INVESTMENT COMMENTARY

Diversification has been the key to success in investing long term. Whenever equities fell other low correlated asset classes such as fixed interest and property provided some stability. Alas, not in these markets. Only cash has provided shelter from the falls in equities and many other asset classes and it is unlikely investors had sufficient cash exposure to make a difference.

So what's happened? In the tech boom at the start of 2000, equities fell sharply whilst property and fixed interest funds gained in value. There was no shortage of cash and bank lending remained buoyant. A few dotcom companies went to the wall and the UK equity market (FTSE 100 index) declined some 45 per cent over 3 years until the end of March 2003. With hindsight this was a particularly good time to invest in equities as the index bounced back by 75 per cent over the next four years.

This time around markets are different. Banks lending too much to the wrong people, all of which became apparent when property prices started to fall in the US and mortgage defaults increased dramatically. It was hoped the fallout would be contained but the problems grew by the day placing a big strain on the financial markets and economic growth prospects. At the same time energy and food costs have been soaring bringing inflationary fears to those countries that are big importers. This has created a headache for central banks that are not sure whether to increase bank base rates to control inflation or to reduce them to stimulate growth.

Economic cycles are a matter of fact and we learn a little bit more about investment behaviour each time. Recent studies show that clients focus on investment losses during a downturn more so than gains in a recovery. Therefore, whilst an investment manager may feel a loss of 8 per cent is good when compared to other assets (with the exception of cash), is it really cause for celebration, probably not.

It is down to investment managers and advisers to devise better ways of sheltering investments from undue risk in volatile markets. After all, we all need a good nights sleep and having too much risk is not healthy.

We, at Taylor Patterson Wealth Management, are looking at introducing further asset classes that provide more defensive qualities whilst retaining sufficient exposure to equities that provide the better prospects of long-term growth. We will bring you more news on this in future editions of our 'Adviser' publication.

In the meantime, sit tight and don't be forced out of a well diversified portfolio that remains the best way of achieving long term capital growth. Many investors forced out of the markets often end up buying back in at higher prices so it pays to be patient.

Glynn Bartley

Lanson House, Winckley Gardens, Mount Street, Preston, PR1 8RY | Tel: 01772 555073 | Fax 01772 203688 | Email mail@taypat.co.uk