Investment Market Summary

Q1 2009

Markets
February retested the lows set in November 2008. The revised volatility was epitomised by Barclays shares which lost a third of their value to later see them double in value in a single day. Early March saw the FTSE-100 fall below the November 2008 low, confirming that we are a long way from recovery. This weakness seems to be mainly attributable to fears that the latest central banks rescue packages may not have the desired effect and continued uncertainty surrounding the unquantifiable nature of financial institutions exposure to 'toxic assets'.

The International Monetary Fund (IMF) has forecast the worst outcome for global Gross Domestic Product (GDP) in over 50 years. Stock markets have been pricing in a lot of bad news, attempting to predict as they do, 9 to 12 months ahead. It is therefore clear that the economic climate is going to be tough for developed and emerging markets for at least the next 9 months.

Sentiment has such a massive impact on markets, both positive and negative. We have endured so much negative sentiment from the media that it is not unreasonable to conclude this has had an overbearing effect to the extent that genuine optimism is stifled. We take for granted that we live in a 24 hour media world and it is worth remembering that news did not travel as fast during previous recessions and bear markets. Constant media negativity has certainly had, and will continue to have, significant influence over market sentiment.

Economy
The employment situation is lagging the real economy and unemployment will continue to rise. A good indication of this view is the fact that all but a few specialist insurers have pulled out of the redundancy insurance market.

The end of the tax year witnessed an admission from Chancellor Alistair Darling on BBC's Andrew Marr show that his predictions that economic recovery would begin in the second half of this year were misplaced. Perhaps understandably, he would not be drawn on a revised prediction.

Of long-term concern is what is going to happen to taxes and inflation. Economists have been saying it will take more than 20 years to pay off the government's recent fiscal stimulus spending spree. The gap in the government's finances is predicted to require a five-year real freeze in total public spending.

Many sources are predicting that interest rates in the UK will remain below 1% for at least 12 to 18 months. This is of course excellent news for those with mortgages but terrible for those with savings, particularly where the interest from savings is being relied upon for income.

According to Nationwide, the annual rate of change to the value of a typical house is -17.6%. This brought the price of a typical house down to £147,746, from £179,358 this time last year.

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In times of uncertainty the temptation has always been to jump ship from asset class to asset class and from fund to fund.

"My strong advice for most investors is not to try and time markets".

Antony Bolton. Investment guru. Writing in the FT January 2009

The greatest question we all want answered in terms of our investments is; "are we at the bottom?" However, even the most vociferous experts now resist giving a definitive opinion to this question. AXA Framlington's experienced fund manager Richard Pierson typifies a common view when stating that he is "being careful" yet "more optimistic than I have been."

We feel that expecting a speedy recovery in terms of getting back to where we were is overtly optimistic. We think the sensible and certainly common view is that 'bumping along the bottom' just about sums it up. This is signified by neutral returns and will be an indication that the market is forming a base, all be it a weak one.

As mentioned in previous communications we focus on, amongst other things, the performance data over varying timescales ranging from 1 month to 5 years. The most important factor with regards to performance is to select funds which have performed consistently well over the longer timescales. In other words; any fund can have a good year but we are interested in the 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 quality.

High volatility means it has been very difficult to form realistic long-term opinions on funds or managers because seemingly poor performance (against peer group) can swing to acceptable performance and vice versa, in very short period of time.

If it is the case that we are 'bumping along the bottom' and relative stability is prevalent, we are approaching the time when we are likely to recommend some fund switches because sufficiently accurate and realistic opinions can now be formed. Such proposals are likely to incorporate a degree of re-balancing (re-adjusting the weightings between funds, sectors and asset classes) because the turbulent markets will, over time, have thrown out the balance of your portfolio as intended at outset.
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Conclusion

No one is brave enough to confidently call the bottom of the market but it is fair to say that history will show us that for many asset classes, the first half of 2009 was a good time to buy for those with a medium to long term time horizon. That said, the next few months are still likely to be difficult for equities and the volatility that we have witnessed so far this year is not likely to abate for a while yet.

We also believe we are approaching an appropriate time to make some changes to both funds and the weighting of portfolios.

Source: Capel Court, CitiQuilter, Citywire, Financial Times, Nationwide, 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.