

# 2009: what a year that was!

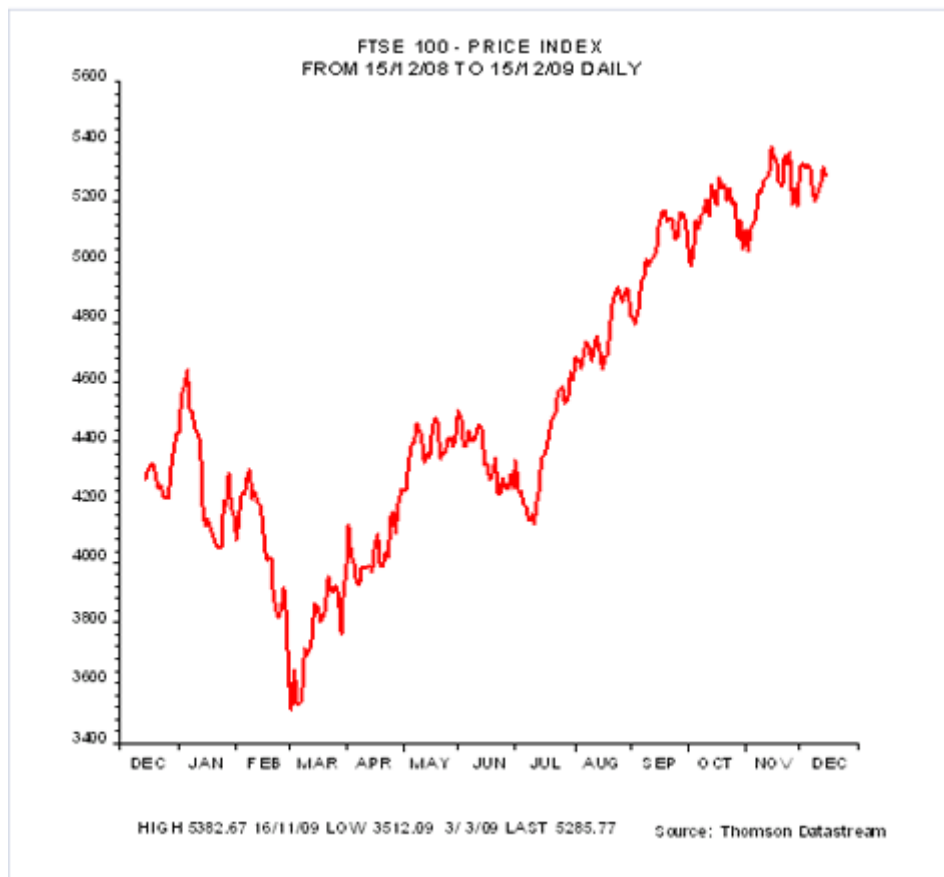
By Tom Stevenson, 17 December 2009

## Four investment lessons to be learned from an exciting 12 months in the markets.

Not many of us, hand on heart, can say that on New Year's Eve 2008 we predicted a 20% rise in the FTSE 100 by Christmas 2009, or that emerging markets would rise by 75% over the same period. Even fewer of us in March, at the market low, were predicting a 50% rise in the UK benchmark by year-end or a 109% gain for the MSCI Emerging Markets index.



**"Markets always turn up when the outlook is most gloomy." Tom Stevenson**



Those, however, were the scores on the doors as of last night, 15th December 2009, towards the end of an unbelievable year in the markets. 2009 will go down in the history books as one of the most rapid recoveries from a bear market ever. Indeed, in the six months since the markets hit bottom in March, the US benchmark,

the S&P 500, rose further than in any similar half year period since the 1930s.

As always, the market has offered up plenty of lessons this year. One of the joys of investment is that it is a constant learning process – and if you can learn while the market is going upwards, so much the better!

