



**Whitechurch
Securities**
L I M I T E D

Market Update - 8th August 2011

Having shown little direction so far this year, over the past week a barrage of downbeat economic news-flow has resulted in the sharp sell-off in global stockmarkets. Mounting fears over US and European sovereign debts and weakening US growth has prompted the investor sentiment barometer to move to an extreme “risk off” mentality. With little positive news-flow to prompt buyers to dip into the market and trading volumes thin during the holiday season, prices of shares and other risk assets have been marked down sharply.

With investor confidence non-existent, the credit agency S&P chose the weekend to announce a downgrading of US debt from the maximum AAA rating for the first time in its history. The effect of this move prompted commentators to predict that this may lead to a further crash when markets opened this week, but early signs are that an element of calm has been restored. Despite the downgrade of US Government bonds, their prices rose on Monday morning! In Europe, the intervention by the ECB to allay concerns over Italian and Spanish debts appears to be working, with these Countries bond yields falling sharply.

The ongoing concerns over debts in the peripheral European economies and the continuing weak US consumer led economy undoubtedly provide causes for concern - but these are not new issues. In fact little has fundamentally changed to the economic environment over the past week. The one thing that has changed dramatically is confidence. The magnitude of market falls in recent days appear to be a fine example of herd driven panic selling rather than prices providing a true reflection of the medium term risk /reward profile of different markets and asset classes.

There is no doubt that fear of the global financial crisis remains in the forefront of investors mind and areas of the media have pounced on the opportunity to spread the gloom and doom. Robert Peston is enjoying being back in the limelight and scaring people with big numbers (although I don't remember ' *billions added to share prices*' making the headlines after a good day on the market). A sustained lack of confidence can prove dangerous and it is vital that politicians and central banks act quickly to restore confidence in global markets and economies at this point. The ECB have already taken some action and it is very realistic that a third program of quantitative easing will be implemented in the US which would act as an adrenaline shot for markets and the US and global economy.

We do not believe that the past week has been a game changer that means we should be running for cover and hoarding all clients' money in krugerrands and Government bonds. We are witnessing an extreme “risk-off” trade and we don't want to follow the herd mentality by selling risk assets at current levels. We are not going to second guess short-term market movements and although sentiment could remain gloomy in the short-term and markets could fall further, we believe “crisis hardened” authorities will move to avert the worst case scenarios. We believe that for those prepared to take a medium-term view or longer current market levels could provide some compelling investment opportunities. The corporate sector in many areas appears in good health (three quarters of US companies beat analyst expectations in recent reporting) and valuations of good quality equities are looking very cheap, both historically and versus the negligible returns available on cash and Government bonds.

We remain of the belief that the economic climate in Western developed countries is going to be tough, but it is our belief that there are several areas that provide good opportunities for investors at the current time. The focus of our portfolios is to follow our core investment philosophy of diversification, with emphasis on the following key points.

- A bias towards income producing assets that we believe will remain sought after, as interest rates are going to remain rooted at emergency levels for some time.



- Dividend producing shares in less cyclical areas of the market appear to offer compelling value, and these will be at the core of our income and growth equity portfolios.
- A focus towards exploiting the shift in global economic power away from the US led Western economy towards Asia and Emerging Markets.

Trying to time these volatile markets by running for cover in cash is a dangerous strategy that could just result in crystallising losses. We remain focused on investing in areas that we believe are well placed for the medium to long-term. We believe that our portfolios are well positioned, with a diversified range of funds being managed by highly experienced and capable fund managers. Our stance is to Keep Calm and Carry on!

**Gavin Haynes - Managing Director
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