

# Informed Choice

## Investment Outlook

4th Quarter 2008



### Highlights:

- **We are witnessing unprecedented market conditions that remain fluid and changeable**
- **Oil has fallen to the \$100 a barrel level which should start to reduce inflationary pressure**
- **Money market rates exceed the Bank of England base rate but have priced in some rate cuts this year and next**

[www.informedchoice.ltd.uk](http://www.informedchoice.ltd.uk)

## About Informed Choice

Informed Choice Ltd provides a range of wealth management solutions for private and corporate clients in the UK. As a professional advisory firm we charge fees for the advice, implementation and review of the solutions we provide.

Our clients come from many different walks of life. We take pride in our friendly and professional independent advisory service. As one of only three 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 Chartered firm of 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](http://www.informedchoice.ltd.uk/investment.htm).

Photograph by Martin Bamford  
Log Stacks—Blackheath nr Cranleigh, Surrey



## Foreward

**Martin Bamford BA (Hons) CFP APFS**  
**Joint Managing Director,**  
**Chartered Financial Planner**



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.

As I write this, we are witnessing unprecedented investment market conditions. Things are still incredibly fluid, so writing this investment outlook report is a challenge because the views are likely to become dated very quickly. You should speak to your adviser to discuss the current position before making any decisions.

What is likely is that, over the long-term, we will look back at the current market levels and consider them to be a good buying opportunity. Star fund manager Anthony Bolton has already suggested that the bear market is closer to the end than the beginning.

There is regularly used investment saying that seems to be appropriate now—‘buy when everyone is fearful, sell when everyone is greedy’. There appears to be much fear and little greed around right now.

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

Regards,  
*Martin*

## **Summary**

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## **General outlook**

In our last report we discussed oil prices rising to over \$140 a barrel. Recent investment market conditions have caused oil prices to head sharply in the other direction.

As I write this, sweet crude for November delivery is hovering around the \$100 a barrel level. We expect the price of oil to remain at this sort of level as worldwide demand for energy tumbles because of economic weakness.

Consumer Price Inflation rose to 4.7% in August, up from 4.4% the month before. This prompted the Governor of the Bank of England, Mervyn King, to write to the Chancellor warning him that inflation could reach 5% before starting to fall back.

The main drivers of inflation in the UK at the moment are food and fuel prices. These are helping push the official measure of inflation past the 2% Government target. We still expect to see inflation peak later this year before starting to fall back next year.

Interest rates remained on hold at 5% in September. There is a general expectation we will start to see some interest rate cuts, either later this year or early next year, as inflationary pressures start to recede.

All eyes now are on the US and the decisions made over their proposed bank bail out plan.

## **Cash**

Money market rates continue to exceed the Bank of England base rate, despite central banks pumping billions of liquidity into the world financial system.

The London Inter-Bank Offered Rate (LIBOR) now stands at 6.87%. This reflects the reluctance of banks to lend each other money as they retain capital for their own purposes. This is the highest level for nearly eight years.

What it means is that savers can benefit from competitive interest rates on their savings. It also means that mortgages, when still available, are charged at rates significantly higher than the Bank of England base rate.

Money markets have priced in a quarter point cut in November and four rate cuts by August 2009.

We expect to see interest rate cuts either later this year or early next year, as inflationary pressures start to ease (due to falling fuel and energy prices) but there is likely to still be a gap between base rates and money market rates for some time, until liquidity fears are relaxed.

## **Fixed Interest Securities**

Gilt yields have been volatile recent as the markets wait for the outcome of the US bank bail out plan. Yields on ten year gilts stand at 4.45% whilst two year gilt yields stand at 4%.

Investors continue to seek a safe haven and this will increase pressure on gilt yields.

Naturally there are fears of defaults at the sub-investment grade end of the fixed interest sector, although we have not yet started to see much in the way of default activity. Credit spreads sit at their widest for more than a decade.

Investment grade bonds are likely to provide the best long-term value, as markets start to calm down and liquidity fears are eased.

## **UK Equities**

Little has changed since our last quarterly report when negative returns and extreme volatility were the two main themes. The FSA ban on short selling of certain listed financial and banking stocks appears to have done little to reduce this volatility.

The FTSE 100 index of leading UK company shares closed at 4,902.45 points at the end of September, down from 6,466.80 points at the end of September 2007. This represents a fall of 1,564.35 points, or 24.2% in a year.

Star fund manager Anthony Bolton has predicted an end to the current bear market saying that he believes it is now nearer the end than the beginning.

September and October are historically bad months for stock markets anyway, but the current UK stock market lows appear to be a good time to buy if you can stomach the short term volatility and you are prepared to remain invested for the long term.

## **Overseas Equities**

The US equity markets have also suffered. The S&P 500 Index closed at 1166.36 at the end of September, down from 1,526.75 at the end of September 2007—a fall of 360.39 points, or 23.6%.

The US economy is now looking extremely weak and this is likely to have a knock-on effect on worldwide demand for goods and services. We could see increased consumer confidence in the US after the results of their Presidential elections.

Other worldwide markets have suffered a similar fate. There does appear to be some resilience in Far Eastern markets where lower levels of debt are apparent. Whilst these markets will certainly suffer from reduced US demand, they should continue to present some opportunities for investors.

## Property

The UK residential property market appears to have come to a grinding halt as a result of restrictive mortgage lending practices now employed by most lenders. The Council of Mortgage Lenders does not expect the market to recover from its current slump before 2010. It has now abandoned attempts to predict short term house price movements due to the uncertainties that surround the market.

The UK commercial property market is also continuing to decline as demand from tenants remains weak. However, share buybacks might signal that the sector is approaching the bottom. On value grounds the commercial property sector looks attractive, but we do expect to see some further declines in valuations over the short term.

## Current House View

Asset Class	Comments	House View
<b>Cash</b>	Great opportunities for savers and as a short term home for investable funds	HEAVY
<b>UK Corporate Bonds</b>	Growing fears of defaults but not materialised yet. Offers good long term value	NEUTRAL
<b>UK Index Linked</b>	Inflation could now start to subside as global economic demand slows	NEUTRAL
<b>International Corporate Bonds</b>	Still attractive for diversification purposes and access to previously unavailable sovereign debt opportunities	HEAVY
<b>UK Gilts</b>	Yields under pressure as investors continue to seek a safe haven	HEAVY
<b>UK Equities</b>	Remain volatile and uncertain, but good long term opportunity at these valuation levels	HEAVY
<b>European Equities</b>	Remains volatile but potentially good value	NEUTRAL
<b>North American Equities</b>	Weak economy and medium term outlook will depend on success of bank bail out plan	HEAVY
<b>Japan Equities</b>	Could be resilient to some global economic pressures	HEAVY
<b>Asia ex-Japan Equities</b>	Remains vulnerable to major slowdown in global economic growth	NEUTRAL
<b>Emerging Market Equities</b>	We are taking a slightly more cautious approach to this region	NEUTRAL
<b>Property</b>	Uncertain short term outlook but looks attractive on value grounds	NEUTRAL

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 practice. 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.