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Fortnightly Market Wrap-Up

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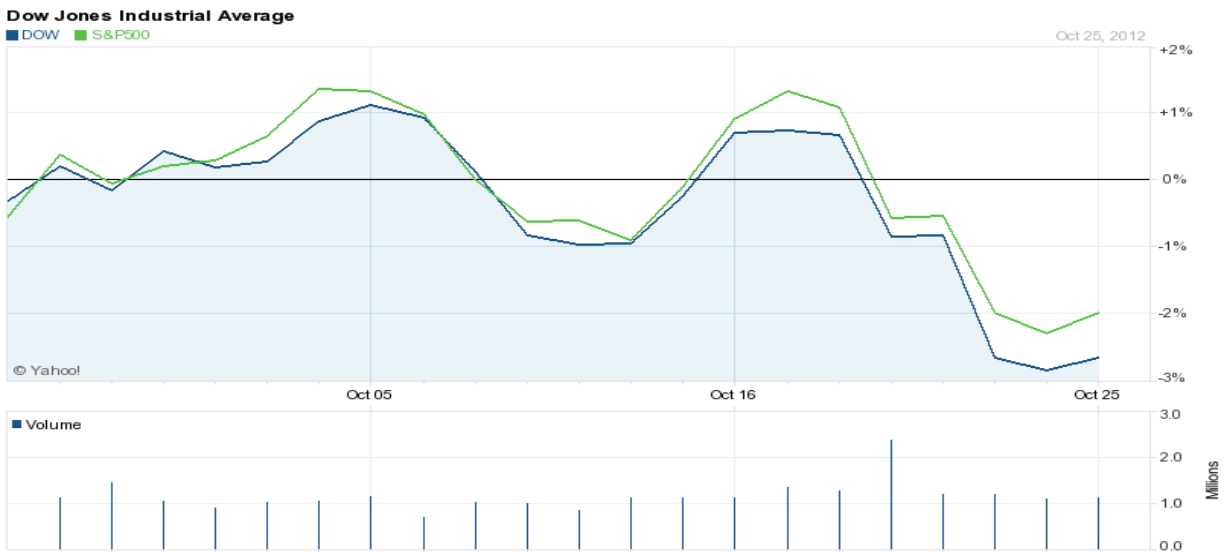
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Financial Markets Overview: US

Last Week: Optimism Fading in the US

By William Caffrey, Analyst, MSc Finance and Behavioural Economics



Both the Dow Jones Industrial Average and the S&P 500 have had very poor performances over the past month. This week the S&P 500 has fallen 1.5% to 1,411.9, while the Dow fell 1.8% to 13,107.2. The yield on the benchmark US 10-year Treasuries fell to 1.76% from 1.82%, signaling that investors are seeking less volatile securities.

Hurricane Sandy

Weighing on investors are concerns over Hurricane Sandy, dubbed “Frankenstorm” due to the possibility of it hitting the US so close to Halloween. The storm is set to be the biggest seen in the New York area in over a century and is estimated to cause about \$5bn worth of damage. This has resulted in the S&P 500 Property and Casualty index falling 0.6% on Friday, its sixth straight day of declines. Travelers Inc., which is the only insurer on the Dow Industrial Average, has also taken a hit due to “Frankenstorm”, falling 0.78% on Friday to close at \$71.76. Gasoline prices have jumped on the back of Sandy, halting the week’s declines. Prices have climbed by 2.1% on concerns over the storms impact on refineries along the US Eastern seaboard.

Financial Markets Overview: US (continued)

Earnings Season

Earnings this season have been very poor. While 71% of companies have beaten analysts' earnings estimates, 58% of those companies failed to beat estimates on sales according to Bloomberg. The lack of solid results has pushed the S&P 500 down 3.7% from the years high in September.

Apple, the world's largest company by market value has seen a rise in revenue of 27%, to \$36bn, but missed analyst estimates on profits per share – it achieved \$8.67 vs. \$8.75. Apple has said that this is due to the money spent while it refreshed its product lines in anticipation for a big Christmas season. Apple shares fell 0.91% to \$604, having fallen over 13% since reaching a record high the week that the iPhone 5 was released, mostly due to difficulty in meeting demand. Monster Beverage Corp fell 14% after US regulators reported that their drinks were mentioned in investigations into five separate deaths. In contrast, Expedia Inc. shares jumped 15% after posting third-quarter earnings that topped analysts estimate.

