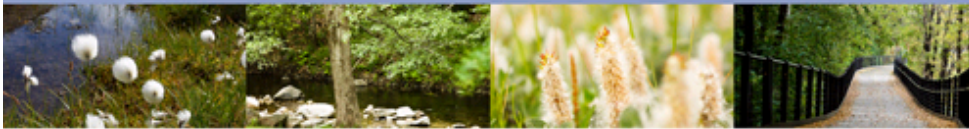


# News & Views



Rutland Investment Managers LLP

## Signs of life..?

The FTSE 100 Index has rebounded from the six-year depths of only months ago. The blue-chip index finally regained the psychologically important 5,000-point level in September, reaching its highest level for almost a year, and rallying by more than 40% since the March lows. Although it remains considerably below the levels reached before the demise of Lehman Brothers, there is concern that the UK equity market's rally has surpassed realistic prospects for corporate earnings.

Hopes of a burgeoning economic recovery in the UK and strengthening economic data from France, Germany and the US have provided investors with some encouragement. Corporate earnings from many companies have provided positive surprises, although it is worth remembering that some of these gains were achieved from cost-cutting and downgrading rather than through increased demand or higher turnover. The path ahead is unlikely to be trouble-free, and prospects for the UK stock market and economy remain far from clear. Looking ahead, if the economic backdrop does continue to improve, this is likely to provide further impetus for corporate earnings. However, if the early signs of economic revival begin to wane, then sentiment is likely to change rapidly from tentatively positive to negative.

On balance, the recent share-price rally is encouraging, not least because it demonstrates that UK investors are willing to go back into volatile equity investments. However, keep an eye out for news which might undermine investor sentiment.

## Avoiding surprises

The investment decisions made for your pension could have a significant impact on your wealth in retirement. One of the main decisions is how to blend the four main asset classes – equities, property, bonds and cash – with the aim of meeting your investment needs and balancing risk. Equities have provided the highest return over the long term, but carry the highest risk, whereas cash preserves your capital but does not protect against inflation and offers no chance of any capital gain. It is common therefore to start with a greater proportion in equities, to maximise the growth potential, but to switch the gains into more secure assets as retirement approaches.

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

We hope you find the contents of interest. If you have any questions, or would like to discuss any of the points raised, please give us a call. Please note our change of address.

Contact us:

Rutland Investment Managers LLP  
5 Allen Road  
Kirkton North  
Livingston  
EH54 6TQ

01506 424 150



Rutland Investment Managers LLP  
Independent Financial Advisers



## The right time

Following Office of National Statistics revision of its UK economic growth figures upwards to a fall of just 0.6% for the three months to June 09, many people are getting excited by the prospects of an end to our recession. The Bank of England will therefore already be looking at the when interest rates need to go back up. The dilemma, however, is whether these reported 'green shoots' are real or whether they are simply a reaction to the massive cash injections we have received - and will therefore disappear as soon as the injections are withdrawn. With the prospect that inflation may soon start to rear its head, however, the bank will be keeping a close eye to try and stay ahead of the threats, either way.

## Stockmarket boom and bust

For as long as anybody can remember, the stockmarket has followed a cycle of boom and bust. Each time it happens, wise heads will say it was all obvious (with hindsight) and investors vow to keep things in perspective in future. They do, for a while. Yet, sooner or later, it happens again.

The rise, and subsequent bursting, of the internet bubble in 2000 very neatly illustrates the point. Investors not only allowed themselves to be seduced by new technology; they also decided the established rules of supply and demand, risk and return, no longer applied. According to commentators, 'a new economy' had been born.

Investors are vulnerable to what psychologists call 'hindsight bias' – the brain's ability to re-write history so that it squares with our perceptions at the time. It is our inclination to see past events as more predictable than they were before they took place. In this way bubbles seem obvious, but only in retrospect.

So it was with the mania for tulip bulbs in Holland during the 1630s and the South Sea Bubble less than a century later. It is what happened in the craze for Florida real estate in the 1920s and also during the stockmarket bubble that ended with the crash of 1929. It is what has happened in recent years in what will probably be known as the debt bubble, the fallout of which is only just becoming clear.

Other countries' booms and busts have proved no less painful. At its height in the 1980s, Japan's stockmarket was worth more than the US's, even though the latter's economy was twice the size. It did not last - and Japan is only now emerging from a decade and a half of deflation caused by that fallout.

The effects of some other crashes have been shorter-lived. Thanks to outside help and the nimbleness of their economies, Asia's dragons bounced back from their financial crisis in 1997. Though shocking at the time, Black Monday – 19 October 1987, when \$500bn was wiped off the US Dow Jones Industrial Average in one day – saw few lasting effects. Indeed, just one year later the Dow had recovered most of the lost ground.

Thanks in part to derivatives, investors are now more adept at laying off their risk. This helps companies and the economies in which they operate to recover more quickly from shocks. Yet, as history shows, investors are still prone to flights of fancy.



Issued by Rutland Investment Managers LLP 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.