables, health and smart home but none of these are likely to do anything for Apple in the immediate term. Wearables is a solution looking for a problem and unless Apple has come up with a use case that suddenly makes these devices a must-have, demand is likely to remain very soft. Health is likely to remain hobbled by the lack of unobtrusive and reliable sensing devices and smart home looks like nothing more than a certification procedure for devices to work with iOS.

What I am looking for from Apple are moves to address its very weak digital life offering.

Apple is brilliant at delivering the apps and services of third parties onto its devices but its home-grown services are very limited in scope and are often substandard. Apps and services are not part of Apple's core strength and this is why I suspect Beats is the first of many M&A deals over the next

few years. The fit with Beats is quite good in that headphones expand its hardware reach and the streaming music service is complimentary to iTunes. However, Apple has to offer many more of its own services to users if it wants to preserve its edge and maintain its very high margin in a rapidly commoditising industry. Apple has struggled to create many of these services itself and this is why I can see it repeating Yahoo!'s strategy of growing its way around the digital life pie by acquisition.

I am hopeful that Apple will be able to do a better job than Yahoo! and am still waiting for a coherent and integrated offering from Yahoo! for mobile devices.

Unless the market has got it wrong, WWDC is shaping up to be a pretty boring event with very little launched that will actually drive Apple's top and bottom lines any time soon.

The next product event is likely to be in the early autumn when the company will doubtless introduce its widely anticipated iPhone 6 and, potentially, upgrades to other product lines.

Best regards,
Jeremy Silewicz

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