

## 2009 The best year of the decade for the investor.

Sometimes quoted in football circles is 'a game of two halves'. Whilst this states the obvious it is often quoted when the commentator means that the game was of two differing halves for the enjoyment of the supporter or the outcome of the game. 2009 was a bit like that for the stockmarket, but in this case it was a year of four quarters. In the wake of the credit crunch and global banking crisis, October 2008 saw a selling of equities of panic proportions. Many fund managers who felt the sell off was such that some stock was now available at rock bottom prices, took advantage of the position and bought, creating the rally in global markets in late 2008. On Monday 27<sup>th</sup> October 2008 the FTSE 100 Index had fallen to 3,665 and by 31<sup>st</sup> December 2008 it stood at 4,434; a gain of just over 20% in that nine week period.

**Would that revival continue?** The optimists said yes, the realists said unlikely. Well it did for a while and then in the realisation that there was no substance in the rally stock prices began to fall and on 9<sup>th</sup> March 2009 the FTSE 100 Index had fallen to 3,460, down 22% and quite a bit lower than in the previous October. The rebound since then has been extraordinary with the Index closing on 31<sup>st</sup> December 2009 at 5,412. A 56% increase since early March and up 22% on the year, this being the biggest annual rise of the decade despite the country being in the worst recession in history. However, 2009's performance was not enough for the FTSE 100 Index to have made any progress during the 'Noughties' - as those of us with good memories will know the Footsie began 2000 at 6,930!! That was due to a different story but still a stark reminder that stockmarkets do go up and down.

So why a year of four quarters and taking the FTSE 100 Index as a guide the following table explains:

2009 Quarter	FTSE 100 start	FTSE 100 end	% change
1 <sup>st</sup> January to 30 <sup>th</sup> March	4,434	3,763	-15%
1 <sup>st</sup> April to 30 <sup>th</sup> June	3,763	4,249	13%
1 <sup>st</sup> July to 30 <sup>th</sup> September	4,249	5,134	21%
1 <sup>st</sup> October to 31 <sup>st</sup> December	5,134	5,412	5%

Note: Source of Indices quoted: Yahoo Finance

The first quarter was a reality check that the banks were not financially as sound as they should be and globally this sector was sold heavily. Investor sentiment was at its lowest level since the Great Depression nearly 100 years ago. The second saw the start of the government's *Quantative Easing* programme and fund managers saw the investment opportunities that arose and reduced their cash positions. During the third quarter investor confidence grew and they entered the arena again. The fourth quarter has been one of 'trading water'....consolidation and more caution.....and this I believe will be the theme for 2010 which I will discuss later.

During these very interesting times in particular during the end of 2008 and early 2009 Dentons' advice to investors was to not panic and stay invested and any new investments or cash held being directed to 'Bond' funds. Since about the middle of last year we softened our approach towards bonds and have slowly increased clients' exposure to equities, particularly in the US and Emerging Market regions where we believed the effects of the global recession have had less impact or their recovery was under way. This has been particularly beneficial to those whose investments have been exposed to the Far East. We also increased our holdings in funds exposed to commodities - especially gold, oil and gas. These themes were consistent throughout our Newsletters during 2009. For those who did remain invested, despite the anguish, their patience during the second half of 2008 and the first half of 2009 has been rewarded and so have those who came out of cash a year ago and invested into bonds.

On a broader scale, the FTSE All Share Index, which contains almost every listed company on the main London stockmarket, showed during 2009 its biggest leap since 1989 – the year the Berlin Wall came down – with a gain of just over 25%.

Thus, 2009 will be looked back upon as a year of investment opportunity, one that comes along once every ten years or so.

## Outlook and expectations for 2010

Forecasting is an impossible science and is for the foolish or very brave. Nobody can accurately predict future interest rates, the direction of the economy or the stock market. It doesn't stop people trying, though. I have been looking through some of the predictions that emerged as the old year was ending. There is a remarkable consistency of views so whilst they are mostly guesses they cannot be dismissed entirely.

According to the Association of Investment Companies, which polled its managers last month, the majority believed the FTSE 100 Index would end 2010 at between 5,500 and 6,000. At the time they were asked it stood at around 5,300, so they are hardly being radical or outside any comfort zone as it seems they are also expecting things to be "steady as she goes". I for one won't be disappointed if they are right and it will fit in with what we've been expecting for several months.

Specifically, the emerging markets were tipped as the likely best performing region and that for sector choice, commodities and natural resources, which led last year's predictions, are expected to do so again. According to the poll 28 per cent of managers expect gold to be the best performing asset in the year to come which suggests they remain downbeat about prospects for the dollar and expect economic uncertainty to persist. This fits in with our own feelings for a period of consolidation and uncertainty - especially in UK and Europe. Equities were the asset choice of the largest group of managers, with 50 per cent expecting them to outperform the rest. No-one thought bonds or residential property would top the tables and a meagre 5 per cent backed commercial property. Thus, it will be important for us to fine tune our allocations to ensure hopefully that we will be in the better performing funds. So, despite saying do not listen to the financial soothsayers, I will make one prediction, regardless of whether markets rise or fall, advisers and their clients are in for a tricky and testing year. This is one I'd gladly get wrong but don't believe I have.

2010 will be a challenge for policy makers as well as investors given that a modest global economic recovery and a sharp rise in corporate profits are widely anticipated. Interest rates, bond yields and inflation are likely to start returning to 'normal' levels. The key issue is likely to be *how markets respond to the withdrawal of Quantitative Easing and unsustainably high fiscal deficits?*

.....**and finally, back to those forecasts.** One event of 2010 that we can predict with reasonable certainty is that there will be a General Election this year and it will probably take place in May. Whilst we all may wish or hope for a particular result, like the performance of the stockmarket, there is no certainty. One thing we can be fairly certain about is that there will be a Budget very soon after. The current level of Government borrowing remains at a stratospheric level and interest rates can only be held low whilst access to international markets is available on preferential terms. Maintaining our 'AAA' rating remains a key priority for many years to come and the need to reduce Government spending will have to be addressed immediately the niceties of a general election have been dealt with. The measures in the new Administration's first Budget are likely to centre on higher taxes and spending cuts and will have an impact on everybody including the investment industry, regardless of the Chancellor's political persuasion. The necessary short term medicine will be unpleasant but the longer term implications will be even more unpalatable if we do not accept it and address the deficit quickly and effectively.