US GDP Data

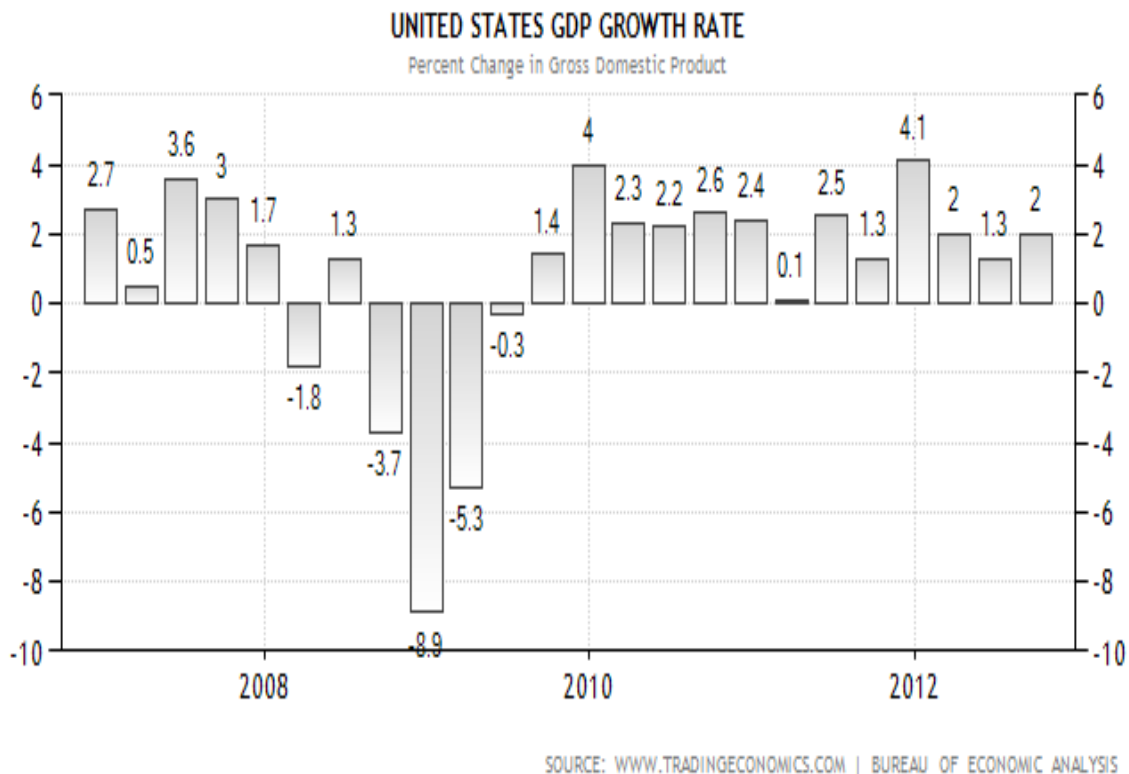
On Friday, results for US GDP data were released showing that the economy grew by 2% year-on-year, beating analyst estimates of 1.8% and Q2 data which came in at +1.3% year-on-year (see chart on next page). This is largely due to an increase in consumer spending and an improvement in consumer sentiment. The Thomson Reuters and University of Michigan consumer sentiment index rose to 82.6 from 78.3 over the third quarter. Record low interest rates on mortgages due to extended Fed stimulus have increased confidence, as well as disposable income. Retail receipts show that consumers were buying automobiles at a rate of 14.9m vehicles a year.

Consumer and government spending increases, coupled with a rebound in the housing market, have contributed to the rise in GDP growth. Housing construction increased by 14.4% which is believed to have added 0.3 percentage points to the GDP figure.

Government spending, which boosts economic growth by spreading money through the economy, grew by 3.7% in the third quarter due to defence outlays – the highest rate in three years.

Financial Markets Overview: US (continued)

Despite the modest growth in the economy, equities still fell due to persistently high levels of unemployment and the uncertainty about the future of the economy due to a neck and neck presidential race between Obama and Romney. Also, many view this growth as mainly due to government spending, which is seen as a short-term boost to the economy, rather than as a structural shift in the source of growth.



Global Macro: Eurozone

Spain: What Now?

By John Peter Ong, Analyst, 1st-year Economics and Industrial Organization

With several major central banks announcing fresh rounds of stimulus in the recent months, speculation over monetary easing has all but ceased in financial markets. Once again, investors have returned their focus to developments in the Euro saga, the current tidbit being Spain's ambivalence toward receiving aid from the European Central Bank (ECB).

Whether or not Spain's Prime Minister Mariano Rajoy officially requests help matters because the ECB will only engage its Outright Monetary Transactions (OMT) programme upon formal entreaty. Arguably, yields on Spanish bonds have already fallen from unsustainable levels of 6%, due to assurance of ECB commitment, and support from Moody's decision to maintain the country's investment grade status. This might well have tempted Rajoy into his recent policy of inaction. Yet, recovering bond prices are likely to have priced in expectations of an imminent bailout, a trend that could reverse should investors grow weary of Spain's continued brinkmanship. Spain's credit rating also hangs in the balance – Moody's noted that its appraisal had factored in future ECB intervention through OMT. By requesting precautionary assistance through the Enhanced Conditions Credit Line, Spain could potentially drive bond yields down even further, placing itself in a comfortably solvent position. Also, it would avoid more onerous stipulations that might be imposed should it wait for full-blown economic turmoil to appeal for a bailout.

Despite these benefits, the Spanish government has dithered on requesting aid from the ECB. One reason is political concern – with Spanish unemployment hovering at 25%, and separatist sentiments gaining traction in Catalonia, Rajoy has reason to be reluctant to expend his waning political capital in signaling Spain's need for outside help. More pertinently, accepting externally imposed restrictions, especially ones that involve cutting public sector jobs, would be a double whammy to his popularity – one has to look no further than Greece to visualise the possibilities. This apprehension is

Global Macro: Eurozone (continued)

compounded by the possibility of German stringency; Germany might demand strict terms on the bailout package, insisting on debt reductions that could cripple an already-contracting economy.

