INDEPENDENT FINANCIAL ADVISERS

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Investment Review: March 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.

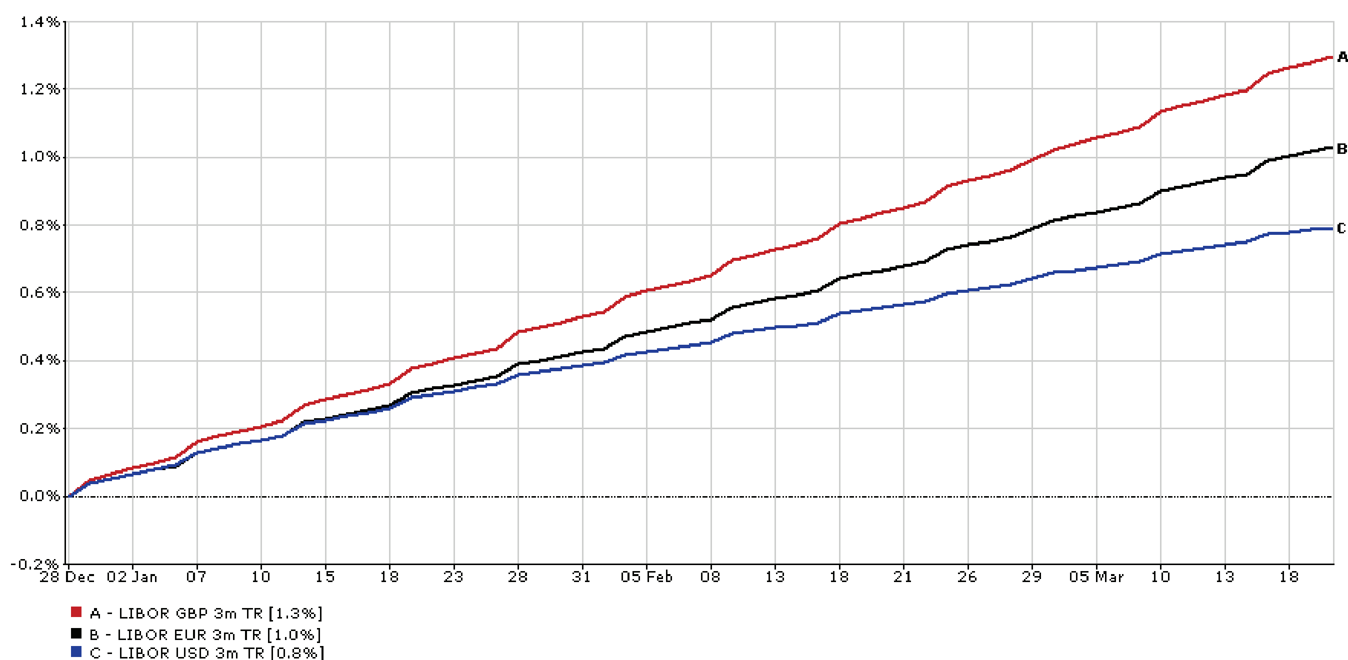
We have also developed a strong focus on state of the art information technology being aware of its significant value in not only collating data, but managing the performance of investments. We have our own in-house IT department and use its services constantly to develop the service that we give to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

Investment conditions continue to display turbulence and fragility and the news about the Global Credit Crunch continues to infect the potential for recovery in the markets.

There are many differing views as to how long the crunch in finance will hold markets back. It is our view that the 'log jam' in world credit markets, which creates an unwillingness for banks to lend to one another (a normal part of world finance), is the key to the recovery. The markets need for this feature of news to move away – this will then allow bank credit to return to normal flows.

Currently inter-bank interest rates differ quite significantly from the main bank base rate whether in UK or US or indeed Europe. This three month chart shows how despite a general reduction in interest rates, over the last 3 months interbank rates have actually risen.

