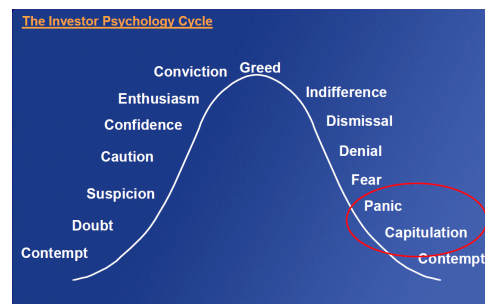


The darkest hour is just before the dawn

The Mamas and the Papas sang this some years ago and they were thinking something much more pleasurable than economies and stock markets, but can it apply here too?

A chart produced by Jupiter (see right) suggests that stock markets are dependent upon human behaviour and tend to overshoot upwards and downwards.

Their relationship to the real world is one of perception; that is what investors perceive will happen, not what is actually happening now. As to the time horizon, this seems to vary but may be six months or two years. Jupiter say we are near the bottom of this cycle at this time.



(Jupiter Merlin Portfolios presentation, February 2009)

The stock market always has cycles, how extreme they are depends on the perception of how economies are going to behave. What has made this downturn in markets so extreme is the great unknown of how much credit there was in the financial markets and how bad the loans of banks were. As there becomes more certainty of this the markets are at least likely to calm down.

The fear of a total banking failure was very real last October. That is over, and now is there reason to see the economic position getting better and investors more optimistic about Company earnings in two years' time?

Certainly some Governments are trying to do something about creating real demand. What this means is trying to get people to buy things, because if they don't companies will not prosper.

Different Governments are doing it in different ways. In the UK, "Quantitative Easing" is here. This is a very indirect method of helping the economy. The Government is buying back its own debt, putting cash in the hands of pension funds, insurance companies and others who will hopefully be able to buy other assets (shares and property) as well as helping to bring real interest rates down. It will take time to see if this works, and if it does unless the tap is turned off at the right time it is likely to lead to significant inflation.

The U.S. is also doing this as well as buying the useless assets (bad loans) of Banks. The latter is a more direct way to try to enable the Banks to start lending. In Europe consensus is difficult to find.

It really does go to show that this sort of economics is more of an art than a science - not surprisingly as it depends on human behaviour. Bankers failed to realise this in their ticking of boxes, not questioning the assumptions and the capacity of the borrower to repay.

So can we the investors see the end of this economic downturn? Ben Bernanke, President of The Federal Reserve actually mentioned the words “Green Shoots”, Anthony Bolton of Fidelity Special Situations fame has said we are near the bottom of the market cycle, but then both he and Buffet said the same thing last October. Second time lucky?

Economically it will be a different world, at least for some time, and much more regulation so repeats of this appalling lending and uncontrollable debt creation does not recur. In its workings it will probably be more difficult for all to get credit, but the shocks will be fewer.

The snowdrops have been joyful, the daffodils are out, the bluebells promising, a spring dawn the best of all.

When this economic dawn emerges it will be very beautiful indeed.

With kind regards

Yours faithfully

ANDREW ROBERTS
CHAIRMAN

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