

Overheated summer daze

"…and the stock market has its best week since July…Take that, Karl Marx". From the film "Uncle Buck" 1989. What a scorcher! And the weathers not too bad either. Murray is champion, Froome is victorious and the cricket is all sewn up. For those yet to depart on holiday, the stock markets aren't looking too shabby either.

What a scorcher! And the weathers not too bad either. Murray is champion, Froome is victorious and the cricket is all sewn up. For those yet to depart on holiday, the stock markets aren't looking too shabby either. The FTSE100 Index has recovered to a respectable 6,525 and the S&P500 index is at all time record high. Even the bond markets are behaving themselves, with US yields approaching 2-year highs and Gilt yields sitting in a Goldilocks range around 2.35% and new Bank of England Governor, Mark Carney, telling us what we want to hear. What's not to like?

Whilst it has all gone our way this year, the performance of equities in particular has pushed portfolio

weightings to limits that do require some attention in terms of risk management and we have the luxury of being in a position to take significant profits and still remain mildly overweight, reflecting our longer term positive view. Cazenove UK Opportunities Fund led the charge in most TAM client portfolios in addition to being the highest weighted investment. In fact, the fund performance was virtually neck and neck with a relatively new addition PFS Chelverton UK Equity Income which is a specialist stock picking fund in small and mid-sized companies. And if that wasn't enough, we were delighted to see the fund managers of both funds, Julie Dean from Cazenove and David Taylor and David Horner from Chelverton, scooping the top prize in their categories at the Investment Week Fund Manager of the Year Awards 2013.

As we highlighted in our recent note "Patience and conviction pays off" the positive view on equities, and overweight position, has delivered good performance over the last 15-18 months, and key to being in the rather optimal position we find ourselves in has been the conviction to keep our nerve during the periodic shake-outs and add further to positions on subsequent weakness.

However, as the summer heat wave runs on into the holiday season, we are wary of a few storm clouds brewing on the horizon. The extent to which the eurozone debate has shut down would be comic if weren't so serious. The sacrosanct Euro holiday is one factor, of that we are sure; the other is the determination not to upset the desired election victory for Germany's Angela Merkel. After that, the notion of German taxpayers digging deep into their pockets for their Mediterranean eurozone siblings may be too unpalatable to bear. Will the IMF demand the ECB stumps up more? Will Berlusconi's upheld jail sentence fracture the Enrico Letta-led Italian coalition – perhaps leading to another election and opening the door to the Eurosceptic 5-Star movement? Nobody knows.

So TAM has decided to bank the profits now while the stock market charts are pushing technical highs. This move will only bring client portfolios back into line with benchmarks. It does not alter our thoughts on bonds or equities in the longer term but we believe this is a prudent move which may afford clients the chance to sit back and enjoy this hazy summer in a daze of relative contentment.

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