

Fidelity's view on market volatility

In recent weeks many markets around the world have experienced volatility and suffered falls as fears grow about the prospects for the global economy. Following 2007's concerns over financial liquidity in credit markets and the potential fall out from a 'credit crunch', recent volatility in stock markets has reflected a growing consensus that economies are slowing.

Whilst many investors maintain a pessimistic outlook, Fidelity Managing Director, Investments **Anthony Bolton** finds some encouragement in the signals coming from the world's major central banks. And, although policymakers will be sure to balance their economic growth fears with inflationary pressures, generally speaking, central bankers have been willing to intervene to prevent any economic slowdown.

Anthony writes:

Investors around the world are naturally interested in the continuing volatility in global financial markets. Previously I have said that I was cautious in the short term and feared that further market volatility was likely and this has indeed proved to be the case with markets being particularly weak in the first few weeks of 2008.

In my three decades of stock market investing, I have experienced many economic cycles and extraordinary events. The circumstances behind the current volatility might be unique, but investors' reactions to them have many parallels to those I have witnessed in the past.

The market falls around the middle of 2007 were clearly prompted by concerns over financial liquidity in credit markets. At that time, many people asked whether these problems would be confined to the financial world, or whether they would spill over into the wider economy. Six months on, we appear to have the answer: as I had feared the credit crunch *is* taking its toll on growth in the broader economy, both in Europe and the United States. Recent stock market volatility reflects these concerns of a slowing global economy.

The economy of a large country such as the United States will not be derailed just by the problems of banks which have suffered losses in sub-prime markets, either by holding complex instruments based on sub-prime loans or by lending directly in this sector. But if banks start to restrict credit and consumers subsequently start to tighten their belts, then it will remove one of the main powers behind economic growth and financial markets. Also people's sense of personal wealth is closely tied to the value of their property: as house prices have weakened, so too has consumer confidence. There is probably more bad news to come on this front in the short term, and we should expect further stock market volatility.

However, the actions of central banks may help to restore stability to stock markets and I remain optimistic about the long-term prospects for equity investing. Even in economies experiencing the most uncertainty, there will be companies with good balance sheets, strong management and successful businesses. Also I believe 2008 will offer particularly attractive opportunities in some of the companies whose share prices have been most adversely affected to date.

In my experience one of the most common mistakes many investors make when they invest in stock markets is to be sucked in when times are good and markets are high only to be shaken out in uncertain times when markets are lower. Investors should be prepared to ride out these fluctuations and take a longer term view. Today's volatility comes at the end of a bull run for world stock markets that has lasted much longer than the average. There is no reason to suggest that another bull run won't follow at some point.

Understandably, in uncertain times like this investors will focus on risk and it is not unusual for people to view their investments as more 'risky' as they fluctuate in value. However, if any investors are tempted to try to time their investments – maybe selling holdings to avoid further falls – a risk that they are ignoring is the risk of missing out on market rises, which often come after the falls. Fidelity's experience of investing leads us to avoid market timing. Instead, we have learned that it is best to be patient and ride through the short-term volatility.

Our analysis of the market supports this. Since December 1992, the MSCI Europe index would have seen €1,000 grow to €5,152. If an investor tried to time the index's ups and downs but had missed the best ten days over that period, their investment would only be worth €2,393. Miss the best 20 days and the value of the investment today is €1,351. This is important in today's market conditions because the best days often immediately follow the worst.

Fidelity continues to seek the best investment opportunities in all market conditions and views this current volatility as part of the normal cycle of the world's markets. If you have a financial adviser, they will be happy to help you decide what, if anything, to do to achieve your long-term investment goals in today's environment.

VALUE OF €1,000 INVESTED IN MSCI EUROPE INDEX OVER THE LAST 15 YEARS		
Stayed invested	Missed the best 10 days	Missed the best 20 days
€5152	€2393	€1351

Source: Fidelity, total returns 31/12/92 to 31/12/07

ANNUAL PERFORMANCE OF THE MSCI EUROPE INDEX OVER THE LAST 5 YEARS				
2003	2004	2005	2006	2007
20.3%	12.7%	25.5%	19.6%	6.5%

Source: Fidelity, total returns 31/12/92 to 31/12/07

To get up to date information on market volatility you can find regular updates on our website at www.fidelity-international.com



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