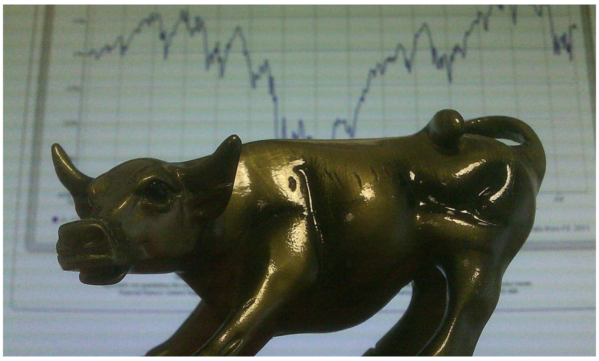
FEAR AND WORRY IN THE MARKET PLACE



FEAR & WORRY IN THE MARKETPLACE

Fear, anxiety, even guilt - these are the emotions that rise to the surface when the well-paid economic commentators spread their gloom with messages of: stalled growth in the UK and the USA; downgraded banks; austerity measures not even scratching the surface in Greece; European rescue packages providing merely a stay of execution for the Euro zone. Fear because we think we are going to lose our wealth or our income; anxiety that we are invested in the wrong things; guilt in case we are not being wise with our money.

Part of our job at Flowers McEwan is to bring relief from fear, anxiety & guilt. We do this by retaining objectivity and applying discipline to our investment decision-making. So let us guide you away, to the outskirts of the market place. Here we can look down on the hurly burly and hear ourselves think - unflustered by the hubbub of confusing news.

Consider the following:

1. Although it feels as though the financial world is crashing down – if you look back over the last 40 years there have been several stockmarket falls with worse results than the current one;

2. The pain felt when values go down is greater than the pleasure felt when values go up. Also, recent news shouts louder than old news. This means that our emotions react more to bad news than they do to good news and more to recent news than old news.
   Let's take a 3 year view: most people are aware that markets have fallen recently – the FTSE 100 (the top shares listed in the UK) has fallen 8% in the last 12 months – and they are worried. But they may already have forgotten that the stockmarket went up by almost 30% in the previous two years;

3. Amongst the noise and the clamour there are always people saying, "this time it is different". It never is. As we regularly point out: Economic uncertainty *is* certain.' Of course so-called 'black swans' (unforeseen major events) are possible. Yet over time markets tend to recover, order is restored and the clear up gets underway;

4. There are two foolish responses; either, "things have gone down I must sell and get out" or, "things have gone up, now is the time to buy". Investors who respond to these urges inevitably sell too late (the market has already fallen) and then buy back too late (the market has already gone up).
   Say the market goes down 10% in a straight line over 6 months and then goes back up 10% over the following 6 months. Your £100 at the beginning of the year is now worth £99 (£100 falls to £90. A 10% rise adds £9 to the £90 and takes it back up to £99). That's not great, but it isn't a disaster.
   When an investor panics and sells out at £90 and then after a 10% rise decides they should go back in - they have lost £9 (a fall of 10% when the market has hardly changed). It is very difficult to predict when the market is about to fall and equally difficult to predict when the market is about to rise;

5. In any case, it is most <u>unlikely</u> that your investments are the same as whatever is hitting the media headlines. Our clients have carefully diversified portfolios which are specifically designed to cope with short term volatility.

"Whatever you do, it is not a good time to make snap decisions. The most recent falls have not been the worst in the past 40 years. Nevertheless it can take a fairly long time for the market to reach the bottom and recover but, importantly, it has done so

Address: PO Box 795, Leeds, LS1 9LX.
Tel: 0113 237 1979.
www.flowersmcewan.co.uk
Flowers McEwan Ltd, reg. no. 4237360, registered office: 11 Belvedere Avenue, LEEDS, United Kingdom, LS17 8BN

every time." - Paul Resnik, co-founder and director of FinaMetrica.

The *end of work* (one of the main reasons for going to work) was to pay the bills and save for a rainy day and you just kept going. If there was some cash left over from time to time, maybe you could take a holiday and visit a pension in the Dordogne.

Plus ca change; now the *end of work* is to pay the bills, save for a rainy day and retire from work. Oh, and we now expect to go en vacances every year. Oh, and we also borrow money to buy a house and get an education.

A decreasing number of workers enjoy membership of a final salary pension scheme (if that's you, you can be very grateful!), everyone else has to build their own pension or savings pot. Over the next couple of years the government is introducing a scheme that means that almost everyone will pay into a pension (you will have to opt out if you don't want to).

But it's a lot to ask of a job: pay the bills, go on holiday, repay the mortgage, repay the student loans, save for a rainy day and build up a pension. The average graduate will earn about £1,600,000 over the course of a working lifetime; someone starting work at 18 will earn about £1,000,000. Will that amount of money stretch far enough to pay for everything?

We have to think ahead to the time when we can't or don't want to go to work to pay the bills. The best plan is that by the time you have reached the end of work you have been able to reduce your outgoings (debts paid off, regular saving stopped) and can enjoy an income from investments (a pension fund, savings or perhaps a second property).

The *end of work* is for your income to be higher than your spending – today and when you "retire".

In other words, the money you earn today needs to be spent on more than just today's bills. So for every £100 that arrives in your bank account try this: allocate some for giving away (say £10), some for saving for a rainy day (£10) and some for when you want to stop work (£10), some for repaying debt (£10) and spend the rest today (£60).

David Flowers
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