## Chapter 1

EXTRAORDINARY INVESTING FOR ORDINARY PEOPLE

# The shareholder revolution

This book is about how to make money by speculating on the stock market using some innovative tools. It's also about my personal journey as a businessman and an investor, and how my investment knowledge and skills have evolved since the heady days of the 1980s when I was a brash whiz-kid who thought he knew it all. I made a lot of money early, lost quite a bit of it, and made a lot more afterwards. I don't believe my success has merely been due to luck – I have learned how to read companies and markets, and how to adapt to the changing fashions in the City of London. My methods involve a lot of instinct and self-confidence but anyone can learn them and put them into practice. You just have to trust yourself. In this book I hope to show you how you can train yourself to become a successful speculator. I'll give you the tools, show you how they work and go through real life examples of companies I made a bundle out of. After that, it's up to you!

First, I'd like to take you back to the 1980s when the new capitalism first began. It was a great time for me because I was in the middle of it and making money. I thought I knew it all then but as I was to discover, I was only beginning my journey.

It was April 1987 and I was having a drink in a winebar in the City of London with some stock market cronies. "You could float a brick in a cardboard box and people would buy it," someone said. We all laughed. Margaret Thatcher's shareholder revolution was in full swing. With so many people getting rich fast, there was a new ethos: barrow boy chic, epitomized by the comic Harry Enfield's 'Loadsamoney' character. For the first time in generations, it was good to be greedy in Britain.

The government told us so. Share privatizations were priced to ensure that prices went up. You couldn't lose. It was almost your civic duty to be greedy. America thought so too. In New York the legendary arbitrageur Ivan Boesky even wrote a book called *Greed is Good*, which purported to explain his uncanny ability to buy shares in companies just before they came under attack by a hostile bidder, driving the share price up. What we didn't know then was that Boesky was cheating by bribing insiders for early news of takeover bids.

Would we have cared if we had known? I doubt it. We were too busy applying for shares as Margaret Thatcher sold off state-owned corporations on the stock market. There was a limit on how many one person could order on their own account, but there was a way around that – you could persuade other people to apply for shares too. My wife and my children applied, and anyone else I could find who didn't have the money or inclination to do it for themselves.

I was the Chief Executive Officer of a successful firm, so I approached my staff. Many of them were only too happy to help in return for a 10% cut of the profits. It was cheaper than giving them a Christmas bonus. By getting them to sign powers of attorney, I didn't even have to trust them to hand me my profits when the shares were sold. They wouldn't all do it, of course, but the smart ones did, the ones that could spot a good career move when they saw one.

I didn't think it was unfair. It wasn't costing them anything, since I was putting up the money and taking the risk that the share price might not rise. Not that there was any risk of that. I wouldn't have been doing it if there had been. The only way for privatization shares was up, that was the beauty of it. The government got rid of its companies, the City got rich and millions of ordinary people around the country were laughing all the way to the bank.

That's how it was. The government's policy of popular capitalism was a huge success. We all became share owners, but only for as long as it took to get on the phone and sell them. I was making enough on each share application to pay for a term of

### Stagging

A 'stag' is a short term speculator who buys shares in a new issue with the intention of selling them at a profit as soon as dealing starts. Stags often try to buy as many shares as possible but in popular issues, the number of shares allocated to an individual tends to be small, so stags persuade others to apply for shares on their behalf. During the eighties, the rules against multiple applications began to be tightened up as stags made large profits, but in the early days of privatization there was little to prevent the quick-witted from exploiting the government's desire to ensure a successful share issue.

Table 1.1

| Company | Date | Issue price | Price day one | Premium |
|---|---|---|---|---|
| BAE | Apr 81 | 150p | 171p | +14.0% |
| C& W | Nov 81 | 168p | 198p | +14.0% |
| Amersham | Feb 82 | 142p | 188p | +32.3% |
| Britoil | Nov 82 | 100p | 81p | -19.0% |
| British Ports | Feb 83 | 112p | 138p | +23.0% |
| Jaguar | July 84 | 165p | 179p | +8.4% |
| BT | Nov 84 | 50p | 90p | +80.0% |
| TSB | Sep 86 | 50p | 85.5p | +71.1% |
| British Gas | Apr 81 | 150p | 171p | +14% |

school fees. Twenty applications paid for one child's entire education.

And it really was risk-free, almost. Only one of the issues lost money – Britoil, which dropped 19% on the first day of issue. You might think that was a serious loss, but my average first day gain on the others was 35%. 35% in one day!