It is likely that we will have greater visibility over Spain's stance shortly. First, there is mounting pressure on Rajoy to act; Moody's latest downgrade of five Spanish regions, including Catalonia, indicates that Spain is still under scrutiny, and the pullback on bond prices it sparked suggests that the patience of financial markets is waning. Moreover, a softening stance of Germany toward affording aid also makes it increasingly possible that Spain will request a bailout soon – both as Germany is more likely to approve Spain's bid, and also accept lighter conditions on the deleveraging schedule. This, coupled with the rising opinion that nations should prioritise structural reform over excessive fiscal austerity in order to reduce debt, makes the significant tightening of the deficit, with targets of 6.3% of GDP for this year and 4.5% of GDP for the next, seem improbable.

All in all, an uncharacteristic calm has settled upon Europe. Yields on Italian and Spanish bonds hit a six-month low in a recent major bond auction, with Italy raising a record \$24 billion – enough to tide it over the rest of the year. Yet, if time be any tell, it suggests that this serenity is short-lived – markets will remain volatile till deeper structural problems in the region are fixed, and the mere thought of Greece no longer sends a chill up every other investor's spine. There is cause for a Spanish bailout, but politicians will be politicians.

Global Macro: China

A Silver Lining in China's GDP Figures?

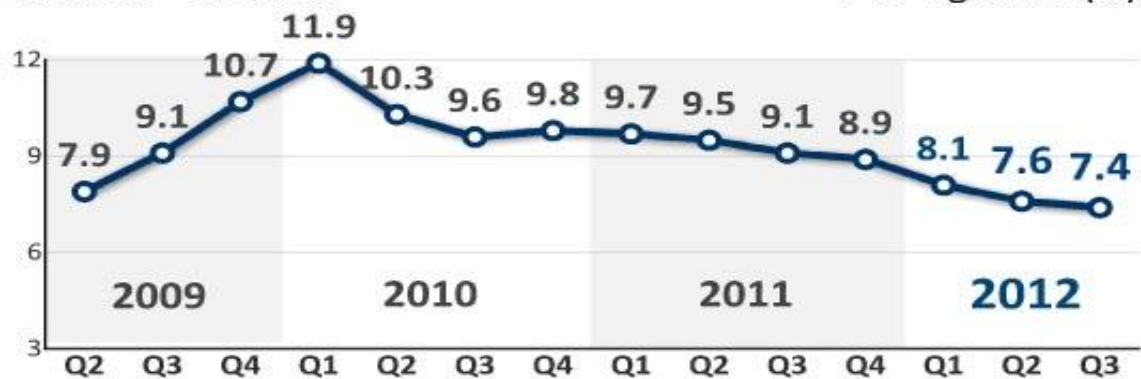
By Eleanor Gaffney, Analyst, 2nd-year Economics

Thursday 18th October saw the much-anticipated release of China's GDP figures for the third quarter of 2012. While the figures may mark the slowest pace of growth for China since the first quarter of 2009, hints of a silver lining were embedded within the data for the more optimistic of economists and policy makers, with GDP figures meeting expectations and other key indicators certainly showing some positive signs that China's economic slowdown may be bottoming out.

TREND OF GDP GROWTH

Q2 2009 - Q3 2012

Y-O-Y growth (%)



Chinadaily.com.cn

Source: National Bureau of Statistics of China

Gross domestic product grew 7.4% in the third quarter year on year, slowing from 7.6% in the second quarter and 8.1% in the first. Alongside its GDP data, China also released other key economic indicators which pointed to a marked increase in economic momentum since July and August. Retail sales were up 14.2% while Industrial production rose by 9.2%. It is noteworthy that in the first three quarters of 2012 consumption made up 55% of China's growth, surpassing the contribution of investment. This is a somewhat surprising trend, as in the past decade growth has been predominantly investment- and export-led. In the IMF's July report on the nation, the

Global Macro: China (continued)

issue of sustainability with regard to the relentless pursuit of investment-led growth was highlighted. The IMF advocated an effort to accelerate progress in transforming the economic growth model to be more reliant on consumer demand. Arguably, such a transformation would substantially boost living standards and make growth more balanced, inclusive, and sustainable. The general consensus appears to be that in order for China to move to the next stage of development, a rebalance is necessary, and so, a temporary slowdown is inevitable. The increase in consumption is therefore without doubt a positive sign that China is beginning to change its growth model to being consumption-led, even if that change is incremental.

While, to some extent, the slowdown in growth can be regarded as being policy-induced to enforce a shift in the growth drivers, the sluggish growth of the global economy in general, coupled with the European sovereign debt crisis, have dealt a serious blow to China's growth via the export channel. Furthermore, analysis of China's terms of trade shows that China's imports have become more linked to commodities and minerals where supply is relatively inelastic while its exports have become increasingly tilted towards machinery and equipment where supply is relatively elastic. As a result, China has to export more manufacturing goods to get the same value for energy and mineral products. With global demand weak, and production costs rising as wages increase, the country's share of international markets is close to reaching saturation point.

