HURST

FINANCIAL CONSULTANCY

INDEPENDENT FINANCIAL ADVISERS

Investments
&
Pensions

Mortgages
&
Insurance

Investment Review: April 2008

~ 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.

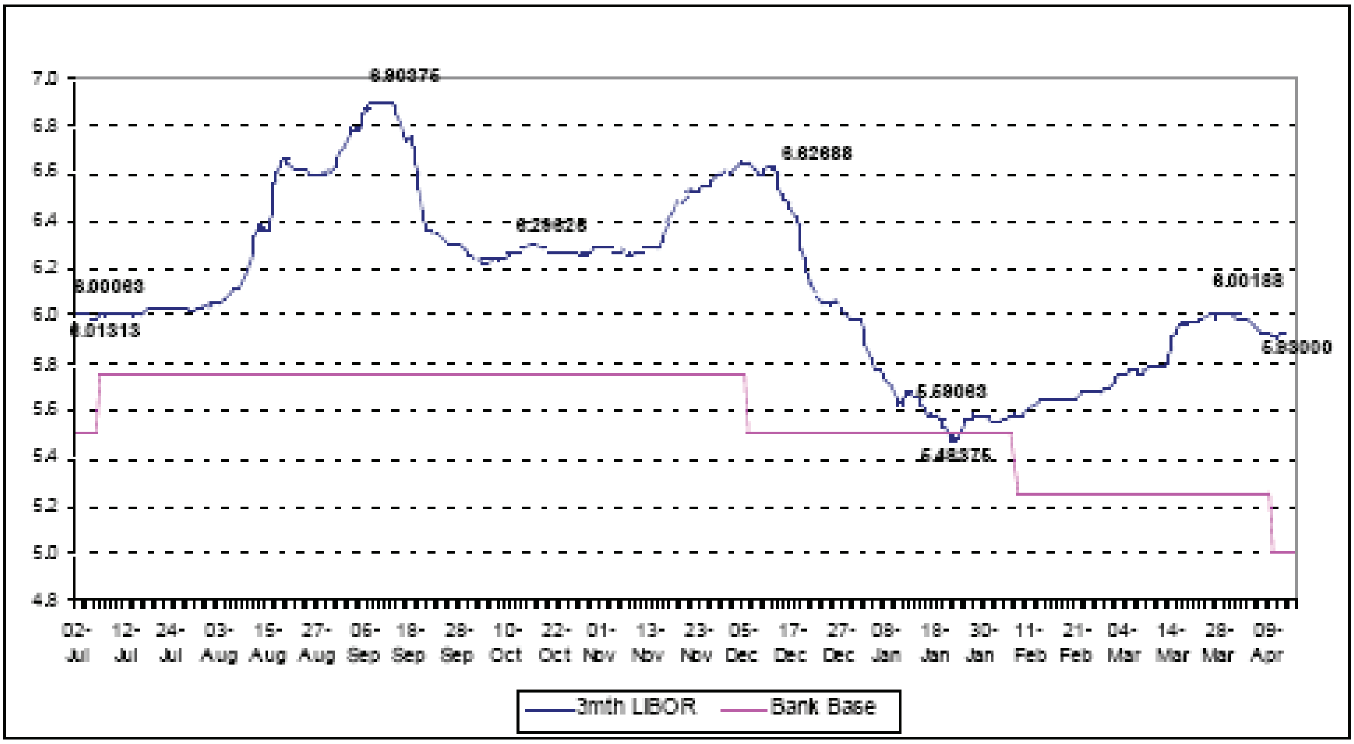
We have also developed a strong focus on state of the art information technology being aware of its significant value in not only collating data, but managing the performance of investments. We have our own in-house IT department and use its services constantly to develop the service that we give to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

Our investment review this month is going to be slightly more detailed so my apologies if the content is wordy. However, it is evident that there is a fragile recovery presenting itself in worldwide stock markets and I still believe that the suite of investment funds that we are using leaves us well situated for this recovery, yet at the same time moderately defensive in the face of potential volatility during the remainder of 2008.

Interest Rates and their effect on markets

CHART 1: 3 MONTH LIBOR VS. BASE RATES
(BBA)



This chart shows how the Bank of England base rate and the inter-bank rate (LIBOR) remains disconnected and it is here that the evidence of “credit crunch” presents itself in plain format. This is having an effect on mortgage lending and as a consequence is presenting concerns in terms of consumer spending where so much is linked to the activity of house purchase.

