



Chairman's Market Commentary

Here we are again, with a financial crisis causing negative ripples around the world.

This time it is not the failure of big banks but instead the twin failures of the European Central Bank in dealing with the sovereign debt of Greece, Portugal, Ireland, Italy and Spain and also the United States' fudging of its own government's debt.

It is important as ever to look through these things to the fundamental propositions that we try to make to you in investing your cash.

On the positive side, you will remember that we have probably almost been boring you for the last year or two in talking about investment into companies which make profits, generate cash and pay dividends and that was largely on the back of our worries that where we are now might come about.

It is important therefore to look at the reality of what is happening.

If we take for example Invesco Perpetual High Income fund, which I know many of you will hold large amounts of, then the top 10 holdings in that fund, including Glaxo, Astra Zeneca, BG, BAT, Vodafone, are extremely solid companies which largely have dividend yields of between 4% and 6%. Being in pharmaceuticals, tobacco and utilities, it is unlikely that there will be any diminution of demand for their products.

When markets are in their current apprehensive state then of course everything gets hit and quite often very large companies, which most of these are, can be hit irrationally because people who have to realise cash can only do so by selling major companies where the shares are liquid, that is they can always be bought and sold on the market.

In fact in this instance, the managed funds investing into these areas have held up very much better in the market which is of itself very encouraging.

We also of course need to look at alternative investments and we have and we continually monitor other possibilities.

We do not find cash to be a viable alternative for long term investments, although it is absolutely fundamental to any investment philosophy since it is important to hold enough so that you do not have to sell equities unless you choose to.

Government stocks are not attractive, interestingly, the UK is regarded as one of the more secure so UK government stock has hugely increased in price, continually depressing the yield.

We find it difficult to see how we can justify taking an income return of between 3% and 4% on an asset which would fall if held to redemption by somewhere between 10% and 25%.

We have as far as possible avoided the more risky areas of equities such as emerging markets, mining and commodities, based, as we think they are, on expectations of growth in the Chinese economy which may or may not happen, but on which the facts are to say the least unreliable.

I am not sure what the argument is for buying gold. There is historical evidence that the price of gold has risen consistently over time maintaining a real value in turbulent times and always being exchangeable in times of panic. I am not sure that is strictly true for individuals in that if all you have is gold and you are in dire straits and want to sell it, historically it has not always necessarily been easy to do so. However, looked at more rationally, it earns nothing and indeed there is a cost involved in keeping it and at today's irrational prices it would seem to be not a very sensible buy.

All of this leads us back to what you are mostly holding which, to repeat myself, are funds run by management groups which largely invest into companies which make profits, generate cash and pay dividends. In many cases, at their current levels, they have become and even better buy and certainly they are a better buy and much more secure than the odd esoteric product such as structured products, guaranteed by the banks, by the banks?!!

Whilst it is important not to be complacent, I think it is even more important not to take action which is precipitate and whilst there can be no guarantee that your investments will not go down a little further, depending on the markets, what I am confident in is their "reboundability," that is their capacity to return to full value and, most importantly, generate an income in the meantime.

We are as you can see trying to do your worrying for you, but if you have any questions then please contact one of us and we will deal with them.

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