

02

Market analysis

Warm up

Read the quote. Does Sir John Templeton believe investments are always unique or follow cycles? Discuss with a partner.

The four most dangerous words in investing are: this time it's different.

Sir John Templeton, investment analyst

LEARNING OBJECTIVES

Investment communication skills

Discussing market developments and the effect on a portfolio; Asking for and giving suggestions on how to respond to market shocks

Reading

A blog post about the efficient market hypothesis; Financial news stories; A blog post about market downturns

Listening

A conference call about managing an investment fund; A meeting discussing how to react to market developments

Language

Market analysis expressions; Types of financial shock; *Suggest* and *recommend*; Expressions to describe investor behaviour

Market sentiment

1 Match a–e to definitions 1–5.

- | | | | |
|---|-----------------------|---|---|
| a | price action | 1 | using mathematical models to predict the price change of a security |
| b | fundamental analysis | 2 | the change in the value of a security |
| c | technical analysis | 3 | the opinion of market players on the value of a security |
| d | quantitative analysis | 4 | using economic, company and industry data to predict the price change of a security |
| e | market sentiment | 5 | using historical chart patterns to predict the price change of a security |

2 Tell a partner which method/information (a–e) in 1 you think is best to use when choosing investments and why.

3 Read the text and answer the questions.

- What is the efficient market hypothesis?
- What does this mean for market participants?
- What is the problem with fundamental, technical and quantitative analysis?
- What solution does the writer offer?

Can you really outperform the market?

Your fund manager may confidently claim that they regularly outperform the market, but don't expect this to continue. The hard fact is that nobody outperforms the market consistently over time.

The efficient market hypothesis tells us that all available information is included in the current price so all market participants know the same information at the same time.

However hard you study the fundamentals, everybody knows the news at the same time as you, so why bother? And what about technical data? Remember, those chart patterns tell us about past price action; they don't predict the future and most of the time your analysis of those patterns will be wrong.

But there's always quantitative models – mathematical software packages that can accurately predict price and select the best stock to buy. In the short term, these models can yield spectacular results, but every software package I've ever seen only works for a while and then, when market conditions change, it stops working. If you're in it for the long term, there's no magic bullet.

So what can you do? Passive investment tracks a market or index, such as the S&P 500. It follows market sentiment as it rises and falls, and provides the same, if not better, returns as actively-managed funds without all the analysis and stress.

4 Discuss whether you agree with the ideas in the text in 3 with a partner.

5 Complete the phrases with verbs used with the nouns in the text in 3.

- | | | | |
|---|------------------------|---|-------------------------|
| a | _____ the market | d | _____ a market or index |
| b | _____ the fundamentals | e | _____ market sentiment |
| c | _____ the future | f | _____ returns |

6 Complete the questions with the phrases in 5. Then discuss with a partner.

- How strong is _____ sentiment in your country at the moment?
- Do you think anyone can actually _____ the market in the long run?
- Do you prefer to _____ the fundamentals or price charts to predict the _____ price of a security?
- Which products do you think _____ the best returns?
- Do you _____ any markets or indices? Why / Why not?





The morning call

1 **04** New Capital Bank's Equity Income Fund invests in shares in the property, energy and banking sectors. Listen to the fund managers discussing market developments and make notes under each heading for the three sectors.

	Current situation	Action
Property		
Energy		
Banking		

2 **04** Listen again and complete the sentences.

- a** We _____ a slowdown in the building boom there.
- b** We _____ move some of our holdings to European investments.
- c** The property market there is _____ growth.
- d** ... oil prices _____ steadily.
- e** But you wouldn't _____ this position?
- f** ... the sector _____ a lot of turmoil at the moment.
- g** ... I _____ our exposure at the moment.
- h** There _____ a downturn in profitability in the short term.

3 Match the sentences (a-h) in 2 to the reasons you use them (1-3).

- 1** to describe the current market situation
- 2** to discuss possible market developments
- 3** to discuss necessary action

4 Match the expressions (a-d) to the expressions (1-4) with a similar meaning.

- a** open a position **1** increase our exposure
- b** close a position **2** keep a position open
- c** hold a position **3** make new investments
- d** add to a position **4** move some holdings

5 Work with a partner. Student A read news report 1. Student B read news report 2. Then take turns to summarize the news to your partner. After you've listened to your partner's summary, discuss how you would advise investors on what they should do. Use the phrases in the box to help you.

We're getting news of ...
 We should be prepared to ...
 ... is showing signs of ...
 ... is/are rising.
 I suggest adding to ...
 ... is undergoing ...
 There's going to be ...
 I (can't) recommend ...

1

» The dollar fell against a basket of currencies this morning as several major US companies announce disappointing profit reports. Analysts expect the news to cause panic among investors and the stock market to fall when it opens later today.

