

Questions and Answers from our Autumn Investment Forums

Are UK bank accounts safe?

In the light of the coordinated governmental support packages announced to date, we have to go with the working assumption that no High Street bank name would be allowed to fail. In extremis, equity holders and even bond holders may run the risk of being wiped out (and dividends look under threat at those banks who have agreed to government support), but letting depositors lose out would be inconceivable. Given that the crisis is huge in scale, however, it would make sense to consider other, non-bank investments as proxies for cash. Those would include UK government bonds or Gilts, particularly short-dated Gilts.

How long do you think the UK property slump will last?

The UK property bubble was 'off the charts'. Most mainstream economic commentators acknowledge this. It's impossible to forecast the future with any accuracy, but given the extent and duration of the bubble, a bear market that potentially lasts up to another 10 years in residential property prices is not necessarily implausible.

Where are the best potential returns in the stock market ?

It's important to remember that the leaders from the previous bull market are never the same leaders going into the next upturn. The classic defensive sectors include food, brewing, tobacco, utilities and pharmaceuticals. It's plausible that defensives could be the new leaders. My [Tim Price] particular focus is on the energy services sector. As at end March 2008, the recapitalisation of the banks was expected to cost approximately \$1 trillion. That figure is almost certainly higher now. But to put that figure in context, the International Energy Agency forecast that the amount of money required to pay for "primary energy infrastructure" over the next decade or so will be of the order of \$23 trillion. So in other words, if you thought the banking crisis was a huge story (which it undoubtedly is), just take a look at energy.

Is it 'game over' for hedge funds ?

The game has changed, inasmuch as many hedge fund strategies no longer require leverage to work. This is a huge contrast from the 'lean years' of recent times when risk was inappropriately priced, and the only way to make meaningful returns from credit spreads was by deploying large amounts of leverage. But we have to be mindful of the redemption pressure that is sweeping across the industry. There will undoubtedly be further hedge fund failures. But the very best managers will be in a uniquely advantageous position when the dust finally settles – there will be less competition from rival hedge funds, and less competition from proprietary desks at investment banks.

To what extent are Hedge Funds and “short selling” strategies to blame for the banking crisis?

Blaming hedge funds and short sellers is a classic case of shooting the messenger. Banks caused this crisis, not hedge funds. Commercial banks are the financial players who have leveraged up their balance sheets to dangerous levels, not hedge funds by and large. Too much easy credit for far too long. Banking crises are also more common than we are sometimes led to believe. According to IMF figures, there have been roughly 130 banking crises over the last 35 years. So they're not exactly uncommon, although the current crisis is obviously bigger, not to say global in scope. But the authorities have at least woken up to the severity of the problems - unlike the Japanese, when their banking system collapsed in the 1990s. The threat now is of a banking crisis becoming a currency crisis, which banking crises typically do, two thirds of the time.