

Amidst the turmoil TAM looks for investment opportunity

Financial markets often decouple from the underlying economic fundamentals that drive them. We believe we are in the midst of one such period. Whilst it can be a worrying time living through such a period it can ultimately be a very rewarding one for patient investors. Experience shows us time and time again that market fundamentals eventually reassert themselves and normality returns. In the case of the stock markets around the world we expect stabalisation and a full recovery. The timing of this recovery is never certain but as investors we need to be ready to benefit from this opportunity and seek to enter the market at significantly lower levels.

Why did sentiment sour?

As always there is never one reason. Investors have been concerned by the unfolding tragedy in Greece and the impact of higher interest rates on the global economy for some time. However it was the fear that China, the world's second largest economy and one which contributes 15% to global GDP, was

slowing down faster than many suspected, that ignited the latest shift in sentiment. I use the word 'suspected' because it is very hard to extract useful information from the 'official' data released by the very secretive nation; indeed it as generally accepted that this data is manipulated to show a far rosier position than is actually the case. Analysts therefore look at other metrics to form a picture. The recent collapse in commodity prices, the aggressive cutting of interest rates and the devaluation of the currency can all be considered signs of a slowing economy, although many would attribute these to far different reasons such as oversupply in the commodity markets and Chinese ambition for the Yuan to become a free-floating reserve currency. Whatever the final analysis this uncertainty rattled investors both in China, where selling wiped nearly 50% off the country's main stock market, and as contagion swept the globe, near 10% to 15% off the stock markets of developed nations. Interesting, despite these massive falls, the value of the Chinese market is barely unchanged over the past twelve months demonstrating the scale of the 'bubble' that had developed there and further indication of the decoupling from reality.

Are global economic fundamentals still intact?

Whilst sentiment drives short term market direction it is fundamentals that drive long term performance, and these, we suggest, have not changed. In the US, the economic barometer of the world, for example, employment is improving, corporate earnings are increasing, growth is positive and inflation remains contained despite the ultra-low interest rate environment. Indeed the Federal Reserve who have the greatest insight into the well-being of the economy, feel compelled to prepare markets for the prospect of imminent interest rate hikes after weaning them off quantitative easing (QE) over the past year. Many fear this eventuality, but we would argue that it should be welcomed as it not only confirms that economic growth is positive and sustainable but puts us on the long road to normalization of interest rates. And let us not forget that higher interest rates should equate to higher expected returns for investors.

The rout in commodity markets can also be very positive for economic growth. It has been calculated for example that the fall in oil prices puts over $100 back into the pocket of the average American consumer; a pseudo tax cut if you wish. Given retail spending drives two thirds of the economy this is no bad thing.

As we wrote earlier in the week we do not believe that this the beginning of a 'bear' market as many headlines would suggest, but rather a cathartic correction which is removing some of the froth in equity market valuations within a long term bull market for risk assets.

How are we positioning ourselves during the current volatility?

We have not had to make many alterations to the asset allocation within our portfolios. We have minimal exposure to China, emerging markets or the commodity sector for example. Given these sectors have taken the brunt of the recent market falls this offers us some comfort moving forward. Our preferred

investment focus has been on the more developed global markets such as the US, UK, Europe and Japan. Even within those markets we have focused on funds that avoid exposures to energy and commodity markets. Of course these markets have been dragged down by the falls elsewhere across the globe but we continue to believe that they will be the main drivers of investment return over the coming years.

As always, we remain very diversified within our investment portfolios with exposure to global equity markets, fixed income markets, property and absolute return investments. Importantly we maintain a cash balance to both protect portfolios and offer us the opportunity to add to positions when we see such opportunity. Overall our equity exposure is fairly neutral with no large directional bias. This positioning has ensured that any portfolio losses over the past week have been far lower than the declines experienced by equity markets.

Where will the opportunity be going forward?

We are patient and long term investors. However periods such as these can offer excellent opportunities to both enter a market and increase existing exposure to conviction positions at attractive levels. We will be looking to add to our existing positions and even rotate some of our broader exposure into the areas which we believe offer the greatest upside. At the time of writing, in the midst of the market turmoil, it is difficult to pinpoint exactly when we will invest in specific opportunities however we are already researching many potential positions and crunching the numbers to ensure we maintain within our mandated risk profile.

One thing is certain that being a spectator and sitting on the sidelines will not generate the rewards this market shakeout has potentially offered us.

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