

News & Views



Autumn 2008

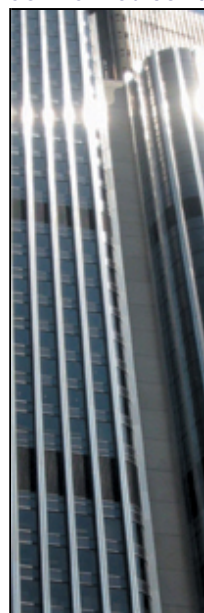
Reaching your goals

Investors can be divided into two broad groups: income-seekers and growth-seekers. Whichever you are, it is important to establish goals from the outset. This will help a financial adviser work out your tolerance for risk and thereby recommend the most appropriate investments.

Risk tolerance is one of the most important factors as there has traditionally been a direct relationship between the amount of risk you take and the amount of potential return. For example, a 30-year-old, with no financial obligations other than rent and savings in a deposit account may look to invest in a pension for later in life. With this long-term investment horizon – 35 years or so – it may be appropriate to take on more risk as he could ride out any short-term ups and downs in favour of potentially higher long-term gains.

However, a 30-year-old receiving an inheritance payment, with which they plan to buy a house in five years, needs to be more cautious. Over this short period, they would be more vulnerable to the ups and downs of the market cycle.

It is important to bear this relationship in mind when making investment decisions. One recognised technique is the core/satellite approach. A range of less volatile investments such as cash, UK bonds and maybe UK equities form a 'core' stable base onto which riskier options can be added. These riskier options, the 'satellite' portfolio, can then be shifted around as market conditions change.



Will rates move?

A hike in interest rates by the end of last year had been widely expected - until the credit crunch hit. House prices are now falling, the mortgage market is shrinking and high street retailers have reported much tougher conditions. The Bank of England has since cut rates to 5.00% in an attempt to stave off some of the impact of this squeeze. However, inflation reports indicate that, thanks to rising food and energy prices, the CPI figure is now 4.4% - well above the Bank of England's target 2%. On balance, this indicates that a further cut in the short term is unlikely as the Bank of England will want to see how much further these prices will run.

Welcome to the latest edition of Rutland Investment Managers News & Views, our update on developments in the world of financial services.

If you would like to discuss any of the issues raised in this newsletter, please do not hesitate to give us a call.

Contact us:

Rutland Investment Managers LLP
Rutland House
2 Fairbairn Place
Kirkton North
Livingston
EH54 6TN

01506 424150



Rutland Investment Managers LLP
Independent Financial Advisers



A long-term view

Over the long term, the stockmarket has tended to outperform cash. However, it is also volatile, which has a tendency to worry investors, who are often tempted to sell at the first sign of trouble. However, selling after a sharp fall can be a knee-jerk reaction. Falls can often be followed by upward movements and, over the long term, short-term ups and downs should have no serious impact on achieving your objectives. Share prices do go down as well as up, but think before you act. Have your needs changed? Has your attitude to risk changed? Has your overall view of the market changed? If your portfolio is structured to fit your aims, time should be all it needs.

Global market update

Equity markets appeared to finally find the floor in mid-July, after sliding since May, and have delivered steady, if lumpy, growth since. Within the sectors, leadership switched with a rebound in financials and deterioration in the price of energy and material stocks.

The fall in energy and material stocks came on the back of some of the biggest monthly declines in commodities for decades. Oil peaked at around \$145 a barrel in mid-July before sliding to \$124 at the end of the month and down again to \$111 a barrel at the end of August. This eased global inflation pressures, but spelt bad news for oil shares. Gold also took a tumble as the dollar strengthened. The price peaked at around US\$1,000 in March and peaked again just below that point in July. However, August saw it fall back through \$800 as speculators left the market.

Financials improved on the back of stronger performance from key US banks such as JP Morgan and State Street. Investors are increasingly aware that banks which weather the sub-prime storm may emerge with increased market share as their weaker competitors fall by the wayside.

Developed markets were given a boost towards the end of the month with a surprise jump in US GDP figures. The US economy rebounded with a 3.3% rise in the second quarter, buoyed by strong exports and weak imports. The Department of Commerce had originally predicted a rise of just 1.9%. The figures came in spite of persistent rumours of a large scale banking failure and ongoing problems at mortgage groups Fannie Mae and Freddie Mac.

However, just as escaping recession seemed a real possibility for the US, the economic picture in the UK and Eurozone weakened. The UK showed no growth between April and June, ending 15 years of consecutive rises in GDP (source: Office of National Statistics). The Eurozone contracted by 0.2%, the first time since its creation in 1999. The largest economies of France and Germany both saw falls in GDP, yet high Eurozone inflation persisted; making interest rate cuts from the ECB increasingly unlikely.

Emerging markets compounded their dismal start to the year. The MSCI China Index dipped over the month, despite the Olympics and the MSCI Brazil Index followed suit. The only bright spot was India, which rebounded a little in spite of weaker growth data. Even though commodity prices are lower, inflation continues to exert pressure in these markets.



Issued by Rutland Investment Managers which is authorised and regulated by the Financial Services Authority. The contents of this newsletter do not constitute advice and should not be taken as a recommendation to purchase or invest in any of the products mentioned. Before taking any decisions, we suggest you seek advice from a professional financial adviser. All figures and data contained within this document were correct at time of writing.