
Democratology

and the future of the Financial Services Industry

Nick Birrell

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COUNTY INVESTMENT MANAGEMENT LIMITED
Level 20, 333 Collins Street Melbourne Victoria 3000
E-Mail: county@county.com.au Internet: www.county.com.au

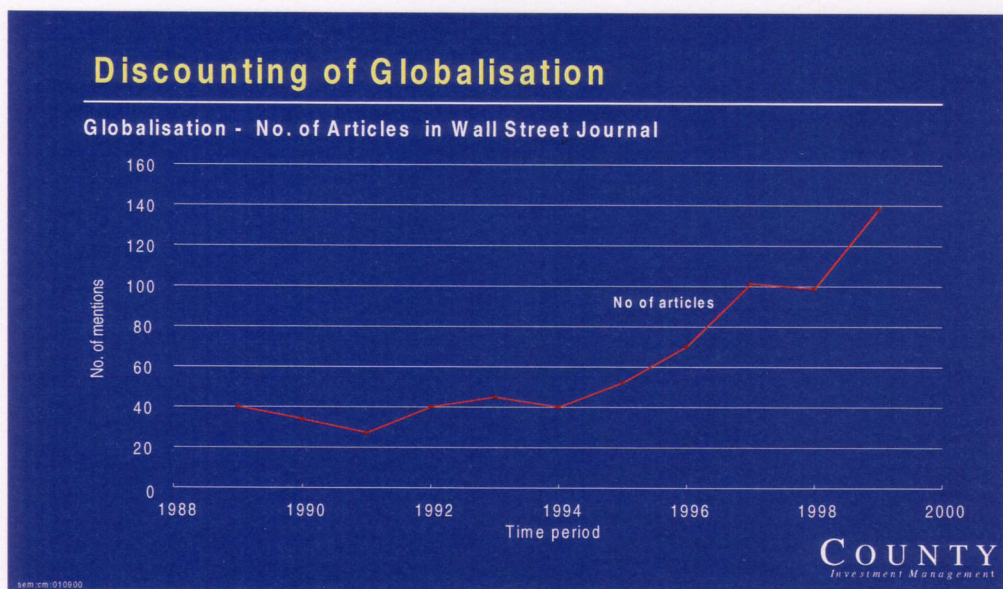
Good afternoon ladies and gentlemen. Today I would like to apply County Investment Management's active investment philosophy to our own industry, financial services.

First of all, what is an investment philosophy? An investment philosophy is a statement of belief as to how an investment manager can add value in markets which by many accounts are essentially efficient.

County has subscribed to one investment philosophy consistently throughout our 15-year history. We believe that mistakes are made by market participants who simply assume that the mechanisms driving economies and markets will continue in the future as they have in the past. Such mistakes are exploitable by investors who are capable of informed insights into the structural changes that affect these mechanisms.

County's active investment processes involve forming such insights and then exploiting them in our economic forecasts and in the positioning of our portfolios.

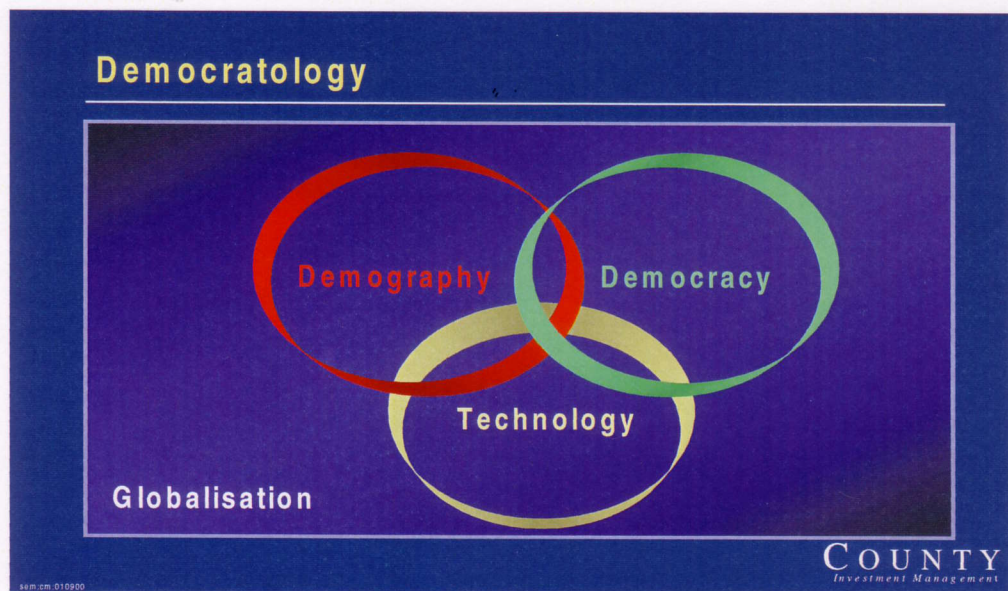
The operation of our investment philosophy is best illustrated by example.