Collectively this release of data shows that whilst it may be too early to tell if the Chinese economic slowdown is bottoming out, the release certainly does hint that China is heading in the right direction. Much attention has been paid to the fact that the headline quarterly GDP figure of 7.4% marks the slowest pace of growth since the first quarter of 2009, yet it is equally as important to take note of the shift in the growth drivers of the economy. Beijing now really seems to be dedicated to promoting consumption in place of a reliance on real estate and infrastructure investment. Although the Chinese economy does face substantial challenges in the near future, this change bodes well for the sustainability of Chinese growth and the long-term health of the Chinese economy.

Global Macro: Currencies**The Future of the Australian Dollar**

By Marco Ross, Co-Editor, 3rd-year Accounting and Finance

As of recent, the Australian dollar (AUD) has been mired in disconcerting uncertainty. While Sterling and the Euro, alongside equities, rallied through August, AUDUSD atypically commenced a hefty decline from above 1.06 to below 1.02, ultimately proving range-bound however, as the market could not push the commodity currency beyond either of the two levels. Having surged from below 0.50 in 2001 to near-parity on the back of unprecedented advances in the commodity markets, Aussie gave back most of its gains in a mere three months as the crisis hit, but phenomenally recovered to surpass its previous peak, reaching beyond 1.10 in 2011. However, it is only in the recent period, and most notably since August, that the volatile risk asset truly finds itself at a crossroads. Indubitably, the feeble global economic environment, including the prolonged Eurozone crisis, dampened the AUD advance. Nevertheless, the evolution of the country's mining boom, the question of the sustainability of China's vigorous economic growth, and the resilience of the domestic economy take antecedence in shaping the Aussie's immediate future, and therewith also its longer-term path.

Commodities are Australia's chief export, with the country occupying the top spot in the export of coal, iron ore, and zinc, among numerous others. A mining boom, catalysed primarily by China's, but also India's, spring to aggressive expansion, allowed the country to avoid recession for over two decennia and catapulted the Aussie above parity via ever-increasing exports. Following BHP Billiton's announcement of a 35% drop in profits and the firm's decision to indefinitely delay the nearly-\$30bn Olympic Dam expansion project, Resource and Energy Minister Ferguson declared the mining boom to be over on 23 August 2012. The comment reflected the massive slump in iron ore prices (\$180 in Sep 2011, <\$90 in Sep 2012) and precipitated the aforementioned August-decline in AUD. However, given the fairly stable nature of commodity prices since 2011 and the 32% jump in iron ore prices following China's recent announcement of infrastructure projects worth an approximate \$160bn, Finance Minister Wong's assertion that the boom had peaked, not ended, appears more astute.

Global Macro: Currencies (continued)

A primary factor capping the Australian dollar's rise has been concerns over the robustness of China's growth, intricately related to the mining boom angst as the world's second-largest economy purchases 28% of Australian exports. In recent years, China has experienced a rapidly declining trade surplus, significantly diminishing corporate profits and GDP growth slowing from 10.4% in 2010 to 7.4% in Q3 2012, with the Shanghai Composite remaining subdued just above 2,000. In light of such developments, the term 'hard landing' became increasingly used to describe China's economic fate. However, while economic rebalancing efforts were decelerated with the September announcement of a CNY 1tr (\$160bn) infrastructure project, it appears that such fiscal stimulus – alongside powerful monetary easing – are successful in holding off a lasting slump. In addition, September data which revealed better-than-expected retail sales, industrial production, and fixed asset investment, has shown slowing growth to be largely attributable to external factors; thus, coupled with still-high GDP figures, this renders imminent hard landing fears seemingly overblown.

Finally, among developed economies, fiscally sound Australia stands out as a beacon of hope with annualised GDP growth at 3.7% in Q2 and enviable unemployment at 5.4%. Despite comments from Reserve Bank of Australia staff indicating growing disquietude with the global economic deterioration, AUD is still the world's highest-yielding leading currency with the RBA cash rate at 3.25%. While economic activity is showing signs of cooling, it has demonstrated remarkable resilience through the crisis and in the face of on-going Eurozone recession, meagre US recovery and weaker Chinese demand.

The above factors do not paint the picture of a looming bullish outbreak, but certainly offer a basis for continued resilience in the near- and medium-term; Chinese growth and the mining boom appear far from outright faltering, while Australia's economy seems ready to endure a somewhat prolonged period of weak global growth. As the global economic recovery gains momentum, this can then easily translate into further strength for the Aussie in the very long-term; as such, subject to a gradual worldwide rebound, the currency's underlying fundamentals appear to lend credence to an upward bias, though any significant deterioration in the global economic environment is easily capable of nullifying and even reversing such a bias.

Financial Regulation

Stabilising Financial Markets: An Introduction to Dodd-Frank

By Vassil Kirtchev, Co-Editor, 2nd-year Economics, Politics and International Studies

After the collapse of Lehman Brothers, and the global financial Armageddon that ensued, it was clear that we had gone wrong somewhere. The lack of clear and sustainable oversight in the financial markets meant that steps had to be taken in the regulatory space to ensure such a calamity will not be repeated in the future. In the world's biggest financial market, the United States, the answer to this is the comprehensive Dodd-Frank Act (long form: Dodd-Frank Wall Street Reform and Consumer Protection Act).

