

## FTSE 100 enjoys best ever quarter

By Tom Stevenson, 1 October 2009

### Shares riding high on recovery hopes but is the rally running out of steam?

Wow, the extraordinary year in the markets continues. The FTSE 100 index of leading UK-listed stocks has just completed its best three month period in its 25 year history. It's not the best ever quarter for UK stocks (that came in 1975 before the Footsie had been invented) but it is nonetheless an impressive performance.



A glance at the table below shows that the benchmark is almost 5% higher than it was a year ago. How many of us might have predicted that outcome as the markets were tumbling around our ears last October? It is a salutary lesson in the need to stand back from your emotions when market sentiment is at extremes (in both directions).

**"A glance at the table below shows that the benchmark is almost 5% higher than it was a year ago." Tom Stevenson**

Interestingly, the 12 month performance of the FTSE 100 compares with a 9.4% fall in the US's equivalent benchmark, the S&P 500. If this is an indication that London has got ahead of itself, however, the 16.2% rise in emerging markets over the past year suggests that it is not alone.

What is driving the rally? Two things. First, a growing belief in the sustainability of the economic recovery. Second, the flood of government liquidity, which is keeping interest rates low and looks like keeping them there for the foreseeable future. No-one in authority in any major country appears to be in a hurry to withdraw stimulus anytime soon.

One of the most important things in investment is to avoid the temptation to only listen to people who tell you what you want to hear. That is why natural optimists should always seek out the opinions of people who take a gloomier view of the outlook.

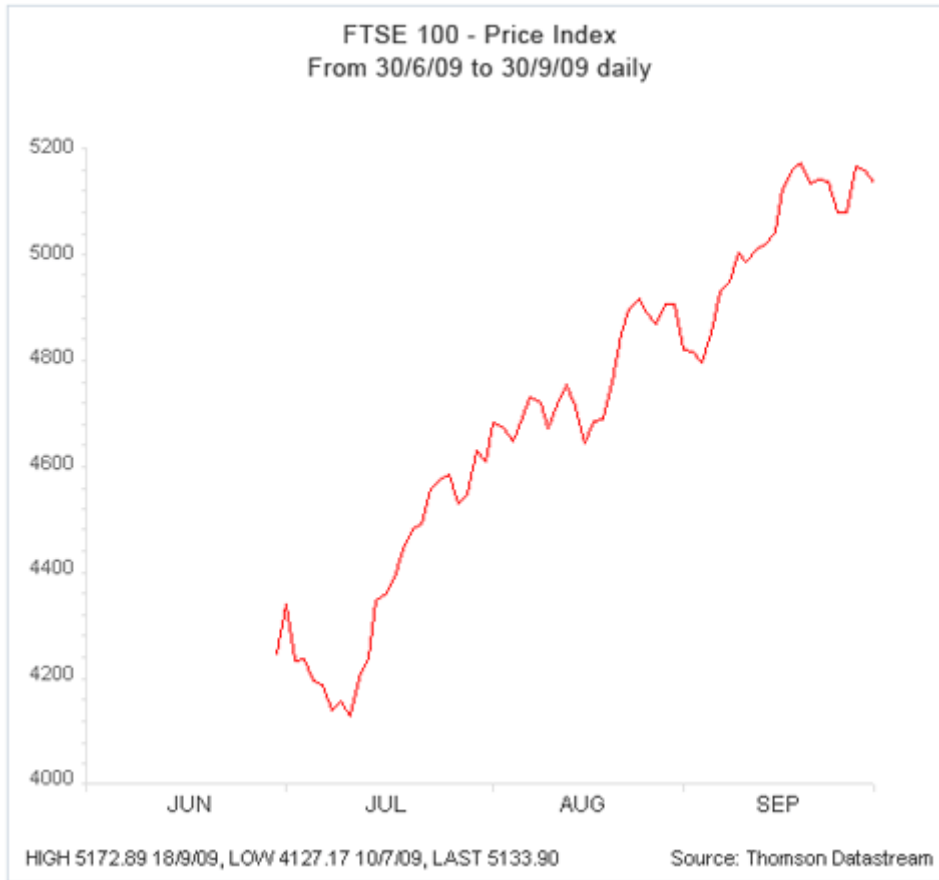
There are few more pessimistic than Albert Edwards, a strategist at Societe Generale. He celebrated the FTSE 100's record performance this week with a rather unpleasant play on words, warning that investors were mistaking a "putrid boil" for an equity market sweet spot.

He believes that the widely held view that excess liquidity will inevitably find its way into asset markets (because the broken banking system means it can't be funnelled into the real economy as intended) is just plain wrong.

Rather he suggests that shares are rising because they are mistaking just another cyclical upturn for a recovery with real legs. He points to Japan in the 1990s where investors suffered a series of false dawns as sharp equity market rallies ran out of steam because the underlying fragility of the economy led to repeated lapses back into recession.

There is a strong argument that the current rally could have further to go because so many investors have watched it from the sidelines. If you are kicking yourself because you didn't believe the rally was for real and kept putting off getting back into the market then this is a very dangerous time for you. The temptation to jump onto the bandwagon is always greatest when it is already leaving and just out of your reach.

At times like these it pays to take a measured approach and to spread your investments over time. If the rally continues you will be adding to your position on the way up. But if Mr Edwards's doomsday scenario is right you will avoid putting all your money into the market at a cyclical peak.



**Performance over 5 years**

	Sept 04/ Sept 05	Sept 05/ Sept 06	Sept 06/ Sept 07	Sept 07/ Sept 08	Sept 08/ Sept 09
FTSE 100	19.8%	8.8%	8.5%	-24.2%	4.7%
S&P Composite US\$	10.2%	8.7%	14.3%	-23.6%	-9.4%
MSCI Emerging Mkt US\$	42.5%	17.7%	54.8%	-34.7%	16.2%

**Source:** Datastream, years from 31.09.04 to 31.09.09

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