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Stock Market Highs and Lows

It will not have escaped many investors notice that the performance of the UK Stock Market over the last twelve months has been exceptional. One has only had to hold a suitably diversified basket of shares to have seen returns of 20% or more over the course of the year.

Small Companies have continued to out perform larger stocks, although admittedly by a comparatively small amount. Inevitably investors have become tempted by equity investment, particularly when returns seem to be four or five times that available from a fixed interest portfolio.

Investors often ask when is the right time to enter the market. For a long-term investor, the answer is, "today." There is no short-term investment opinion behind that statement. No one can predict the movements of the market for the next month or year. Just as with unanticipated events, if portfolio managers could somehow predict the future movement of the market, then prices in the market would already reflect that knowledge, and so it would be impossible to profit from it.

Even though there is always a danger that the market will go down tomorrow, today is the right day to start investing. The following chart shows why. A major part of the long-term gains from investing in stocks comes from sharp upward bursts. Just missing the best month out of each calendar year over the past 50 years would have resulted in dramatically lower returns than staying invested throughout the period. A pound invested on March 1, 1955 in the FTSE All-Share UK Index would have accumulated to £393.99 by December 31, 2004. If you had missed the best month out of each calendar year, your one pound investment in 1955 would have grown to only £5.32 over the following 50 years.

The opportunity costs are even more dramatic with small company stocks. Investing a pound in the DFA UK small company fund beginning in March of 1955 would have grown to £1,484.54 by the end of December 2004. If you had missed the best month out of each calendar year, your one pound investment in 1955 would have grown to just £33.11. Smart investors stay invested for the long term.

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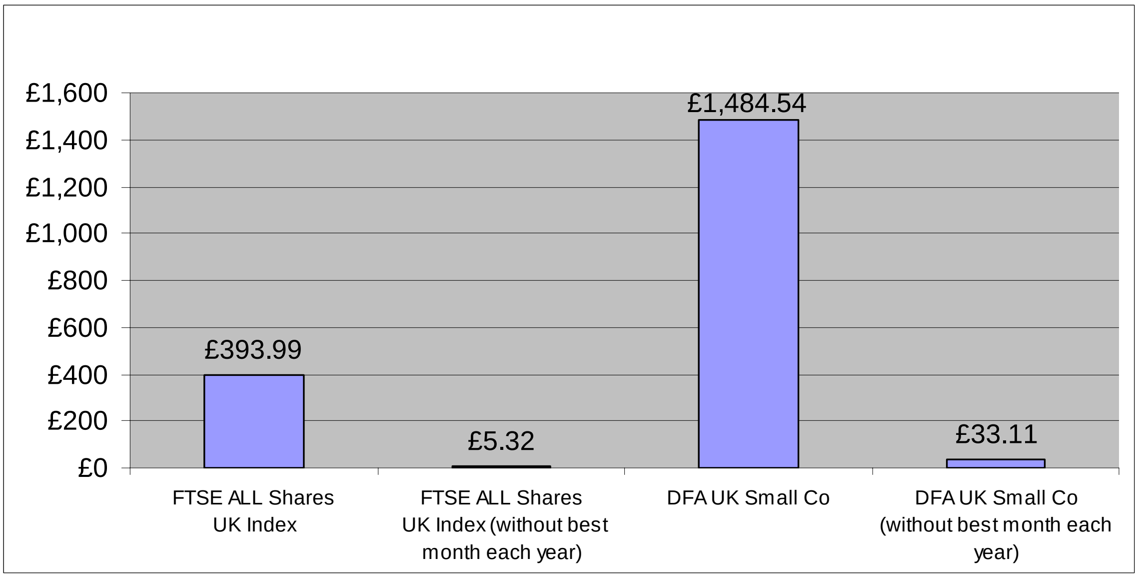
Market Gains Are Very Concentrated
Growth of £1 invested in March 1955 through December 2004



In summary, due to the fact that we believe that no-one can predict future movements in the stock market, particularly when they are restricted to comparatively small periods in time, we have encouraged our clients to stay invested for the long term. In fact, where equity gains have been significant, we would encourage our clients to consider re-balancing their asset allocation in line with our original recommendations.

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