

UNIT INVESTOR

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INVESTING

IN A BEAR MARKET

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Market Commentary & Investment Review

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INCOME AND RECOVERY

This newsletter has taken on increasing significance because of the events of October. Whereas in past years we would be reflecting on what has taken place during the year, sometimes in a quite lighthearted manner, this year we have to take stock and gear ourselves to invest for the future.

Investments worldwide have taken a hammering. There has been nowhere to run to and even gold which is often looked upon as a safe haven has not escaped. The approach to the US Budget and Trade Deficits holds the initial key and certainly we must hope for some successful implementations here to restore confidence in stock markets as a whole. The story does not end with this, however, because whatever the Americans do it will reduce their spending power, reducing their own and world economic growth figures. It is, therefore, up to the rest of the world to take up the slack that America will obviously leave and in particular all eyes are on Japan and West Germany in this instance. Lower interest rates worldwide can keep economic growth growing and ward off a full blown recession, but rest assured we are walking a very thin tightrope!

In these circumstances, it is difficult to be positive but this is exactly what we must do now. I describe in detail our investment strategy for investors from now on in a rather unique new scheme we have devised to meet the circumstances. However, on a general note for sterling investors our own market certainly looks the most attractive. Many quality companies have suffered sharp setbacks in their share prices and the yields on the stocks have risen substantially. It would be these shares that investors will move to first of all when confidence returns so consequently portfolios should be concentrated in UK equity income trusts, recovery and blue chips.

A definition of a recovery stock is a share price which has been unusually depressed for external reasons making the valuation of that particular company cheap. Goodness knows there are plenty of these stocks around now!

SUGGESTED PORTFOLIO SPREAD

	% Growth	% Income	Gain Decrease on Month
United Kingdom Equities	60-75	45-55	+15
Gilts Bonds & Cash	5-15	45-55	+10
International	0-10	Nil	-5
US & Canada	Nil	Nil	-5
Japan	5-10	Nil	0
Far East (exc Japan)	0-5	Nil	-10
Europe	5-10	Nil	-5

Phased Investment Plan

(INVESTING IN A BEAR MARKET)

We are faced with the same problem in every stock market we look at. Have we reached the bottom? Nobody knows the answer to this as yet, but what we do know is that we have had a very savage cut in share prices and there are many exciting looking opportunities open to investors. The biggest problem in the market place at the moment is fear. Not only the small investor, but the hardened professional investor, is scared to commit funds to the market. I do not think that there is any question that we are now in a bear market and neither is there any reason for bear market characteristics to be any different this time around.

In these circumstances, markets do recover, quite often very strongly, from their initial low points. However, many investors who suffered considerable losses will take profits or small losses as soon as prices reach a reasonable level causing the market to fall back once again. In addition, with confidence having been shaken so badly, the slightest sign of a problem on the world economic front will cause investors to panic and sweep back out of the market causing a further sharp fall back. The market is still full of investors with short term horizons and really until these have been whittled out a sustained upward trend will be difficult to achieve.

It is quite likely that markets could well fall back below current levels at some time in the future, but it is also possible that the falls will not be so dramatic then. The question, therefore, facing those who wish to invest their lump sums is should they do it now or wait? Unfortunately, many investors will only wait until the market has recovered before committing funds and consequently miss



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out on a golden opportunity. It is true that investors pile in when the markets are high and bail out when the markets are low.

To counteract this problem, we have devised our Phased Investment Plan. We believe it would be wrong to commit all funds to markets at this time, but do feel that some move should be made. It is the ideal environment for a regular savings arrangement.

The Hargreaves Lansdown Phased Investment Plan is a means whereby investors can commit their capital sums now in the safe and secure knowledge that funds will only find their way into the stock market on a gradual basis, therefore, reducing the risk but also enabling the investor to benefit substantially from the rewards of buying in at a low level. For example, an investment of £12,000 would initially be placed into a high interest bearing deposit account. Each month £1,000 of this would be allocated to a unit trust depending on the client's requirements. The arrangements can be carried out purely as an investment by the client or can be linked to our management services if required. The advantages are numerous:-

- a. By placing some funds into the market immediately the client may well be buying in at the bottom of the market an opportunity which might not be available again for many years ahead.
- b. If this is not the bottom of the market and prices continue to fall the client will still benefit from buying in at lower levels as money is committed.
- c. The client is able to average out his cost of investment over the next 6 to 12 months.
- d. The client is safe in the knowledge that his initial capital is heavily committed to deposit in its early stages and, therefore, need not worry about the volatility of the stock markets particularly in the short term.
- e. By grouping investments in this way, we can negotiate extremely attractive discounts for buying into the unit trusts which would certainly not be available to many small investors.
- f. Clients will benefit from the close attention of the Hargreaves Lansdown investment department to the placement of their capital because the selection of the unit trust each month will, of course, be given very detailed consideration. The worry of investors of whether to take advantage of a new fund or an existing fund at any point in time would be taken away from them.

There is a plan for income clients and a plan for growth clients. It is intended that the plan forms part of an overall portfolio package so consequently, as has always been the case, clients should *NOT* commit all their funds to equity markets. However, I do believe that in 5 years time long term investors will be very happy

with the returns they have received from their equity portfolios and those who participate in the plan will be patting themselves on the back for taking a realistic approach to investment in these difficult circumstances.

To summarise, phased investment is the ideal form of strategy to make the most of a bear market.

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