AMG Market Commentary

November 2008

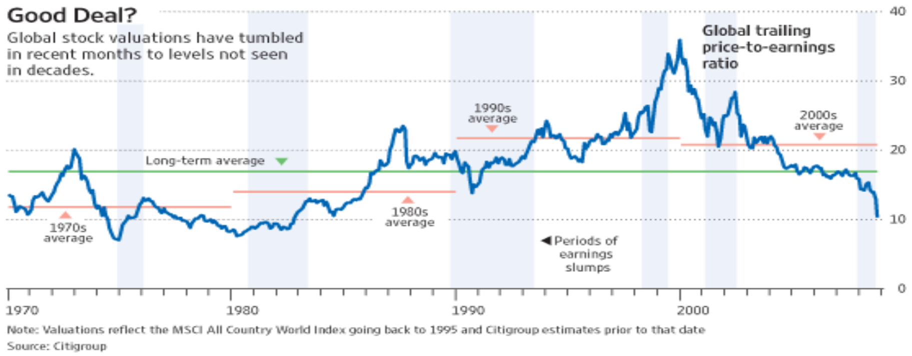
SALE - BIG SALE!

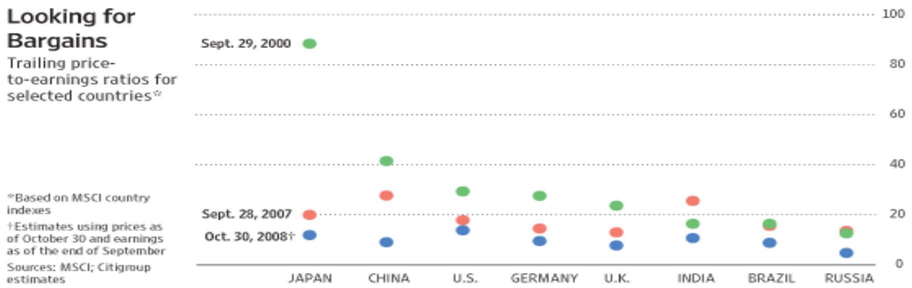
October 2008, is definitely one of the worst months in memory for the world-wide equity market as a whole. Stocks look like “deal of a century” on a number of measures. If someone believes that stock prices reflect the future expectations of investors, it then translates that investors expect a lot of bad news to come where company earnings are concerned. But it also could mean that there are few surprises left to the stunned investors.

On a global level, stock valuations have fallen to a level roughly equivalent to the one that prevailed during the 1970s, according to a report recently issued by Citigroup. As of Oct 30th, global stocks were trading at roughly 10.3 times their earnings for the previous 12 months, even lower than the average of 11.4 through the 1970s. The main reason that global valuations are so cheap is that investors expect a major downturn in corporate earnings. (1)

In the report, Citigroup analysts also noted that in previous world-wide economic recessions in the early 1990s and early 2000s, on the global level, return on equity fell to about 8% from peaks of 13% to 14%. That suggests global profits should fall 40% to 50%, they said, with about 10 percentage points of that decline already completed. (2)

The massive stock unloading has been especially savage in emerging markets. Between the 3rd week and 4th week of the month, investors drove down stocks in such markets to valuations that were almost as low as those during the rock bottom of the Asian crisis in the late 1990s, according to a Merrill Lynch report. (3)

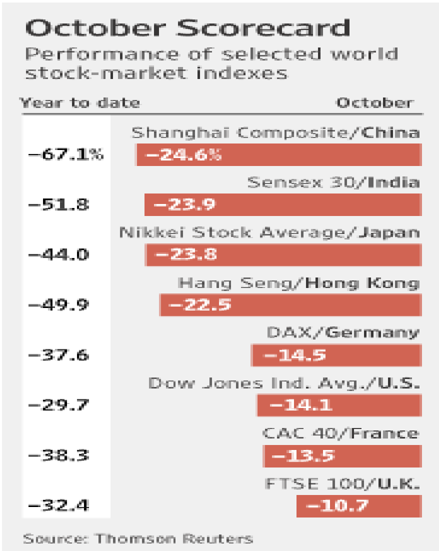




THE BRIC: Short Term – Neutral / Long Term – Positive
Indian shares, which last September traded at about 25 times the previous 12 months' earnings, now trade at just over 10 times, using Citigroup and MSCI figures. Shares of Chinese companies open to foreign investors are down to about nine times, from 27 times. And Russian shares are trading at about 4.4 times prior earnings, from 13 times. (4)
October brought a mauling to markets from Brazil, down 24%, to China, down nearly 25%. The guilty party was a word unfamiliar to many: "deleveraging" or Wall Street jargon for the practice of unloading stocks and bonds bought with borrowed money, usually under pressure. (5)

US: Neutral
Wall Street closed a poor October on Friday but the 16.9% drop in the Standard & Poor's 500-stock index looked pretty good compared with the hit taken by Asia and some other nations.

Europe: Neutral
During the month of October, London's FTSE fell 10.7%, France's CAC-40 was down 13.5% and Germany's DAX lost 14.5%. But from another angle, the dividends that stocks pay as a percentage of their current prices is higher than the yield on government bonds. In Europe, for example, the estimated dividend yield on stocks for this year is 5.2%, while the European Central Bank's key interest rate is 3.75%. (6)



Important Note & Disclaimer:

Japan: Negative
Japan's Nikkei Stock Average of 225 companies fell 23.8% in the month, even after a 12.1% bounce in the last week of October. The drop forced big Japanese banks, thus far relatively isolated from the financial crisis, to raise capital and slash profit forecasts. (7)
Japan suffered doubly during the month. Not only were investors unloading risky assets like stocks, but many had bought those assets with loans in yen. Unwinding those trades sent the yen soaring against major currencies, raising concerns about the competitiveness of Japan's export-oriented companies.
But on the other side of the coin, Japanese stocks are a bargain compared with their history and are now trading at their cheapest levels since at least the 1980s. That is a reflection of investor pessimism about the rough economic times that lie ahead for Japan and the burden of a stronger yen on the country's exporters. Stocks there are trading at about 11.5 times their earnings for the last 12 months, according to estimates based on the MSCI Japan index. During the 1990s, Japanese shares traded at more than 80 times earnings. (8)

Hong Kong: Neutral
Hong Kong suffered like other markets and there were value hunters dominating the market when the index approached close to the ten thousand mark.

Commodities: Short Term – Neutral / Long Term – Positive
October proved to be a washout for commodities also, as crude oil posted its worst one-month loss in history, the US economy spiraled toward recession and traders scrambled to deleverage positions.
Light, sweet crude oil for December delivery on the New York Mercantile Exchange lost 33% of its value in October. It managed to stage a late rally Friday to settle up $1.85 at $67.81 a barrel. (9)
Gold finished the month with an 18% loss, heading for its worst monthly drop since 1980, wheat for its largest monthly decline in 22 years, copper and aluminum for their largest drop in more than 20 years and sugar for its biggest monthly fall in a decade. (10)

Hedge Funds: Positive
Man hedge funds suffered from redemption pressure and therefore had to selloff assets with heavy price cuts. Managed futures and short biased were the best performing strategies for the month.

Bonds: Neutral
Bonds were trading at a range bound due to the expectation of the rate cuts. High yield bonds and some convertible bonds are becoming very attractive in terms of yields due to tight credit.

Things to Look Forward:
With everything at approaching or has already hit historical floors on valuations, what could be better other than start a portfolio now?

*(1-10) Information and data from Wall Street Journal.

For any comments, please send email to us at enquiries@amgwealth.com.

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