finews.ch
Treffpunkt der Finanzwelt

Is it time to buy bank shares now?

Thursday, 22 March 2012

Are the investors on the brink of a new stock market rally? *Martin Jetzer*, economist and chief strategist of Bellecapital, makes a statement.

Those buying and holding US shares in the last thirty years achieved no or, if at all, only an insignificantly higher profit than they would have, had they invested in government bonds. This is what specialists found during the last few weeks.

One of these specialists is **Martin Jetzer** (*photograph*), the internationally renowned economist and chief strategist of the Zurich based asset management firm Bellecapital.

After many years of stagnation...

The risk premium that was basically supposed to reward and motivate investors to hold shares instead of government bonds therefore was very low. This is mainly due to the high interest rates in the early eighties and the historic downwards trend of bond profit, as well as the crises or dives of the stock exchange during this term.

«Investors who were already able to evade only one of the great dives achieve a much better long-term performance with their portfolio» emphasizes Martin Jetzer. He believes that the markets tend to develop in large surges. After many years of stagnation, there will be a huge stock boom that the markets need to ‹digest› in a long sideways movement afterwards, Jetzer explains.

Euphoric colleagues

This is shown nicely in the Dot.com bubble that brought some investors huge gains before the dive that led – in the very big picture – to a rather stagnating phase. However, Jetzer explains, this may change soon.

He is not alone in this opinion. Last week, the British weekly magazine «The Economist» published a corresponding thesis; renowned investment strategist **Jim O'Neill** from Goldman Sachs Asset

Management was of the same opinion these days. In the meantime, O'Neill's colleague **Peter Oppenheimer** from Goldman Sachs had to join them as well. The facts are that there are some things that suggest that the markets may now move upwards sustainably again after the massive unrest of the last few years. Peter Oppenheimer even speaks of the «Best Opportunity in a Lifetime».

Upwards trend since December 2011

Martin Jetzer also recognized this development a few weeks ago. In fact, the stock exchanges have developed surprisingly positively since about early December 2011. Jetzer mainly bases this on continued liquidity support by the most important central banks in the world. In this respect, the latest exchange advance is not primarily due to economic progress, but due to monetary policy measures that have created a generally good environment, as the economist emphasizes.

This may now have set the stage for a long-term positive development, as Jetzer and other augurs notice. Various reasons suggest this: Many large, listed companies are generally in a very healthy condition, showing good annual results for 2011. Additionally, the US economy seems to pick up more quickly than previously expected.

Bank shares with further potential

Additionally, this is an election year in the United States. In the light of this, politicians and authority representatives will make sure that they do not cut off the tender upwards trend in their economy, as Jetzer points out. Instead, there will be continued liquidity increases, which should further strengthen the stock market rally. In the light of this, it is interesting that «Blue-Chip shares are not overpriced yet. As compared to bonds, they are even priced rather modestly,» Jetzer says.

Since December 2011, the bank shares, which previously were facing a very difficult situation, have also gained a lot of ground. In the short to medium term, the «financials» will continue to profit from good framework conditions (lots of liquidity in the market, good corporate results, ongoing recovery), as the Bellecapital economist is certain. However, out of risk consideration he recommends against going with individual bank titles, recommending instead to buy the corresponding index funds (ETFs).

Using purchasing opportunities

Jetzer considers the current time good for entering the stock market – not least under a certain contrarian point of view, in particular since more money is still being put in expensive bonds than in relatively low priced dividend-paying stock. «If your investments are mainly in fixed-interest investments, you should use purchasing opportunities now, » says Jetzer. According to him, most market participants have missed the recent rally.

The Euro crisis is still predominant in the investors' perception. Therefore, some investors did not notice that many shares of successful European companies have dropped to an attractive valuation level, Jetzer continues. He also emphasizes that Blue-Chips shares like Nestlé or Roche now bear «less of a risk» than some government bonds – an entirely new thing!

«Political stock cycle»

However, Martin Jetzer also urges caution. The currently beneficial development could be impaired by new turbulences as of 2013 or 2014. On the one hand, Bellecapital strategist sees a certain potential for risk particular in China if politicians there misjudge the economy adjustment processes and lose control. Some of Jetzer's keywords are the real estate sector and the credit cycle – in both areas, a threatening bubble had already formed. On the other hand, reversal of the «politically driven stock cycle» is threatening – elections are often followed by a necessary tightening of monetary policy.

If, Jetzer continues, China experiences a noticeable cool-off at concurrent clear reduction of the global liquidity supply, the raw material prices are expected to drop as well and a new phase of insecurity is expected to occur on the markets. However, Jetzer initially assumes generally positive framework conditions. «2012 is the year of reflation,» as he says.

US financial market the most rational

In other words: the central banks will strictly ensure that the markets are supplied with new capital to avoid any danger of recession. At the same time, debt reduction could be facilitated and accelerated by a slightly higher inflation rate.

Due to his long-term experience, Martin Jetzer considers the US financial market to be the most rational. In the light of this, it was generally a good sign that the US were now sending encouraging signals at the stock market. Investors would have to recognize these signs of the time early on, he says.

Martin Jetzer is Chief Economist of Bellecapital. As Chief Investment Officer, he bears responsibility for the investment strategy. Before, he was Chief Economist of HSBC Guyerzeller Bank for 25 years, and a long-term member of the management. Martin Jetzer was co-founder and editor of the Swiss financial journal «Financial Markets and Portfolio Management» and is a member of a US expert commission.