

**Investment Outlook
2nd Quarter 2009**



Highlights:

- Stock market turbulence is still prevalent amongst continued global economic recession.
- We are starting to witness some early signs of recovery.
- Decisive fiscal action is easing the flow of money and restoring some confidence.
- The short-term outlook for cash remains poor but there is an outside risk of inflation returning.

About Informed Choice

Informed Choice Ltd works with individual clients and small business owners in Surrey and the surrounding counties to help them to build, manage and protect their wealth.

By turning complex personal finance issues into simple plain English solutions, we ensure that our clients are always fully in control of their money.

As one of only five IFA firms in the UK to hold the Gold Standard for Independent Financial Advice we excel not just in service but in all areas important to consumers of financial products and services.



We are a firm of Chartered Financial Planners. This means we have satisfied rigorous criteria relating to professional qualifications and ethical good practice. It means you can be confident that you are dealing with one of the UK's leading firms that is wholly committed to providing you with the best possible advice, service and support.

Our Quarterly Investment Report sets out our views on the general investment climate and creates a robust framework for our investment advice decisions. It also enables us to make tactical alterations to our strategic asset allocation models.

To find out more about our investment advice process please visit www.informedchoice.ltd.uk/investment.htm.

Introduction

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Welcome to this edition of our Investment Outlook report. We publish this document once a quarter to record the findings and thoughts of the Informed Choice Investment Committee.

Stock market turbulence is still prevalent amongst a continued global economic recession, but we are starting to witness some early signs of recovery.

Decisive fiscal action in the UK, US and other countries appears to be easing the flow of money and restoring some confidence in the troubled financial institutions at the root of this crisis. In the UK, the previously untested policy of quantitative easing combined with a series of rate cuts is gradually bringing down the cost of borrowing and improving the availability of finance.

There could still be a long way to go before we return to previous market numbers for the various investment types. Where stock markets have been recovering, they have been doing so quickly in the main which highlights the importance of not trying to time the markets.

Our Investment Committee meeting this quarter was an interesting debate around each of the main asset classes. Interestingly the Committee was broadly in agreement about the outlook for each, and our thoughts are recorded on the following pages.

We hope you find this report interesting and I would personally welcome your feedback. You can email me at martin@icl-ifa.co.uk or call me on 01483 274566.

Regards,

Martin

Summary

- Cash
- Fixed interest securities
- UK Equities
- Overseas Equities
- Property
- Current House View
- The Small but Important Print

Cash

Cash remains a useful asset class for capital preservation, regardless of the series of rates cuts removing any prospect for a 'real' return from this asset class. There is an outside risk of inflation returning, particularly if we import this inflation in the UK and if the economy responds too rapidly to the current government strategy of 'quantitative easing'. It is therefore unclear, in our view, on whether the next twelve months will result in deflation or a return to inflation. Our Anglo Saxon culture creates a bias towards spending and resultant inflation.

The short-term outlook for cash remains poor; what inflation currently exists continues to erode capital value in real terms. The prospect for cash over the medium to longer term is better as we believe that rates will have to rise at some point in the future to ensure inflation does not become rampant.

We remain 'neutral' on this asset class as we believe it is too soon to become 'heavy' and the capital preservation purpose of cash within a volatile investment market makes it too important to become 'light'.

Fixed Interest Securities

The recent failed gilt auction is a warning sign but only one incident that could be considered isolated. There were good reasons for the failure and we do not believe that is represented the start of a continued failure of the government to raise funds in this way. It was followed by a successful auction of index-linked gilts the following day.

The government strategy of quantitative easing started with gilts but recent comments from the Governor of the Bank of England suggest that this may not continue as originally intended.

We move from neutral to light on UK Gilts but from light to neutral on UK Index Linked, in view of the outside risk of a return of price inflation.

We continue to see good value in high grade corporate bonds. We do not expect to see anywhere near the level of defaults that have been priced into this asset class. If gilts become less attractive then this will push investors up the risk spectrum into bonds as they pursue higher yields.

Historically the bond markets have tended to recover before the equity markets out of a recession. Quantitative easing could be expanded to include corporate bonds but this is looking less likely.

Our outlook remains 'heavy' for corporate bonds, particularly high-grade bonds, and also 'heavy' for international corporate bonds.

UK Equities

Lower interest rates should reduce borrowing costs and help with profitability. The markets remain jittery so volatility will remain in existence in the coming months. UK equities are often priced forward by as much as eighteen months, so the value today represents the perceived position of the economy in 2010.

We have recently witnessed three consecutive weeks of positive returns for the FTSE 100 but this is not the first time this has happened during this cycle. The bottom of the market has been repeatedly tested over the past few months. Markets can return quickly or slowly, and at present this appears to be a slower market return, although we cannot rule out a quick turnaround.

