insight

February 2009

Where are we now?

As part of our ongoing commitment to keep you informed about how we view the financial world I thought it might be helpful if I sent you an update on our current thinking. You will appreciate that financial events have been happening at great speed so when appropriate I will hope to send a future update once we have some sort of clarity of direction in markets.

Economics

The UK economy is in recession; this is hardly a surprise and is likely to remain so for most of this year. Economic forecasters differ in their views as to when the UK is likely to get out of this; the range is from September of this year to end of 2010. During that time inflation is likely to come down significantly making anything with an interest rate above 4% look attractive. What will happen after that depends on just what the Government does in the meantime.

The Banks (or most of them) have had a further cash injection and that may not be the last one. The Government seems to be clutching at anything it can lay its hands on to try to make credit flow again, restore demand and re-ignite growth. The latest plan to buy up mortgage assets in order to ease the credit markets may well just mean the Government (that's us ultimately) owning substandard investments.

There have been, what appear to us, half hearted attempts at stimulating the economy. The VAT gift certainly reduced money going to the Treasury, but did anybody get incentivised to spend more because of it? A more direct option would have been to use the tax system more creatively and put money into the hands of people who would spend it. The next thing to watch out for is "Quantitative Easing".

It really means printing more money. It might not be on anybody's mind now, but eventually this could lead to inflation. That possibility is exercising our minds in terms of future investment strategy.

Some things have changed, probably for the long term. The main one is where the Banks are to be much more strictly controlled throughout the Western World which will lead to lower risk taking. The amount of credit available is still shrinking, and it would be a major negative if this falls on otherwise viable businesses. It is also likely that environmental issues will not go away and this may impact negatively on world growth. In this scenario, return on capital within businesses will be more muted so returns on financial assets will also probably be lower going forward.

The Roberts Partnership

Freetrade Exchange
37 Peter Street
Manchester
M2 5GB

T. 0161 835 2266
W. www.robpar.co.uk

Markets

As has been said before, some shares are ridiculously good value. The prices of the very good have been dragged down with the very bad (mainly Banks). Bargains can be picked up at this stage. Even if earnings are on average 30% lower, that still gives a higher return than cash at the moment. It does not mean though that share prices cannot go lower. De-leveraging (repaying loans) is still going on. The economic news is still so bleak that until we see a glimmer of when economies will get better we can't expect any significant rise. This affects all world markets, although the UK economy will probably suffer more than most western developed economies because of its large contribution from financial services. Hence, we think it will be important to have investments in companies which have earnings from abroad. This includes most of the biggest FTSE 100 companies. However it has never been more obvious that reliance on a few holdings for income or capital is a potential disaster. The destruction of wealth by holding the wrong investments (Bank shares, hedge funds etc) makes diversification ever more important.

Looking ahead

We constantly examine our approach to see if we can improve the returns on your capital. The last 18 months have been sorely testing in this regard and we hope we will be able to see better returns ahead once economic growth resumes.

In trying to produce long term growth of both capital and income we try as best we can to make educated guesses about the future. We talk to a lot of people (fund managers, economists, etc) and don't rely on any mathematical models. We are constantly looking for fund managers who talk sense but also may have different views about what may happen in the near future. This ensures active diversification of different assets which in this volatile world is vital. We will continue to strive to make sure your capital is managed professionally and cost effectively and that we will continue to look for good quality funds to achieve the right answer for your specific circumstances.

There is likely to be more bad economic news, there may well be more market lows, but we believe we are nearer the end of these than the beginning. Markets will recover but it would be foolish to say when. We also know the folly of making sweeping generalisations, they can come back to haunt.

"A weak economy arises from a weak currency, which in turn is the result of a weak Government"-
Gordon Brown, 1992.

With kind regards

Yours faithfully

ANDREW ROBERTS
CHAIRMAN