Are We There Yet?

It's the inevitable question most of us have either asked or been asked during an arduous car journey, "Are we there yet?" or "How much further?". More often than not, the automatic response the world over is "Nearly"! Recently this question has found a new audience with analysts, fund managers and investors all asking the same thing about both the bottom of the markets and the end of the recession.

The simple fact is no one knows when either of these events will occur. However, despite the continued deterioration in economic data and the market swings we have recently witnessed, it makes sense to look at past events to try to gauge when these events will occur.

It's fair to say that the resolve of most investors has been tested severely over the last 12 months. However, as night follows day, the global economy will recover at some point and companies will have positive earnings growth, which will be reflected in a higher stock market.

History has shown us that the market recovery from the low point is likely to be rapid (witness the 20%+ rise of the FTSE 100 from the low of November 21 2008 to the high of January 6 2009). The table below shows the average percentage returns for the S&P 500 from the low for the past 10 bear markets:

	Months After Low			
	6 m	9 m	12 m	24 m
Average	29.4%	38.3%	43.5%	58.9%

Source: Goldman Sachs Investment Strategy Group, Bloomberg

Past performance is not a guide to the future. The figures above may not be repeated. Please note that an index does not reflect the offer-to-bid on securities or dealing costs.

There is currently tremendous uncertainty about the timing and the level of the bottom in both the economy and equity markets. You might therefore ask why invest or stay invested now? The answer is that no one truly knows if that risk will actually materialise. All an investor can know is whether the contemplated investment offers an attractive return, under a reasonable set of assumptions, to justify the amount of risk that must be assumed.

Being positioned for the eventual upturn is paramount and being early is often equated to being wrong. Warren Buffett, for example, has recently been ridiculed for being early on his recommendation to buy stocks in October of 2008. But this is not the first time Mr Buffett's timing (and by extension his investment acumen) has been questioned. In August of 1979, he wrote an article for Forbes discussing why stocks were a screaming buy just 2 months before a nearly 10% decline in the market. Of course, stocks went on to rally over 200% into the 1987 peak.

"I was no good at forecasting the near-term movements of stock prices and I'm no good now. I never have the faintest idea what the stock market is going to do in the next six months... But I think it is very easy to see what is likely to happen over the long term."
Warren Buffett

Sentiment is a powerful force in the markets and it moves to extreme levels, both positive and negative. When sentiment once again becomes more positive then the recovery in the markets will be rapid. If an investor has at least a three year time horizon then they can take some risk with their assets and, in our view, both equities and corporate credit in particular offer an attractive risk/return opportunity.

Past performance should not be used as a guide to the future

Do not act on this information alone!

If you would like to discuss this in more detail, please contact:

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