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A MOST UNUSUAL CRISIS!

January's exceptional market declines marked the worst annual start to world equity markets in more than forty years. The declines combined fears of the unhinging of the financial system on one side, with quite extraordinary pools of global liquidity on the other. On the one hand, we see unprecedented levels of foreign exchange and sovereign reserves in Asia and the Gulf, and on the other, capital starvation on Wall Street. Corporate earnings and cash-flow from many industrial large companies are at, or close to record levels and yet the banks continue to suffer. **In other words, we have a dislocation of global liquidity!**

Whilst it is accepted that aggressive central bank movements to guarantee parts of the system will be required, the actions of the so-called "sovereign wealth funds" (governments of Abu Dhabi, China and Singapore being prime examples) in recapitalising US investment banks will certainly help in the short term -. The steep falls in bank and insurance stocks have been mostly in response to "confessionals" as they own up to likely sub-prime write downs.

On a positive note however, we are in the midst of the bank reporting season and so far, the market seems to like the results, with Standard Chartered, RBS, Lloyds TSB and Barclays helping the FTSE100 index to rise above 6000. So far we have seen around 100 billion US Dollars in "write-offs" by banks against the raising of around 80 billion US Dollars from the "sovereign wealth funds" to somewhat bridge the gap. The US Federal Reserve Chairman, Ben Bernanke has already stated that "he stands ready to take substantive action to ensure against any downside risks to the US economy" having already witnessed an emergency 0.75% interest rate cut in mid January. Given the healthy state of the American budget finances, it is likely that President Bush will implement a fiscal plan of tax cuts and as the US Dollar is now much firmer, the US Federal Reserve has better flexibility to loosen domestic monetary policy, once energy and metal prices begin to fall on slower demand.

Indeed, we are also in the midst of the reporting season for many of the US largest 500 companies and if you exclude financial stocks, the underlying growth rate is very positive - examples are General Electric and IBM. What is clear is that companies that have significant global earnings exposure are reporting strongly. Indeed the CEO of General Electric stated in his report recently that in every location that he went, there was a need for power and planes as well as lots of capital being invested.

We are in the middle of a global infrastructure boom that shows now signs of slowing. There appears to be no indication of a material slowdown in the earnings of large global growth companies and equity/fixed interest valuations are at, or close to thirty year lows, across most major markets. This indicates that buying good quality companies has rarely been cheaper.

Investor sentiment measures also suggest a heavily over-sold market. Let's not forget that the most effective asset class for hedging against inflation is equities - their inclusion in a growth portfolio is more important now than ever, when considering the growing inflation risks in the years ahead. As always, asset allocation in portfolios remains key in delivering effective risk adjusted returns.

I have taken the opportunity to enclose our Spring 2008 Financial Bulletin for your interest.

Yours sincerely



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(NB: Past performance provides no guarantee of future returns and any views expressed by us do not constitute advice as each client's circumstances differ)