

Market Musings from MDM

June 2007

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Independent Financial Advisers

Off to battle again!



Most investment markets continued to soldier on, so May was quite an encouraging month in a number of ways.

Last month's investment returns

Index/currency	% Capital Return over past month	% Capital Return over past year
Dow Jones	4.3	22.0
Nasdaq 100	3.2	22.1
FTSE AIM 100	3.0	2.3
FTSE 100	2.7	15.7
Nikkei 225	2.7	15.6
FTSE Eurotop 100	2.4	19.4
Hang Seng	1.6	30.1
FTSE 250	1.5	30.3
Undated gilts	0.0	-9.2
\$/£	1.0	-5.4
€/£	-0.5	-0.8
¥/£	-0.9	-12.7

Many of the one year figures above are in stark contrast to those of a month ago – which provides an interesting exercise in studying statistics and a useful lesson for all investors.

Index/currency	% Capital Return in May 2006	% Capital Return over year to 1/5/07
Dow Jones	-1.7	14.9
Nasdaq 100	-7.1	9.8
FTSE Eurotop 100	-4.9	10.8
Hang Seng	-4.8	21.9
FTSE AIM 100	-12.4	-13.0
FTSE 100	-5.0	7.1
FTSE 250	-5.9	20.8
Nikkei 225	-8.5	2.9
Undated gilts	4.7	-5.0

The biggest change is for the FTSE AIM 100 index, which had fallen by 13% over one year a month ago but now shows a 2.3% rise over the year to the end of May.

The rise of 3% over the past month, when added to the 12.4% fall in May last year, explains this huge difference.

Likewise, a disappointing year for the Nikkei (Japan) a month ago now looks quite reasonable at over 15% - although you should remember that this excludes currency losses.

The lesson to be learnt is quite simply that you should always check for any anomalies behind performance figures – whether for a fund or an index – and not take them at their face value. Also, you should be aware that whenever there is excessive volatility – either at the end or at the start of an investment period – it can be difficult to compare investment funds accurately, as a difference of a day or two, or even just a few hours, in setting the unit price can sometimes make quite a significant difference to the quoted period return. This particularly applies where a unit trust is held via a pension or life fund.

Apart from this, there are two investment pointers in these figures – the relative returns between FTSE 100 and smaller FTSE 250 stocks began to widen in favour of the former, and it was a flat month for gilts – which was good news for them, compared with recent turmoil. Currencies were generally quiet, too.

Looking ahead, investment houses remain neutral on currencies and property – both UK and overseas, and are mainly either negative or neutral on fixed interest investments, although a couple of respected fund managers have said they are beginning to see some value in certain, mainly government, stocks.

Apart from being negative on larger US stocks, the consensus is generally positive for most equity markets - even Emerging Markets – with the UK and Europe still favourites, although some high profile negative comments from certain leading fund managers are balanced by more favourable comment from others. On balance, it would appear likely that, as suggested last month, volatility will remain higher than we have been used to but that the shorter term possible falls should be too small for private investors to cost-effectively avoid, as the subsequent recovery should only leave them out of pocket for a couple of months, perhaps.

Longer term, China still looks exciting but will remain volatile in the short term.

The above is not intended to imply any advice.
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(All data: source: Sharescope)