

News & Views



Summer 2008

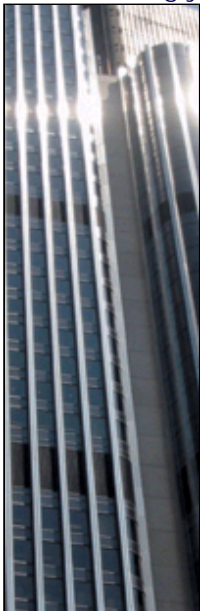
The same mistakes...

"To err is human" said Alexander Pope - but in investment, it costs money. Better to learn from the mistakes of others and try to avoid the major pitfalls.

Investors can make many mistakes but one of the most common is to blindly follow the herd. When markets are high, they can scramble to invest, thinking they will miss out, and when markets are falling, they often sell out. The most recent example is the dot com boom which convinced millions of ordinary investors to part with their savings - and sadly, many are left even today with only a fraction of what they invested. Don't get carried away by the moment. Remember, the best way to make money is to buy low and sell high.

Investors can also be scared of volatility. Stories like the above make them nervous and some sell their shares at the smallest sign of trouble. This crystallises a loss and means they miss out on potentially higher long term benefits. If you are scared by such short term movements, perhaps equities are not right for you.

Finally, some ambitiously believe they can time markets. Yet even experts agree this is a near-impossibility. Profit chasing is really no different to gambling and should be avoided unless you are prepared to lose. Investment should never be gone into lightly. Be clear about your objectives, your timelines and your risks - and make sure your portfolio is run accordingly.



Keeping it ethical

If you want to invest in the stock market, but are concerned about the activities of some companies, you might want to consider an ethical fund. Many fund providers now offer these, picking stocks based only on ethical, social or environmental criteria, and the area has grown considerably, particularly with the current focus on climate change. The wide choice of options available means you can actively target companies which seek to make a positive difference or which use renewable energy sources and manage waste - or you can simply avoid undesirable companies, such as weapons manufacturers, high polluters or those using animal testing.

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.

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Contracting out

The state pension system is made up of two tiers - a basic state pension and an earnings-related second state pension (or S2P). S2P is based on salary, so the higher the salary, the higher the S2P (up to a maximum limit). Many occupational schemes automatically contract out of S2P but with personal pension schemes, the choice is with you, the investor. Contracting out forfeits any entitlement from the S2P in return for a reduced NI contribution or NI rebate, which can go into a private plan. Whether this performs better than S2P however, depends on whether the investments are appropriate, how they perform and whether the charges are reasonable.

The impact of falling house prices

The housing market started to fall in the last quarter of 2007. There is now ongoing gloom among commentators about 2008 as statistics begin to confirm that the unprecedented multi-year boom in house prices is at an end. But while the housing market generates a lot of headlines, how important is it for the health of the economy?

The traditional argument has been that strong house prices generate a 'wealth effect', which gives people the confidence to spend money. Many homeowners have used this to their advantage by taking on additional borrowing or using equity release to help fund that spending. However, the big worry now is that if house prices fall too far, those that have taken on the extra debt already, or have bought very recently, could find themselves in negative equity. The Council of Mortgage Lenders has estimated that 23,000 people are already there.

This matters because those people will then stop spending – and this will knock profits in the corporate sector. If corporate profits begin to fade, jobs will be cut, which means people will have less money and spending will fall further – and so on in a potential downward spiral.

However, the UK economy is far from there yet. Some people are undoubtedly sitting on too much debt and will run into difficulties, but the corporate sector remains healthy and unemployment is currently low. Retail spending, with a few exceptions, has proved quite resilient and interest rates have been cut three times this year.

Of course, a decline in house prices is good news for some people – notably first time buyers, those moving to a bigger house or those buying a second home. They will have smaller debt repayments and more money to spend - assuming they can find a mortgage lender. However, depending on where you live, prices have risen between 150% and 200% in the last ten years so there is scope for some falls without the economy being significantly affected. It is not time for us to start panicking just yet.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.



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