

'There are so many lights flashing red' Fund manager Neil Woodford warns of a stock market bubble

Fund manager Neil Woodford has warned stock markets around the world are in a "bubble," citing bitcoin, ETFs, and yields on European junk bonds as "red lights."

Woodford made his name as a money manager by avoiding bank shares before the 2007 financial crash and by avoiding the tech sector before the tech sector's dotcom crash in 2001.

LONDON — Star British fund manager has warned stock markets around the world are in a "bubble" which could result in one of the worst market crashes in history.



Speaking to the Financial Times, Woodford said: "Whether it's bitcoin going through \$10,000, European junk bonds yielding less than US Treasuries, historic low levels of volatility or triple-leveraged exchange traded funds attracting gigantic inflows — there are so many lights flashing red that I am losing count."

He said current equity valuations represent a bubble the likes of which he had "only witnessed two or three times in my career as an investor."

Woodford is the founder of Woodford Investment Management, which manages over £15 billion of assets. He said he was buying out of over-hyped "zeitgeist" stocks and instead buying up UK-focused house builders and banks whose share prices have been discounted by the Brexit vote. Woodford made his name as a money manager by avoiding bank shares before the 2007 financial crash and by avoiding the tech sector before the tech sector's dotcom crash in 2001. His flagship £8 billion equity income fund has performed badly this year, but he insisted his strategy will bear fruit.

"In the dotcom bubble it was the old economy stocks which became profoundly unloved and undervalued and today in the UK stock market, it is domestically-focused stocks," he told the FT. "The funds I manage are positioned to exploit this opportunity and I am utterly convinced it will pay off when the bubble bursts — which I believe it inevitably will."

As for Private Fund Management clients, invested with our preferred investment partners, Rathbones are not investing more than 50% of funds for clients who are coming in with cash.

Their perception is that the sentiments from Neil Woodford are correct, and believe there is a lot of substance in what he says. Rathbones have been holding higher than average cash levels for over 12 months now in the expectation that a correction will happen, but we are still waiting. However, part of the reason that a correction has not happened as yet is that interest rates are still so low so investors are willing to continue with investments rather than convert to traditional investment media such as bank deposits, which are providing a negative real return given that inflation is on the rise. In addition, many investors have been cautious for a while now and are holding higher cash weightings than normal. Having said all that, Rathbones firmly believe that this bull market is "long in the tooth" now and remain of the opinion that a correction will occur over the coming months, the reasons for their continuance to hold reasonably high levels of cash for investors.

The value of investments and the income from them may go down as well as up and you may not get back your original investment. Past performance should not be seen as an indication of future performance. Changes in rates of exchange between currencies may cause the value of investments to decrease or increase.

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