

PROFESSIONALS' VIEW – JANUARY 2010

How Did We Do Last Year?

Firstly, we would like to wish all our readers a Very Happy New Year. Let us hope that it turns out to be a relatively prosperous one and, being a World Cup year, a highly successful one too. 2009 was, with hindsight, a good one for investors, but we suspect that many people missed out on many of the gains that were to be had. Not so for readers of *The View* we hope, because a glimpse back at what we wrote as the year unfolded suggests that anyone who followed our advice will have done well.

Corporate Bonds:

This is what we wrote about corporate bonds over the past year :

“...you can simply sit in an investment grade corporate bond fund and receive the 7%-8% income that it's paying you right now, which in an environment where interest rates are forecast to plummet for cash deposits appears an attractive option...the prices at which bonds are trading now are clearly too low and will rise as realisation dawns. In the meantime, a healthy income such as mentioned above from an asset that is due to rise is a combination that really does merit the closest inspection. Maybe the recovery will be led for investors not from the equity markets but by the normally boring bond funds. At a time when the latest Bond adventure has hit the big screens, a bigger bond theme may have hit our trading screens.” [The View November 2008]

*“...the **corporate bond** market will be the best place in which to invest as a combination of overdone selling throughout the last quarter and overly pessimistic default predictions produce a tempting concoction of potential capital gain and high yield for those brave enough to dip in now.”* [The View January 2009]

“If history is to repeat itself, it appears that what we have been suggesting to investors for a few months now has validity. We have advised clients to buy corporate bonds and simply sit and wait for markets to recover, receiving a useful income stream that can either be taken or reinvested, in the meantime. Either way, one is unlikely to miss out on a sustained rally in equities when it arrives.

On the contrary, you will actually be sitting on an asset which acts as an early warning signal to venture back to equities when the time is right to do so.” [The View April 2009]

Result? Funds that we regularly use for our clients in this sector have returned the following – M&G Optimal Income **up** 35.6%; L&G Dynamic Bond **up** 46.9%; Invesco Perpetual Monthly Income Plus **up** 40.8%; JP Morgan Global High Yield Bond **up** 58.2% - [all figures 12 months to 21st December 2009 data source Morningstar /Investment Week]. It is interesting to note that the average UK All Companies fund is only up 29.4% over the same timescale, so it appears that history has indeed repeated itself as suggested in April.

Gold:

“It is difficult to categorise anything as “safe” right now, but an interesting case has been made for gold in recent days. Anyone who invested in gold when it was trading at over \$1,000 an ounce will bear witness that its current price of around \$800 an ounce shows that it is far from being a one way bet, but US bank Citigroup makes an interesting case for it against an “either-or” consequence of policy makers’ chosen route to recovery.

*“When the dust settles this will either work, and the money they have pushed into the system will feed through into an inflation shock. Or it will not work and...we will see further economic deterioration. This will lead to political instability. We are already seeing countries on the periphery of Europe under severe stress. Some leaders are at record levels of unpopularity. There is a risk of domestic unrest, starting with strikes because people are feeling disenfranchised.” **Both outcomes will cause a rush for gold.*** [The View December 2008].

Result? ETF Securities Physical Gold **up** 44.20% over 12 months [Source: ETFS Website]

Gold Shares:

“If you have trouble buying actual gold, how about gold shares? In other words, if you can’t buy the physical asset, buy the shares of those that dig it...with the recent rise in the gold price, logic may dictate that these are shares that could naturally follow. [The View February 2009].

Result? CF Ruffer Baker Steel Gold Fund **up** 142.2% and Blackrock Gold and General Fund **up** 68.2% [all figures 12 months to 21st December 2009 data source Morningstar /Investment Week].

Oil:

“Bright spots are not obvious to see at the moment, other than the investment grade corporate bonds and physical gold that we have been suggesting for some months now. But how about oil? Is this a commodity that is looking just too cheap at \$40+ a barrel? We may visit this in next month’s View, but there are some interesting thoughts as to why it probably is”. [The View March 2009]

Result? Oil trading at around \$75 a barrel today – almost double the figure that we brought to our readers’ attention in March. [Source: Bloomberg 22nd December 2009].

Self Praise is No Praise:

We quite agree and we are not seeking plaudits. We are merely highlighting that the readers of *The View* are rarely dealt a wide ball and we are determined to keep our clients – and ourselves – on the right track throughout 2010 through our rigorous reading and questioning of those who influence our investment decisions.

Forecasts?:

It would be remiss not to make some kind of forecast for our favoured sectors at this stage of the year so here goes.....
High Yield Corporate Bonds still look attractive, particularly for those seeking income during

these times of ultra-low interest rates. Regrettably it would seem unlikely that we will see a repeat of the 50% + returns as witnessed by the JP Morgan fund mentioned earlier for example, but we would be surprised if they were not the best performing class of bond in the coming months.

Emerging Markets look set to dominate equity returns again because their debt is so much less than the more developed markets. Valuations may be a bit high, but there appears to be a momentum about them that does not look like slowing just yet.

Commodities are in demand and we subscribe to the old adage, “Invest in what the world wants”. It is difficult to see demand drying up in the immediate short term so we will continue to be supporters of them.

Japan!!!! Yes, we know...we must be barmy in tipping the perennial laggard but, with the Yen possibly weakening (thus helping its exporters), and its growing trade links with China and the rest of Asia, the scene could finally be set for a good year from the Japanese stock market. This one may come back to haunt us, but let’s see in 12 months’ time.

Oh, and avoid gilts.

There you have our tips for 2010. Were we lucky in 2009? We will see as the year unfolds. One thing is for sure. There will be plenty to talk about again.

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