In broad terms, Dodd-Frank seeks to create an environment of financial stability by more extensive regulation of the industry and particularly *Over-The-Counter derivative products*¹. The intention of this is to promote transparency and accountability in US financial markets by moving away from the "too big to fail" mentality (the notion that certain financial institutions imply systemic risk and, in the event of a crisis, need to be bailed out) and focusing on consumer protection. Such an overhaul of financial regulation, given the timescale of implementation, creates enormous challenges and costs for the players (investment banks, asset managers) involved in order to become compliant. For the front office of an investment bank (revenue-generating side of the business), capital requirements regulation creates profitability-concerns because of its significant impacts on margins. Operationally, in terms of the reporting requirements, trading institutions are required to extract and submit trade information in near real time (external reporting requirements). This requires a revamp of a bank's infrastructure, and is clearly extremely challenging and adds significant costs in an already difficult environment for banks. In addition, there is a likely trade-off between optimising a bank's internal structure and becoming compliant with the rules, which

¹ An 'over-the-counter' financial transaction is one in which the terms of the transaction are prescribed by the counterparties and *not* by the rules of an exchange (central marketplace, e.g., stock exchange).

Financial Regulation (continued)

creates strategic issues for banks.

Dodd-Frank is an ambitious endeavour and seeks to repair areas that were critical in causing the financial crisis. However, there is significant skepticism about Dodd-Frank's effectiveness:

...it does not address the fundamental problem that there was a bank run². Its logic is that the government is the problem or proprietary trading is the problem. It has no coherent intellectual foundation but is rather a kind of grab bag of various ideas.³

The timelines and resources needed to meet the Dodd-Frank requirements may show that some institutions simply are not ready for the new rules in order to stay in the game, and this is a concern for the whole financial system. How much Dodd-Frank will shake up the financial system and its longer term ramifications on the markets (i.e., changes in the behaviour of financial firms, and whether it can prevent another financial calamity) remains to be seen.

² "The financial crisis started the way all systemic financial crises start: as a bank run. The only difference was that this bank run took place in the shadow banking system, and the creditors who started the run weren't depositors of retail banks, but the counterparties of investment banks in repo and commercial paper markets."

(<http://ftalphaville.ft.com/2012/10/25/1223861/misunderstanding-financial-crises-a-qa-with-gary-gorton/>)

³ <http://ftalphaville.ft.com/2012/10/25/1223861/misunderstanding-financial-crises-a-qa-with-gary-gorton/>

LIBOR Special

London InterBank Obloquy Rate

By Elliott Anderson, Co-Editor, 3rd-year Management

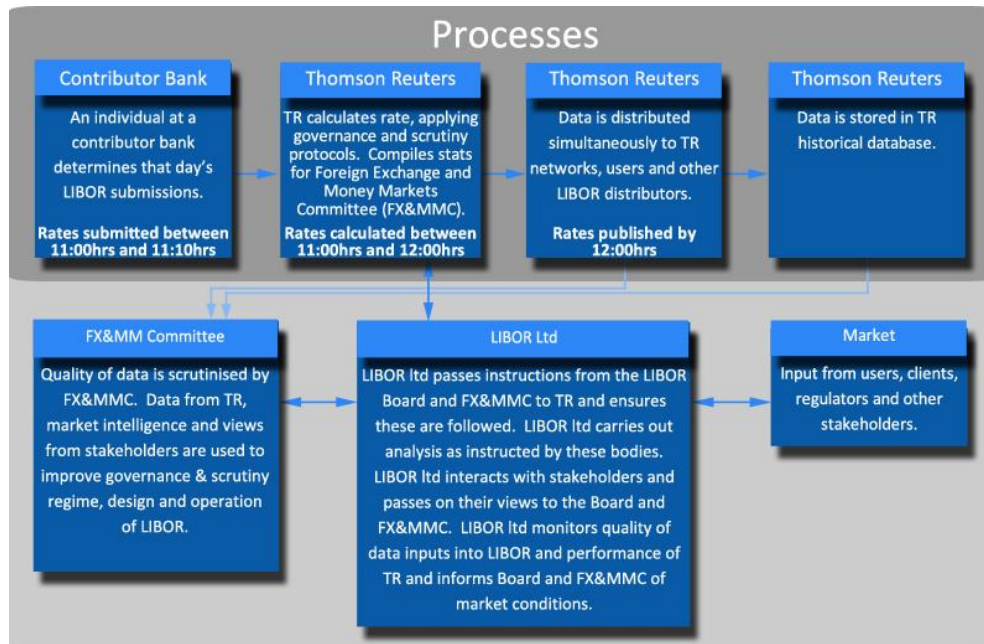
The Lie-bor is back in the news this week as 9 more banks are added to the US probe into rate rigging. It's been 4 months since the scandal has been thrown into the public's eye, and despite the calls for "urgency" of change, we haven't been evolving at a reassuring rate.

What is LIBOR?

