



Crisis? What crisis?

September 2007

Anyone who read a UK newspaper or heard a news broadcast during the month of August can hardly have missed the tales of panic over the crisis to hit the US sub-prime mortgage market. The usual headlines about billions being wiped off company values that accompany any bad news in the securities markets would be enough to worry any equity investor, particularly those 'stuck' in index funds that, as their detractors correctly point out, tend to track downwards as well as upwards.

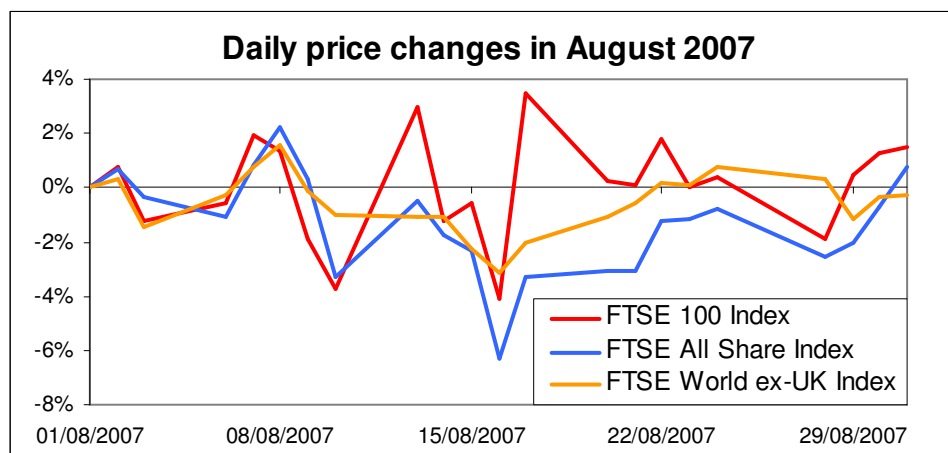
Given that Bloomsbury uses exclusively passive funds, including some index funds, in its portfolios, it would be reasonable to expect that the clients would have been calling or emailing with their concerns and wanting either reassurance or to withdraw their capital to something safer while the 'market uncertainty' continued.

Actually, not a single client contacted us about the market volatility and those with whom we did have contact about other matters in August did not even mention it, even in passing. Had they done so, we would have told them that we would review the movements at the start of every month, as we always do, and then rebalance back to the agreed target weights any portfolios whose actual composition had deviated significantly from them. The effect of this on a portfolio whose equity component had fallen in value would be to require the purchase of more equity – while this might seem counter-intuitive given all the panic selling of exactly that asset class, there is an old dictum about success in investing being about buying low and selling high; until someone comes up with a better approach, that is the one we follow.

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At the start of September, we therefore reviewed the prices of the assets that we hold, expecting that the widely publicised falls would have necessitated some rebalancing to be carried out. Intriguingly, the UK market (whether represented by the FTSE-100 index or the more appropriate FTSE All Share Index) actually rose over the month and even the World ex-UK index fell by only 0.26%. That might not be stellar performance but it's hardly the Armageddon that the media coverage led us to imagine was occurring.




The best way to make money from the recent volatility would seem to be to own a market maker – the highest trading volumes on the FTSE 100 correlated rather well with the days of the large price movements. There is always someone willing to facilitate investors trading with each other, however wise (or unwise) the transaction might be.

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