

Back to the future

By Tom Stevenson, 24 February 2010

The changing face of the London stock market or plus ca change.....

The Barclays Capital Equity Gilt Study is always an interesting read as well as being a yearly reminder of a few timeless investment lessons such as the importance of reinvesting your dividends.

The message on that score is as clear this year as it has ever been. With 110 years in its database now, Barclays calculates that £100 invested in the UK stock market in 1899 would have grown to £11,407 by the end of 2009 in terms of capital appreciation alone. If dividends from the shares had been reinvested, however, the same £100 would have grown to a scarcely believable £1.49m.



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That's what happens when the magical power of compounding gets to work on stock market returns over an extended period. It's the clearest illustration I know of the merits of deferred gratification.

As in many documents, however, one of the most interesting parts of the 2010 Equity Gilt study is tucked away towards the back where Barclays explains how it goes about calculating equity returns over the century and more covered by the research. As part of its explanation of the indices it uses for various periods over the years since 1899, Barclays shows a table of the constituents of its equity index at different times.

The first two columns in the table below are from the Barclays study while I've added the third as a comparison with today's market. I think it provides an interesting insight into the changing economy, not just of Britain but of the world as a whole.

The changing face of the British stock market		
1899 – 30 biggest shares	1962 – FT30 index	2010 – 30 biggest shares
De Beers	Associated Portland Cement	HSBC
Rio Tinto	Bass Mitchells & Butlers	Shell
Armstrong Whitworth	British Motor	BP
Consolidated Gold Fields	Coats Patons	Vodafone
London and County Bank	William Cory	GlaxoSmithkline
London City & Midland Bank	Courtaulds	Rio Tinto
Lloyds Bank	Distillers	BAT
London & Westminster	Dunlop	BHP Billiton
Vickers, Sons & Maxim	EMI	AstraZeneca
Imperial Ottoman Bank	Fine Spinners & Doublers	BG
Parrs Bank	General Electric	Barclays
Royal Insurance	Guest Keen	Lloyds TSB
Tharsis Sulphur & Copper	Hawker Siddeley	Tesco
Great Northern of Copenhagen	House of Fraser	Anglo American
Simmer & Jack Proprietary Mines	ICI	Standard Chartered
North British & Mercantile Insurance	Imperial Tobacco	Xstrata
Consett Iron	International Stores	SAB Miller
Eastern Extension Australasia China	Leyland Motors	Diageo
Nobel Dynamite	London Brick	Reckitt Benckiser
Mysore Gold Mining	Murex	Unilever
Exploration Co	P&O Steam Navigation	Imperial Tobacco
Alliance Assurance	Rolls-Royce	Royal Bank of Scotland
Aerated Bread	Swan Hunter	National Grid
Howard & Bullough	Tate & Lyle	Prudential
Sun Insurance	Tube Investments	Centrica
New Jagersfontein Mining	Turner & Newall	Eurasian Natural Resources
Champion Reef Gold Mining	United Steel	BAE Systems
National Telephone	Vickers	Tullow Oil
Northern Assurance	WatneyMann	Aviva
Phoenix Assurance	Woolworth	Scottish & Southern Energy

Source: Barclays Equity Gilt Study 2010, digitallook.com

It's tempting to compare the second and third columns of the table and draw the conclusion that over the past 50 years or so Britain has given up its place at the top table of global manufacturing powerhouses.

Certainly, it is true that the London stock market in 1962 was home to a number of world class engineering businesses that either no longer exist or are shadows of their former selves. It is hard to conceive of British-owned ship-builders or car-makers in the top-flight of the UK stock market these days and the British textiles industry and to an extent chemicals and steel have followed a well-worn path to countries in the developing world in search of cheap labour.

But everyone knows that wistful story. It's rather less interesting I think than the comparison between the first

and third columns of the table which shows as many similarities as differences between the London stock market of 110 years ago and today's market.

One of the more trivial similarities is that 110 years ago there was a publicly-quoted telecoms company listed on the market as there is today while in the middle years that kind of utility was owned by the state.

For years now people have bemoaned the narrow focus of the London stock market, with its concentration of financials, oil stocks and pharmaceuticals companies. Add in the mining stocks in the top 30 – Rio Tinto, BHP Billiton, Anglo American, Xstrata and Eurasian – and these four sectors continue to dominate the list of Britain's biggest companies.

But glance back at the London market at the end of the Victorian era and what is striking is its concentration on two of these four sectors. Finance and mining were pretty much the only two games in town at the high-water mark of the British Empire. What the world needed at the end of the first great period of globalisation looks very similar to its requirements during the latest expansion of world trade and industrialisation.

An expanding world needs raw materials and it needs capital, two things that the City of London has always specialised in providing. It's one reason why UK investors should be grateful that their home market is the clearing house for the global economy. An investment in London is as much an investment in the world as it ever was.

Note the value of an investment and the income from it can go down as well as up, so you may get less than you invested. The ideas and conclusions in this column are the author's own and do not necessarily reflect the views of Fidelity's portfolio managers. They are for general interest only and should not be taken as investment advice or as an invitation to purchase or sell any specific security. Past performance is not a guide to what may happen in the future. Investments in small and emerging markets can be more volatile than more established markets. For funds that invest in overseas markets, changes in currency exchange rates may affect the value of your investment.