

Five UK stockmarket recoveries

Volatility has always been a feature of the stockmarket, sometimes falls can be very sudden, with billions of pounds quickly wiped off the value of shares. When you are invested in the stockmarket, such events can be very unnerving. But it is important to remember that historically the market has always recovered. If you have ever been caught in these unsettling times, you'll know that the drops are very often followed by some equally significant rises. To illustrate, we've found five examples of UK stockmarket recoveries.

01

On Black Monday, 19 October 1987, the FTSE 100 index fell sharply following heavy losses on Wall Street the previous Friday. Though the trigger for that crash wasn't fully clear, there were fears about increasing US interest rates and a falling dollar. By the end of October the UK market was down 26.4% but when economic disaster did not occur, investors started to regain confidence, the market started to recover, and by May 1989, the FTSE 100 was back to its pre-Black Monday level.

Black Monday

FTSE 100 from 21 August 1987 to 19 May 1989



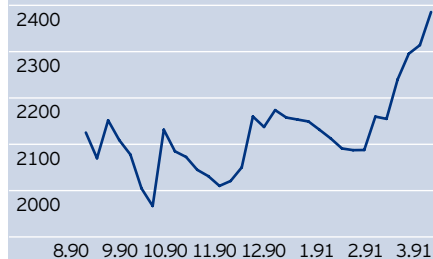
Source: Lipper. Past performance is not a guide to future returns.

02

The reason for the next fall in the market was more obvious. Reacting to the uncertainty caused by the Iraqi invasion of Kuwait in 1990, the UK stockmarket dropped 15% between August and September. But by the time the Gulf War ended less than six months later in February 1991, the FTSE 100 had bounced back to where it was before the invasion.

Gulf War

FTSE 100 from 20 August 1990 to 28 February 1991



Source: Lipper. Past performance is not a guide to future returns.

03

It was a credit crisis that led to the next market fall in 1998. When the Russian government suspended the repayment of its debts to foreign governments and devalued its currency, there were concerns that this would lead to a global financial crisis, and stockmarkets around the world fell. The FTSE 100 fell 18.5% between August and the beginning of October, but as it became clear that the other countries had not been affected by the Russian crisis, the UK stockmarket recovered. By the end of that November, the FTSE was back to the level it had been in August.

Russian default

FTSE 100 from 28 August 1998 to 20 November 1998



Source: Lipper. Past performance is not a guide to future returns.

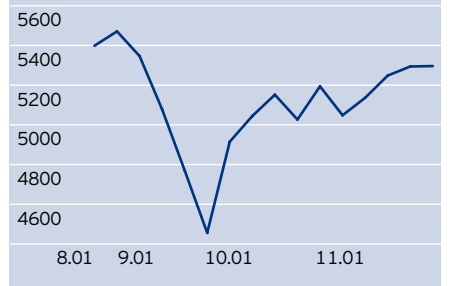
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04

It was perhaps not surprising that the terrorist attacks in America on 11 September 2001 should cause the US stockmarkets to plummet, especially since the US economy was already faltering at the time. The UK market also reacted and by 21 September the FTSE 100 had fallen 12%. This time the market rebounded particularly rapidly after US interest rates were cut in order to stimulate the economy. By 5 October 2001 the FTSE 100 was back to where it had been prior to 9/11.

9/11

FTSE 100 from 20 August 2001 to 23 November 2001



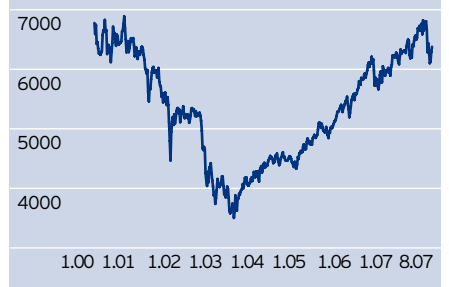
Source: Lipper. Past performance is not a guide to future returns.

05

The so-called bursting of the technology bubble predated 9/11 but its effects lasted longer. It had started around March/April 2000 after shares in technology and internet companies had reached unsustainably high levels and investors started to withdraw their money. Once share prices started to go down they continued to decline for the next three years with a few interruptions, until the FTSE 100 had eventually fallen 45%. The trigger for the recovery from that bear market was the start of the Iraq war in March 2003. Since then, share prices have risen steadily back to their old levels with a few small hiccups until July 2007, the start of the global 'credit crunch'.

Tech bubble

FTSE 100 from 4 January 2000 to 31 August 2007



Source: Lipper. Past performance is not a guide to future returns.

The bigger picture

It can be a natural reaction to become preoccupied with the day-to-day market fluctuations when things have taken a turn for the worse, however, this could lead to some rash decisions over the future of an investment. Patient investors have historically been rewarded by long-term stockmarket returns despite occasional market volatility.

Don't forget, it is important to give investment objectives some perspective - for example, is retirement imminent, or in twenty years' time? Review financial goals, as they will evolve and change at different stages of life.

Diversifying investments across equities, bonds and cash, as well as across a number of world markets, can help lower the level of investment risk and make for a smoother investment ride.

Important information

Past performance is not a guide to future returns. Money deposited in a bank or building society is relatively secure, whereas an investment involves stockmarket risk. This means that the value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

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