

Davis echoes alarm on house prices



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By Gavin Lumsden, Editor in Chief

Jonathan Davis, chairman of the London branch of the Institute of Financial Planning, has given a personal warning about the current dangerous state of the housing market.

Speaking at the branch's annual dinner at the House of Lords, Davis highlighted the high-level cautions delivered recently by Mervyn King, governor of the Bank of England, and the Financial Services Authority retail chief Clive Briault.

Last month Briault asked banks to consider how they would cope with the 'severe but plausible scenario' of a 40% crash in house prices and a third of mortgage defaults ending up in re-possession.

Davis, who currently works at Helm Godfrey and is about to set up IFA firm Armstrong Davis, said: 'The great British public still believe that – after an average 150% rise in 10 years – it [the property market] has a lot further to go. There are many top-flight commentators who say that that's extremely unlikely. What's more likely they say is another crash.'

Davis pointed out that bear markets typically reduce by over a half of the preceding bull market advance.

'I tell my clients that the way to make money is not to just stay in the market (whatever that means) but to make gains, lock them in then move on – in other words tactical asset allocation.'

He added: 'Let me ask you: in 400 years of recorded asset bubbles have you ever seen one deflate gently?'