It has been a recent feature of markets that base rate has gone down and mortgage lending rates have gone up and the effects of this are well reported in the press in terms of the significant decline in mortgage approvals and house valuations.

Brand new news to the markets today: Comes from Mervyn King, Governor of the Bank of England, and is reflective of a view that we have long held. The much reported “bad debt” problem with sub-prime mortgages in the U.S. and Europe seems to have been overplayed by the constituent Banks, and the significant write downs that they have made that have grabbed so much press attention will need to, at some point, be added back to the respective Banks balance sheets.

Here is a copy of the press release:

Bank says credit fears overstated

Banks have overstated their exposure to mortgage-linked investments and could delay an end to the credit crunch as a result, the Bank of England says.

In its Financial Stability Report, it said fears of financial meltdown may become a self-fulfilling prophecy.

Banks previously over-willing to lend were now too cautious, even with credit-worthy borrowers, it suggested.

The worry is that by being too cautious, banks may deprive consumers and companies of much needed financing.

An increased fear of risk, prompted by a drop in the value of investments linked to mortgages, has undermined confidence in financial institutions and made them reluctant to lend to each other and consumers, the Bank added.

Credit markets "are likely to overstate significantly the losses that will ultimately be felt by the financial system and the economy as a whole", the Bank of England said.

"It will exaggerate to an even greater extent the potential damage to the real economy."
Howard Davies, director of the London School of Economics and the former head of the Financial Services Authority, said the Bank's report was a signal that the worst of the credit crisis could be over.

But he said the economy could still face other problems:

"We now may be just moving into straight forward economic recession where all kinds of other assets begin to deteriorate in quality and in price."

Fears exaggerated

BBC business editor Robert Peston said the report marked a substantial shift in emphasis for the Bank of England.

"Financial institutions are currently assuming that losses on sub- prime will be on a scale without any precedent," he said.

"The Bank of England thinks their fears are exaggerated."

"It now believes that the market price of sub-prime investment products overstates likely future losses on sub- prime lending by about 100%."

The Bank estimates that UK banks still have a potential exposure of $192bn to structured credit products - such as mortgage backed securities - which they are finding difficult to sell.
That is still a higher exposure relative to the size of the economy than among US banks ($490bn) or among European financial institutions ($235bn)

Confidence to return?

The twice-yearly report says that there is a "significant increase" in the risk that a major bank collapse or reluctance to lend will disrupt the financial system.
And it says the process of adjustment is proving "even more prolonged and difficult" than expected.

Lending drying up

The report demonstrates how quickly lending is drying up.

The Bank's quarterly survey of credit conditions shows that lenders are tightening up credit sharply not just on home loans, but also on household lending and commercial loans to companies.

And the sources of future loans in wholesale money markets have also contracted sharply.

The market for "asset-backed securities" such as sub-prime and other mortgages has collapsed - with the value of such assets issued going from $700bn a quarter in the middle of 2007 to just $100bn in the first quarter of 2008.

The Bank of England argues that to rebuild financial confidence, it will continue to allow UK banks to swap illiquid assets with safe UK government securities.

And they say that banks will need to bolster their capital and make further disclosures of their financial position, and explain better how they are valuing complex financial instruments.

