HURST

FINANCIAL CONSULTANCY

INDEPENDENT FINANCIAL ADVISERS

Investments
&
Pensions

Mortgages
&
Insurance

Investment Review: January 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.

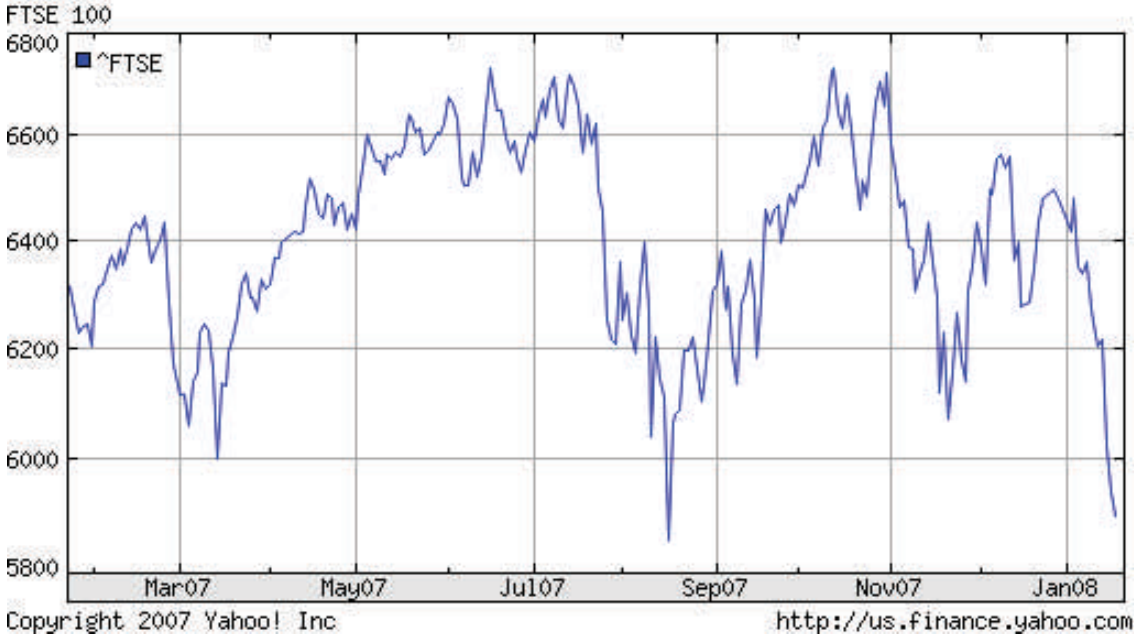
We have also developed a strong focus on state of the art information technology being aware of its significant value in not only collating data, but managing the performance of investments. We have our own in-house IT department and use its services constantly to develop the service that we give to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

Below is my view on our current investment strategy taking into account the recent negative financial news.

In recent weeks global stock markets have come under increasing pressure due to the possibility of a recession in the US economy. There are indicators that Central Banks and Governments are likely to intervene to attempt to prevent or soften any downturn. This can be done through interest rate policy and tax legislation. This aggressive stance by policy makers will be actioned over the short term and they would expect to see positive results in the short to medium term.

With regard to current investment, market conditions are volatile. This volatility been has prevalent for at least the last 12 months and is likely to continue for the short term. The below graph is a chart of a the FTSE 100 for the past year. As is evident a serious downturn happened in August as a result of the Credit Crunch but within one month a full recovery occurred. Since then the market has been up and down and is currently in a down cycle. This is not to say that the current position will reverse within one month or the short term but it does demonstrate the cyclical nature of investment in that they go down as well as up.



The graph below is a chart of the FTSE 100 since 1985 and this shows similar trends to the above graph but obviously over a longer timescale. The dip between 2000 and 2004 was caused by a series of financially catastrophic events - the Tech collapse, September 11, US corporate fraud [Enron], war in Iraq and Foot and Mouth. These were unusual conditions and all happened one after another causing a major drop in values. However an investment in a reasonable stock market managed fund taken out 10 years ago has returned 70% or 7% per annum. This is significantly higher than cash over the same period. The chart shows that the FTSE was about 6000 10 years ago and it is roughly the same today. This demonstrates that the FTSE is a very rough guide to investment returns and is really used for the purposes of news headlines and to give a generic indicator as to market conditions; a tracker fund would have given less performance than some managed funds [approx 43% over the same period]. So even given terrible investment conditions, when given enough time investments would be expected to outperform cash. This does not mean that this will be the case in the future.