LIBOR stands for 'London InterBank Offered Rate'. It is produced by the British Bankers Association (BBA) for ten currencies with 15 maturities quoted for each - ranging from overnight to 12 months - thus producing 150 rates each business day. LIBOR is a benchmark giving an indication of the average rate at which a leading bank thinks it can obtain unsecured funding in the London interbank market for a given period, in a given currency. It therefore represents the lowest real-world cost of unsecured funding in the London market.

LIBOR is the primary benchmark for short-term interest rates globally. It is written into standard derivative and loan documentation, and is used for an increasing range of retail products such as mortgages and college loans. It is used as a barometer to measure strain in money markets and as a gauge of market expectation for future central bank interest rates. It is also the basis for settlement of interest rate contracts on many of the world's major futures and options exchanges.

How the LIBOR is set daily:



Why is it important?

Libor is important to all of us because it is a benchmark for pricing other deals and because it influences the price that we all pay to borrow. Some mortgages are directly linked to Libor and the rates will move up and down with it. This is especially true for buy-to-let mortgages. However, even if your mortgage is not directly linked, your lender will have been using Libor to decide whether to make loans, mortgages or credit card deals more expensive or cheaper. For example, when Halifax raised its default standard variable mortgage rate earlier this year, affecting 800,000 customers, it cited a high Libor rate to explain its actions.

It's the reference rate for nearly half of adjustable-rate mortgages in the United States; for about 70 percent of the American futures market; and for a majority of the American swaps market, where businesses hedge risks from changes in interest rates. More than \$300tn in contracts worldwide is linked to the benchmark rate.

Libor is supposed to be the average rate at which the largest banks honestly believe they can borrow from one another unsecured (that is, without posting collateral). If the rate turned out to be inaccurate, its meaning as a financial health indicator of the

banking environment (and indirectly, of the economy) would have led to misinformed decisions.

The Scandal

The Financial Services Authority (FSA) said traders from the bank lied about what it was costing it to borrow which in turn influenced the averaged Libor. Barclays staff filed misleading Libor figures; they did this in two ways. Between 2005 and 2008 they tried to influence the rate to boost their profits. Evidence of this includes e-mails between traders and rate submitters at the bank, with traders urging the latter to change the rate.

But experts suggest that the artificially low figures, filed between 2007 and 2009, covered up the amount of financial stress that the bank was under, by making it look as if it was paying less to borrow money. Those seen as higher risk are charged more to borrow.

How bad did this affect us?

The effects of the manipulation are not too clear. Fortunately, the issue was discovered over time and not because it caused a crisis. If anything, it probably helped us weather the crisis by making the system look stronger than it was.

Whilst the public and mass media have been wailing on the banking system (again) for this manipulation, if traders did succeed in manipulating Libor downward, then contracts priced according to the rate may have gained. Consumer would be paying less on their mortgages.

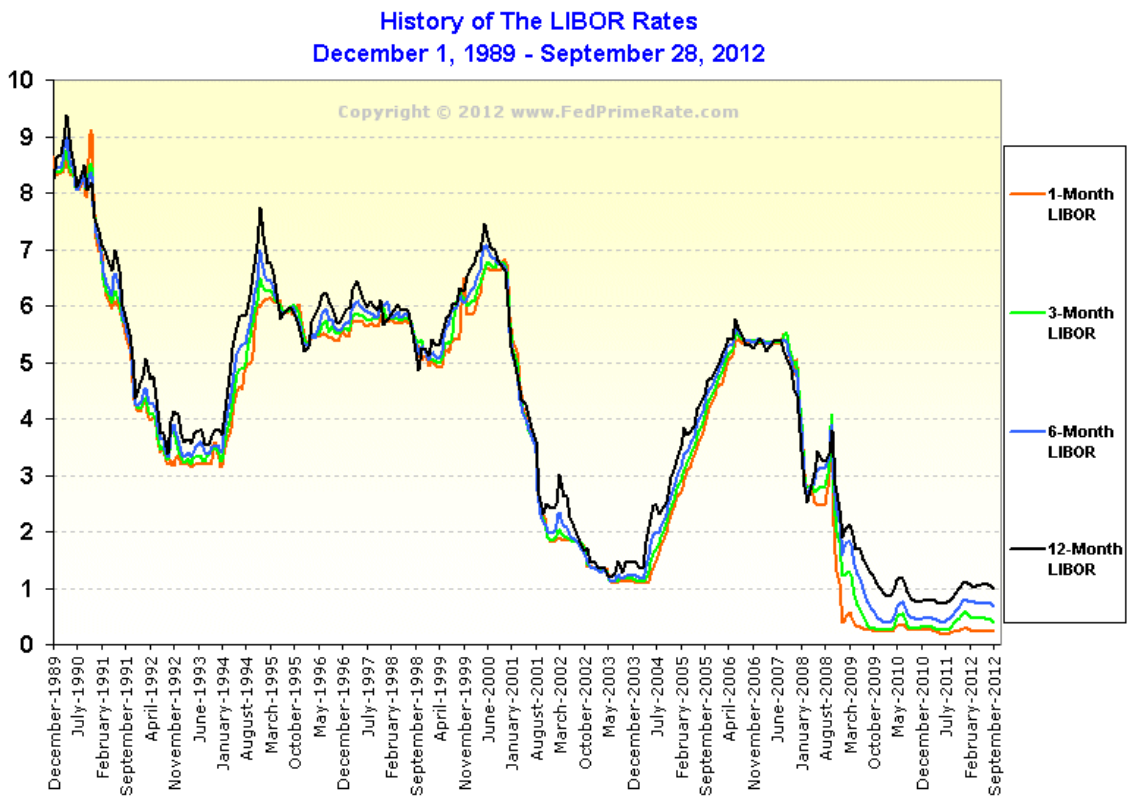
However, not everyone is sure that the bank's actions had this effect. The FSA said its actions "could have caused serious harm" to other institutions and individuals, but does not conclude that they actually did. The US Treasury said it lacks evidence that Libor is currently misstated, potentially putting it at odds with public opinion.

