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I see a new year rally says top stockpicker

Anthony Bolton thinks the market is about to perk up

Kathryn Cooper

Anthony Bolton, one of Britain's best-known stockpickers, believes a fresh bull market will start in the new year with investors likely to be caught out by the strength of the rally.

Speaking exclusively to The Sunday Times Money section about the outlook for 2009, Bolton said that while this was the worst financial crisis in his 30-year career, it was already priced into shares — setting the scene for a healthy rally next year.

"Everything I need to see for a bottom is there. Valuations look cheap and you often get this kind of high intra-day volatility at a turning point," he said.

"All the pieces are in place for a rally in the first quarter. The first stage of the bull market will be quite strong followed by a long period of consolidation. In the long run the market could return to its peak [6,930 in December 1999] but it could take quite some time."

He also called the bottom of the commercial-property market, despite a prediction from the Royal Institution of Chartered Surveyors last week that prices could fall a painful 50% from peak to trough. They are already down 25% over the past year.

"Prime property is yielding 7.5% at time when there is a shortage of yield elsewhere," Bolton said. "There are risks, but long leases protect you in the short term — unless the tenant goes bust. Some will go under but even if you lose 5% or even 10% of your income, that's still 90% that's protected for the next 10 years. I would be willing to buy \ at that yield with a two- to three-year view."

Bolton managed Fidelity's Special Situations fund from 1979 until 2007, when he stepped down from day-to-day management. He delivered average annual returns of 20.3% in that period, compared with 7.7% from the FTSE All-Share index.

He does not always get it right. He said the market was "at or near a bottom" in late September, when retailers and media firms were cheaper than he had ever seen them. He even invested in a Fidelity equity fund — his first foray into the markets for years.

He was too early — the Footsie dropped by a further 14% to a low of 3,781 on November 21, although it has since rallied to close at 4,280 on Friday.

Bolton is sticking to his view that we have seen the bottom. "I wasn't going to get right the week or the month, but I hope I got the right quarter. I made some more personal investments in October and again in November," he said.

He is in good company — American investor Warren Buffett has also put more of his own money into the market. Here, we offer some of Bolton's views for 2009.

On the economy

Bolton does not deny that the economic downturn will get worse, particularly in terms of job losses. He thinks the recession will be as bad as in the 1990s and 1980s, but not as severe as the depression of the 1930s.

“The economy and unemployment are going to get worse but markets tend to bottom 6 to 12 months before the economy. It is the worst financial crisis I have ever experienced, but governments are doing more than I have ever seen them do before,” he said.

He points out that the 52% drop in the American markets is the third-worst decline we have seen, and the other two occasions were in the 1930s — and he does not think the economy will get that bad.

On the next rally

Bolton expects next year’s rally to be led by financial stocks and so-called consumer cyclicals such as retailers. “Commodity and mining shares were the main players of the last bull market and you don’t find that what has led the last bull market leads the next one,” he said.

He also likes general insurers such as Lloyd’s syndicates because they tend to benefit from a shortage of capital because it allows them to put up premiums.

If he has one concern, it is about airlines. “The business model of airlines is very highly operationally geared so if conditions get really tough I could see airlines having trouble,” he said.

On banks

If Bolton were managing money now, he would buy shares in a basket of banks including the three propped up by the taxpayer — Royal Bank of Scotland, Lloyds TSB and Halifax Bank of Scotland — despite having disliked the sector for most of his career.

“In 28 years I have nearly always been underweight in banks. They are opaque and impossible to analyse so I have generally been against them.

“However, sentiment has become extreme and governments have strengthened their balance sheets. One or two may have to raise additional capital, but that is why you should own a basket.

“I didn’t like the way the government went about the recapitalisation and I would have preferred that it had not been leaked to the BBC, but I would invest now.

“Banks will return to growth, but it may take two to three years. In 300 years of banking, every 50 years or so you get a crisis.”

On global markets

Bolton prefers developed markets over emerging ones. “Given that the US was the first into the credit crunch it could be the first out,” he said. He also likes the look of Japan. “I am by no means an expert, but from a distance Japan looks interesting. They are also in recession but credit problems haven’t been as extreme,” he said.

China, however, is a worry. “The Olympics seemed to be some kind of peak event. The economy seems to be slowing down more quickly than anticipated.

“Emerging markets are great for the long term but China is slowing faster than people realise.”