Read more ▶

2

» UK property prices have begun to increase after a period of limited price movement. Most investors believe the trend is likely to continue and prices will increase by up to 10% over the next year.

Read more ▶

Grammar tip

Suggest and recommend

*Suggest and recommend are common ways to give advice. They're often followed by verb + -ing.

I **suggest investing** in property.

I **recommend reducing** our exposure.

Over to you

- 1** Work in small groups. Discuss the conditions affecting the investments you manage at the moment and how you may change your position in the future.
- 2** Roleplay the scenario at the back of the book.

Student A: Turn to page 46.

Student B: Turn to page 49.

Student C: Turn to page 50.

Financial shocks

1 Tell a partner if your investments have been affected by any of these shocks. What did you do? Which shock would pose the biggest risk to your portfolio today?

- unexpected interest rate changes
- war, terrorism and natural disasters
- political changes
- company profit warnings
- ratings downgrades
- bank failures

2 Discuss how investors can protect themselves from financial shocks with a partner.

3 Read the text and answer the questions.

- a Why are price falls worrying?
- b What does the text advise you to do when you first see prices fall?
- c Why do prices often return to normal after economic and political shocks?
- d Why is your time frame important?



Don't Panic!

Even if you've been investing for many years, it can be tough to switch your mindset when a long bull market ends and the bears take control. Seeing your paper profits evaporate can be stressful and it takes a strong investor to remain calm, but that's exactly what you have to do: stay calm and analyse the situation.

First, remember prices can go down as well as up and, eventually, all investments suffer losses for a period. If the fall is market-wide, don't worry; prices will almost certainly come back. This is particularly true of political or economic shocks. Markets like certainty and have already priced in the news they expect. Any unexpected events can make them panic, causing prices to plunge. However, in these situations, once everyone's calmed down, prices often rebound just as quickly.

The same goes for a disaster, either a natural disaster affecting particular countries or industries in the region, or a company 'disaster'. In this case, it's important to think about your time frame. If you're a short-term day trader or swing trader, you're better off cutting your losses as the investment is unlikely to perform well for some time. However, if you're a buy and hold investor, ask yourself if the fundamentals of the company or economy have been greatly affected. If the answer is no, you may even want to add to your position during short-term price falls.

4 Complete the table with the words and phrases in the box. Use the text in 3 to help you.

bears bulls buy and hold investor cut your losses day trader panic
plunge profits evaporate rebound swing trader switch your mindset

Types of investor	Types of price movement	Types of investor action

5 Do you agree with the advice in the text in 3? Why / Why not? Discuss with a partner.



- 6** Match the sentences (a-b) to the sentences (1-2) with a similar meaning.
 - a I'm long on USD. 1 I've sold USD and expect the value to fall.
 - b I'm short on USD. 2 I've bought USD and expect the value to rise.
- 7** Read the tweet. How will this news affect the positions in 6? Discuss with a partner.

GloboNews

Shock US interest rate rise. US raises interest rates 0.5% to calm inflation pressures. Fed was expected to wait, but took the decision at today's meeting.

- 8** **05** FTFX is a currency broker offering advisory and execution-only services to retail currency traders. Listen to three advisors discussing their response to the interest rate rise and choose the best summary of what the advisors think.
 - a All clients should immediately buy dollars.
 - b Clients who already hold dollars should keep them, but other investors should wait until a trend is seen.
 - c All their clients should sell dollars and buy other currencies.

- 9** Underline the correct options in the sentences.
 - a Should we start *advise / advising* people to go long?
 - b I don't know if we *should / would* jump into long positions just yet.
 - c Would you *tell / say* this is just a spike in the dollar or the start of a trend?
 - d What *of / about* other indicators?
 - e I think we have to advise *in / on* long positions.
 - f I agree - there *can / might* be a downturn yet.
 - g We *couldn't / wouldn't* want to open long positions only to see a sudden downwards move.
 - h Let's *advise / advising* those long on the dollar to hold ...

10 **05** Listen again and check your answers.

11 Match the sentences (a-h) in 9 to the reasons you use them (1-5).

- | | |
|--------------------------------------|---|
| 1 to ask for advice | <input type="checkbox"/> |
| 2 to give recommendations | <input type="checkbox"/> <input type="checkbox"/> |
| 3 to ask for information | <input type="checkbox"/> <input type="checkbox"/> |
| 4 to say something may be a bad idea | <input type="checkbox"/> <input type="checkbox"/> |
| 5 to say something is possible | <input type="checkbox"/> |

12 Use the prompts to write complete sentences. Then practise the conversation with a partner.

- A** Should / start / advising / people / sell / Yen? _____
- B** I don't know / we should / suggest / do / that yet. _____
- A** I think / have to / advise / short positions. _____
- B** Would / say / this is / start / trend? _____
- A** What / other indicators? _____
- B** They / unclear. / might / a long-term trend _____
- A** Okay. Let / advise Yen customers / hold. _____

Over to you

- 1** Work with a partner. Discuss how an upwards or downwards movement in interest rates would affect the products you manage.
- 2** Turn to page 46 and follow the instructions there.



