

INVESTMENT NOTE

November 2011



Mon Dieu!

Markets remain on tenterhooks and are easily panicked.

Late last week, bond markets were suddenly hit by the news that the rating agency Standard and Poor's had apparently downgraded the AAA credit rating of France sending bond yields skyrocketing from 3.19% to 3.45%. It transpired that the news was false created and nothing more than a website link to a section on the S&P's website entitled "downgrade". Not only was the agency forced to put out a statement admitting the error but also confirming was not even as a result of the rating being under review. However, the event illustrates perfectly how the stock market has become a tinderbox of frayed nerves easily thrown into turmoil even on spurious news.



Members of the TAM investment team remember the how in 1992, the Japanese stock market suffered a short sharp sell off on the news that President Ronald Reagan had suffered a heart attack. This also was not correct and was in relation to the jazz singer Lonnie Donegan!! (Something Lost in Translation) However, like now, it hit the market at a time of fragile sentiment

It is sobering to reflect that such misdirection is possible after nearly 20 years of improvement in information technology. However, the effect is very much the same and, **with so much going on in European politics, it is a challenging environment in which to be making investment calls based on fundamental analysis.** The problem is really one of volatility on political news and comment. Historically a 2% move in equity markets used to be the stuff of financial headlines linked to a specific economic or financial event. Now it's a daily occurrence and lost in a sea of dramatic commentary on geo-political ups and downs and speculation about the next crisis.

Unfortunately, however much you think you know about investments, you never know what's going to happen next in this present politically driven market and trying to rationalise the exact day when Silvio Berlusconi might finally throw in the towel, for example, was never going to be an exact science.

For these reasons, we have trodden a more cautious path since the top of the equity rally in late October and are presently mildly underweight equities. We have confidence in the investments we hold for the longer term but also wary of both the short-term technical situation which we monitor constantly and these politically inspired "flash" movements. The market is remaining choppy yet directionless for now. However, should an opportunity present itself, we will only take it if we have a very high conviction that the time is right and that the potential reward more than offsets the risk from random political commentary and Euro driven flash events.

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