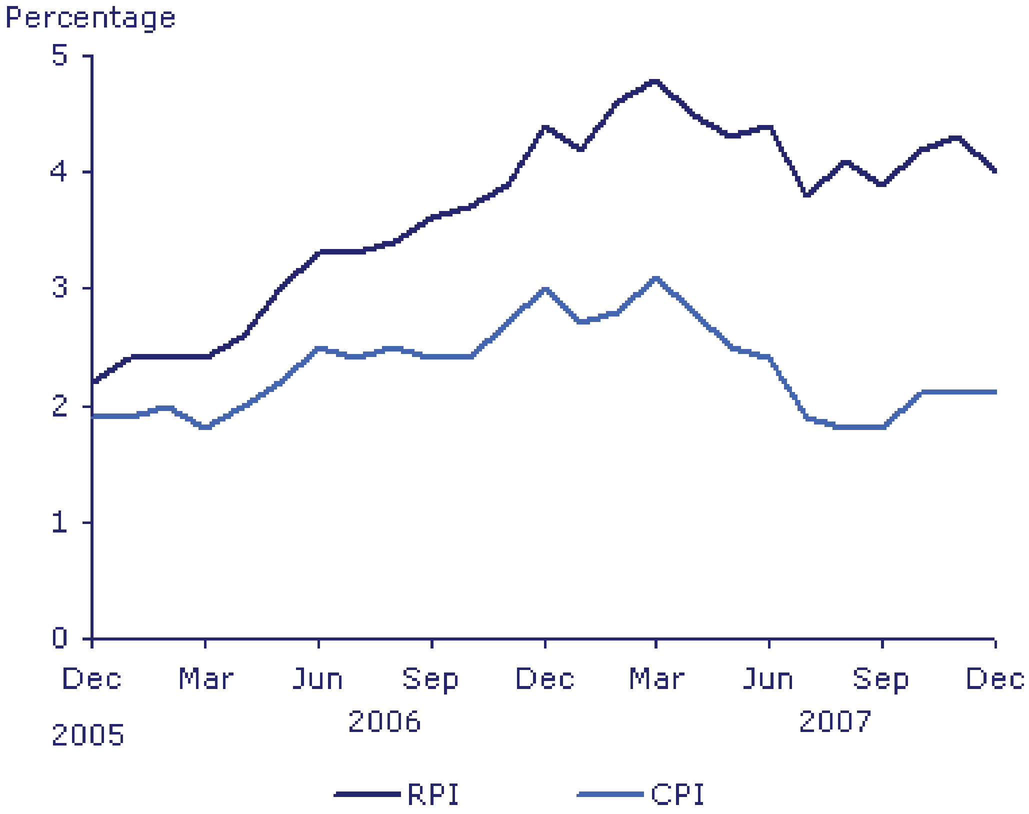
I believe that the funds that we have chosen will stand us in good stead if we sit tight and ride out the current downturn - this could be very short term or medium term. The investments that you have are placed in various stock markets and asset classes and although they have suffered since the turn of the new year they have not dropped as much as the FTSE 100, Dow Jones or other indices. It would also be my expectation that when a recovery occurred that these funds would outperform the FTSE etc.

The overriding consideration is do you believe that leaving your investment where it is will give a greater return than placing it in an other arena, for example cash [the bank], for the investment timescale that you have in mind.

When investing in cash there are two key considerations 1] the interest rate that you will get and 2] inflation.

Savings interest rates at the moment are say 6.25% gross per annum which nets down to 4.875%. If rates fall which seems more likely than not [many analysts expect rates to fall by 1% this year] then the rate that you will get will fall unless you fix the rate in a time locked investment.

UK Inflation since 2006 is detailed in the below chart. The headline rate and Bank of England target rate is light blue. This is the rate that the bank have to keep at 2% +/- 1%. This is currently 2.1%. This will detract from an investment in cash giving you a real return of 2.75%. If the retail price index [dark blue line] is used [and many see this as the true underlying inflation rate] then this will pull real cash returns down by 4% so if interest rates are cut then real returns may will be negative especially as lower interest rates will likely lead to higher inflation. This in my view makes cash a very unattractive medium term investment.



I expect the markets to be volatile for the short term and hope that intervention by Central Banks and Governments can steady the ship and start your investments heading in the right direction. One might ask why not wait in cash and invest when the market looks more stable. On the face of it this seems sensible but 'playing the markets' is potentially dangerous and is tantamount to gambling as one may mis-time getting in and or out and compound losses. The perceived wisdom is to look at the investment for a longer term and accept that there will be periods of downturn and that hopefully they will be outweighed by the periods of upturn.

I monitor your investments on a daily basis so that you do not have to. It is in my interests to ensure that I am diligent with your policies and I will contact you if for any reason I believe that a change of strategy is required.

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