

My End Of Year Review by Colin Lawson

The last few months have shocked us all with the extent of the losses we have suffered.

It has without any doubt been the worst quarter in my career and I hope that the New Year brings with it a new outlook and the beginning of a market recovery.

It is easy during these times to blame ourselves and each other, and in our state of fear to make decisions that can damage portfolios irreparably.

Sir John Templeton once said that the four most dangerous words in investing are **"it's different this time"**. I do not believe that this is the end of the world as we know it and I do believe that our strategy will once again return to delivering the returns it is designed to provide.

THANK YOU!

I am proud of the fact that we have only had encashments out of equities of less than 0.25% of the assets that we influence. We have not lost a single client and we have won many new ones.

You have been patient, understanding and remained calm, which has helped us all during these difficult times.

The run up to Christmas has provided me with the opportunity to talk to many of my industry colleagues about their experiences over the past three months.

Their feedback has really made me thankful for the clients we have and the processes we have in place to protect portfolios.

This year we have issued 14 briefings and newsletters, which compares to 4 last year. This demonstrates how much has happened and that we are trying to communicate and inform you as much as possible.

I would like to take this opportunity to thank all of our clients for their continued trust in our service, and we look forward to repaying that trust in the coming months and years.

Thanks too to our staff for all their hard work in this most difficult of times who have continued to do the best they can with unprecedented workloads and previously unheard of negativity.

PRESS COVERAGE & STATISTICS

I have recently read a book originally published in the 1950s entitled "How to Lie With Statistics". Rest assured this isn't a manual on how to be dishonest, but rather to help the reader spot when statistics are used to portray something that isn't true.

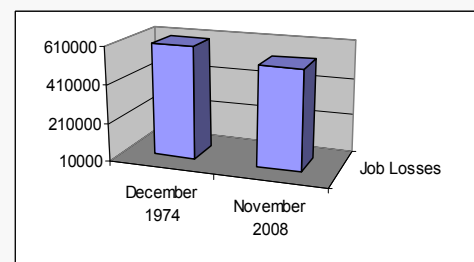
We keep coming back to media spin and the following example newspaper articles show just how statistics can often be misleading. The figures come from an article in the Daily Telegraph.

The Daily Negative

JOB LOSSES AT SECOND HIGHEST FIGURE SINCE RECORDS BEGAN

Job losses in the US reached 550,000 during the last month, close to the all time record of 602,000 in a month reached during the savage recession of the 1970s.

This has led many analysts to believe that the stockmarket could fall further. After a 26% loss in 1973 the market fell a further 43% in 1974. Such comparisons are panicking many investors as the fear we will see a repeat of 1974 is forcing them to quit the markets.

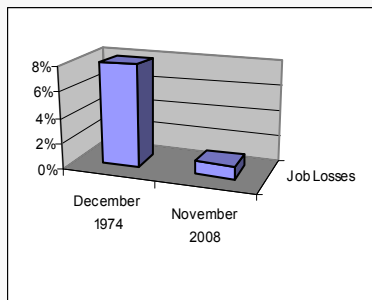


The Daily Positive

DESPITE RECESSION JOB LOSSES REMAIN LOW

Job losses in the US are rising but still remain dramatically lower than in the 1970s.

This is supporting the view that this recession will be milder and shorter than that of 1970s.



In one month in 1974, 602,000 people or 8% of the total workforce lost their jobs. This month we saw 550,000 lose their jobs but this represented only 1% of the total workforce.

Whilst the economy will no doubt get worse during 2009, many commentators think the stockmarket could bounce back strongly just as it did in the 1970s.

After large losses in 1973 and 1974, stockmarkets grew by 141% in 1975. This came during the height of the recession, despite job losses and despite inflation running at 24%.

The most successful investors of their generation, the likes of Warren Buffett and Anthony Bolton are now calling the bottom of the market and urging investors to buy stocks.

Both of these stories contain true statistics, presented in different ways. Some statistics are misrepresented and others don't necessarily have any real relevance to point being made. This just shows how the same story can be treated in entirely different ways.

