

As you know for some years now I have been apprehensive of Stock Exchange equities as the best investment for Pension Funds. If the Trustees memory of my warnings needs to be refreshed I would like to quote from a memorandum which I wrote for the Trustees of the Imperial Fund dated 30th April, 1969.

"The gap has been wavering around the 5 to 5½% level and when it is appreciated that the growth of dividends over the past forty years has only been of this order, it can be appreciated that I have some misgivings concerning continuing investing in equities. Moreover, as we have seen demonstrated in this recent Budget, there seems a move towards raising more taxes from companies and whilst even the Chancellor says that he welcomes an increase in profits, they seem to be determined not to let too much emerge in the hands of shareholders."

"For the past few months I have not been able to see the advantages of equities over gilts as clearly as in the past forty years, and I am therefore worried."

This apprehension was based more on a statistical appraisal based on the widening of the Reverse Yield gap. Today this gap has widened to approximately 7½%.

The Trustees will know that at two recent investment meetings I have advocated the purchase of undated British Government Securities. The purchase a month or two ago was perhaps a little premature and there was a further lowering of prices in the gilt market. Today there are occasional signs of recovery and although there may still be further set backs the attraction of certain income of over 14% appeals to me.

With a Labour government in office and apparently likely to stay there for some time I see no immediate relaxation of the 5% per annum dividend growth and indeed, in spite of Mr. Healey's rather hollow declaration at the

C.B.I. dinner that he is in favour of profits, almost every action they take seems to make sure that profits cannot be earned in view of the clamp down in prices and the inability to restrain costs.

I would therefore not obstruct the suggestion to switch a number of the lower yielding equities into undated gilts.

There was one factor which I had frequently mentioned over the past few months as being likely to improve the equity market (as opposed to the outlook for companies) and that was the prospect of the huge Government self invested Reserve Pension scheme. As this has now been abandoned by Barbara Castle even this optimistic factor for the market has been removed.

G.H.R.G.

23rd May, 1974