HURST

FINANCIAL
CONSULTANCY

INDEPENDENT FINANCIAL ADVISERS

Investments
&
Pensions

Mortgages
&
Insurance

Market Turmoil
Interim Investment Review Two

~ STRAIGHTFORWARD ADVICE..... IN BLACK AND WHITE ~

About Hurst Financial Consultancy

Hurst Financial Consultancy was founded in 1997 by the Managing Director, Michael Hurst. The company has operated successfully in Salisbury from inception serving clients locally, nationally and internationally.

The company focus has always been on excellence.

We have also developed a strong focus on state of the art information technology being aware of its significant value in not only collating data, but managing the performance of investments. We have our own in-house IT department and use its services constantly to develop the service that we give to our clients to ensure it is always "leading edge".

As Independent Financial Advisers we have access to the full range of products and services available in the UK as opposed to a Tied Agent or Company Representative who may only advise and offer products from the company they represent. This means that we are able to give you impartial advice and recommend the most appropriate products for you, so that you will enjoy choice, value for money and our high-quality service.

Second Interim Investment Update

As you have no doubt been aware this week has been one of the very strangest in World Stock Markets for decades.

This quick update is to serve no other purpose than remind us all as to why we need to keep calm heads in fragile markets.

Last night, as a consequence of what is slowly looking like a worldwide embargo on 'short selling' in financial stocks, world markets rallied, some by up to 10%. At the time of writing this update the markets in the UK (FTSE 100) are almost 7% up.

What is short selling?

The sale of a security/share made by an investor who does not own the security/share. The short sale is made in expectation of a decline in the price of a security/share, which would allow the investor to then purchase the shares later at a lower price in order to deliver the securities earlier sold short.

We have consistently said that the stock markets largest rises often take place after some of the most severe falls and it is for that reason that we strongly advocate the 'do nothing' approach when chaos is so prevalent. It is in the chaotic situations that a cool head is needed because it is simply impossible to make a balanced decision in a storm. Panic when markets go down is a normal emotion but it is clearly not often the very best thing to do. Our focus always has to be on the fact that we have all invested for the medium term.

Other news

The American Government are now considering taking on to their own accounts, the toxic liabilities of US institutions/banks whose assets (sub-prime mortgages) have been so affected by downturns in their values.

If this goes ahead two things become probable/possible.

1. Other Central Banks may follow suit
2. Banks become freed up of their uncertainty in their asset valuations. Remember, a loan made by a bank is an asset to that bank (a liability to the borrower)

The value of that loan in these difficult mortgage markets where US sub-prime mortgages have polluted the pool of mortgages traded around the global markets, has been hard to define. This is what has given rise to the 'credit crunch'. If these assets go off bank balance sheets then banks can possibly start to trade again with one another so freeing up the crunch.

Our investment reports over this very testing year have always indicated that markets will recover once banking has fixed itself.

Key Data

In 2003 the yield on Government stock (10 year GILTS) was for two consecutive critical days, lower than the return from dividends from shares. This was regarded as a 'buy' signal into stock markets and actually commenced the 2003 recovery. This is now a feature of current markets.

Clearly there is no guarantee that this will be repeated but this week's very special events have at last brought out of the cupboard, some very significant skeletons - the end of a bear market (one that is going down) is usually marked by a high volume, climactic sell-off. This moment, known as capitulation, is where the baby gets thrown out with the bathwater and investors sell everything – this week appears to have been one of those weeks and a bounce back has seemingly occurred.

Is it sustainable?

The short answer is we cannot be 100% sure but we are always expectant of a recovery in markets. These key events (ban on short selling of financial stocks and the US Federal Reserve looking to take on the uncertain assets of US banks and so commence a possible re-start in normal bank inter-trading) certainly help matters very significantly.

We have always been in question of a stock market that allows significant short selling of shares that can then drive down markets and see a small echelon of high class gamblers profit from the misery and worry of other long term investors who are just looking for a fair long term return on their money.

Every piece of analysis that we look at points at recovery taking place after significant downturns. All of the investment managers we refer to indicate to us that even before these strange falls, the stock market was underpriced as the underlying companies are still actually trading pretty well given the climate. Repetitive I know, but we just need to be patient..

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