THE MADOFF SCANDAL

The latest scandal to rock the economic world is the revelation that investments made by Bernard Madoff (pronounced "Made Off" as in "made off with your money) were allegedly nothing more than a giant pyramid or "Ponzi" scheme.

Basically, a Ponzi scheme would work as follows:

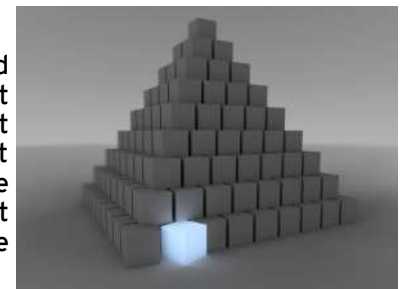
- Investment company publishes excellent investment returns, attracting an inflow of investors.
- The returns are attractive enough to ensure more people invest than take their money out.
- Those who do wish to take their money out are paid from the inflows from other investors.
- This only falls down if the amount being withdrawn is more than the amount being paid in.

A number of large banks seem to have lost potentially a large amount of money investing with Madoff operation.

For example, Bramdean Investment Managers (run by "city superwoman" Nicola Horlick) may lose almost 10% of the assets they manage (£21 million).

Frankly, we are amazed that such respected individuals invested such large sums of money with this operation.

One of our Applewood factsheets is about things we will not invest in. Amongst other things, we are very careful to rule out investments where there is—



A lack of information, including secretive investment strategies and lack of independent data.

Mr Madoff's investment strategy was called "split strike conversion". No one seems to know what this means and he could not explain it to anyone.

No one could meet Mr Madoff and there was no independent sources of data to verify returns.

A lack of regulation - anything not in a properly regulated market where we cannot assess what would happen if things go wrong.

These investments were unregulated. There were none of the normal independent trustees/custodians you normally see.

Everything appears to have been done in house or by possibly-related parties, even the annual audit!

ANYTHING THAT SOUNDS TOO GOOD TO BE TRUE

Published returns from Madoff's investments were very consistent even in volatile markets, and no one could explain why.

A Cautious Approach

If we are not comfortable with an existing investment we will withdraw. An example of this is the Arch Cru Investment Portfolio, which invests in private equity. As publicly listed equities fell so far, we could not understand why their private company investments had not been down-valued and therefore decided to switch out.

This approach means we have been able to avoid all of the investment scandals of recent times. From split caps, to hedge fund collapses, precipice bonds, and structured products backed by Lehman Brothers, we have avoided them all.

A NEW YEAR—A NEW RECOVERY

We are looking forward to a New Year, and to brighter times in the markets.

We know how bad things feel right now. This year has been a "perfect storm" for investments, with all sorts of things happening at once. We hope we are now through the worst of the storm and will soon be entering calmer waters.

Earlier this year we stated that we thought a FTSE 100 level of 5,600 was good value based on a long term view. We stand by this statement. Stocks are valued at well below this level, but it does not mean they are *worth* their current level. We believe equities are worth a lot more and this will eventually be reflected in valuations.

It is at this time of the year that we ask our clients and our staff for their market predictions. This year we want to extend it even further by running a competition with 4 magnums of champagne on offer as prizes!

Many thanks for your continued support.

Wishing you a Merry Christmas from myself and all the team at Applewood.

Colin Lawson, Managing Partner

A magnum of champagne goes to the clients with the closest guess of where the following will be on 18 December 2009:

- The level of the FTSE 100 (currently around 4,300)
- The price of oil in US dollars (currently \$45.50 for a barrel of Brent Crude)
- The Bank of England base rate (currently 2%)
- The Sterling exchange rate against the Euro (currently €1.089 to £1)

All answers will be closing prices on 18 December 2009. One guess per category per household. The judge's decision is final!

Please email your guesses to your Paraplanner or Adviser, or let us know during your next meeting (responses will be minuted so no disputes!).

We hope you found this briefing informative. If you have any queries, please contact your usual adviser.

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