



## MARKET MOVER PAUL SOMMERVILLE

# Things can only get worse, but we'll profit

## Spread-betting firm sees an upside amid the gloom

### Tom Lyons

PAUL SOMMERVILLE is the head of private clients at Delta Index, a financial spread-betting firm. He has 20 years' experience of financial services.

Sommerville joined Delta Index in July last year from City Index Advisory in the UK, where he was the senior trading adviser on spread-betting and contracts for difference for six years. He was previously head of interest rate futures at Tullett & Tokyo in Japan.

He advises clients with at least €100,000 to invest.

### Investment philosophy

Spread-bettors can make money both when the markets fall (by short selling) and when they rise — provided they call the trend correctly. Short selling is essentially borrowing stock from a broker and selling it in the belief its price will fall. Eventually the same amount of stock must be repaid.

In the first quarter of 2009, Delta Index shorted Berkshire Hathaway, Macquarie Bank and the Santander group. All fell sharply during the period.

"Our investment philosophy has changed since early March

as we took profits on all our short positions," said Sommersville. "We have been buyers since and continue to be so."

Delta Index believes the time to get out of the market will be when the large fund managers start moving back in. "The thing about sucker rallies is the market has to get the suckers in," said Sommersville. "When they start getting in is when we will be getting out."

The firm expects the Dow Jones Industrial Average to rally above 9,000 during the summer and will be buying on any dips. Although global stock markets are in a rally phase, Sommersville believes stocks will start falling again later this year, when Delta Index expects to be short on the market.

Signals that the next phase is near will be headlines such as "the worst is over or analysts see upturn coming in 2010," he said. "I suspect the next phase of this bear market will be the most vicious. When investors realise it's not firms going bust that they need to worry about, but first-world countries, then the markets will really get hit."

### Performance

Delta Index had a "great" first three months, Sommersville said. "Our main calls were that we did not expect an Obama bounce and that we expected the Dow to fall a further 25% by the end of February to 6,700, where we would be buyers."

### Buying and selling

"We are totally against the buy and hold strategy — or the buy and hope to God the thing goes

up strategy pursued by most stockbrokers," he said. "It is the main reason Irish investors constantly lose money. Discipline and 'stops' are the most important things."

Delta Index is buying the Dow, S&P and FTSE while they are rallying, as well as big mining stocks and non-bank financial stocks such as Icap. The firm is a bull on the dollar and advises selling the euro against all leading currencies.

"Our most contentious call is that we like to short gold on rallies, again a strategy that has served us well over the past year," he said. "While the public continues to buy gold, we are happy to short and expect gold to fall below \$700."

Delta Index would not buy

any Irish shares — "especially the banks". Its two main Irish shorts for later this year will be Paddy Power and Ryanair. "We don't believe the Irish and UK consumer can hold up, and we expect both firms to have further profit warnings."

### Outlook

Delta Index expects stimulus plans for the world economy to fail. "Does printing money to lend to people to buy toxic assets off the people who lent you the money in the first place really seem like a good idea?"

Sommerville is also negative on Ireland's future. "If we overpay for the toxic assets of the banks, I can see the country sinking deeper into the abyss. A hair cut of at least 60%-70% is needed," he said. "It would not surprise me to see the IMF or a similar body having to make the decisions on our behalf by the end of 2010."

But he calls this one of the best trading markets he has seen in 20 years. "Just like most things, those who adapt will survive and thrive."



Sommerville: short selling