HURST

FINANCIAL CONSULTANCY

INDEPENDENT FINANCIAL ADVISERS

Investments & Pensions

Mortgages & Insurance

Investment Review: May 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.

Economic news this month has been dominated by rising oil and food prices.

The cost of oil peaked at over $135 per barrel; this is an almost 100% rise in 12 months. The reason for this seems to be high demand from emerging economies such as China and India and OPEC not increasing the supply; coupled with this are speculators who have bought oil and have therefore helped push up its price. The impact on the economy is potentially large as fuel costs are inherent in almost every commodity via transport and/or production costs.

Brent Crude Oil $/barrel

Source BBC

Rising food costs are down to various factors; bad weather, failing crops, increased production costs [see cost of oil], use of land for bio – fuels and increased demand etc. Again there are speculators who invest in food commodities and can force prices upwards.

The above is bound to have an inflationary effect and inflation is expected to go above its current rate of 3% which in turn will mean that the Government's tolerance level will have been breached. Normally we would expect the Bank of England to counter this with an interest rate rise but there is a school of thought that suggests that this is unlikely as raising interest rates would only attack High Street spending and will not stop the inflationary effects of high food and oil prices. It is however unlikely that rates will fall much further.

Global Stock Markets are obviously aware of the inflationary pressures faced by the World economy and it is reasonable to assume that they have factored some of the effects into the current prices. Therefore, so long as inflation does not accelerate faster than expected, it should not create too many waves in Stock Market performance.

The Credit Markets

A feature of this calendar year has been the woeful state of the Credit Markets caused by the Credit Crunch. Hopefully the end of this Crunch is in sight and certain indicators give credence to this. Firstly the mortgage market increased in April 2008 when compared with the previous month. Secondly some of the bigger lenders are starting to lower their mortgage rates suggesting that they now wish to take on more business and finally mortgage debt has started to be repurchased on the Securitisation market; the cessation of this is what caused Northern Rock all of its problems.

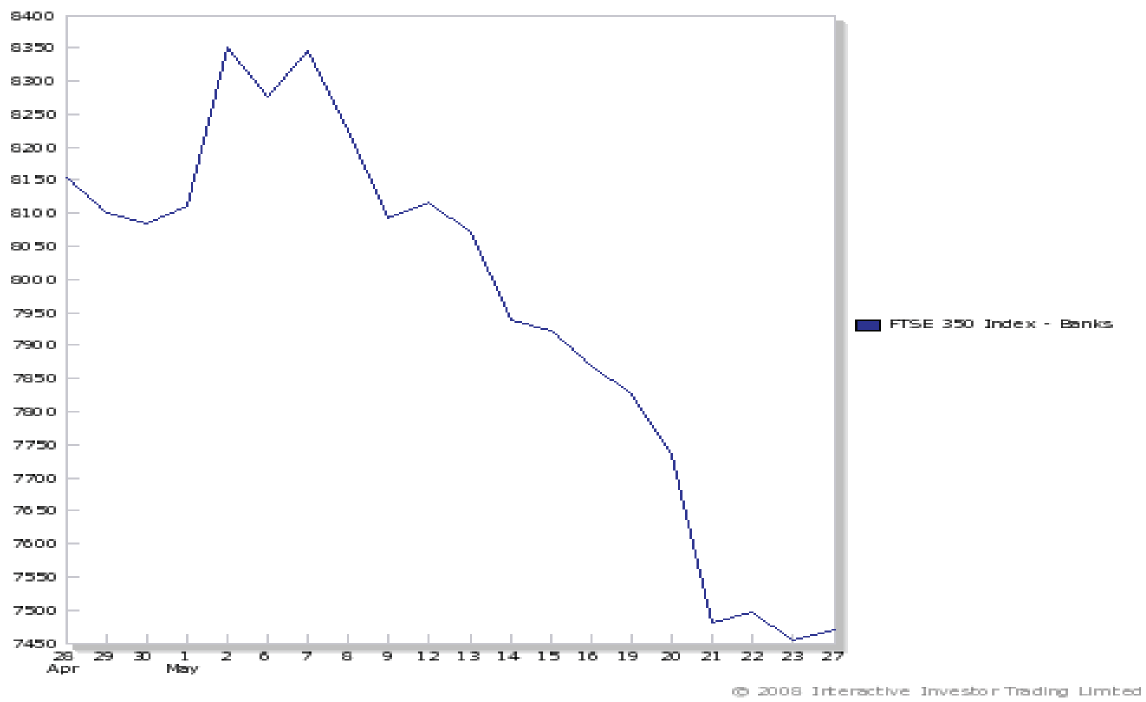
At the start of the Credit Crunch the lenders had no idea what their potential losses may have been through defaults and repossessions but they would now seem to be in a position to better estimate their liabilities with them having a better of what will happen to the UK housing market and interest rates. As with most financial institutions they dislike uncertainty and as this is now dissipating they are more confident to move forward.

