

November 2006

## **Autumn 2006 Newsletter**

I have pleasure in enclosing the new edition of our client newsletter.

### **Shares**

John Maynard Keynes (of Keynesian economics fame) said "The market can remain irrational longer than you can remain solvent". It does seem strange that while worldwide interest rates are still rising as are unemployment numbers and retail prices (namely Council Tax, utilities, food – not to mention tuition fees) share markets have been heading upwards since the big dip in the early summer. Of course, it's not strange – the market will come back down to earth with a bump. When? I hear you cry. All I (or anyone else) can say is "in the foreseeable future" – very likely within 12 months and perhaps by the second quarter of 2007. When it happens my clients' portfolios will be insulated. Indeed, the fund managers I use have large holdings of cash at this time in order to insulate from the inevitable. In the best scenario, markets will plummet and they will sweetly walk in and buy low (would Sir Alan Sugar do it differently?); in the worst scenario my clients will likely make a few percent growth over the next months. As you can imagine, I am most attracted to Heads my client wins; Tails my client wins.

Please remember the way to preserve capital and grow it is not to lose it after you made good growth. Instead, you make it and you keep hold of it.

### **As Safe as Houses?**

People ask me about my view on house prices. My view remains consistent - I continue to forecast large falls in house prices *over the next five or so years*, as I have previously stated over roughly the last year. I am asked why they haven't fallen yet or, more to the point, as they have not surely they will not? Psychologists and economists both talk of extrapolation. Whatever has happened before informs our view of the future – House prices have risen therefore they will rise. This argument has been trotted out during every asset bubble in history, namely Tulips (1630s), South Sea (1700s), Stock Market (1929), Japanese houses (from 1990), Stock Market (2000s) - "The market has not fallen because... its different this time". [The four most feared words in investing.] Of course, it's not different.

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In the US they report the arithmetic mean price *as well* as the median price. For the country as a whole, the mean (average) price is down 2.5% year-on-year and the median price is **down 9.7%**. The median is the point where half have less and half have more. Let me give you an example.

You walk into a City pub in which there are 20 local professionals whose incomes are each £50,000 p.a. The arithmetic mean and the median are both £50,000. In walks a partner from a big US bank with a salary of £1m and a bonus of £5m. The arithmetic mean of the group is now a third of a million pounds however the median remains at £50,000. I suspect the first 20 would not be very happy to be told that they are in a group where average earnings are £333k! Recent house price statistics (lies and damn lies!) indicate that London prices have risen close to **10%** over the last year and nationally some **6%**. Michael Hughes, the Chief Investment Officer of Barings, tells us that an astounding 50% of £3m+ outlier houses in London are being bought by Russian billionaires or near billionaires, diversifying their assets. These are skewing the 'average' and that market is not the 'real world'. [www.home.co.uk](http://www.home.co.uk), the largest website for marketing houses for sale with 650,000+ houses online, informs us that London asking prices **rose 0.4%** in the last year and nationally **fell 0.6%**.

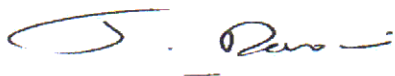
This is significant as they *take out* the £1m+ outlier houses. This index is as close as I can find to a reliable median price index in the UK – one which informs us of the 'real market' which will feed through to the wider economy.

Finally, Deutsche Bank just published a major report on house prices right across Europe and their conclusion is that almost all countries are at significant risk except perhaps Germany due to its industrial resurgence (the main reason why Euro interest rates have risen so sharply). If you would like a free copy of that report just ask me and I'll send/email it to you.

How to optimally apply your financial resources can be a minefield for the uninitiated and unadvised. I focus on wealth management and managing your wealth. If you like what I do please tell others to contact me for a no-obligation discussion. They'll receive the same professionalism that you receive.

If I am not providing what you want please tell me.

With kind regards,



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