MARKET WATCH

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With most sectors suffering sentiment's clunking fist, utilities show value, as do brewers

A solution to liquidity crisis? More beer

It is said that Joseph Kennedy knew the heady speculation of the 1920s would lead to a stock market crash when he started to receive share tips from his shoe-shine boy. The promise of superior returns over a sustained period can mask the risk/reward trade-off for investors. Such over-confidence can quickly turn to pessimism and waiting for confidence to return can be a nerve -wracking process.

At its recent low, the FTSE100 experienced a fall of more than 40 per cent since its peak in the summer of last year. Comparisons are naturally dangerous, but the banking breakdown and subsequent equity slump we are currently experiencing ranks up there with the worst of market crises. That ominous year of 1929 itself witnessed a 48 per cent fall in share valuations while the more recent 2003 low upon the outbreak of the Iraq war was of a similar discount to the 1999 FTSE peak. What investors need to decide is whether the over-confidence of last summer has turned into over-pessimism this autumn. Have stocks fallen to unsustainably low levels? Or are we in for even tougher times? For all the hyperbole, I don't think we are quite experiencing a 1929 moment. Belts tightened, we will suffer recession before the good times return, but a decade-long depression is unlikely. The fact that the comparison is being made so frequently by commentators is probably an indication of over-pessimism: the moment investors panicked and stayed panicked – and the crisis reached a turning point.

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While it took 25 years for the market to recover its levels prior to the 1929 crash (and it slumped again within 18 months), the aftermath presented great opportunities for those willing to invest in quality companies offering long-term prospects. Kennedy himself did very nicely out of depression, increasing his wealth by a multiple of 45 times between 1929-35. This time around, the very brave will try to call the bottom of the market (some already have). Good luck to them. There will also be those – the shoe-shine boys if you like – who will decide that owning shares is a bit too risky for them after all. For the rest of us, investing in the wake of a collapse in equity prices takes steel.

There will be more casualties before confidence properly returns – and the condemned companies will be impossible to predict. This naturally makes decisions riskier. Investors should be searching for the survivors that will emerge strengthened from the crisis. Since all sectors have been hit by the same clunking fist of poor sentiment, they could do worse than start with the traditional defensive refuge of the utilities. Given prevailing conditions, water and power should be trading at far more of a premium to the rest of the market. And yet a glance across the sector will find astonishingly low valuations and mouth-watering yields. The brewers, which traditionally do well during recession, offer similar attractions. The days of heady speculation and inflated valuations seem a long way off. But the survivors of the crisis offer value to astute investors.

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