The Fry Group

Refreshingly individual financial planning from The Fry Group

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Markets – where are we?

Global equity markets have continued to sell off this week set against a backdrop of concern over the eurozone debt crisis and the strength of the US economic recovery. **But is that a cause for panic?**

Our view is "no".

Reverting to fundamental analysis of human behaviour, all investment decisions are either based on 'fear' or 'greed'. No doubt markets are gripped by fear at the moment but that mustn't be a reason to rush into irrational investment decisions. For example, during equity market volatility, the gut reaction is typically to sell and revert to cash or government bonds. But, allowing for inflation, cash will lose you 5% a year at the moment and bonds are likely to lose you 2% - 3% a year. I hasten to add that one should hold bonds if a secure income is a priority but perhaps within a strategic bond fund as a means of enhancing/protecting returns.

Our conviction is that Western economies will have to monetise their debt (ie: continue to print money) to get out of this slump and, in the end, that will result in a rise in inflation. Over the medium to long term, set against that backdrop, the fundamental appeal of real assets such as equities remains apparent. However, effective stock and asset selection is key to navigating an upward path through these volatile times and anyone in trackers where stock selection or diversified asset allocation is not an option is likely to be in for a bumpy ride over the short term.

In the meantime, the good news:

• In the majority of cases, a correction doesn't turn into a bear market according to a new note from Birinyi Associates:

- Since 1962, there have been 25 corrections greater than 10% during bull markets. Nine of these instances became bear markets. Historically there is a 64% probability that this is only a correction and not the start of a bear market.

- The average correction is 13.2% and lasts 118 days. If this market follows the pattern of the average correction, the FTSE100 will bottom at 5,268 on the 25th of August.

• Wall Street has never been more sure the Standard & Poor's 500 index will rally in 2011, even after speculation the US economy is heading for a recession prompted the biggest plunge since the bull market began. Chief strategists at 13 banks from Barclays Plc to UBS AG see the benchmark measure of American equities surging 17% through to December 31, the average estimate in a Bloomberg survey.

• Corporate health is strong for many companies across the globe according to fund managers. Jupiter CIO John Chatfield-Roberts:

"It is at difficult times like these that we have to remind ourselves that companies are generally in excellent health. By way of example, two-thirds of the US companies in the S&P 500 Index have now reported Q2 earnings and 73% of those have exceeded analyst expectations. That said, they are understandably making cautious outlook statements to the market."

For further information on the current state of markets Patrick Armstrong of Armstrong Investment Management provided *this interview* on CNBC on August 3rd.

Our message for the time being is to sit tight and not to lose sight of the long term objectives of your portfolio. Of course, if you have concerns or wish to review your investment strategy please get in touch with your usual Fry contact, or *contact us.*

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