

Who is afraid of a Bear Market?



Having recovered from the credit-crisis induced falls at start of the year, global equity markets have once again succumb to selling pressure as investor's fret over the declining economic growth and soaring inflation. Economic growth in the UK, as measured by real GDP slowed to a 1.8% annual rate in the first quarter of 2008 against 3.1% and 2.5% annual rates in the first and second half of last year respectively. The housing market, long the principal pillar supporting the UK economy, is in near free-fall with estimates of 2% price falls in June alone. Inflation accelerated to 3.3% in May, exceeding the government's upper 3% limit for only the second time in a decade as energy and commodity prices raced even higher (crude oil now stands above \$140 an barrel). With the Bank of England unable, and unwilling, to cut interest rates one wonders from where the desperately needed economic stimulus will emerge? As a consequence the equity markets both side of the Atlantic have fallen significantly since their most recent highs made towards the end of last year. The UK FTSE 100 and US S&P 500 equity indices are down 18% and 20% respectively since October, with the German DAX equity index down 22% since July.

“ We fully expect our current strategy to continue out-performing portfolio benchmarks for the remainder of what is proving to be a challenging year. ”

Lester Petch
TAM Chief Investment Officer

Commonly we refer to being in a “bear market” after equity markets have fallen by at least 20% from their recent highs; alternatively it can be defined as a “prolonged period in which investment prices fall, accompanied by widespread pessimism..... and usually occurs when the economy is in recession, unemployment and inflation rising quickly”. Unfortunately both alternate definitions seem to be met at the present time.

So if we are in a bear market should be afraid? Without fear of risking too many splinters we are actually sitting on the fence. Investors with very concentrated portfolios following very directional strategies may well be wrongly positioned and face the prospect of further continued losses. Fortunately TAM clients, in contrast, generally have portfolios diversified across several asset classes (including cash) and have (and remain) partially insulated from any major declines in one asset class. Certainly our more defensive posturing which we “stumblingly” adhered to during the recent market strength has now proved its worth.

Many of our clients have also benefited from core exposures to “alternative” asset classes; including hedge funds and commodities which have generated positive returns over the first half of the year. (As an aside, we diligently recommended closing all our real estate exposure last year). Overall we are confident that our diversified and cautious approach will continue to out-perform our relevant benchmarks.

In summary therefore, we do not believe that TAM clients should be afraid of bear markets. On the contrary, a bear market often reveals pockets of opportunity for those investors that are not nursing horrific losses and have maintained sufficient liquidity within their portfolios to grab these opportunities when they present themselves. 2008 may yet prove to be one of the worse performing years, particularly, for equity markets, but for TAM clients it should actually prove to be a fruitful one.

Some Performance “Highlights” amongst our core holdings during the first half of 2008.

Blackrock Absolute Return Equity Fund has returned +7.2%

Eddington Triple Alpha Fund of Hedge Funds has returned + 5.8%

Stenham Absolute Return Fund of Hedge funds has returned +1.7%

iShares COMEX Gold Exchange Traded Fund has returned +11.0%