Informed Choice

Investment Outlook
4th Quarter 2009

Highlights:

- General economic outlook seems to be improving, with UK Gross Domestic Product (GDP) a better than expected –0.6% in the second quarter.
- Stock markets continued their rallies, recovering much of the losses suffered since last autumn.
- Interest rates remain at historic lows, with negative inflation as measured by the Retail Prices Index (RPI) and the UK Government continuing to pump money into the system via Quantitative Easing.
- We recently saw the first monthly positive return for UK commercial property for 26 months.

www.informedchoice.ltd.uk

About Informed Choice

Informed Choice Ltd works with individual clients and small business owners 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

Martin Bamford BA (Hons) CFP APFS
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.

The general economic outlook seems to be improving. Gross domestic product (GDP) in the UK fell by 0.6% in the second quarter, which was an improvement to the previous estimate of a 0.7% fall.

UK and overseas stock markets have continued their rallies, recovering much of the losses suffered when the global financial system appeared to be on the brink of collapse last autumn.

Interest rates remain at historic lows, with negative inflation as measured by the Retail Prices Index (RPI) and the UK Government continuing to pump money into the system (via Quantitative Easing – QE) to improve the overall money supply.

Earlier this month we were commended in the "Best Investment Adviser" category at "The Good Advice Awards 2009". This is evidence of how robust our investment advice process, supported by our Investment Committee, has become, enabling us to compete against much larger firms.

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

Chairman
Informed Choice Investment Committee
29th September 2009

Meet the Investment Committee

Our Investment Committee this month was made up of the permanent Committee members along with a couple of guest members.

The permanent Committee members are Martin Bamford, Dermott Whelan, Andrew Neligan and Philip Sullivan.

Martin Bamford is Managing Director of Informed Choice Ltd, a Chartered Financial Planner and Certified Financial Planner (CFP) professional. He is author of several best selling personal finance books, including *Brilliant Investing* (Prentice Hall, £9.99).

Dermott Whelan is a Financial Planner at Informed Choice Ltd. He is a Certified EFFAS Analyst, Fellow of the Chartered Association of Certified Accountants and Associate of the CFA Society of the UK.

Andrew Neligan and Philip Sullivan are both Financial Planners at Informed Choice Ltd. Andrew is a Chartered Financial Planner and Certified Financial Planner (CFP) professional.

Joining the permanent members this month was Shelley McCarthy, our new Associate Planner at Informed Choice. Shelley holds the Diploma in Financial Planning including an advanced qualification in personal investment planning.

Our guest members this month were Mark Cooper (a Financial Planner at Informed Choice Ltd) and Tony Wynne (the managing director of Informed Choice (Midlands) Ltd, a firm of Chartered Financial Planners).

Summary

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

Cash

The Bank of England Base Rate remains at the historic low of 0.5%, where it has been since March 2009. We do not anticipate any Bank Rate rises in the near term, particularly as inflation (as measured by Retail Prices Index) remains in negative territory at -1.3%.

Sterling Three Month LIBOR has contracted, moving closer to the Bank Rate, at 0.558%. The average interest rate available on instant access savings is now 0.8%, although more attractive rates for savers can be found if they are willing to accept a fixed term of a year or longer.

We noted the important differences between money market funds and deposit accounts, both in terms of risk and likely rewards. Our House View of the cash asset class is to stay neutral.

Fixed Interest Securities

The corporate bond market has experienced a rally in much the same way that the UK equity market has recovered since earlier this year. As a result, spreads have tightened and yields now look less attractive than they did a year ago.

It is interesting to note that Sterling Corporate Bond was the top IMA sector in terms of net retail sales during August. It clearly continues to be a popular asset class for retail investors, particularly those who are hunting for more attractive yields than those available from cash deposits.

Where yields do remain high in the corporate bond sector, it is because of perceived risks, particularly at the sub-investment grade end of the market. Our House View is to go neutral from our previous overweight position because we feel the above average returns experienced will reduce.

Our discussion about UK Index Linked focused on the future threat of inflation. There is no doubt in our minds that quantitative easing can be inflationary. We argued that inflation is actually of use to this (and any future) government as a way of reducing the real value of public debt.

It was interesting to note that the Bank of England's own staff pension fund made a strategic move to index linked gilts for around 70% of its assets at the end of 2008. Whilst the Bank has clear inflation targets, at 2% for Consumer Price Index (CPI) inflation, it is currently under shooting this with CPI at 1.6% and RPI at -1.3%.

Our House View is to stay neutral on UK Index Linked Gilts.

For International Corporate Bonds, because the majority of the funds in this sector hedge their currency risk back to Sterling, we agreed to stay neutral as we could not see any clear advantages to taking credit and interest rate positions on international debt.

The decision to increase the asset purchase programme (QE) at the start of August was unexpected. It led to an immediate fall in Gilt yields (of those eligible for the programme) of 10-20 basis points on the day. Gilt yields continued to fall during August.

We feel that demand for UK Gilts from China might start to decrease, as the Chinese government increasingly looks to Gold as a store of wealth. We questioned whether the safe haven status of UK Gilts might be under threat along with the financial strength rating of UK PLC. Our conclusion was that the answer is probably no, as there is no real alternative to Gilts for pension funds and other institutional investors in times of crisis.

We agreed to stay underweight UK Gilts.

UK Equities

There is a mix of positive and negative points associated with this sector. The worst of the recession now appears to be behind us, although we do expect unemployment and redundancies to continue to rise for a while longer.

