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They came to Goldman Sachs' oracle in search of wisdom and were told to buy lots of equities

Patrick Hosking, Financial Editor

It is the ultimate unloved bank. Goldman Sachs has struggled to shrug off its "giant vampire squid" epithet. It is frowned at for joking it was just doing God's work. And it is preparing to be drenched in fresh ordure when it discloses the stratospheric level of average staff pay packets in 2009 — probably about £350,000.

But the bank everyone loves to hate is still the bank everyone wants to know. More than 400 of Britain's senior investors, including hedge fund managers, pension fund investors and private bankers, flocked to Goldman's Fleet Street office yesterday to kneel at the feet of Mammon's oracles and hear how they reckon money can be made in 2010.

The Goldman annual global strategy conference was so oversubscribed that delegates spilt into three overflow rooms and had to watch proceedings on video screens. The bank's record in correctly predicting the remarkable stock market bounce of last year has won it new followers, with many more delegates than a year ago.

Then, it more or less correctly predicted one of the steepest stock market climbs of modern times. Amid widespread gloom in January 2009, it forecast a dramatic 30 per cent to 50 per cent bounce in share prices, starting in the middle of 2009.

As Peter Oppenheimer, chief European strategist at the bank, recalled: "We were very struck by how many people thought we were crazy at the time. They thought we were way, way, way too optimistic."

In fact, if anything, they were not quite optimistic enough. The bounce began even sooner than Goldman had expected — in March — and investors who caught the full wave of improving share market sentiment were 60 per cent richer by the end of the year. Those who bought spicier shares doubled their money and more.

The message from Goldman a year later continues to be simple: buy equities, lots of them. The bull market has a long time to run yet, it believes, because the world economy is going to canter along faster than expected and because corporate profits are going to leap sharply higher.

World share markets, according to the Goldman view, are in transition from the "hope phase" to the "growth phase" of a more established bull market. Such growth phases typically lasted 33 months and delivered solid real returns of about 11 per cent a year, based on previous investment cycles.

That was followed by the "optimism phase", typically lasting 14 months and delivering a climactic annualised real return of 24 per cent, before the market retreats into the "despair phase" of a new bear market.

Mr Oppenheimer said: "It's been a terrible ten years for share investors but, yes, I do think we're in for a long period of pretty decent returns."

London-listed blue chips are well exposed to international markets including the Bric economies of Brazil, Russia, India and China. Seventy per cent of the profits of FTSE 100 companies are generated outside the UK. Goldman picks energy, raw materials, industrials, household goods, cars and construction as its preferred sectors.

Jim O'Neill, chief economist of Goldman, argued that the world was going to come out of the downturn faster and stronger than predicted by his peers. Goldman's forecast for global growth this year is 4.4 per cent, against a



The Goldman Annual Strategy Conference was hugely oversubscribed

consensus view of 3.9 per cent.

Two themes, in particular, explain Goldman's sunnier view. One is the continued success of the Bric economies in helping to pull the West out of its economic torpor. China was much bigger and would be more influential than many westerners appreciated. China has added an extra \$3,500 billion to global output in a decade. Mr O'Neill said. The other factor is the ability of central banks to keep interest rates low. Fears over the return of inflationary pressures were overdone, Mr O'Neill said.

As a result, the US Federal Reserve was going to keep its benchmark Fed funds rate at the rock-bottom range of 0 per cent to 0.25 per cent, not for only a few months longer, as most City economists believe, but for at least two more years.

David Kostin, chief US equities strategist at Goldman, said that that would provide "a nice tail wind" for US equities. Goldman sees America as one of the weaker countries for shares, but still expects the S&P 500 to rise 14 per cent from 1,136 to peak at 1,300 this year, before fading to 1,250 by the year's end.

Meanwhile, Goldman staff may have to wait until next week to find out the size of their bonuses, expected to average more than £380,000 each. The bank had been expected to release the information on Thursday. News of the delay has sparked speculation that the bank is launching a bonus policy review in response to Alistair Darling's supertax. Goldman was unavailable for comment.

Peering into the future

Forecasts for FTSE 100 at end of 2010

Charles Stanley 4,700

Morgan Stanley 5,000

Brewin Dolphin 5,000-5,500

Seven Investment Management 5,500

S & P Equities 5,674

Hargreaves Lansdowne 5,750

Barclays Wealth 5,800

Killik & Co 5,850

Citigroup 6,000

The present level of the index is 5,494

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