Timid bulls nudge equities exposure to current high

- Private investors have more invested in equities than at any time in the last three and a half years
- Confidence in stock market rises in last six months, but remains weak
- Equities are good value after period of price weakness, investors say

Private investors on average have more money invested in the stock market than at any time in the last three and a half years\(^1\), despite continuing weak sentiment for equities and a lack of conviction about the fundamentals of the UK economy.

The *Investor Outlook* survey by Lloyds TSB Private Banking reveals that many investors think stocks are good value after a period of price weakness. This suggests that many have become frustrated with real cash returns as savings rates remain low against a background of high inflation.

The 1,000 private investors surveyed by Lloyds TSB Private Banking now have on average £27,900 invested in equities, excluding their pension, an increase of £2,300 in the last year. The figures are £27,948 invested on average, per investor surveyed in equities in Jan 2012; £25,686 in Dec 2010. This is despite the FTSE100 having fallen over this time, thereby eroding their capital. Investors have not had a greater exposure to the stock market since Lloyds TSB Private Banking began the twice-yearly survey in July 2008.

Confidence in equities has crept up with 29 per cent of investors saying they feel confident about the stock market over the next year, compared to just 25 per cent in the last survey six months ago. However, many investors are still apprehensive about the stock market, and
increasingly so, with 43 per cent saying they feel apprehensive about equities in the next 12 months compared to 40 per cent in the last survey. The research shows that sentiment is polarising with investors dividing more clearly along bullish or bearish lines, and the bulls’ increased stock market investments pushing the average higher.

The main reason for investors’ confidence in stock market investments is a belief that equities are undervalued after a prolonged period of price weakness. Fifty-one per cent of people who say they are confident about the stock market hold this as a reason, while only 42 per cent say their confidence is born of a wider, positive market sentiment towards equities. Only 34 per cent say the fundamentals of the UK economy being better than suggested is a key reason for their confidence.

Many investors are also resigned to potential capital erosion in their savings with some 56 per cent expecting inflation to run higher than their savings account interest rates over the next 12 months, meaning a financial loss in real terms. This frustration may provide another reason for investors to look towards other asset classes such as equities for potentially better returns.

“After months of profound risk-aversion many investors are now more freely testing the waters of the stock market while not plunging in,” said Ash Misra, Head of Investments, Lloyds TSB Private Banking.

“Confidence in equities among most investors is still fairly weak, but the tide of sentiment has turned to the positive, at least for the time being. Looking out to the rest of 2012 our current outlook for equity markets is cautiously optimistic. Investor sentiment is near multi-year lows and equity valuations, especially in developed markets, are at attractive levels particularly relative to fixed interest asset classes. With this backdrop, so long as the trend of policy accommodation by central banks continues it should be supportive of equity price appreciation. Our analysis indicates that the balance of probabilities certainly favours price appreciation more strongly now than this time last year.”
Nothing is guaranteed and investors should always remember that past performance should not be seen as an indicator for the future.

The opinions expressed are that of our current, in-house, view and are subject to change.

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All statistics unless otherwise stated are from Lloyds TSB Private Banking’s Investor Outlook survey. The survey of 1,000 private investors was conducted online by Research Plus Ltd, on behalf of Lloyds TSB Private Banking, 12-20 January 2012.

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Notes to editors:
1,000 private investors were surveyed online, 12-20 January 2012, by Research Plus Ltd on behalf of Lloyds TSB Private Banking.

The criteria to define the sample are those who hold/held any one of the following types of investments: stocks and shares, non-cash ISA (Maxi ISA), investment trusts (excluding PEPs/ISAs), PEPs (including unit/investment trust PEPs), unit trust/OEIC (excluding PEPs/ISAs), Guaranteed Stock Market Bonds (GSMB), corporate bonds (including ISA), investment bonds, gilts / gilt funds, other government bonds and government bond funds. This is the ninth time the half-yearly survey has been conducted. To ensure consistency between waves, the relative proportions of the above types of investors are monitored, along with gender, age and location, to avoid a skewed sample.

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Lloyds TSB Private Banking Limited was established in 1986. We offer a range of expert solutions in banking, savings and investments, insurance, tax and retirement planning. Lloyds TSB Private Banking Limited is part of the Lloyds Banking Group. Lloyds TSB Group plc was renamed Lloyds Banking Group plc on 19 January 2009 following the acquisition of HBOS plc, and is now the largest retail banking group in the UK.

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