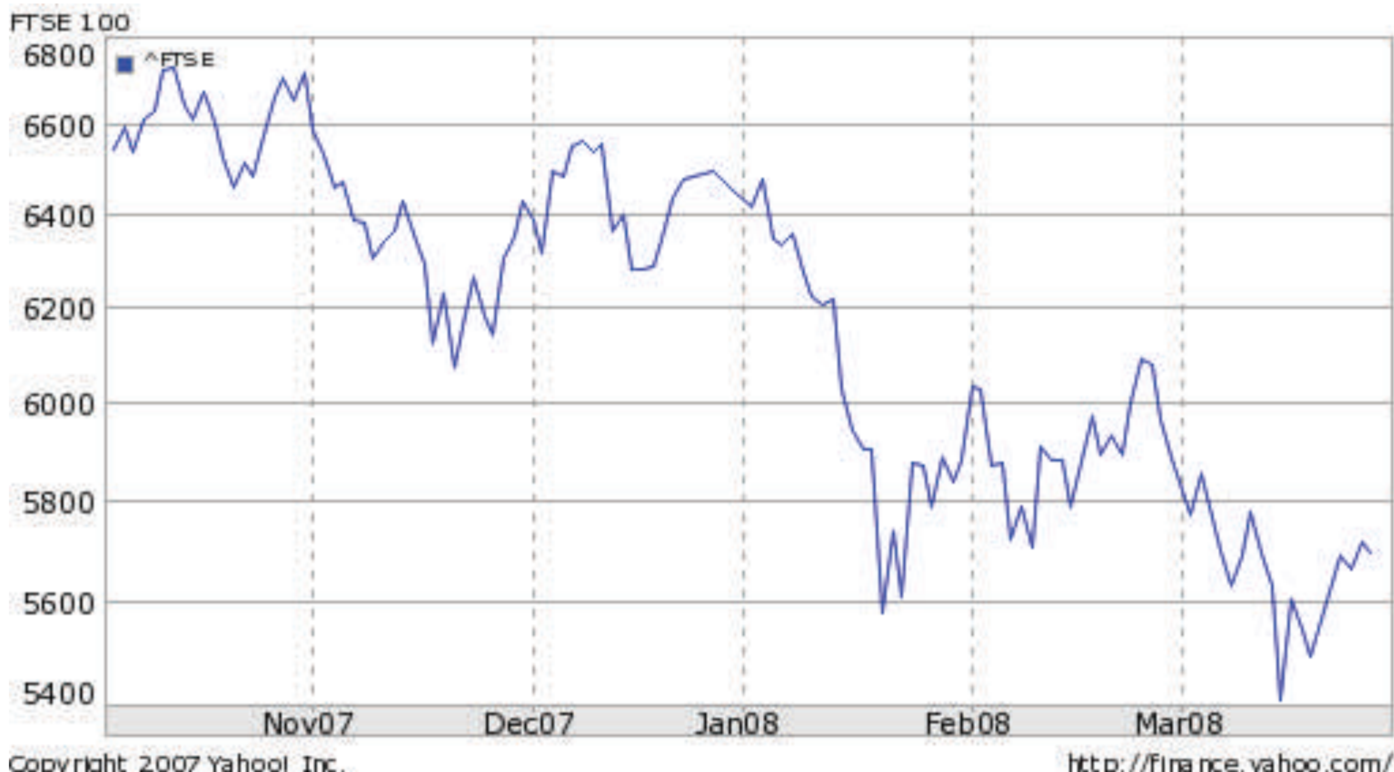


What this means for us is that the outlook for companies is made more uncertain as their cost of finance alters and, mortgages become harder for the private individual to arrange.

It has been very evident to us that the High Street consequence of the credit squeeze is increased cost of mortgages in terms of interest rates and fees. Also their criterion for lending has tightened significantly and the days of easy money seem to have disappeared. This has an impact on outlook in itself as the housing market forms a large part of the economy. Turnover in housing stock is slowing and thus the associated purchases new home buyers make, has also slowed. This impacts retail outlets whose sales figures look less encouraging. This in turn means that those retail outlets do not do so well and so their share price does not go up.

This is a simple analysis of market conditions and serves to outline in plain terms the pressures in the stock market. Most important to remember is that the stock market prices on a future basis around 6 months forward so the gloom, according to many analysts, has been fully priced in.

Our last review stressed the importance of keeping a calm head in these difficult and trying times and this message is unchanged. Our view is that the markets and thus the value of all of our investments have sat within them a significant discount. This chart below is the FTSE leading share index and you can see here a) the volatility and b) the absolute fact that within the last few months the market was very much higher.



We think it is important to keep focussed on this. News in November and December 2007 was not in our view significantly worse than it is now and the market moved from around 6650 down to current levels of 5700 – this is a downturn of 14% so moving out of the market now costs 14%.