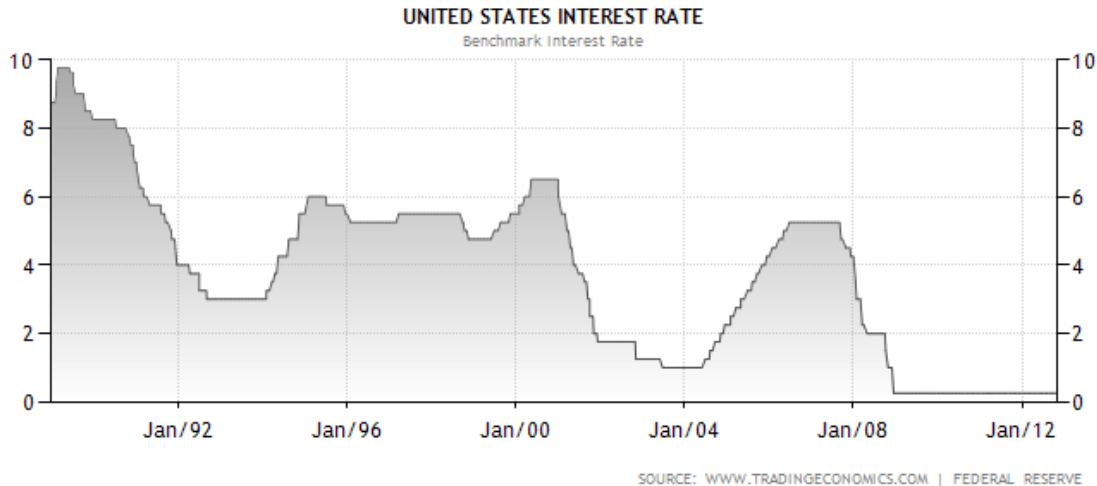
The long-term effects of this manipulation since 2005 are still not clear. Regardless, it's still a fundamental flaw to the financial system as we know it. However, it seemed that whilst many people were aware, even Central Banks were involved.

The Fed in on it?

"Everyone knew we couldn't borrow at Libor, you only needed to look at CDS to see that... with real Libor rates 3 to 4 per cent higher than the BBA's submitted Lie-bor" - George Osborne

The Fed cannot affect LIBOR directly, but in general LIBOR trades in line with Fed Funds. You can see that historically, as Fed Funds was changed, LIBOR responded appropriately. There was typically some small premium to reflect the "credit risk" of banks versus the Fed, but it was relatively small, and fairly stable. 3 Month LIBOR would deviate a bit as rate cuts and hikes were anticipated in the market, but in general, it was a fairly stable game.





Why would the Fed do everything it can to keep LIBOR low? Same reason they bailed out the system during the crash perhaps...

What now?

The flawed nature of the LIBOR has led to a great debate on the replacement of this benchmark.

On July 2, 2012, Martin Wheatley, Managing Director of the U.K. Financial Services Authority was tasked to undertake a review (the "Wheatley Review") of the structure and governance of LIBOR and the corresponding criminal sanctions regime.

The Wheatley Review determined that a move to replace LIBOR could only be justified by clear evidence that the benchmark is severely damaged, and that a transition to a new, suitable benchmark or benchmarks could be quickly managed to ensure limited disruption to financial markets. The Wheatley Review noted that there has been no noticeable decline in the use of LIBOR by market participants. Indeed a clear majority of market participants responding to the Wheatley Review's consultation argued for the continuation of a form of LIBOR, rather than its wholesale replacement.

Recommendations have involved keeping the Libor. One idea was for the LIBOR submissions to be published only after 3 months to reduce the potential for submitters to attempt manipulation, and to reduce any potential interpretation of submissions as a

signal of creditworthiness. This however is ridiculous since it is not an accurate picture of the daily environment.

Others have asked to look for a new rate. With Libor, a bank is asked at what rate it thinks *it* can borrow, while for Euribor, a bank is asked at what rate it thinks *other banks* are able to borrow. And yet the Euribor for dollar borrowings is about twice as high as the comparable Libor. One solution might be to use other benchmark rates — like the overnight index swaps rate, which is tied to the rate at which banks lend to one another overnight — that are based on real transactions. There are also benchmark rates based on actual short-term secured financings (loans in which collateral is pledged) between banks and other financial institutions.

