SPOTLIGHT

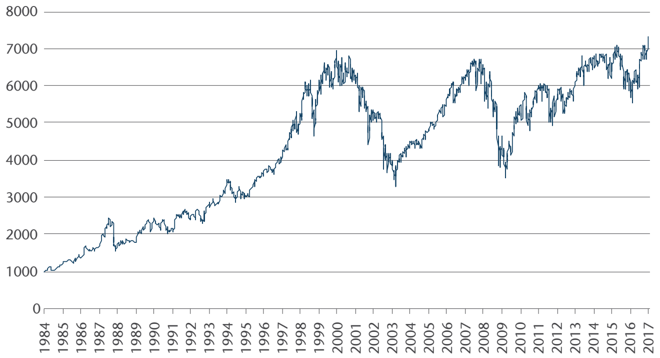
meteor

Opinion ◦ Analysis ◦ Commentary ◦ 13 February 2017

IS THE FTSE 100 "TOPPY"?

If you're an adviser in the UK, you'll be familiar with the following chart...

Chart 1: The FTSE 100 Index

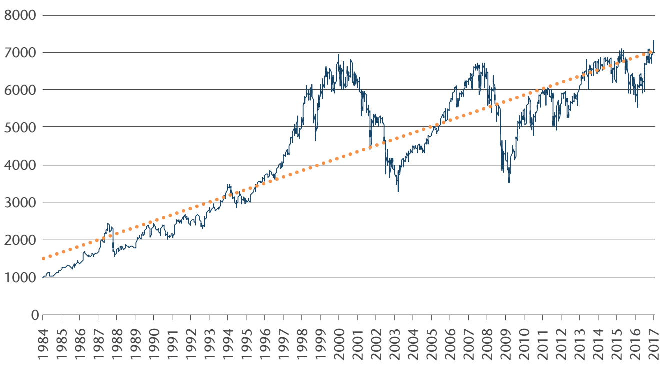


Source: Bloomberg, 16 Jan 2017

It's the FTSE 100 index since 1983. It broadly shows how equities and the economy have performed over the past thirty something years. Within this one line, we encapsulate so much history; the Russian Financial Crisis, 9/11, the Dot-com Bubble, the Credit Crisis...

To be frank though, we're not fans. In fact, these charts right now are particularly bothersome. The issue is that the two very obvious and prominent peaks show occasions where, around the 7000 mark, the index decided to take a nosedive. Right now, we're well above that 7000 mark and words like "toppy" and "peaky" are bandied around, signalling the end of a cycle and possibly, the beginning of a downturn. It seems natural to fear market timing but what seems to go against logic, however, is this arbitrary 7000 ceiling, which inevitably spells the advent of an Icarus-like disaster.

Chart 2: The FTSE 100 Index plus trendline



Source: Bloomberg, 16 Jan 2017

If you look at Chart 2 where we've added a "trendline", all of a sudden, the dynamic changes completely. You might say that there was a consistent and certain, over time, growth rate. We should remember, however, that past performance is not an indicator of future performance. Chart 2 tells us as much about what is going to happen in the future as Chart 1 does; nothing.

Now take a look at Chart 3, probably the most useful chart we're going to cover. In the far left, there is a single, imperceptible data point telling us that today, the FTSE 100 index is at around 7200. The next 30 years however, have nothing. There's nothing "toppy" about this at all. No peaks tricking us into thinking there is a ceiling, no "trend" telling us what growth rate to expect in the future. There is only one truth; the fact that we do not know what is going to happen – not even tomorrow.

Chart 3: Predicting the future?

Source: Bloomberg, 16 Jan 2017

We at Meteor have an idea though. It's really, very easy. It will either be higher, lower, or the same. For us, especially in these uncertain times, these are the kind of conditions we would be investing against. In our experience, we find that the majority of investors recognise this principle already. We've seen an increase in demand for "defensive" style products. These have relatively easier conditions for producing investment returns than traditional investments that might require an underlying index or asset to be above what it was when the investment was made.

Case in point, if you want to make money based on the absolute performance of the FTSE 100 price index, you would have to cash out when the index is higher than it was when you invested at the start. This might not happen for years, or, if you're feeling particularly gloomy; ever. With some structured products, you could make an investment return even if the index fell. Obviously, the lower the structured product allows the index to fall, the easier it is for you to make a return. In addition to this, most UK retail structured products come with built-in capital protection providing markets don't fall below certain levels. The majority of our capital-at-risk products for example, allow the underlying asset(s) to fall by 40% over the Plan term.

Contact a member of our team today if you want to discuss further.

Graham has been the Managing Director at Meteor since its creation in 2006. He has over 30 years experience in the financial services sector and brings his skills in product design, marketing and relationship development to bring customers the best servce possible. His voice is one of the most experienced and respected in the industry today.

By Graham Devile

Meteor Asset Management Limited
55 King William Street
London
EC4R 9AD

Tel +44 (0)20 7904 1010
Fax +44 (0)20 7283 1355
Email info@meteoram.com
Web www.meteoram.com

M01238_13February2017