George Ttoui
Burlington Wealth
Management



Satoru
Banking Corporation



Nick Polzone
IPS Financial
Solutions Ltd

Before you watch

Discuss the questions with a partner.

- Is a pension the best type of retirement investment? Why / Why not?
- What do you think is the riskiest investment? Why?
- Do you think investors can accurately predict changes to the price of a security?

While you watch



1 Watch the section on *Preparing for retirement* and tick the things George and Satoru mention.

- Shares are too risky for retirement planning.
- A pension is a good investment because you can reduce the tax you pay.
- There are many types of pension available.
- A stable investment is important for retirement.
- Currencies are a bad retirement investment.



2 Watch the section on *The riskiest financial products*. What do George and Satoru think are the riskiest financial products? What reasons do they give?



3 Watch the section on *Predicting the price change of a security* and complete the summaries of what Nick and Satoru say.

Nick suggests using ^(a) _____ which use ^(b) _____ and try to look forward ... across the wide range of ^(c) _____ ... to prevent future ^(d) _____ to the investor.

Satoru suggests using the data from the ^(e) _____, like the ^(f) _____ of the company or the ^(g) _____ (or other basic data) of the country.



4 Watch the section on *Financial shocks* and answer the questions.

- What was George's first experience of a financial shock?
- Why was it a 'real lesson' for him?
- What happened in the next 12 months?
- How did the 2007/08 financial crisis affect the UK property market?
- Why did people with cash benefit in 2007/08?

Investment speak

1 Match the words in the box to the words in bold with a similar meaning.

advantages and disadvantages a long time financial data follow the value of
happened profits return secure stopped with too much debt

- I would recommend a **stable** investment. _____
- It's difficult to make **gains** in shares. _____
- Structured bonds **are linked to** an index. _____
- We look at the **fundamentals** of the company. _____
- It **came about** due to **overleveraged** subprime mortgages. _____
- It **dried up** the market. _____
- It took a **while** for lending to **come back**. _____
- Financial shocks come with **pluses and minuses**. _____

2 Work with a partner. Cover the sentences (a-h) in 1. Take turns to read words from the box in 1. Your partner should guess the words with a similar meaning.

After you watch

Discuss the questions with a partner.

- Do you think shares or structured investments are riskier? Why?
- Are the fundamentals the most important factor when predicting future prices?
- Have you ever experienced a financial shock? How were you affected?

01 Financial products

Choosing your investment

1 Complete the sentences with the words and phrases in the box.

commodities currencies diversify equities
funds income investment stock exchange
trends yield

- a You can trade US shares on the New York _____.
- b I need to _____ my _____ portfolio – the risk is too high.
- c Fixed-_____ products like government bonds _____ lower profits than _____.
- d I prefer to trade _____, like the USD, rather than _____, like copper, as they're less volatile.
- e Investment _____ have professional advisors who can follow market _____ for you.

Retirement planning

2 Underline the correct options in the email.

Dear Ms Kensington,

Thank you for your ^(a) *interest / request* in our products. To ^(b) *envisage / ensure* we can match you to the best products, I would like to find out your reasons for investing.

Could we ^(c) *arrange / complete* a call to discuss your needs?

Please let me know a time and date that would be ^(d) *available / convenient* for you.

Best ^(e) *regards / thoughts*,

Michael Williams

3 Match the sentence beginnings to the sentence endings to make a conversation.

Could I ask your advice	if I ask your opinion of Internet brokers?	Online brokers are okay,
like fixed income.	And do you mind	on retirement investments?
but I must say the fees are high.		I'd go for a safe investment,

02 Market analysis

Market sentiment

1 Combine the verbs in box A with the nouns in box B to make common collocations.

A cut outperform predict provide
study track

B an index returns the fundamentals
the future the market your losses

The morning call

2 Complete the email with the words in the box.

adding advise downturn news prepared
signs start

Hi John,

I'm getting ^(a) _____ of a slowdown in the US and I think we should be ^(b) _____ to reduce our holdings there. The property market in particular is showing ^(c) _____ of a slowdown and several other markets are beginning to struggle. Should we ^(d) _____ advising people to sell their holdings in US property? I think we have to ^(e) _____ on short positions as there might be a ^(f) _____ soon.

Investment skills checklist

- I can advise people on investment options.
- I can warn people about the risks of investment products.
- I can make arrangements by email.
- I can discuss market changes.
- I can suggest responses to market developments.