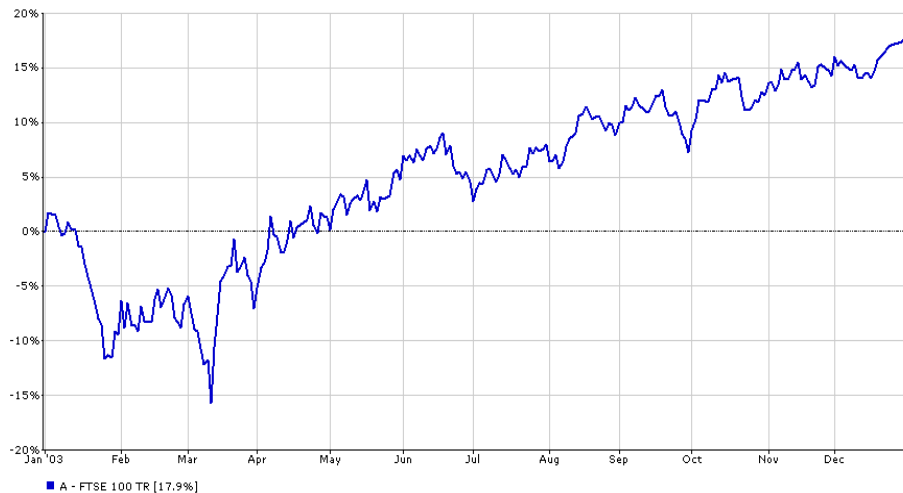


**Update on Markets—18 July 2008**

We recently recommended a number of clients switch into equities when the markets fell below 5,600.

We believe at this level markets look good value, when taking a five year view. The FTSE 100 Index has fallen further since then, but this does not change our view. We believe that, in the long term, clients will benefit from switching in at these comparatively low levels.

The graph below shows the FTSE 100 Index from 1 January 2003 to 1 January 2004:



Imagine we had advised a client to switch into equities on 1 January 2003, at which time the FTSE 100 Index was around 4,000. By mid March it would have looked like we had got this completely wrong, and the client's investment would be down around 15%.

However, by the time the year was out the Index had climbed back up to over 17% above the start level. In fact, over a five year period from that date, the investment would be up by around 94%.

**It is impossible to time markets or predict the future. However, it is possible to look at investment fundamentals and say whether, compared to historical averages, markets look over or under valued. We believe that investment markets have a habit of returning to their usual behaviour sooner or later.**

**As we take a long term view when making decisions, it is only possible to say whether that decision was correct some time after it is made. Investing is a marathon, not a sprint.**

In fact, the big falls from January to March 2003 would have represented a great buying opportunity. The graph to the right shows the five year return of the FTSE 100 since the 12 March low.

As you can see, an investment made at that date would have risen 108% over five years. At one point, returns were touching 140% before they dropped back to current levels.



*Don't forget, we also put in trigger points where we will recommend clients **REDUCE** equity holdings, to bank gains already made.*

Having switched into markets at an agreed trigger level, if markets continue falling there comes a point where we would recommend switching **MORE** into equities. The second graph on the previous page illustrates why we would suggest doing so. If markets represent a good buying opportunity at 5,600, then wouldn't the opportunity look even greater at, say, 5,000?

If this seems counter-intuitive, it shouldn't do. Investing is about buying low and selling high. The only way to do this in practice is to buy when markets fall and sell when they rise.

**Emotion often clouds judgement. If markets are falling investors are naturally nervous, and the first instinct is to sell, not buy. It is our job to help clients stick to an investment strategy and keep emotion from eroding that strategy.**

## Stockmarkets & Predictions

In order to understand stockmarkets, it is important to remember that the market is simply a collection of traders who quote prices at which they are willing to buy or sell stocks. The majority are professional traders who have researched the companies they are trading in depth and have come to conclusions about their worth.

As always, the current market level is an average of differing opinions. Some will be very pessimistic, others will be very optimistic. As always it is the pessimistic who shout the loudest.

It is important to look at who is making the predictions. Nicola Horlick of Bramdean Asset Management believes investors should avoid equities for the next two to three years. As a company that only invests in private equity and other alternatives, is their opinion particularly relevant?

By contrast, Anthony Bolton, of Fidelity and one of the most successful equity fund managers of all time, believes "a patient investor taking a two to three year view should be well rewarded."

Bill Mott of Psigma and formerly Credit Suisse is another legendary equity manager who is very bullish, particularly on financials, cyclicals, retailers and housebuilders who are "now trading at attractive discounts and when the market bounces they will go back up."

## Good news

Banco Santander, the giant Spanish owners of Abbey recently made an offer for Alliance & Leicester. This was for nearly 40% more than the share price at the time.

Many investors in Alliance & Leicester, including big investment banks, are unhappy with this offer. If they believe that a premium of almost 40% is still undervaluing Alliance & Leicester then they must believe there is plenty of scope for growth at present.

The other point to mention is that since A&L's main business is mortgage lending, Santander must have some confidence in the UK housing market, or at least the mortgage market.

Additionally, the International Monetary Fund have just **RAISED** their predictions for economic growth in the UK and USA. Despite all the headlines about recession, the IMF believe the UK economy will continue to grow, albeit at a slower rate than it has done.