What price advice?

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"Every time you brush your teeth; every time you fill your petrol tank; every time you shop at the supermarket – virtually every time that you *spend* money – somebody is *making* money. Why not share in the profits they make off you?" That sentence was the injection of my passion for equities 40 years ago.

During a TV interview on the 17th February, I highlighted the long-term value of solid equities. Anyone who invested Lm1,500 to buy 1,000 shares in the then Mid-Med Bank Ltd. in July 1991, today – after 2 shares splits – holds 4,000 shares of HSBC (which will become 16,000 shares on 19th April) with a current market value of Lm44,200. And this does not include dividends received over this 15-year period, which alone would have repaid the initial investment. See why I believe in the long-term value of well-chosen equities?

Relate this to the Pensions saga: Assume that this investor was a 45-year old in 1991. Today he is a 61-year old pensioner. Is he as reliant on his "first pillar" guaranteed national minimum pension, as his contemporary who put his Lm1,500 in a fixed deposit at the bank? The question is as rhetorical as "Who has best inflation-proofed his capital?"

Risk and Reward – the "comeback-and-go-beyond" theory

With equities it is not always days of wine and roses. HSBC shares – and others which are major MSE Index components – burned many speculators' fingers in Malta's first bull market which peaked 6 years ago. From an 18th January 2000 closing price of Lm3.80, and an intra-day high of Lm3.81, HSBC shares more than halved by 1st November 2002 to Lm1.73. These prices are adjusted to reflect the 1 for 1 split on 1st April 2005. Thousands swore that they would never touch shares again – especially those who cashed in their chips at the bottom of market.

Nobody had told them about what I call the stockmarket "comeback-and-go-beyond" theory. Let's look at the weather-vane of world markets, the Dow Jones Industrial Average. In the infamous Wall Street crash of October 1929, the Dow peaked at 381.17 on 3rd September 1929. For the only time in its history which goes back to 1896, the Dow Jones Index fell, *for four consecutive years*, to bottom at 41.22 on 8th July 1932. The comeback to the pre-crash peak did take till 1954 – but by 1964, the Dow had more than doubled to 900. On 28th February 2006 it stood at a sliver under 11,000. According to Professor Roger Ibbotson of Chicago, quoted in the late 1990's, by 2015 the Dow will clear 34,000.

What about Japan? Any streetwise Samurai will tell you that Japan's Nikkei index hit its all-time closing high on the 29th December 1989 at an astronomical 38,915.90. To get back to this level, from its 28th February 2006 close, requires an increase of 140%. Even if this takes another 10 years, it would equate to 14% simple interest per annum. I believe that the Japanese stockmarket has started a long recovery and, though I expect a lot of volatility, the Mount Fujiyama peak of 40,000 on the Nikkei will again be climbed.

Even Malta's barely into-its-teens stockmarket proves the "comeback-and-go-beyond" theory. In its first bull run, the MSE Index hit 4,013.371 on 24th January 2000. It then slipped, stumbled and fell to 1,747.522 on 30th October 2002. At that stage, those who had piled into the market at the peak, two years and nine months earlier, were contemplating the Maltese equivalent of Harakiri. Our advice was not only to hold on, but to buy more at the then lower prices – thereby bringing down one's average cost. But most were then as keen to invest more, as they would today be to take a holiday break in Bagdad. Those who did take our advice are now smiling into their sushi.

"Ethics – a verb of conviction, not a noun of convenience"

Because not only did the MSE index recover its previous peak (of 24th January 2000) on the 4th October 2005 at 4,031.46, but it has since charged ahead, breaking new barriers on the 21st February 2006 at an all-time peak of 6,314.069. That is an increase of 261%. On 28th February, exactly three years and four months from the October 2002 low, the index stood at 6,087.65 for a gain of just under 250% – see graph overleaf.

By comparison, the Nasdaq, the tech-laden US index, has only gained 72% in the same period. Yet, it is still 54.8% below its all-time closing high of 5,048.62 on 10th March 2000. This means it has to climb a further 121%, just for the comeback part.

In October 2002, when MSE officials were asked about the Maltese market drop, they were quoted by the media as having said that the Maltese market had followed all other stock-markets down.

So should the corollary to such an argument be that the potential of the Nikkei is not only to climb to 38,915, but then to actually exceed this by 51.7%? Or for the Nasdaq to climb 121% to 5,048.62 – and then a further 51.7% to 7,657.82? Is it a case of *Malta fior del mondo* or *Malta fuor del mondo*?

The graph overleaf clearly highlights the attractiveness of the world's major markets when compared to the Maltese Index. The readings of the seven foreign market indices have been taken as at 30th October 2002, so as to rebase all calculations in comparison to the MSE index's post-boom low point. The visual impact is stunning in the sense that none of the foreign major indices have yet achieved the comeback stage – let alone the go-beyond one. By comparison the MSE index is up 51.7% – and that is from the previous high, *not* from the post-boom low point. The conclusion *vis-à-vis* which markets have the better potential is obvious.

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But how do you distinguish between market *highs* and market *hype*?

It is not about "tricks", or about guessing – or second-guessing – market tops and bottoms. Neither does it lie in seeking refuge under the blanket bromide "past performance is not a guide to future returns". ***It is*** about knowledge, about experience and about preparation. ***It is*** about applying one's intelligence, combined with the decades-long acquisition of that sixth sense called intuition.

Finally, and fundamentally, ***it is*** about ethics – that branch of knowledge concerned with moral principles. At Financial Planning Services Ltd., we have, since inception, practised ethics as a verb of conviction – not as a noun of convenience.