This probably remains a very good time to invest if you can afford to take a medium to long term view. Any corporate governance issues are likely to blow over after G20 related protests have finished.

Our house view for UK Equities remains 'heavy'.

Overseas Equities

In the Eurozone, a diverse economic policy is helping some whilst hindering some others. There is a real risk of emerging European countries dragging down or holding back some of the more established nations. Profits made in Europe could be remitted to the UK with weak Sterling. The levels of debt in Europe are generally lower compared to the UK.

There is also a lot of crossover between European and UK companies. Protectionism has not really materialised yet on a large scale, but remains a risk.

We remain 'neutral' on European Equities.

In North America, we expect the first nation into recession to also be the first out. The 'Obama effect' and also decisive fiscal policy should all help to stimulate economic recovery. However, many of the current financial problems originated in the US and they remain vulnerable because of their high levels of debt. The situation in the US has not deteriorated since our last report and they benefit from a reasonably diverse economy.

Our house view of US Equities remains 'heavy'.

Japan has finally defeated deflation with the arrival of inflation. They are not as reliant on debt as Western economies. We feel that Japan is well positioned now for global economic recovery. Asset values have been depressed and the Nikkei 225 recently entered a bull market after posting a 20% gain since a 26-year low on 10th March 2009.

The Japanese economy is export-led, so recovery in Japan is subject to global economic recovery. The domestic market looks set to be reignited by inflation.

Our house view of Japan is to remain 'neutral' but return to base positions on our target asset allocation models.

In Asia, stocks values reduced further and faster than economic decline. The US remains a large export market and if the US is first out of recession then this sector should benefit. There is a young, aspiring workforce so potentially strong domestic markets.

Our house view of Asia is to remain 'neutral'.

Emerging markets demonstrate attractive valuations due to market falls. This sector is not for the faint-hearted but can play an important role in a well diversified portfolio. The markets here could remain very volatile but there are good opportunities for growth in excess of the more established markets.

Our house view of Asia is to remain 'heavy'.

Property

The substantial amount of refinancing required in the commercial property sector during 2009 remains a big concern. Liquidity issues could return but this is likely to be fund specific. We expect demand to outstrip supply over the medium term as new building projects have been shelved. Contractual rent agreements should support markets. Recovery is likely to be slower than in equity markets.

Our house view for Property is to remain 'light' as we do not expect any form of rapid recovery for this asset class.

Current House View

Asset Class	Comments	House View
Cash	Historically low interest rates but could rise if inflation returns. Useful for capital preservation.	NEUTRAL
UK Corporate Bonds	Favourable at the high grade end and as gilt yields become less attractive.	HEAVY
UK Index Linked	Prospects improving due to long-term prospects for inflation.	NEUTRAL
International Corporate Bonds	Favourable for the same reasons as UK corporate bonds, but with added value of international diversification.	HEAVY
UK Gilts	Taking a slightly less favourable position this quarter.	LIGHT
UK Equities	Likely to remain volatile but good long-term value in this sector.	HEAVY
European Equities	Mix of positive and negative factors lead us to a neutral position.	NEUTRAL
North American Equities	Likely to be first out of recession and decisive fiscal policy will help lead recovery.	HEAVY
Japan Equities	Starting to see some positive factors as Japan sees the arrival of inflation again.	NEUTRAL
Asia ex-Japan Equities	Typically undervalued but reliant on export markets that will take time to recover.	NEUTRAL
Emerging Market Equities	Very attractive valuations, will play an important role in the future.	HEAVY
Property	Large amount of refinancing required this year and liquidity issues remain a concern.	LIGHT

The terms 'heavy', 'neutral' and 'light' represent our view of tactical asset allocation adjustments to a well diversified portfolio.

The Small but Important Print

We have tried to minimise the use of jargon and technical terms in this document to make it more readable whilst also containing some worthwhile information.

This attempted simplification inevitably means that some caveats must be added to ensure that the limitations of the document are clearly stated:

- Past performance is not necessarily a guide to the future. The value of investments can go down as well as up.
- The value of tax concessions depends on your circumstances and may change.
- All assumptions and estimates are approximate and intended to serve as initial guidelines only. You should seek professional independent financial advice before making any investment decision.
- This report is based on our understanding of your current circumstances, priorities and aims along with our knowledge of current legislation and HM Revenue and Customs. All of these may change in the future and affect the suitability of any financial arrangement.
- Regular reviews of all financial arrangements should be undertaken to review progress and make adaptations where necessary.
- Informed Choice Ltd is authorised and regulated by the Financial Services Authority.