



Seminal change: Five Oceans
chief investment officer
Christopher Selth

TURNING POINT

As the bias of financial markets swings from capital back to labour, the trick lies in managing the transition.

Report: David James

● Christopher Selth's view of the international investment environment is summed up by one statistic. A year ago, Five Oceans Asset Management, the investment fund of which he is chief investment officer, was 70 per cent in equities (net) and 30 per cent in cash.

Now, the ratios are reversed. Selth believes the world's financial system is at a crucial turning point, and defence is the order of the day.

Five Oceans Asset Management is a global "bottom up" investment house that picks individual companies that it likes around the world. The firm is at the smaller end, controlling \$120 million in funds.

Selth believes the world financial system is at a turning point, creating a deeply problematic investment context. A quarter of a century of deregulation, which created a bias towards capital and away from labour, appears to be coming to an end.

The habit has been to see capital as more important than labour in the belief that this produced a better outcome for labour as well. However, this is being re-examined.

As the bias towards capital starts to be redrawn, a number of once-taboo subjects are being raised, Selth says. One is income distribution.

"The rich have got richer, their assets have been re-priced," he says. "This meant that the people with wages were going nowhere, but at least their house prices were going up. So they maintained consumption. [But] their share of wealth creation relative to the other side was more fragile. It was built on borrowings.

"In a sense, the system has moved to full extension in terms of the ability of the consumer to maintain consumption levels by using borrowings."

Selth does not doubt that what is happening is an inflection point: a seminal change in how the markets operate. The games of financial engineering that have seen financial sector firms in English-speaking countries account for two-fifths of corporate profits but only 5 per cent of employees are losing their effectiveness.

The financial sector has also been a creator of debt. In 1980, US financial sector debt was only a 10th of the size of the non-financial sector; now it is half.

"The real question is what the transition to the next stage looks like," Selth says. "Can it be managed? There is a rebalancing process. That is not just within the economy but between countries as well."

What does this mean for investment strategy? Selth says quickly he is short in finance stocks. Diversification in such volatile markets is tricky.

"The big danger in the market is that with a market so volatile, I put all my money backing one bet. You get these extraordinary sector rotations going through the markets. So while I acknowledge the broad themes, I will make sure [I have companies] which are not consistent with the theme but are quality companies and are cheap enough. So I am not hostage to grandiose themes." **FRW**