

## **Investment Markets Update – July 2009**

It is sometimes hard to believe that it is now almost two years since the problems at Northern Rock started to become apparent and resulted in the first run on a major bank for many years.

The fallout from that has been extreme and 2008 in particular proved to be an extraordinary year for everyone with dramatic falls in global stockmarkets, a devastating 'credit crunch' that led to massive problems for many banks and a resulting major slump in worldwide economic activity.

### **Difficult Times.....**

Having experienced what felt like financial armageddon in the last quarter of 2008, we entered the New Year with hopes that we might at least see some signs of stability returning.

These were soon shattered with markets plummeting to new lows during the latter part of February and early March. We felt at the time that these falls should be short-lived and thankfully that has been the case. That said, we know that the abrupt and rapid fall in markets proved to be a real test of investors' mettle; the declines were substantial and coming on top of all the pain experienced since mid 2007 they were doubly cruel. At the time it did feel like the proverbial climactic sell-off that we now believe it to have been, but this bear market has specialised in episodes like this and served to unnerve investors and advisers alike.

### **What Now?**

The rally in global equity markets that we have experienced since early March has been very welcome, coming as it has at a time when we appear to finally have a relative calm in the banking sector.

With no major shocks to the system it is perhaps understandable that there have been many pronouncements of green shoots of recovery and better times ahead.

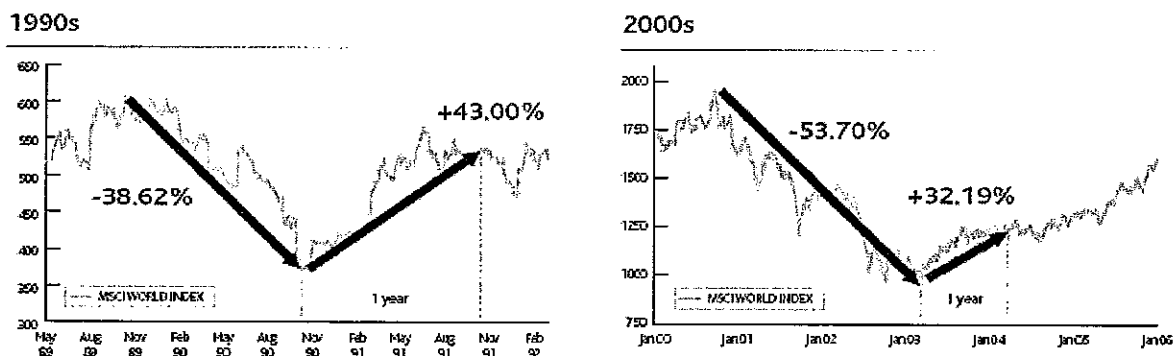
Despite the mini-rally that we have seen through mid-July, markets are still in stop/start mode and, in our opinion, it would be wrong to be over-optimistic at this stage. Our view for some time has been that the recent outpourings of optimism about signs of economic recovery may have been overdone and this has not changed. The worse than expected UK GDP figures for the second quarter of 2009 show clearly that there is still a way to go.

That's not to say that as a firm we remain negative about the growth outlook; we are very happy to see equity markets finally showing signs of settling down but we don't expect an economic recovery to unravel just yet - it will take several months at least and probably not start to become really apparent until 2010.

The release of economic data during June supports this view. Only in Asia, particularly China, have the numbers looked really encouraging. Elsewhere, the picture has been more mixed although we do not overlook the definite signs that things may not be quite as bad as many had feared and not the next Great Depression that had been predicted.

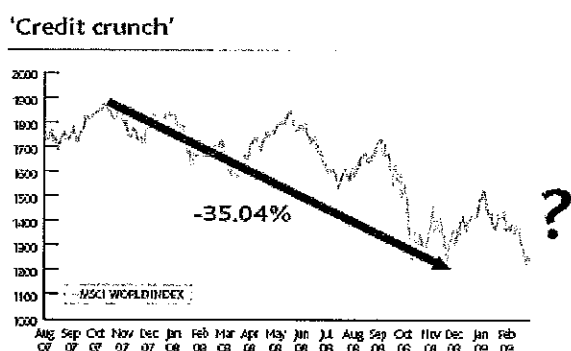
### **Market Reaction.....**

Although history is not a guide to future returns, it is interesting to look at how market falls in the past have typically been followed by relatively dramatic recoveries. For example, we have shown below the dramatic falls in global markets in the 1990s and the 2000s and the performance over the first year after the 'trough'. As the charts indicate, once the recovery arrives, it can be significant and, as we know from the 2003 upturn, it continued broadly until 2007:



Data shown taken from peak to trough and then measuring performance over the subsequent 12 months. When reviewing these charts please remember that past performance is not a guide to future returns and investors may not get back the full amount invested.

A very similar pattern is evident from the data for the significant falls in global stockmarkets in the 1970s and the 1980s. As shown in the graph below, the MSCI World Index recorded a significant fall of 35.04% in 2008 and all eyes are now on what will happen next.



Source Financial Express. Percentage change, total return, gross income reinvested, in Sterling terms.

### Putting things in perspective.....

Having endured almost two years of painful market volatility, it would be easy to get carried along on the wave of euphoria that has swept through equity markets over the last few weeks. But that tends to overlook all of the issues that are still out there in the wider global economy such as the very high levels of debts held by governments and individuals and the likely drag on economic growth of higher taxes and an ageing population. There will be more bad news to come but this is increasingly being offset by tangible signs in certain areas that improvements are coming.

That said, we hold firm to the view that investment markets are following the normal pattern of being between six to twelve months ahead of the economic cycle (this

happens both on the way down and on the way up) and our assessment that we may be over the worst of the current investment cycle is strengthening as each day passes without major crisis points being revealed.

The reality is that no-one knows what markets hold for us, and long-term investors are well-advised not to dip in and out of the market on the basis of the kind of short-term outlook that has been evident over recent months.

On balance, we believe that we should see growing confidence in investment markets through the remainder of 2009 with the real growth opportunities presenting themselves from 2010 onwards.

In anticipation of this, we will be aiming to restructure investment portfolios for our clients to start to reduce money market exposure (where returns are likely to remain low for some time yet), re-introduce conventional fixed interest allocations and take more positive positions in equity funds where we expect to see the real growth story over the next 3 – 5 years.

#### **In Summary.....**

There is no doubt that we will look back on the period from Summer 2007 as a major period for financial markets that will inevitably be talked about in the future in the same context as the major crashes that have occurred through the last century.

It can be very difficult for investors and advisers to remain calm and positive at times like these. We value the loyalty of our clients who have taken our advice and stood firm with the long term investment philosophy which is so important to us as an advisory firm.

We view the future with more confidence now than we have had for two years and believe that our investment approach will start to bring real benefits to our clients as we move in to the next phase of the investment cycle.

As always, we recognise that individual circumstances are very important and can change rapidly so, if you have any questions with regard to this update or your personal financial planning, please do not hesitate to contact us.