

18 September 2008

### Views of Current Situation

Recent market events have been extremely thought provoking.

I recently received this analysis from a fund manager, which I quote, as I feel it accurately outlines the kind of approach that is needed.

*Walking through Cold Treacle. That's exactly how it feels investing in the market right. So what do we think and what observations can we make? There are many interrelated factors that are affecting current investor sentiment, but to try and simplify matters, share prices are determined largely by future earnings and the confidence investors place in them. This is where the problem lies at the moment. Little is known about the severity of the ensuing global recession, its duration and depth and therefore just what companies can earn into these headwinds. Add on the continuing uncertainty over when a line can be placed under financial companies' bottom lines (our best guess is we are about half way through the write-offs), the direct effect this has on the related property and consumer sectors, as well as the immediate focus of a number of Central Banks on inflation rather than growth and what you have is a potent cocktail which looks like keeping a lid on market recovery potential in the immediate future.*

*And yet we saw the FTSE 100 rise by around 10% from intra day lows on 16th July to the end of August, during which time the vast majority of economic news was very poor, subsequently those lows have been retested. In the light of this we think it is right to strategically remain cautious as the effects of the economic downturn are likely to be multi-year and not multi-month in duration, but to equally be tactically aware and opportunistic. At current levels we are more inclined to remain at historically low allocations to equities, in favour of bonds, cash and funds less correlated to equity markets.*

*So how long do bear markets last we hear many asking? History helps but there is no definitive answer. The 1973-1974 bear market was unusually steep with a peak to trough decline of some 70%. The 2001-3 bear market was unusually protracted but not as severe in decline. Looking over the last seven previous bear markets, on average share prices have declined nearer 30% and the downdraft has lasted for around 14 months. History therefore suggests that there is still every possibility of seeing further hardship, but we have already passed half way in the normal time duration for a bear market based on past performance and of course many parts of the market are already down over 30% with only the miners and oils keeping the main market from recording this unfavourable outcome.*

*Equity markets are unlikely to make significant further headway, without the catalyst of the fall in commodity prices, persisting a genuine capitulation in markets, prompted by further distress in the financial sector, or a change in Central Bank policy in favour of interest rate cuts. We can point to some value emerging in many markets but sentiment is crucial. The focus of attention and policy shift by European Central Banks is likely to adjust in early 2009 as the economic reality of the credit crisis becomes apparent. The US presidential election in November might also bring a fresh view to the market. History also teaches us that the best time to accumulate a portfolio is in times of maximum pessimism and not during extreme optimism. We would also remind investors that a sensible approach to building a portfolio is to use a regular savings plan which reduces the impact of market volatility. With interest on cash deposits likely to be falling within the next 12 months, gradually*

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*committing cash to this market, whilst appearing brave, might be a very sensible option. Markets will recover, they always do, but it might take a little longer this time.*

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We are placing comment on the Anglo Capital website detailing the financial strength of the various financial institutions which are holding clients' investment portfolios.

I would request any client to contact me directly should they require further clarifications or current values of their investment portfolio.

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