

## Professionals' View April 2011

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### Looking through to the fundamentals

March turned out to be a very lively month with BBC news crews working overtime trying to keep up with ever changing world events. Truly shocking pictures of the earthquake and subsequent tsunami in Japan knocked Libya off the front pages for a few days. The fact that British and US forces were once again dropping bombs on Middle Eastern soil (albeit with more international backing than previously) seemed almost to pass us by as the nuclear threat in the Pacific, and the efforts to prevent disaster took centre stage, with every commentator suddenly becoming a nuclear physicist.

We had our own bit of excitement in the form of an anti cuts rally, the odd riot, and the latest Budget, which wasn't really that exciting after all. Most of the bad news had been announced in the "Emergency" version so that this one's mix of give and take was greeted with muted shoulder-shrugging and the odd witty quip from the Opposition.

So, in a pretty tumultuous month for world affairs, how has the FTSE done? Looking at the period 1<sup>st</sup> March to 31<sup>st</sup> March for example, the FTSE All Share Index has done almost nothing, (well +0.06% actually, source: Financial Express Analytics). Thus not even a whole percentage point either way to account for all the turmoil. Granted during that time, it's been up a bit, down a fair bit, and then back up a lot to where it was at the beginning of the month.

Markets often overreact to sudden events with kneejerk frantic selling that makes little sense. As Japanese fund manager, Scott McGlashan, put it "First we had the knee-jerk sell-off, then came

the knee-jerk recovery. In some respects, last week was pretty straightforward- if a stock like Oyo (our seismic equipment maker) falls 17% in a day, when it has net cash equal to 80% of its market cap, you just close your eyes and buy" source: JO Hambro.

Maybe there's a lesson here. Take a big breath at times of mayhem and look at the bigger picture. Have things fundamentally changed, or not? If not, is your existing investment strategy still sound? If it is, leave well alone. Economic recovery is gaining traction around the world, particularly recently in the US. After the shock of unexpected events, things usually tend to focus back on the fundamentals. With many companies around the world reporting strong earnings, maybe the market is now beginning to refocus on the knowns rather than the unknowns.

### Spanner in the works?

However there are still headwinds to contend with, the most significant of which is a surging oil price. If the oil price continues its upward trend for a sustained period, then a sharp reduction in global growth could well occur. Recent price increases are because of shocks to supply rather than changes in demand and therefore act as a tax on the consumer, which is ultimately deflationary. Some worry that this could lead to a 1970s-style recession.

According to Evolution Securities (source: Citywire) "Between 1973 and 1974 the oil price tripled and has been widely linked with sparking a recession. Presently, price rises have not been as steep but the crisis in Libya, exerting a greater pressure on supplies, is thought to have compounded the recent string of rises. Events in Libya et al will hardly reassure those that believe a sharply higher oil price will necessitate recession,'

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Evolution said. But its researchers also argue that since the 1970s, the onset of recessions has typically preceded spikes in oil prices, not the reverse.

### Turkey is not just for Christmas

Among the Group of 20 major world economies, most people would pick China as currently having the fastest rate of economic growth and they would be right. However, not far behind comes Turkey, whose economy accelerated to 9.2% in the fourth quarter (compared with China's 9.8%), rising from 5.2% in the previous three months (source: Bloomberg).

Turkey's rapid rebound from the global recession may help the Prime Minister's bid for a third term in elections on June 12. His government survived the global crisis without having to bail out any banks, and this year he ended loan talks with the IMF saying Turkey can meet its borrowing needs without external assistance (source: Bloomberg). Moreover, Turkish companies are aiming to compete on the world stage, as illustrated by Karsan who design and manufacturer taxi cabs and are currently bidding for a contract to supply the new generation of New York's iconic yellow cabs (source: Bloomberg).

Despite all this optimism, Turkey's stock market has barely moved over the last year, having gone up a lot and come back down equally rapidly (source: Financial Express Analytics) with the focus still on Turkey's proximately to the Arab world, and the risk of contagion. Surely this must change at some point?

### Hello Junior!

The recently published Finance Bill announced the expected birth of Junior ISAs in November with a contribution limit of £3,000 per year.

These replace child trust funds (CTFs) which were phased out last year and unsurprisingly, the government will not make contributions on behalf of each child as with CTFs.

Money deposited in the Junior ISA will be locked in until the child is 18, when the ISA becomes an adult ISA by default. Children will be able to hold one cash and one stocks and shares Junior ISA at any time.

### Talking of ISAs

It always amazes us how many people leave subscribing to an ISA until the end of the tax year – maybe real life gets in the way. Given that for most people the main benefit of using an ISA is in sheltering any income produced from tax, if individuals take out next year's ISA at the start of the tax year, instead of the end, then an extra years' income will be sheltered from income tax. Maybe, just maybe, at some point the penny will drop!

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