HURST

FINANCIAL CONSULTANCY

INDEPENDENT FINANCIAL ADVISERS

Investments
&
Pensions

Mortgages
&
Insurance

Investment Review: August 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.

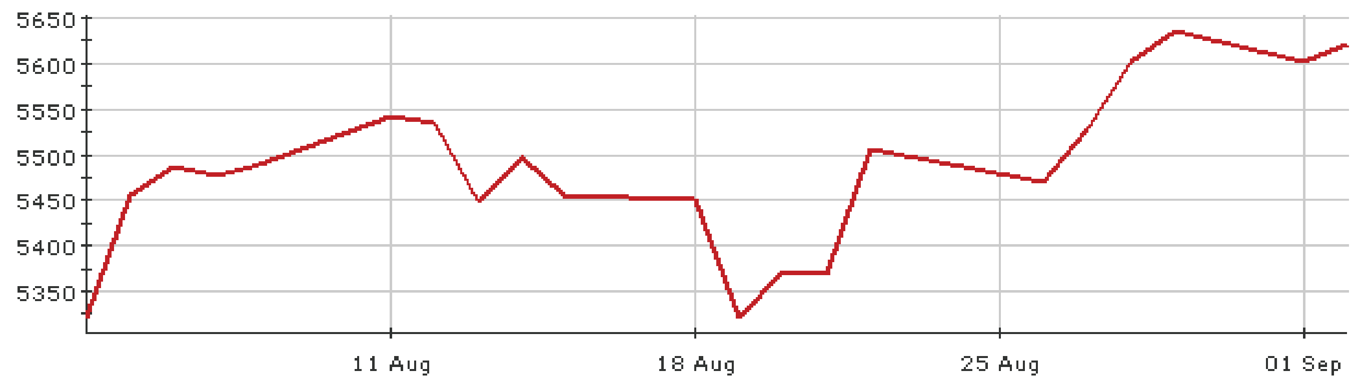
Much of the investment news during August has been quite positive. Many global stock markets are showing growth, oil and some commodity prices have fallen sharply and there are signs that confidence is starting to return to the US and that the US economic downturn may not be as bad as some had predicted; in fact the annualised growth that they have had has surprised many analysts in that it has been much higher than predicted [3.3% actual instead of 1.9% expected].

The UK market is dominated by the current housing crisis and inflation. The housing market does seem to be in the midst of quite a significant slow down; prices are falling rapidly and the volume of sales is very low. This will have a knock on effect in the economy as borrowing on property to spend in the high street will slow significantly and ancillary industries will also be affected and this will likely lead to a hike in unemployment. This in turn raises government costs through social security payments whilst reducing their income as less income tax etc is being collected. This will therefore likely reduce government spending and therefore jeopardise public sector employment.

The recent announcement by the Chancellor is unlikely to stimulate the housing market. The catalysts for the housing market will be lower interest rates, which are now expected as early as this year, banks being willing to lend and a return of public confidence to employment security/availability.

Bank rates in the UK are now expected to fall this year; this will benefit many people with existing mortgages and they may spend their extra cash in the high street. The banks are also bringing their mortgage rates down for low risk loans. Public confidence is always an issue as the press are inclined to promote 'bad' news and people, understandably, worry about negative news that they read or are told.

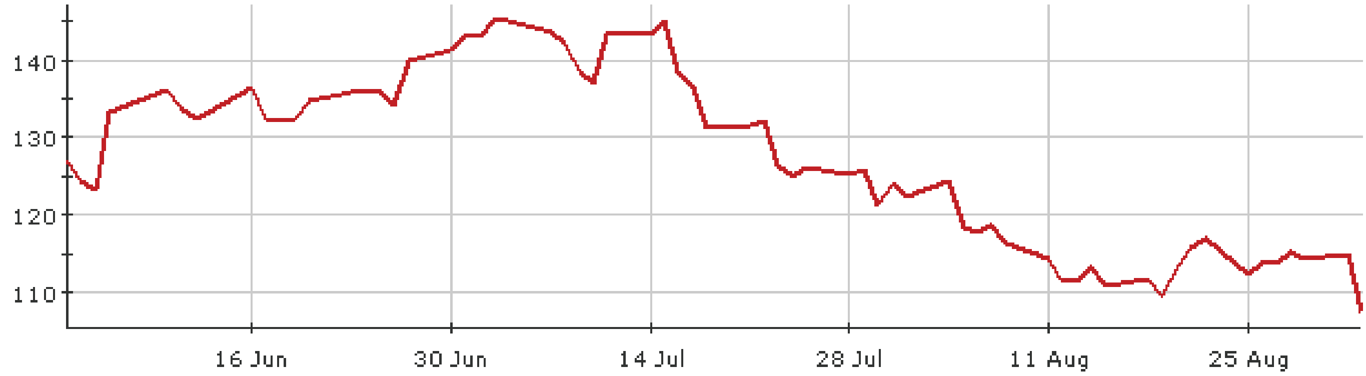
Inflation is now well above the Government set target. This has been a problem for the Bank of England [BoE] all year as their sole task is to keep inflation within the set target. Inflation is expected to fall in the short to medium term as this a natural result of an economic slowdown. As the BoE obtain data pointing to a lowering of inflation they will be more inclined to reduce interest rates in order to stimulate the economy.



FTSE 100 Aug 2008 source bbc website 3 Sept 2008.

GLOBAL MARKETS

Global Market performance is generally linked to sentiment in the USA. There has been a lot of talk in recent years that markets no longer react to US developments and this is known as de-coupling. What is now evident is that de-coupling is not as advanced as was hoped and that the world economy does still take its lead from the US. However as the US data is improving then it is hoped that the rest of the world will follow suit. The fall in the price of oil and other raw materials is very good news as it reduces the spectre of high inflation which many economies currently fear. High inflation generally leads to higher interest rates and this can cause an economic downturn.



Oil Price Jun - Aug 2008 source bbc website 3 Sept 2008.

GOING FORWARDS

There seem to be real signs of improvement in the behaviour of some of the major stock markets. It is too early to say that there is a recovery on the way but it is possible that a corner has been turned and the data that is coming out is creating a positive environment for a market uplift. Early September has seen a return to some market volatility again led by the USA but it is hoped that this is a blip in the short term stability that was beginning to establish itself.

Given the widely held assumption that a recovery will happen it is in our view very important to stay invested at this time. Markets can move very quickly, up and down, and trying to play markets is difficult and it is possible to compound losses and reduce gains by trying to predict when to come in and out of the investment environment. That is not to say that one should just 'do nothing;' and in the background we look at various funds that we use and compare them with the funds that are available and decide if they are still appropriate or if a switch is advisable.

NEWS FLASH

At the time of concluding this review we received the news that the US Federal Reserve is essentially taking into ownership the two largest mortgage lenders in the USA – Fannie Mae and Freddie Mac as they are known.

Why is this important? – what is evident and has been from the start of market difficulties is that banking needs to unravel the 'crunch' in order that market confidence can resume. This news has had the immediate effect of lifting worldwide stock markets in some cases by as much as 5% in one day.

This may well mark the start of a gentle unwinding of the lack of availability of mortgage debt and commence especially the swap of these debts between banks with them being safe in the knowledge that the two huge institutions in the USA are now as robust as can be. Money being freed up in the banking system will see many forms of industry and commerce relieved over time. This is not the end of the troubles but it quite possibly marks the beginning of the end

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