By the spring of 1987 I wasn't feeling so clever, though. The privatized companies were doing well. Having cast off the shackles of state ownership, they were behaving as the free marketeers had predicted, becoming more efficient and more profitable. They had taken their share prices with them – see Table 1.2.

If I had held on to the shares instead of stagging them, I would have made a compound return of something like 80% a year, taking into account the various issue dates. I wouldn't have just

| Table 1.2 April '87 Value of £1000 invested at issue | |
|---|---|
| Company | £ |
| BAE | 4213 |
| C&W | 2143 |
| Amersham | 3983 |
| Britoil | 1119 |
| British Ports | 4101 |
| Jaguar | 3606 |
| BT | 2131 |
| TSB | 1660 |
| British Gas | 1940 |
| TOTAL | 26519 |

made enough for the school fees; I could have bought the whole school!

That's how it looked to me in that City winebar in April 1987. Like most other people, I was new to the stock market, and it had done me proud. Since the war, the stock market had only really been for the professionals – the institutions and pension funds owned shares, not private individuals. Margaret Thatcher had created a whole new class of private share-owners, and we were new at the game.

The game itself wasn't new, of course, Joint stock companies appeared in Europe in the Middle Ages and the English got in on the act during the 1500s, when London merchants took a punt on voyagers like Sebastian Cabot, who sold six thousand pounds' worth of shares in twenty five pound lots to finance his attempt to find the Northeast Passage to the Orient. He failed to find it, but trade to Russia opened up with the founding of the Muscovy Company. Back in London, investors became ever more sophisticated as the Empire grew. That once-great insurance institution, Lloyd's of London, developed out of syndicates of coffee house patrons who had hedged their bets on shipping by parcelling up the risks and trading them between each other. There had been plenty of fraud, which is why some of the more honest brokers had left the coffee houses in the early 1800s to form their own investment club – which eventually became the London Stock Exchange.

### Lloyd's of London

Lloyd's of London, the world's oldest insurance market, began in the 1600s as a coffee house where the shipping industry congregated. Gradually a system of maritime insurance developed there which was virtually the only kind of insurance in existence until the 1880s.

One of its unique characteristics is that it allows wealthy private individuals, known as 'Names', to underwrite insurance risks. In the late 1980s a series of natural disasters and large court awards to asbestosis victims in the US hit Lloyd's very badly, and many Names were ruined. Lloyd's began to reorganize itself, allowing corporations to become Names.

The terrorist attack in the US on the 11th of September 2001 hit Lloyd's very badly, costing it a record loss of £3 billion, but in 2002 Lloyd's was back in the black for the first time in six years, making a profit of £834m as insurance premiums soared.

All that *laissez-faire* free-marketeering had come to a halt after World War 2, so for most of us the stock market had been a closed book until Maggie Thatcher came along. She was determined to halt the tide of socialism and dependence on the state by making us take responsibility for our own assets. The trouble was, the state seemed to own almost everything and tax everything else out of existence, so there wasn't much incentive to take a risk.

Her solution was to provide incentives. She broke the unions, made it easier for firms to sack people, gave council house tenants the right to buy and made it easier to borrow money. Getting ordinary people to gamble on shares was a special challenge, but she found a way to do that too, by virtually eliminating the risk. There wasn't much chance of losing on a privatization issue because the government priced them low.

That was just to prime the pump – the government didn't want people just to stag the privatization issues and trouser the money. It wanted them to become committed stock market investors. It introduced all kinds of deals to encourage this, from lower taxes on share dealing to employee share schemes. It made the financial institutions feel confident that they could make money, made the big firms feel that they wouldn't be blackmailed by the likes of Arthur Scargill, and liberated the City with the Big Bang reforms. The stock market loved it. In 1985 the index stood at 900; by 1987 it had almost doubled. Suddenly there were millions of private shareholders slavering for a profit. A quarter of a million people turned up for the 'Money' Show at Olympia in London in 1986. You would expect that kind of turn-out for the Boat Show, but for a show about money? It was amazing and it didn't last. You could have got all the visitors to the Money Show of 2003 into my local village hall.

In 1987 the stock market was the only story in town. The market was rising so more new people were piling in, which led to the market rising even further. A lot of us were holding our breath, wondering how much longer it could last.

"You could float a brick in a cardboard box and people would buy it," said the man in the winebar and we had all laughed. Joining in the mirth, I couldn't help feeling that a crash wasn't far away.