At this point in time, UK dividends look quite attractive, although we commented on how focused the contribution of dividend income has become within the overall stock market. We might well see dividend cuts start to emerge later this year and into next year as companies hoard cash, reduce debt and rebuild balance sheets.

We reached a consensus that we have had a good run in the UK stock market since March from a very low starting point and that a correction was imminent given the speed and extent of the recovery. As a result, we agreed to go underweight from neutral for UK Equities. At a P/E of 12x and dividends of 4% we think the market is no longer cheap and represents fair value.

Overseas Equities

European Equities closed at a two week low last Thursday, after experiencing a similar speed and scale of recovery to the UK equity market. There remains uncertainty about the recovery of financial stocks in Europe and the strong Euro is bound to reduce opportunities for the export market.

We noted the German election results from the weekend, with a comfortable majority for the centre right, with this new coalition government appearing to already be largely priced into the markets.

On the plus side, the major European economies appeared to have already emerged from recession and GDP growth is improving, yet rate expectations and the inflation outlook remain muted. We commented on the importance of active fund management within this sector, as a result of the diverse nature of the different economies within Europe, and as a result a passive investment approach would usually be unsuited to this sector. We have several fund managers on our short list including Cazenove's Chris Rice and Neptune's Rob Burnett.

We agreed to go neutral from our previous overweight position in European Equities. Our positive stance was rewarded by continued weakness in sterling which will not be as pronounced in the next 3 months in our opinion.

Economic recovery in North America during the second half seems increasingly certain, with industrial sector recovering strongly and the housing sector starting to come back from very low levels. Whilst economic data from the States remains mixed, on balance things do appear to be recovering and improving.

We noted the continuing impact of the 'Obama effect' which we expect to last for at least his first year in office. However, recent fund manager commentary suggests that valuations (17x P/E) are now starting to look a bit 'stretched' given that economic data and profit expectations had risen from very low levels.

Our House View for North American Equities is to stay overweight.

We had a lively debate about Japan Equities, dismissing to a certain extent recent fund manager commentary about attractive price-to-book ratios, as this always looks good based on the cash these companies typically hold. It is unknown whether Japanese companies will actually put this capital to work.

The Yen has continued to rise steadily against the US Dollar, with little real action by the new Japanese government to control this. The Yen is now around 30% stronger than its pre-crisis level. Our House View is to go underweight from our previous neutral position.

We agreed to stay neutral on Asia-ex Japan Equities and Emerging Market Equities. We continue to have a strategic allocation to these increasingly important economies.

Property

For over a year now we have been keeping a watching brief on the UK commercial property sector, expecting a recovery at some point but nothing too rapid. Much continues to depend on the availability of credit from banks, which remains generally expensive and hard to come by.

We noted that the average commercial property fund has lost around 40% since the summer of 2007 when this market reached a frenzied peak. During August, we saw the first positive return (of 0.2%) in the UK commercial property sector for 26 months. This positive growth may not be sustainable in the short-term but should be considered as an indicator of recovery.

Overseas buyers are showing a great deal of interest in the UK market again and we expect this to continue, or possibly increase, given the lower value of Sterling. Depressed commercial property values combined with cheap currency should make this sector look very attractive to overseas investors with available cash to invest.

We could witness a sharp rally in total returns from commercial property within the next 12-18 months, but against this we must consider a number of negative factors. Overall rental levels are continuing to fall, with another drop of 0.5% in August. UK institutions are net sellers of commercial property having disposed of £128m more than they purchased during the second quarter of this year.

Our House View on commercial property is to go neutral from our previously underweight position.

Current House View

Asset Class	Comments	House View
Cash	Interest rates remain low and Sterling three month LIBOR has fallen. No immediate prospects for improvement, but remains an important short-term safe haven.	STAY NEUTRAL
UK Corporate Bonds	Has experienced a good rally since the start of this year, yields now looking less attractive, risk is visible within higher yielding bonds.	GO NEUTRAL
UK Index Linked	QE could be inflationary and the Government could put inflation to good use in the future to reduce the real value of public debt.	STAY NEUTRAL
International Corporate Bonds	As most funds hedge back to Sterling this sector represents a credit risk play, and we cannot see any additional value in this at present.	STAY NEUTRAL
UK Gilts	The safe haven status of UK Gilts might come under threat if the state of the public finances gets any worse, but this is not an immediate issue in our opinion.	STAY UNDERWEIGHT
UK Equities	Sector has had a good rally from a low point, moving ahead of economic recovery, and it is difficult to see much more value. Expectation of a relatively flat trading range in the mid-term.	GO UNDERWEIGHT
European Equities	Market has emerged from recession ahead of UK. Important to use actively managed funds not passive investment strategies in Europe.	GO NEUTRAL
North American Equities	Economic recovery in second half looks certain, better data arising from different sectors, continued 'Obama effect'.	STAY OVERWEIGHT
Japan Equities	Mixed date from this sector, but Yen now 30% stronger.	GO UNDERWEIGHT
Asia ex-Japan Equities	Valuations look less attractive	STAY NEUTRAL
Emerging Market Equities	Less attractive valuations but remains an important strategic position for longer term.	GO NEUTRAL
Property	Starting to see signs of recovery and we could witness a sharp rally in total returns over next 12-18 months.	GO NEUTRAL

The terms 'overweight', 'neutral' and underweight represent our view of tactical asset allocation adjustments to a well diversified strategic 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 current economic and market conditions combined with our knowledge of 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.