

3 November 2007

RE-PRICING OF RISK!

The global stock markets and the world economy have not been materially damaged by the well-publicised recent credit crunch – if anything, the general re-pricing of risk, improved mortgage regulation and an orderly decoupling of US and global growth are all consequences that are good for the long term health of international financial markets.

It would appear on the surface that the world economy is managing surprisingly well in the face of a housing-led US slow down and near record highs in world oil prices. With talk of imminent US recession, it is particularly pleasing to see US employment rise in August and September, although the majority of Asian and Emerging World countries have actually upgraded growth forecasts over recent months. Commodity prices remain strong and there is little sign of failing earnings.

It seems that the credit crunch was a problem for the banks and the regulators but as yet, not one for the real economy. So what are the opportunities after the credit crunch?

- Firstly, a credit crunch has been a wake-up call for the credit market and it is now evident that risk has been absurdly under priced. The renewed focus on the pricing of assets and more transparency can only be positive for investors in the long run.
- Secondly, the US federal reserve has begun cutting interest rates, which is always positive for equity markets although the real issue is hard evidence that whilst interest rates are being cut in the US, we have witnessed accelerating growth in the emerging world and as such, a de-coupling of the American economy from the rest of the world.
- Thirdly, regulation will become tougher for financial institutions across the world, albeit domestically the overly confused oversight of the UK mortgage banks (divided between the FSA, Bank of England, UK Treasury). This should be welcomed in restoring investor confidence.

Whilst all of the above supports our view of continued global growth in the months ahead, investors will now have to operate in an economic world, where for the first time in fifteen years, the US is not the main engine of global demand. The change in leadership is dragging the US Dollar lower. The US real estate markets will now cool, the trade balance will improve and savings of American consumers will be lifted, helped much by continued falling interest rates in the US. All of the above, without effecting a global recession!

Against this backdrop, the outlook for global equities remains positive, as investors recognise the attractiveness of international distribution, extraordinarily strong balance sheets and low relative valuations.

It is particularly encouraging to see that global profits are as yet showing little impairment from the US slowdown, or from the problems with credit markets and we maintain our clear pro-equity stance, which is well supported by valuations which remain at, or near twenty-year lows relative to fixed interests.

As always, diversification through careful asset allocation is the key driver for portfolios and as I have stated many times – Equities, Fixed Interests, Property, Commodities and Cash all have their role to play.

New Developments at Broughtons Financial Planning Ltd – www.bfpltd.com

Having been trading now since 2001, I thought it was about time that we launched the official Broughtons' website – not that its absence has impaired our progress in any way, as potentially new clients are continually being recommended to us by accountants, solicitors and existing clients, who clearly seem to like what we are doing for them.

Broughtons Financial Planning Ltd now provides advice on assets of over £100 million, which is no mean feat, having only been trading for a little over six years. Entrusting your wealth to someone is a brave step and one that can be costly if the wrong decision is made. Knowing that you made the right choice can be a huge relief, taking away a considerable amount of worry – not just for you, but also for those you leave behind!

When you have a moment, please take a look at the website and let us know what you think!

In the meantime, I attach our latest Financial Bulletin which I hope you will find of interest.

Yours sincerely

A handwritten signature in black ink that reads "Gary". The signature is stylized with a large, sweeping initial 'G' and a long horizontal stroke at the bottom.

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