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Investment Market Summary

Review 2007

The last twelve months have seen difficult times for most investment markets and has been unusual in that all have had very mixed results. A brief summary of the four main asset classes is as follows:

Fixed Interest

Fixed Interest in general has continued its two year run of lacklustre performance with the average Corporate Bond fund showing returns of -2.09% to 01 December. High Yield Bonds have fared a little better with the average fund posting -0.67%. One of the main advantages of this sector is that volatility is very low and so any negative returns have been minimal.

The low volatility of the Fixed Interest asset class means that it should always have a place in all but the highly adventurous investor's portfolio.

Property

Property funds are traditionally expected to produce high single digit returns however; the last three year cumulative return to 01 December have been an average of 53.92%. This has lead many to expect that this is now the established norm for property. Unfortunately this is not the case and 2007 has seen commercial property funds drop in value with average 12 month performance to 01 December of 5.11%. This has caught many by surprise yet commentators have said that this is just a correction and the realistic future returns will be back to the traditional single digit level.

Property forms an important part of a portfolio as an asset class which has little correlation to Fixed Interest, Equities and Cash.

Equities

UK equities had, in the main, enjoyed a bull run for four years to the beginning of 2007. The impressive returns have been a welcome recovery for those investors who had endured the prolonged downturn of the late 1990's and early part of this century. However, the much publicised credit crunch originating from the US sub-prime mortgage market has created huge uncertainty around global markets in terms of the size of the impact on the global financial institutions. There is nothing that markets like less than uncertainty. Consequently, global (including UK) equities have been enduring volatile performance.

Geographically, the average equity fund performance is incredibly varied:

UK All Companies	4.72%
UK Equity Income	1.93%
UK Smaller Companies	1.06%
Europe (not inc. UK)	13.30%
North America	1.95%
Asia Pacific (not inc. Japan)	39.60%
Japan	-7.82%
Emerging Markets	32.92%
Specialist	5.11%

Data to 01/12/2007

Cash

The most immediately recognised consequence of the credit crunch has been the effect on Northern Rock. This has shown that even cash is not without risk.

Interest rates have risen from 5.00% at the beginning of the year to 5.75% in November and down to 5.50% at present.

A good example of the 'unusual' nature of investment performance in 2007 is that cash has outperformed fixed interest, many property funds and all UK equity sectors averages. The exception being higher risk equity sectors such as Europe, Asia Pacific and global emerging markets. Whilst this is not what traditionally happens over the medium to long term, the experience of 2007 shows that there is an argument for cash to be held in most low or medium risk portfolios. The exception would be because the individual already holds reasonable cash reserves outside of their portfolio and the fact that many investment funds individually do hold cash.

Conclusion

A well diversified portfolio still provides the best opportunity to both cope with market volatility and benefit from a return to less volatile markets which will undoubtedly happen. History does show that the key to successful financial management is to ride out short term uncertainties and remain with a balanced portfolio in quality funds.

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