ST. JAMES'S PLACE
WEALTH MANAGEMENT

INVESTMENTS

WHY INVEST NOW?

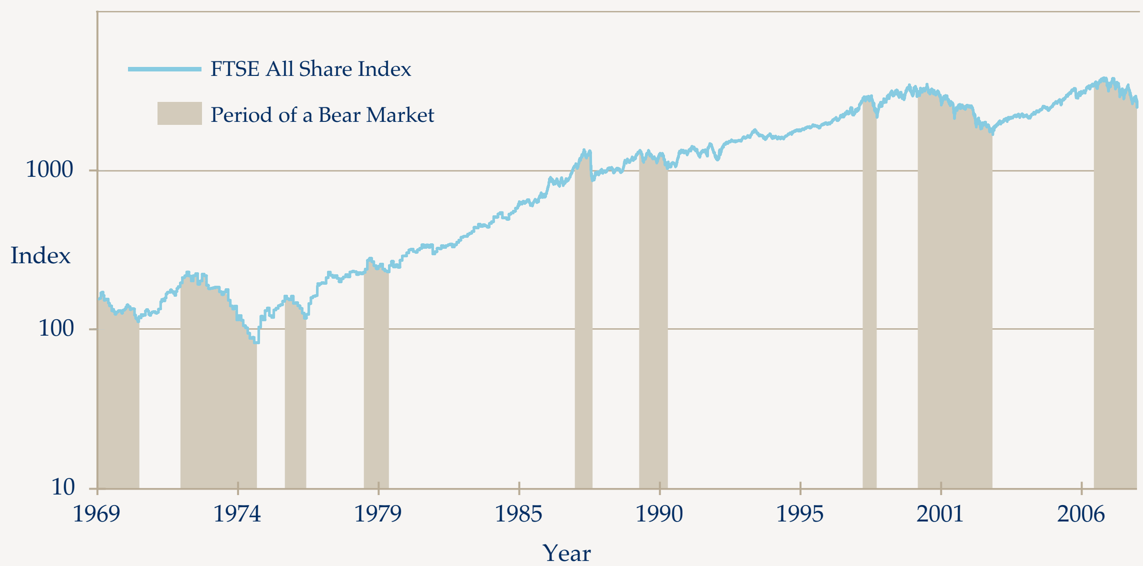
Bear markets and recession – an investment opportunity?

"When we look back in history we realise that every financial crisis and bear market in the past has been a buying opportunity."

The Times, 25 February 2008

An equity bear market is defined as a 20% drop in the level of the stock market since its last peak. By that measure, 2008 has seen the ninth such bear market in the last 40 years, based on the FTSE All Share Index. Against that backdrop, it is easy to understand why investors who have suffered that fall, or those who have waited on the sidelines, might be reluctant to see now as a buying opportunity.

FTSE All Share Index and Bear Markets



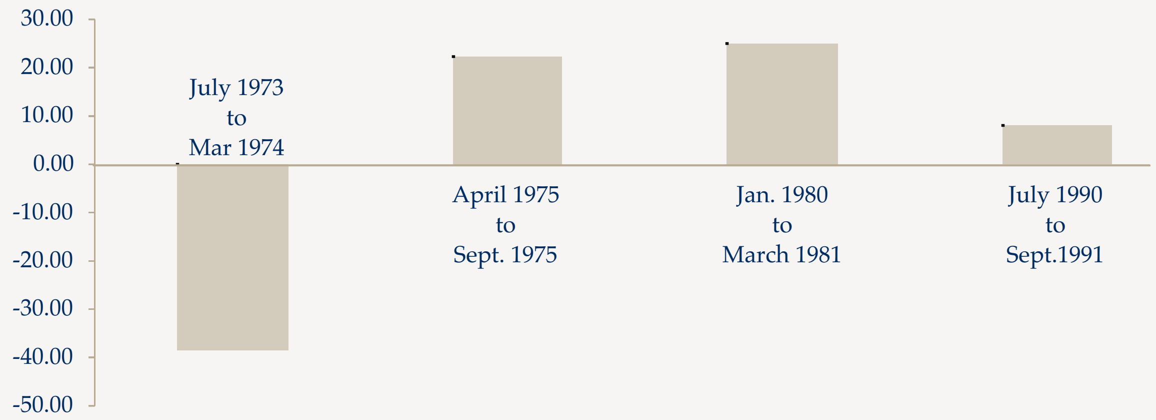
Data Source: Lipper – to 19/09/08

It is important to keep a sense of perspective. In spite of this recent fall, the FTSE 100 Index has risen by over 61% from its low point this century of 3287 in March 2003 (Source: Lipper. Data to 19/09/2008). As can be seen from the graph overleaf, bear markets are a fairly regular interruption to the general upward trend and investors with a long-term perspective can benefit from the opportunities they present.

So, does weakness in the equity market always signal a recession? Is recession always bad for equity markets?

- Of the nine UK bear markets in the last 40 years, only 4 have been followed by a recession.
- The UK equity market has risen in 3 of the last 4 recessions.
- The US equity market has also risen in 3 of the last 4 recessions.
- Research from Ned Davis shows that in the last ten US recessions the equity market rose by 24% on average in the 6 months after hitting a recession low.

Change in the FTSE All Share Index during a recession



Data Source: Lipper. All periods from start of initial month to end of final month.

Even if an economy doesn't slip into recession, the mere anticipation of it can have a profound effect on markets. The price earnings ratio on the UK equity market is close to historic lows as many companies have been down valued, but many are still exhibiting strong earnings and healthy balance sheets. There is a window of opportunity before investors realise events are not as bad as expected. Many experienced investors position themselves to take advantage of the inevitable 'rebound'.

Nick Purves – Schroders

"It is very important to separate out the outlook for the economy, which looks poor, from that of share prices; these are very different things. A huge amount of bad news has already been priced into current share prices in anticipation of an economic slowdown."

"Remember that stock markets tend to rise well before the official data indicates a recovery in the economic climate. Wait for the statistics to confirm an improvement and you may well miss the often large bounce in prices that heralds the start of a new bull run."

Anthony Bolton, Financial Times, 20 September 2008

Why invest now?

Many commentators believe that the US and UK economies are already in recession. Equity markets have already discounted this possibility which means valuations are very attractive. History shows that share prices often rebound when an economy is in recession.