In the late eighties, County recognised that globalisation was a structural force that would likely have profound consequences for economies and markets. In particular, it was likely to be a force that would lead to a structurally lower inflation environment. On this basis, in 1990 we correctly predicted that the first half of the nineties would see bonds perform strongly and that the second half would belong to equities.

Introducing Democratology

As this graph shows, globalisation is now very much in the public domain. As a result, we have developed a new structural force that we believe will provide insights into markets over the next decade. We are calling this force "Democratology".



In arriving at this new structural force we went back to the basics of the drivers that we believe are key to the current and forthcoming era. These are Demography, Democracy and Technology, hence Democratology, against a still very important backdrop of Globalisation

Now each of the topics in the circles is much considered by markets. In particular, there is a multitude of broker reports on such topics as the impact of the baby boomers, consumer democracy, or consumerisation, and the shift to an information economy.

Our overall insight is that there are many non market-discounted insights to be gained in the intersections of these circles where two or more of the structural forces interact. In studying these intersections we have been able to pass exploitable insights onto the various investment teams that manage portfolios on our clients' behalf.

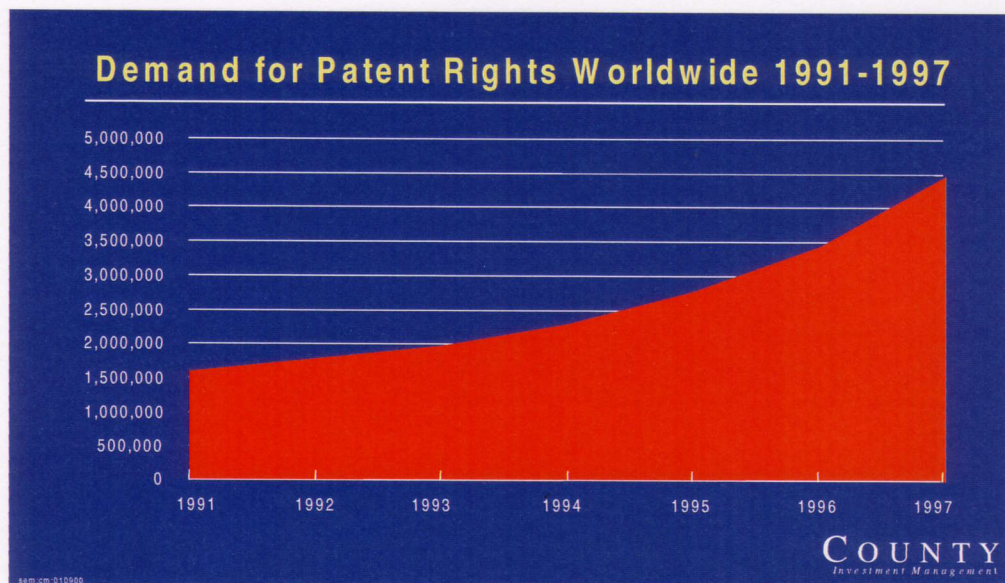
In this talk, I am not going to describe implications of democratology for the markets, but rather I will look at some consequences for the financial services industry.

Before doing this, I will paint the scene by discussing briefly some of the forces at work in each of the three democratology circles.

Technology

When we mention technology, we are not just thinking of gadgets but rather a shift in the structure of economy from one of goods and monetary capital to one in which intellectual capital is playing an increasingly important role.

This is illustrated by the almost exponential rise in the demand for patents globally, these being claims on valuable intellectual property.



One of the reasons that we see such an increase in the protection of intellectual property is that we live in an age in which two transformational general-purpose technologies are at work. A general-purpose technology is one that has widespread trickle down and spill over effects on the economy as a whole. Past examples of general purpose technologies are the printing press and the steam engine.

The two general purpose technologies of our age are information technology, or more precisely the digital binary circuit, and biotechnology. The transformational power of information technology is very powerfully demonstrated by the Internet.

This slide illustrates the way in which the Internet is changing the very way in which we think about the world. It is a map of the cyber-world from the new field of cyber-geography, in this case tracking the paths of Internet messages through various Internet Service Providers (ISPs) shown by the different colours. The ISPs can be thought of as the new city states of this world in a very strong interaction with the theme of globalisation.