PAUL STEVENS OF 1ST PORT ASSET MANAGEMENT, WITH CONSULTANT MELISSA LONGLEY, AT THE LANSDOWNE CLUB

IT'S BEEN A BLOODY THREE YEARS IN THE WORLD FINANCIAL MARKETS, AND IT DOESN'T LOOK AS IF IT'S GOING TO GET BETTER ANY TIME SOON. SO, HOW ARE MAYFAIR'S BOUTIQUE INVESTMENT HOUSES COPING? ERIK BROWN SPEAKS TO THE FOUNDER OF ONE, WHO REMAINS UPBEAT

Keep calm and carry on

"We always felt we needed three years' track record before anybody would even consider us viable as a small business," says Paul Stevens. "So we got our three years' track record, and it coincided completely with the worst financial situation we've ever experienced."

Stevens is investment manager and branch principal of Mayfair-based 1st Port Asset Management, part of the umbrella financial services business Raymond James Investment Services. We're sitting in a corner of the Lansdowne Club close to Berkeley Square, chatting with Melissa Longley, a consultant to 1st Port through her own business, Longley Asset Management.

Both had previously worked at Kleinwort Benson. Longley spent 11 years at Lehman Brothers, leaving in 1998 – ten years before the bank's collapse marked the beginning of the worst financial crisis in a lifetime.

You wouldn't guess at the financial turmoil by just chatting to them, though. Stevens is enthusiastic, relaxed and self-deprecating. Longley is softly spoken and precise. Neither seem even slightly panicked by events.

Stevens was in the Canary Islands when the financial world imploded and, in his own words, "we were really looking into the abyss". "I said, 'Well, look, we have to be rational about this,'" he recalls. "Are we really saying that Marks & Spencer is not going to be selling you knickers and socks in six months' time? Because if we are saying that, let's get out of everything ... If we're not saying that, then we're saying the capitalist system is the best we know, albeit flawed, and therefore we have to believe in the longer-term numbers and the ability to recover."

Sometimes, sitting on your hands is the best strategy. After the crash of 1987, the market lost 30-40 per cent of its value – but, Stevens points out, it bounced back, and those who held the line turned a profit.

"What we're seeing now is massive, extreme volatility," he says. "What have we done in response? Well, we're still likely to be overweight in equities and underweight in fixed interest and bonds. You have to take a macro view, and we don't think we'll be going into a double-dip recession – we think it's going to be a long, slow, uphill struggle. We've always thought that the death of the dollar was overdone. We always felt that the US was going to be the strongest economy and the quickest to recover. So, what we do is we try to ignore the noise."

And there is hope in equities, especially if the UK avoids a double-dip recession. "Corporate balance sheets are probably at their strongest, in terms of leverage, for several decades," Longley says. "The corporates have done a really good job of paying down their debt."

1st Port is a traditional, serviced-based business running discretionary portfolios for private clients. It's a long-term player, Stevens says, and that's a strategy that appears to be working. 1st Port's balanced model (based on a £250,000 portfolio) has seen a net increase of 36.5 per cent since inception, compared with the 33.1 per cent achieved by the Investment Management Association's balanced managed model in the same period.

"The biggest issue for us – as it is for everyone – is the Eurozone situation," Stevens says. "But we are still of the belief that they will sort it out, because what's the other choice? It's terrifying that choice."

That said, these are strange times. Stevens says one of the investment manager's mantras is that the market has nothing to do with the economy. This time it does. Companies may be in rude health, but their values have been impacted by the global financial crisis.

Still, Stevens and Longley are hopeful. "If we get a bit of resolution out of Europe," Stevens says, "if we get better earnings numbers out of the US, if the China situation doesn't flare up … you know, markets could surprise on the upside much more quickly than you would expect. We certainly believe that's the truth in the long term. That's why we are marginally overweight in equities."

The biggest danger, Stevens says, is a policy mistake by the UK government: sticking to austerity measures for political reasons, beyond the point when it's time to ease off. "It's a shame that all political parties can't come together when you've got this kind of economic crisis," he says. "I know it's idealistic, but they don't seem able to say, 'Come on, let's work our way through this.'"

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