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Here we go again...

Following on from last month's look at the changing nature of the UK stock market, it seems sensible to look at the global picture. 'Globalisation' has become a major theme in investment strategy over recent years – I have lost count of the number of times I have read a fund manager's comments that they are investing in companies that "will benefit from the effects of globalisation". Well it is reassuring to know that somebody is benefiting from the growing interdependence of the world's economies, as the effects of economic globalisation are often presented as uniformly negative.

What set me off on this train of thought was a suggestion that history is about to repeat itself, again. In its most recent commentary on global markets, Fisher Wealth Management looked at the uncertainty that has gripped global stock markets over the summer to establish whether what we have seen is simply a market correction or, indeed, the return of a bear market. Its conclusion was that the bear was still hibernating, and that there were very strong parallels between where the market stands at the moment and the situation prevailing at the end of the 1970s.

First an explanation of who Fisher Wealth Management is. Based in San Francisco, its parent Fisher Investments is a discretionary portfolio management operation run by Kenneth L Fisher, who has been one of the US's most prominent investors for over 30 years. Part of Fisher's distinctive style and approach is the emphasis he places on fundamental analysis of stocks and markets and on learning the lessons of the past.



Keiron Root ponders the cyclical nature of global investment trends

The current Fisher thesis goes like this. There are striking parallels between the global economic and political situation in 1979 and what we are currently experiencing in 2006. For example, in 1979 a new chairman of the Federal Reserve Board in the US increased interest rates in a climate of rising gold and oil prices and a background of tensions in the Middle East. As a result, the MSCI World Index fell 10 per cent over one month, followed by an immediate resumption of the bull market. In 2006, market commentators are blaming the recent market downturn on, among other things, new Fed chairman Ben Bernanke's unsuccessful attempts to communicate central banking policy, inflation concerns, rising gold and oil prices and renewed tensions in the Middle East.

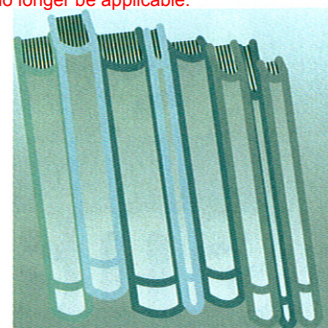
In particular, concerns about the return of inflation seem to be scaring the markets. Fisher observes that "Commentators see resurgent inflation leading to excessive tightening by central banks and reining in global economic growth." However, the Fisher line is that such concerns are overblown, since developed-world economies are sufficiently vibrant and robust to be able to withstand moderate increases in short-term rates.

More dramatic is the current conflict in The Lebanon. Wars unsettle mar-

kets – this has always been the case – and the bombardments of Southern Lebanon and Northern Israel have been no exception. The fact that this is part of a much wider Middle East conflict, and that the Middle East is still a major source of oil, tends to magnify the markets' reaction to it.

However, the Fisher view is to be much more realistic. "Without detracting from the humanitarian crisis, the potential economic impact, put in its correct context, is less dire. The combined GDPs of Israel, Syria, Lebanon and Palestine account for less than 0.6 per cent of the GDPs of the G8 nations. The only oil exporter, Syria, contributes just 0.5 per cent toward world production." The message is that, in global terms, the economies of the countries concerned are insignificant. Fisher does not see this conflict having broader implications for global equities.

This is a key element of the Fisher investment philosophy. I remember attending a meeting with the man himself about four years ago where he remarked upon the unreliability of Chinese GDP figures. When he was asked if this worried him he replied that it didn't, because China represented such a small part of global market capitalisation that he didn't have any investments there. I suspect that Chinese companies are on his radar



now, but still don't appear in many of his portfolios, since, for all the rapid growth in the size of the Chinese economy, there are still relatively few Chinese companies that you would be willing, or able, to buy into.

Fisher's conclusion is that what we have seen is a correction, rather than a bear market. He notes: "Corrections tend to last between one and four months, but as they are psychological in nature, not based on any fundamental causes, it is difficult to call their end. Underlying fundamentals remain strong and underpin our continued bullish outlook. Corrections are typically short-lived and we believe a stronger upward trend is likely to reassert itself later in 2006. Now is not the time for investors to lose resolve."

If he is right about the parallels with 1979, then UK investors could be in for a very profitable time. In the following decade, the UK stock market showed a positive return every year, and on only three occasions was that return below 15 per cent. Indeed, in six years out of ten equity prices rose by between 20 and 30 per cent. However, I would venture to suggest there is one key difference, in this country at least, between then and now. In 1979 Britain saw the election of a new government with a radical plan to improve the UK economy and encourage business growth, which it, by and large, put into practice. Is there any sign of something similar being offered today, by any of our political parties?