CBK

COLCHESTER

Investment Market Summary

November 2008

As investment markets rise and fall at record-breaking rates, some of the media would have us believe it is the end of the world as we know it. However, there is an old stock market adage:

> *The stock market has predicted nine out of the last five recessions*

Unlike 1987 however, many economies in the developed world face strong headwinds from the ongoing housing market deterioration and the credit crunch. Nationwide have announced a fall in property values for the eleventh month running and we are experiencing increasing difficulty in obtaining quality mortgage deals.

We believe we can expect continuing bad news from the housing and credit markets.

Gordon Brown's view still appears to be that the UK is better placed to weather the storm than any other developed economy. Well it would be wouldn't it?

If inflation tops out in the next couple of months and then begins to fall, it will enable the Monetary Policy Committee (MPC) to continue cutting interest rates. This will be likely if there is no resurgence in oil price. A general recovery may not come until nine months or so after the Bank started cutting interest rates. Equity markets usually look nine to twelve months ahead. In the last two recessions it started to recover about the same time as the Bank started to cut interest rates, even though the economic news at the time was dire.

The US banking bail-out plan was perceived to be the catalyst to stabilisation of US markets which will ultimately stabilise Global and particularly UK markets. The revised version was agreed by the Senate and finally approved by the House of Representatives. However, not all commentators share this belief. Jeff Randall writing in the Telegraph said, "There is a conspiracy of bankers and politicians whose self-interest is masquerading as sophisticated policy". Stronger still; "Allocating $700bn to a clean-up programme for toxic assets, in effect socialising the poison of private greed, has no merit other than to delay the inevitable". Many US taxpayers agree with these sentiments.

Cash Savings

It has become accepted by all that equity-based investments are going to face continuous volatility for some time to come. Although Cash has been the best performing asset class for eighteen months, it has brought concerns that have previously been unconsidered by most, namely; the security of the financial institutions in which deposits have been made. The run and subsequent bail-out of Northern Rock was initially seen by many consumers as a one-off. The issue of compensation then became pertinent as savers with balances in excess of £35,000 in any one organisation began to appreciate that even the perceived risk-free Cash was not without risk.

The rescue of several US and European banks followed and this was then brought close to home as the share price of HBOS was driven down, after confidence in it evaporated following the collapse of Lehman Brothers, to the extent that LloydsTSB stepped in with a take-over package. This deal is by no means certain and at the time of writing there is mounting speculation that the deal will be renegotiated as Lloyds investors are thought to be unhappy with the price.

Bradford and Bingley were next and their bank deposit division is now owned by Abbey/Santander and the lending division followed Northern Rock by becoming nationalised. Against this backdrop of uncertainty, savers are understandably more concerned with the security of their bank(s) than the rate of interest they receive.

I have attached a summary of the Financial Services Compensation Scheme (FSCS), which I hope you will find useful.

The Irish government took the lead by agreeing to guarantee all bank deposits and debts of six financial institutions for two years but the British government have spent a whole year since the run on Northern Rock debating whether to lift the deposit limit from £35,000 to £50,000. At last this was implemented from 7 October.

Our strategy

Recent times have proved that the most effective long-term strategy is to create and remain in a diversified, well balanced portfolio that has been structured to match your risk profile. If this method has been adopted we believe you are in the best place to weather the storm.

We routinely review funds and the overall balance of portfolios. In doing so we focus on, amongst other things, the performance data over timescales such as; one, two, three and five years to select funds based upon their long term quality as opposed to short term trends. In other words; any fund can have a good year but we are interested in the best funds and managers that can demonstrate long term quality. Conversely, a bad one year performance does not necessarily mean a fund should be switched if it can still demonstrate long term high quality.

The high levels of short term volatility being displayed by equity funds at present means performance data (particularly over one and two years) is being distorted. Seemingly poor one year performance can swing to acceptable one year performance, and vice versa, in a matter of weeks. This means we believe now is not the right time to be making major fund switch or re-balancing decisions. It is therefore our intention to wait for a reasonable period of stability (not necessarily recovery) before making rational decisions based upon how funds have performed. We believe this will be the right time to determine if they still warrant inclusion.

Conclusion

In conclusion, the benefit of maintaining diversification through a broad spread of assets and across a variety of different markets has never been more apparent.

Source: Capel Court, Daily Telegraph, M&E Network – Research & Technical Dept. Tactica
Past performance is not a guide to future performance. The value of investments and the income from them can go down as well as up, and it may be effected by exchange rate fluctuation, and the investor may not get back the amount invested.

This letter is meant to provide a general overview of the investment markets and economic climate and does not constitute advice.