We were recently invited to meet the Investment Team at Invesco Perpetual in their offices in Henley. They are the fund managers for two of the funds we use in our planning for clients. Their view on 2008 in short hand was 'volatile but probably representative of the best opportunity for buying (based on technical analysis) for 12 years'. Their view on market outlook for the next 3 years was positive.

Psychology of Investing

This is a very important area that needs to be accounted for. A great deal of work has been undertaken in this subject so that advisers and clients can come to terms with investment conditions. This study of psychology is important in all markets – up or down. It is important as it helps us know what we feel and then allows us to analyse more carefully what we are doing. The classic pressure now for investors is the decision as to whether or not to stay invested. We dealt with this in some detail in respect of analysing facts and figures in our last review (Feb 2008). Our advice is not to look to make classic investment errors which in short are, sell low and buy high.

It is interesting to note that the herd behaviour still pervades and we are counselling our clients not to be part of the herd. In a recent stock market dip (after the Societe General debacle which saw UK markets fall by 5% in one day earlier this year) Skandia (a major international and UK investment company) received more switch instructions on that day to move out of investment vehicles and into cash than it had ever received before. The markets then recovered that loss and all of those investors missed out on the bounce. History repeats itself over and over again in times like this and we do not wish our clients to be part of this herd. We are advocating a sit tight policy during this difficult phase.

We understand concerns in these difficult markets and please rest assured we are constantly monitoring the market for general outlook. If any changes ever become necessary we will communicate these to you straight away as we have always done in the past.

To add some external focus on this Month's report we have below collated some fund manger commentary which bear out our views:

Fund Manager Comments

MPC – John Innes

"I'm surprised that the market has pushed up the price of commodities, with inflation already an issue. The market is dysfunctional at present because internal stabilisers are not working, but they will ultimately be corrected.

It will be tough for the UK economy looking ahead, but it should be remembered that equity markets can and do go up, even in a recession. The UK stock market is massively diverse, enabling the fund to own very diverse international companies as well as those active in the UK. The recent sell-off has created some wonderful opportunities - equities are currently a very cheap asset class."

AXA Framlington – George Luckraft

"When it looks very dark it is actually a good time to be optimistic. The market has become very pessimistic – it is quite extraordinary that traders are betting on lower prices with a third of the market's stock on loan. Experience tells us that the opposite is likely to happen and, with valuations looking so attractive, I intend to use the cash cushion I have built up to exploit these opportunities.

There is a big disconnect between what the press is saying – that recession is here and the outlook is gloomy - with how companies view events. Today I spoke to two of the companies I own and they are very optimistic about their current order books and earnings outlook. Currently we have a crisis of confidence, but there are signs that people may have overreacted. Banks have already taken significant action by writing down sub-prime loans. Ultimately, the US Federal Reserve will do what it needs to do to ensure the economy gets back on track."

AXA Framlington – Richard Peirson

“Events are moving fast and, whilst the outlook is not as clear as I would like, what is certain is that the Americans are taking decisive action. With there being an election this year, the politicians will not want voters seeing rising unemployment and further housing repossessions. The Fed will have to stabilise the property market and I expect that strong action will be taken.

In the short-term, commodity prices are stoking inflation, but with demand slowing over the next year – Europe’s economy is showing signs already – there is more likely to be a deflationary effect. This means that both the European Central Bank and Bank of England will be able to cut interest rates significantly, despite their both being behind the curve. As far as I’m concerned, most stock markets are cheap currently and very cheap historically. I continue to hold the view that owning equities is the right strategy and having been a little more cautious means I have cash to take advantage of the current environment.”

THS Partners – John Hodson

“The last serious banking crisis in the US was in the early 90s and it took 12 – 18 months to work through the systems, so patience is required. It is easy to get too bearish, but we don’t believe this will lead to a doomsday scenario.

It is easy to forget that 80% of the markets are not financials and in general these companies have strong balance sheets. We are investing in non-cyclical stocks, which are often yielding significantly higher than cash. Corporate results have typically been solid. Nestle, for example, had an unscheduled profits upgrade, so this is very unlike 2000-2003.

The world economy is slowing, but there is a huge amount of capital in the so-called Sovereign Wealth Funds, which is supportive. We should remember that stock markets move well ahead of the economy and historically have begun to pick up before the economic cycle picks up.

It is not a market in which to panic. We are holding around 18% of the fund in cash and putting money in on a selective basis.”

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