Here are four of the things I have taken away from 2009:

- Markets always turn up when the outlook is most gloomy. Back in March, investors were shifting their attention from the financial crisis which had dominated the headlines in the autumn of 2008 to its knock-on impact on the real economy. Crisis or recession, it hardly seemed to matter and shares seemed to be heading inevitably towards the low point reached in 2003 at the bottom of the dot.com bust. But as Jeremy Grantham, a well-known investor from the fund manager GMO, said at the time: “markets turn when all looks black but just a subtle shade less black than the day before”. He was joined in that view by Fidelity's own Anthony Bolton who caused a ripple at the annual conference of the National Association of Pension Schemes by announcing that sentiment, the length of the bear market to date and valuations all pointed to a turning point.
- Market rallies can take investors by surprise. Within a couple of weeks of the market hitting its low, UK shares had bounced by 350 points and I wrote an article on this website headlined “Spring is in the air”. The first phase of the rally continued until the middle of June, by which time the market had almost regained the high point it reached in the first few days of January. It was a classic V-shaped recovery, similar in shape to the famous bounce in the markets in the first six months of 1975. With the economic outlook still so fragile and memories of the financial chaos of September and October still fresh in the memories of investors, many people were unwilling to believe the recovery was anything other than a bear market rally. The sheer pace of market recoveries is why attempts to time the market are doomed to failure. It has become a market cliché, but time in the market really is better than timing the market. Even better, of course, is a steady investment plan which puts money into the market regularly because this would have ensured that you caught the bottom of the market with at least a small proportion of your portfolio.
- Rallies can be difficult for stock-pickers. When markets bounce back from a savage bear market like the one we experienced between October 2007 and March 2009, the best-performing shares are very often not the ones which you might reasonably expect to do well. In fact, sharp V-shaped rallies often favour the companies that investors who study fundamentals like balance sheet strength and cash-flow dislike the most. This is because these stocks tend to get punished most severely in the final phase of the bear market when everyone expects the worst. They are driven to levels that, in some cases, assume they are going bust so even a marginal pick-up in the outlook can see their shares surge in a relief rally. As a consequence of this “dash to trash”, the difference between the valuations of good shares and bad shares disappears and this in time creates opportunities for stock-pickers again. Many strategists think it is time for the baton to be handed on to top-quality shares again, especially if we enter a period of relatively low economic growth in which the ability to raise earnings reliably will be at a premium.
- In volatile markets, a balanced portfolio pays dividends. The last two years have been extremely testing for investors. Predicting the winners at any point in time has not been easy but being invested in the best assets or sectors has been key to performance. In the period between the summer of 2008 and the March 2009 low, shares fell sharply but government bonds rallied as interest rates were slashed in a bid to fend off a feared depression. In the period since March equities have taken up the running and especially equities in the more volatile emerging markets. Of course, the ideal approach would have been to hold gilts and then emerging market stocks in that order with an instantaneous hand-over sometime in March. No-one will have done this but

an investor with a sensible balance between these main asset classes will have been protected from the worst of the gyrations.

Looking backwards is always easier than looking forwards, but that is what I plan to do next week when I will look into what 2010 might hold for us.

Performance over 5 years					
	Nov 04/ Nov 05	Nov 05/ Nov 06	Nov 06/ Nov 07	Nov 07/ Nov 08	Nov 08/ Nov 09
FTSE 100	15.3%	11.5%	6.3%	-33.3%	21.1%
S&P Composite US\$	6.4%	12.1%	5.7%	-39.5%	22.2%
MSCI Emerging Mkt US\$	29.0%	30.9%	42.1%	-57.6%	80.9%
<b>Source:</b> Datastream, years from 30.11.04 to 30.11.09					

*Note the value of an investment and the income from it can go down as well as up, so you may get less than you invested. The ideas and conclusions in this column are the author's own and do not necessarily reflect the views of Fidelity's portfolio managers. They are for general interest only and should not be taken as investment advice or as an invitation to purchase or sell any specific security. Past performance is not a guide to what may happen in the future. Investments in small and emerging markets can be more volatile than more established markets. For funds that invest in overseas markets, changes in currency exchange rates may affect the value of your investment.*