TAM ASSET MANAGEMENT INVESTMENT NOTE

Winning with the Collapse in Oil

TAM portfolios provide protection in the oil sell-off

"I've been on both sides of a lot of oil and gas price swings. Every time, the first question people always ask is who wins and who loses". T. Boone Pickens, founder and chair of BP Capital.

The price of oil has fallen over 40% in recent months with inevitable knock on effects to the price of shares in oil stocks. Over one month, the FTSE All Share Oil and Gas producers have fallen 15% and the Service and Equipment sector has fallen an astonishing 29%. Mining stocks have also fallen 16%. Even in a market where improbable moves have become routine, such as gold, Gilts and the Russian Rouble, this is an extraordinary fall.

This has rattled the confidence of stock markets, dragging down all other stocks down in an indiscriminate sell off similar to that which we saw in October.

However, TAM equity portfolios have relatively little exposure to these sectors because client portfolios are overweight overseas shares in US, Japan and Europe where oil stocks do not feature so highly in their stock markets. Furthermore, TAM UK equity investments have been predominantly in mid-sized companies where we seek profit growth, in preference to balance sheet strength, reflecting our positive view on economic growth. Our thoughts are aligned with Bank of England Governor, Mark Carney, who fundamentally believes that this is all super stuff for consumer pockets and therefore good for the economy.

The counter view, evidenced by the sell-off, is that a very low oil price ultimately feeds through into lower inflation and, by extension, interest rates staying lower for longer reflecting a weak economy. We believe this is an unnecessarily bearish take on the price of a commodity that has been overly expensive for an extended period in a fragile economic recovery and which has effectively acted as a tax on the consumer. Some estimates put the net contribution to American consumers at around $800 per year.

Furthermore, the boost is an immediate one whereas the knock on deflationary effect will take some time to feed through to the cost of goods. So we believe that cheaper oil will give consumers more money to spend elsewhere and has the potential to boost the US economy beyond its stall speed of around 2%, which is what stock markets and central banks have been worried about for years.

Clients with exposure to equities in TAM portfolios will notice a dramatic pick up in relative performance in December even as stock markets fall, all of which contributes to another strong yearly performance. Furthermore, we believe that an investment opportunity may be presenting itself. UK Income funds, for example, often invest in energy stocks which tend to be solid dividend payers. We are also looking at investing in the energy sector directly.

And so despite this recent reversal of the Santa rally, TAM portfolios are performing very well. If we conclude that the pain is now almost fully factored into the price of energy stocks, which were already cheap, then it may well be time to invest client cash opportunistically as we said we would at the beginning of the year.

TAM ASSET MANAGEMENT LTD
10th Floor, City Tower, 40 Basinghall Street, London, EC2V 5DE
+44 (0) 207 549 7650 +44 (0) 207 549 7784 www.tamassetmanagement.com