Investment Bulletin

SAUNDERSON HOUSE

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CONFLICT-FREE FINANCIAL ADVICE

BULL, BEAR OR BALANCED? THE BULLS HAVE IT... FOR NOW

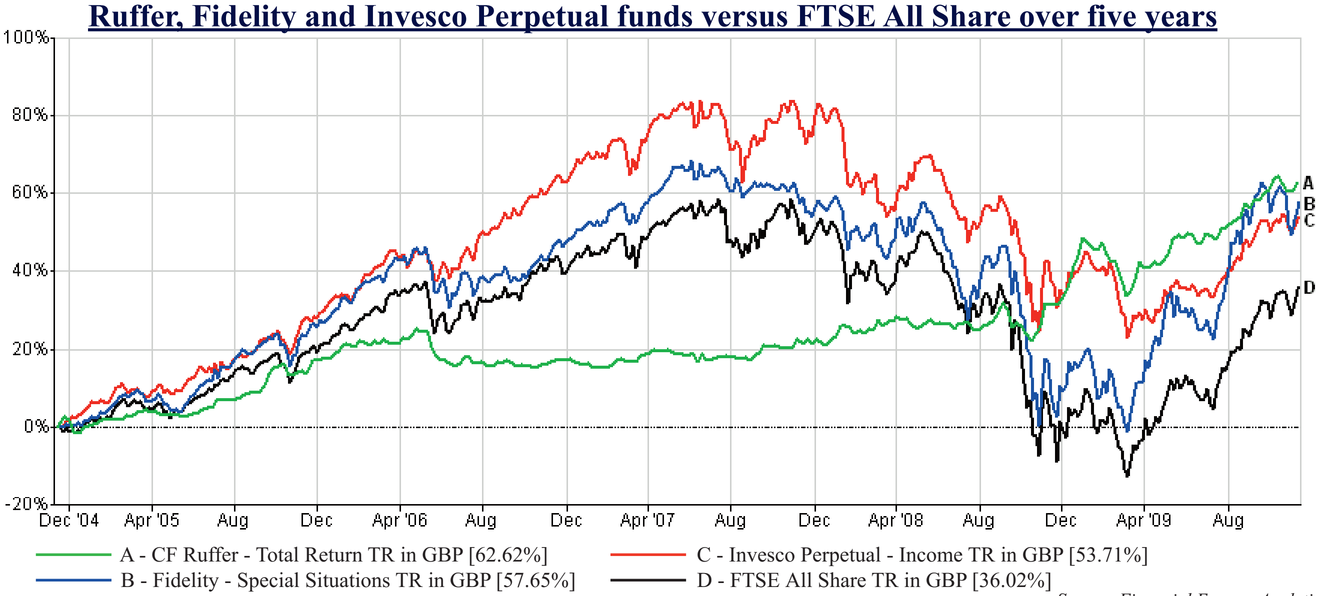
In the six months since Anthony Bolton and Jonathan Ruffer debated the outlook for equities at our 'Bull, Bear or Balanced' seminar, share prices have continued on their upward path. The FTSE All-World index, in sterling terms, is now almost 15% higher over the year to date and 43% above its early March low. The Bulls, it appears, have cause for celebration. However, there are many fund managers still counselling caution.

A Sunday paper recently pitted our 'Bull' Anthony Bolton against 'Bear' Neil Woodford, manager of Invesco Perpetual's Income and High Income funds. Woodford is rightly fêted for his exceptional performance through the late 1990s' technology bubble and he has continued to generate outstanding performance since, with his Income fund outperforming the FTSE All Share index by 3.31% p.a. over the past five years. Bolton and Woodford's contrasting views give a useful insight into the challenges facing investors at present.

Anthony Bolton's view of the world has changed little since June. He argues that despite slow economic growth, the low interest rate environment should ensure that share prices continue to rise for at least a couple of years. Bolton believes that investors should back businesses, such as technology companies, that can grow sales organically. He also sees value in financials which, he says, have historically outperformed following banking crises. Woodford also sees little economic growth in the UK for the foreseeable future. However, in contrast to Bolton, his view is that equity markets have wrongly priced in a rapid return to trend growth. As a consequence, Woodford's funds are defensive, focusing on companies with resilient earnings and secure and growing dividend streams. Jonathan Ruffer's views are similar to those of Woodford. He believes that the strength now apparent in economies is temporary and that inflation will be the inevitable outcome of the policies pursued by governments and central banks.

The chart below shows the performance of the Fidelity Special Situations fund (now managed by Anthony Bolton's successor, Sanjeev Shah), the Ruffer Total Return fund and the Invesco Perpetual Income fund together with the FTSE All Share index. The Fidelity fund has certainly made up ground against many comparators in recent months, having suffered most in the downturn. However, what is most striking about the chart is that, over five years, there is little to choose between these three actively managed funds. Moreover, all have shown the index a clean pair of heels. Unsurprisingly, all three also remain firmly on our recommended list (though, for some clients, there may be compliance restrictions on investing in one or more of these funds).

Ruffer, Fidelity and Invesco Perpetual funds versus FTSE All Share over five years



Source: Financial Express Analytics

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What conclusions can we draw from the diversity of opinions? Primarily, that, despite the rally, there remains an elevated level of uncertainty in economies and financial markets. The possibility of a double-dip recession, as tax increases bite and interest rates begin to rise, cannot be discounted. Neither can a surge in inflation prompted by the government's policy of quantitative easing. Woodford's concern that economic growth stays lacklustre for years to come is also entirely plausible.

As Jonathan Ruffer articulated in his latest update, so much uncertainty calls for asset allocations that forgo the possibility of being absolutely right to protect portfolios from being absolutely wrong. In other words, portfolios need to be robust to the many possible outcomes. This remains a key tenet of our investment approach, advocating well diversified portfolios with equity allocations spread between outstanding fund managers, whether they happen to be bulls, bears or something in between.