Lloyds Banking Group

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Investors still wary 10 years on from Lehman Brothers collapse

The scars of the financial crisis, triggered by the collapse of Lehman Brothers, are still evident today with many investors still living in fear of another crash despite booming markets, according to investment group Hargreaves Lansdown (LON:HL).

"The impact of the financial crisis can be observed today in the abysmal rates still available on cash savings (3.1% average in September 2008 vs 0.43% today), and in the negative sentiment towards today's buoyant stock market, as investors are once bitten, twice shy," Laith Khalaf, a senior analyst at Hargreaves Lansdown said in a note to clients. "However, for those who continually live in fear of a market crash, it's worth noting that an investment made in the UK stock market on the eve of Lehman's bankruptcy would still have more than doubled in value by now."

READ: RBS looks to pay first dividend since financial crisis
Lehman Brothers filed for bankruptcy on September 15, 2008, sparking a fall in global markets and a 23.4% fall in UK markets within three months.

According to Hargreaves Lansdown data, by the middle of 2009, £10,000 invested in the FTSE All Share index just before Lehman's collapse was worth just £6,581. However, the broker said that the same £10,000 would now be worth £14,893, without including dividends, and £21,352 with dividends reinvested.

"This goes to show that time is the great healer when it comes to the stock market, even if you happen to invest on the eve of such a catastrophic event as the Lehman Brothers crisis," said Khalaf.

Banking woes

Banking share prices came under a huge amount of pressure following Lehman's collapse, with RBS (LON:RBS) shares losing 79% of their value from the day before Lehman's collapse to the end of 2008. HBOS shares fell 75% over the same period, despite Lloyds (LON:LLOY) agreeing to take the bank over just a few days after Lehman went under.

The FTSE 100-listed investment firm said an RBS share is now worth 89.7% less than on the day before Lehman's collapse. It's not, however, the worst performing FTSE 100 share over this period. Lonmin (LON:LMI), the mining company long since relegated from the blue-chip index, has seen its shares fall 99.8% over this period, turning £10,000 into just £22.30.

"There's only one four letter word for that sort of performance: 'ouch'," said Khalaf.

Many companies have flourished since Lehman's demise, however, with the London Stock Exchange (LON:LON), Next (LON:NXT), Experian (LON:EXPN) and Sky having all grown significantly over the last decade.

Price: 30.105

Market Cap: £21.3 billion

1 Year Share Price Graph

Share Information

Code:		LLOY
Listing:		LSE
52 week	**High**	**Low**
	73.66	**25.675**
Sector:		**Banks**

Website: www.lloydsbankinggroup.com

Company Synopsis:
Lloyds Banking Group has many household names like Lloyds Bank, Halifax, Bank of Scotland and Scottish Widows. Lloyds Banking Group is a leading UK based financial services group providing a wide range of banking and financial services, focused on personal and commercial customers.

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Changing face of the FTSE 100

The composition of the FTSE 100 index has also changed dramatically since 'Meltdown Monday' in 2008 with 37 members of the benchmark index having since dropped out of it - for example banks made up 17.5% of the index in September 2008 and today constitute 12.3%.

The oil and gas sector now makes up 16.6% of the index, compared with 20.2% in 2008, while telecoms has gone from commanding 7% of the index to just 3.3%, according to Hargreaves Lansdown data.

The slack has largely been taken up by the personal and household goods sector, which has almost doubled its presence in the FTSE 100, from 6.8% in 2008 to 12.3% today. This comes on the back of strong performance from the likes of Unilever (LON:ULVR), and Reckitt Benckiser (LON:RB), as well as the appearance of housebuilding companies like Barratt Developments (LON:BDEV) and Taylor Wimpey (LON:TW. in the FTSE 100.

At the other end of the scale, some of the best performing UK equity funds since the crisis have been funds comprised of smaller companies. This is, in part, due to the fact that the small-caps on the UK market have outperformed the blue-chip stocks, but also shows this is a fertile hunting ground for active managers to pick out underappreciated stocks, Hargreaves Lansdown said.

"In the short term no-one can predict the direction the market will take, but what performance since the financial crisis demonstrates is that in the long term, the stock market is surprisingly reliable," said Khalaf.

"Investors cannot eliminate the risks of investing in the stock market, but they can mitigate them by keeping a balanced, diversified portfolio, and regularly investing at different price levels. Having a patient, long term view is of course necessary, and history tells us this strategy is ultimately rewarded."

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