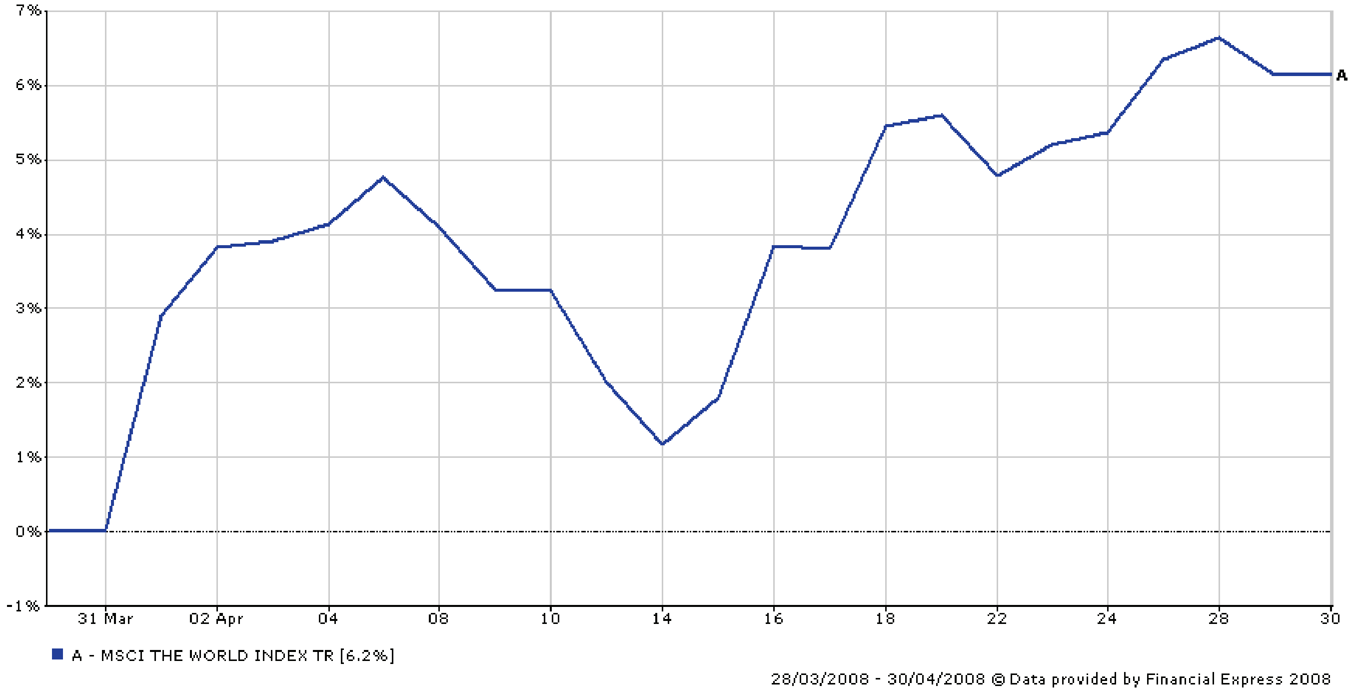
In the long term, the Bank of England wants to change the rules under which banks operate, so that they recognise risks, and possibly put aside some extra money in good times to secure against risk in bad times.

And it says that more effective systems are needed so that central banks can respond more quickly in a crisis, such as the run on the Northern Rock.

This report is interesting in so much as there is now high level thought that the issue is over played. If this is true then clearly potential exists for the issue to reduce in terms of its significance in the markets. It is our conjecture that the markets are suffering from a lack of confidence despite recent evidence of recovery because of this dysfunction within Banks. Remove the dysfunction and normality may return to the markets.

What are the time scales?

Obviously this is a difficult call. We have already published analysis showing the benefits of staying calm in a volatile market but we would all like to see the market moving forward. Below is a chart showing the world markets and how they have performed over the last month.



The recovery is evident and we feel that 2008 is likely to continue to display some volatility but at the same time edge forwards towards a position much in line with the commencement of 2008. Since we first endured these markets difficulties the FTSE100 has lifted in value from around 5450 to 6100, an increase of 650 points which equates to around 12%. Our portfolio behaves more softly than this but we use it as a rough barometer in respect of the element of the portfolio that gives growth i.e. equities/shares.

Your portfolio is blended with market instruments that are not nearly so volatile and these serve us well defensively during these volatile times; hence we do feel somewhat vindicated in presenting to you the "sit tight" philosophy.

Returns to 2007 FTSE100 values would see markets adding roughly another 8%, which would obviously significantly improve current unattractive valuations.

Mid March market has risen from almost -16% to -4%, an uplift of 12%. This chart shows the behaviour of the FTSE100 since the beginning of the year.

2009 is likely to be challenging but investment houses that we have spoken to feel that by then volatility will be less of a feature of the market and we can then return to the normal expectation of long term financial planning with our portfolio fulfilling our long term expectations.

Sadly portfolios moving down as well as up is a function of markets and for our long term planning I feel confident that we are still sensibly placed. Please rest assured of course that this is kept under constant review and we will be pro-active wherever we feel it is required.

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