Switching rapidly to a different rate involves work and risks that the banks may not be in a situation to handle. The main concern until the end of the year will be the capital and liquidity rules on banks, so only temporary fixes will be involved. Whatever your degree of involvement in the financial system, keep your eye out for how the situation evolves — it'll impact the size of your wallet.

Investing Special

Timing the Market

By Richard Low, Analyst, MSc Finance and Economics

The perennial interview question of *is this the right time to invest* might very well be the most prepared of all time. I am sure each and every WFS member will be able to impress any interviewer with his feel of the current set of financial events, understanding of the catalysts in the financial markets and money-making investment ideas. The interviewer proceeds to nod his head and you know you aced it. But how hard can it be when there are no right or wrong answers?

Now if your mother asked you and there was real money on the table, what would you say? Now, this is a difficult question and this article will share two empirical research pieces that might help you position yourself better when real money is involved.

First, the good news...

Sharpe did write a paper on the effects of market timing and concluded that the benefits from being invested during an “up” market are greater than the benefits of avoiding a “down” market. In his paper⁴, he concludes that active managers need to be correct at least 75% of the time to beat competitors who do not time their market strategy and there are two reasons for this.

- (1) Asymmetry of stock returns (i.e., more positive returns than negative returns) for yearly stock returns from 1925 to 2011 (see table 1) and hence being invested more means that we are more likely to benefit from the positive returns experienced during that year.

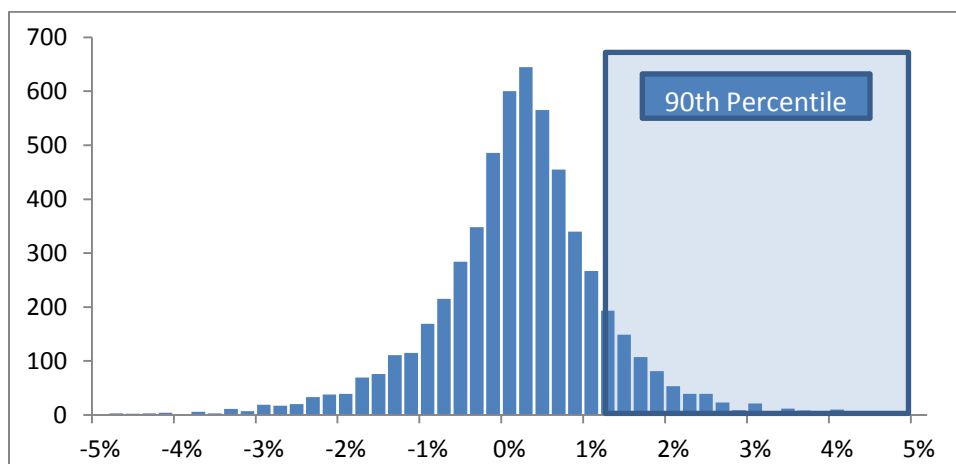
Table 1: Yearly Returns for S&P 500 from 1925 to 2011

	Down Market	Up Market
Number of Years	30	57
Average Returns	-10.7%	+22.4%

⁴ Sharpe (1975), *Likely Gains from Market Timing*.

(2) Capturing the highest returns is difficult. What we are aiming for is not just predicting a good or bad year, it is important to realise that what we are trying to capture is really the top 90th percentile of returns (see table 2) as this set of returns really drives the overall level of portfolio performance.

Table 2: Returns of S&P500 (1990s - Present)*



And now the bad news...

Experts provide only broad principles in asset allocation, and they often differ over the when to switch between asset classes (i.e., from cash/bonds into equities). In the early 1990s, The Economist surveyed and published the recommended one-year-ahead investment portfolio. Table 3 is a summary of the survey from 1992 to 2001.

Table 3: Statistics for the “Optimal Asset Allocation”⁵

	Equities	Bonds	Cash
Experts’ Average Weight	51.9%	41.5%	6.6%
Minimum Average	45.0%	36.3%	2.86%
Maximum Average	58.9%	45.4%	10.4%
Average Range between the Experts	32.0%	28.9%	16.9%

⁵ Some of the investment advisors include Bank Julius Baer, Commerz Intern, Credit Agricole, Credit Suisse, Daiwa, Lehman Brothers, Merrill Lynch, Nikko Securities and UBS/Phillips & Drew.

Source: Journal of Banking & Finance 29 (2005) 661–680. *The value of asset allocation advice: Evidence from The Economist's quarterly portfolio poll.*

Although the recommended asset allocation for equities to bonds and cash equivalents remained fairly consistent over the period observed, there was constant disagreement (average range between the experts) amongst investment advisors on when investors should convert from cash/bonds to equities or vice versa and often-conflicting signals from investment advisors often mean that it is difficult to implement a market timing strategy.

Conclusion

I hope that this article has provided some empirical insights into how one should consider long-term investing. There is much noise in the financial market, even from industry experts, but sitting on the sidelines might very well mean you will miss out on the rally.

Note from the Team

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We would appreciate any helpful feedback you may have as we strive to grow the quality and usefulness of our fortnightly market wrap-ups.

Please send this feedback to **D.Chia@WFSocieties.com** and the subject as “Fortnightly Wrap-up Feedback”.

Many thanks.

The Warwick Investment Club Research Team

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