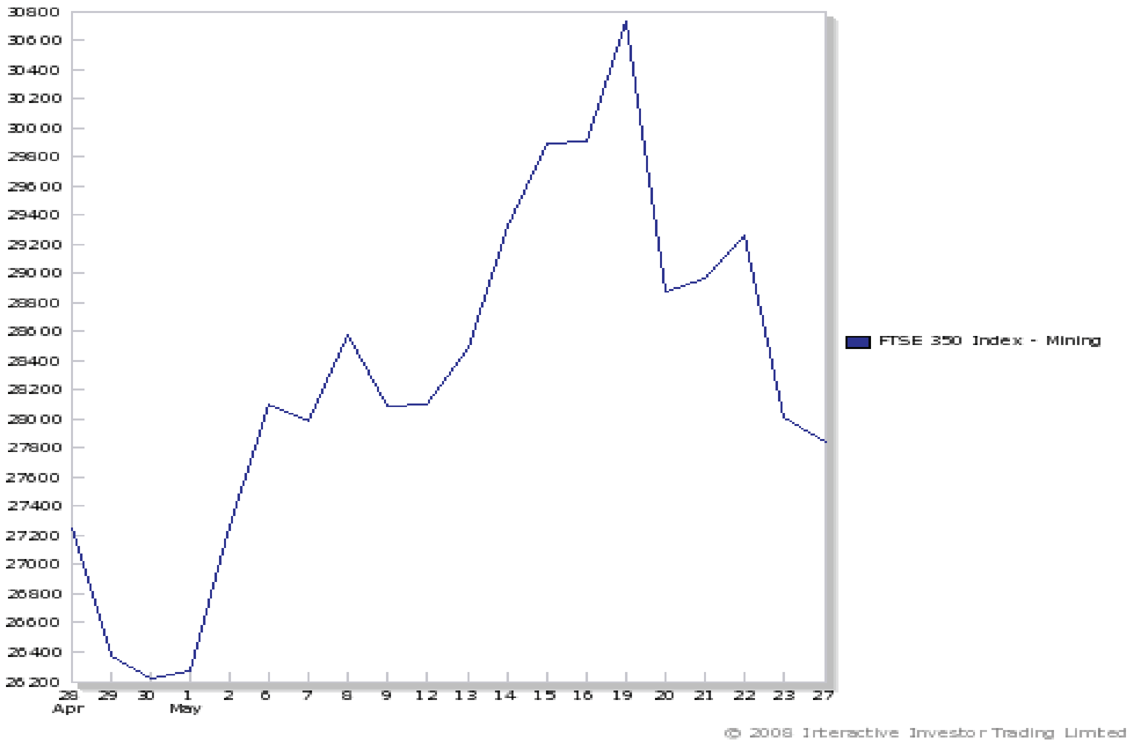
Various analysts seem to believe that national average house prices will fall, by the end of 2009, by up to 20% from their peak. This figure will depend on where the property is and what type of property it is and it could well be higher or lower than this. There are not many people predicting a rise in prices during this period. The movement in house prices does not generally effect those not wishing to move however it can make re-mortgaging more difficult as Loan to Value Ratios increase.

The housing market is a concern to the UK Stock Market as so much retail activity has been fuelled by house price growth and equity release but again as this becomes a known entity the markets start to factor it into stock prices.

Stock Markets

Most of May saw good growth in the Stock Markets but this has started to tail off during the last few trading days. This is due to some poor data emanating from America and profit takers taking advantage of a relatively quick rise during the last few weeks. The UK market is not behaving in a uniform manner and certain sectors are faring much better than others. The banking sector has done particularly poorly during the last few months. The chart below shows the 1 month performance of the FTSE 350 banking stocks.





The above chart shows how mining stock has performed over the same period.

This type of diverse performance between sectors means that the Fund Manager's view on the Market is important. A fund manager we particularly like, Neil Woodford of Invesco Perpetual, has been out of the banking sector for some time now so his funds have not suffered as much as other managers funds. It is quite an unusual position to not hold banking stocks.

Going forwards the remainder of this year is still expected to be turbulent but the medium to long term is still considered to be positive.

HURST

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INDEPENDENT FINANCIAL ADVISERS

Hurst Financial Consultancy Ltd
Cheviot House
71 Castle Street
Salisbury
Wiltshire
SP1 3SP

Tel.: 01722 411 411
Fax: 08704 329 575
eMail: hfc@unbiased-advice.co.uk
Web: www.unbiased-advice.co.uk