

Investment View

Quarter 2 2008



Intelligent Wealth Management

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Remembering the 'Weaver Bird'

Watching the markets at the moment (as I write this world equity markets of late have made an excellent recovery and or now only marginally down for the year) I am reminded of a public service advertisement shown when I was young about the 'weaver bird' jumping in and out of lanes of the motorway and getting no further than those who stuck to their lane. Perhaps a decent analogy I think with clients staying the investment course. Getting out too late and re-entering after the recovery begins really does impact on eventual portfolio returns. Timing the markets is hugely difficult and our belief that long term, in-context investment alongside financial planning delivers results.

On another note, a big thank you to all of those clients and allied professionals who have been kind enough to introduce friends, clients and acquaintances to us for advice. We always appreciate this type of vote of confidence and we will never take these referrals for granted.

Lee Robertson, CEO



Summary of the 1st Quarter 2008.

"All that glitters is not gold"

Gold is a precious metal, which in times of crisis is viewed as a safe investment. The largest producers of the yellow metal are China, South Africa, Canada and Australia. Asia [especially India and the Middle East] is the largest consumer through the Asian people's desire for jewellery, with India contributing some 30% to world gold demand.

Over the last quarter we saw gold rise to a new fixed all-time high of US\$1,030.80 a troy ounce before investors, and in particular hedge funds, took profits - after which the price fell back below US\$900.00.

While the gold price was a major feature, many other precious and base metals surged ahead under the continuation of the commodities boom.

Black gold, otherwise known as crude oil, was also setting new highs with the price per barrel moving north of US\$110.00.

However, this was all overshadowed by price rises in many of the leading agricultural commodities such as corn, wheat and soyabeans. Even cocoa hit a 28-year high, the price of rice rose to a 34-year high and coffee companies raised their prices on jars of instant and packets of ground coffee as the cost of unroasted coffee beans surged.

Soaring prices in many agricultural commodities have meant that many countries now fear shortages, prompting them to impose restrictions on exports. Countries such as Argentina, Kazakhstan, India and Vietnam have stopped their farmers selling crops abroad. At the same time higher prices for diesel, seed and fertilizers are having a detrimental affect on some farmers who are having to cut back on their acreage.

While this commodities boom continued, global equity markets were in free fall. Further bank write-offs from the US sub-prime mortgage market debacle, the credit crunch, slowing economic and earnings growth and rising inflation all weighed heavily on share prices.

Financial support from sovereign wealth funds [SWFs] and individual companies announcing rights issues continued to support and shore up some of the leading global banks' balance sheets. The return of vulture investing was seen as billionaire financiers such as Warren Buffett offered to relieve some of the ailing monoline bond insurers of their very best assets, leaving them with all of their sub-prime exposure.

As exposure to the US sub-prime market continued to haunt the hedge fund industry, it suffered under ongoing announcements that a number of funds had been liquidated or gone into receivership.

In terms of interest rates we saw the Federal Reserve Bank and the Bank of England cut official rates while the European Central Bank held steadfast on concerns about inflation within Europe. Interestingly, while official rates were falling, three-month Libor rates in the UK and Europe remained relatively high as a continuation of tight money prevailed. This made life extremely difficult for the property market and in particular for those individuals trying to secure mortgages or renegotiate terms for existing mortgages.

In the currency markets the US dollar and sterling continued to weaken against a basket of currencies while the Swiss Franc, Japanese Yen and the Euro appreciated sharply.

As we entered the second quarter of 2008 some investors were of the view that perhaps the worst was over in terms of the credit crunch, and that equities were now oversold.

With this in mind, we have seen stock markets rally of late but the full extent of damage from sub-prime is still relatively unknown and therefore a note of caution should still prevail.

Nevertheless, for the longer-term investor opportunities are now becoming more evident as we move through 2008.

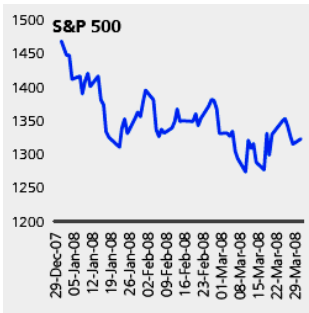
Peter Lowman, Chief Investment Officer

Performance of the markets and other asset classes:



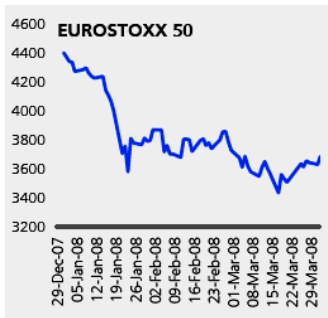
In **North America** the quarter ended in negative territory with the Dow Jones Index down by -7.6%, the S&P 500 Index -9.9%, NASDAQ 100 - 14.1%, and the US small cap index the Russell 2000 down by -10.2%.

The most important event over this quarter was the collapse of Bear Stearns, the refinancing of Citigroup, the write-offs announced by many leading US banks, the weakness of the US dollar, and the aggressive interest rate cuts announced by the Federal Reserve Bank to try and avoid recession. While this all appeared to be bad news, the Street took a more bullish view that perhaps the worst was over - and by March the market did begin to rally.



In **Continental Europe** the Euro Stoxx 50 was down by -17.5% with the pan-European FTSE Eurofirst 300 index falling by -16.2%. This has been the worst first quarter performance of this index since its inception.

As in the United States, further write-offs from the leading banks were announced with UBS being the main focus of attention. While European earnings are likely to slow in 2008, growth prospects in continental Europe look much better than in the US and the United Kingdom. However, the continued strengthening of the Euro against the US dollar [and other currencies] could have a detrimental affect for some leading European exporting companies. In terms of monetary policy the ECB has remained hawkish about interest rates [currently 4%] as Euro-zone inflation reached 3.6%.



In terms of the individual performances of the major European bourses over the last quarter: Germany fell by -19.0%, Italy -17.5%, France -16.2%, Finland -15.9%, Switzerland -14.9%, Holland -14.2%, Spain -12.4% and Sweden -11.9%.

In the **Eastern European** bloc countries Russia was down -10.3%, Poland -13.7%, Czech Republic -14.5%, Turkey -29.8%, Hungary -17.3% and Croatia -26.6%.

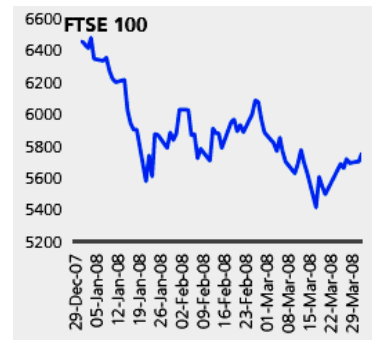


In the **United Kingdom** the FTSE 100 Index was down by -11.7%, the FTSE All-share Index -10.9%, FTSE 250 Index -6.1% , FTSE Small Cap Index by -10.7%, and the FTSE AIM Index -8.6%.

A similar story haunted the UK market - further write-offs from the leading banks, inflationary worries and a deep concern that the economy was heading for a major slowdown panicked investors into a selling frenzy. The MPC did cut rates by 25 basis points to 5% but some economists believe this to be too little too late.

With falling house prices, tight monetary policy, a consumer debt crisis, weaker sterling exchange rates [which lift the cost of exports] and a commodities boom that is seen to be very inflationary, the outlook for the UK economy has been left a little uncertain over the short-term.

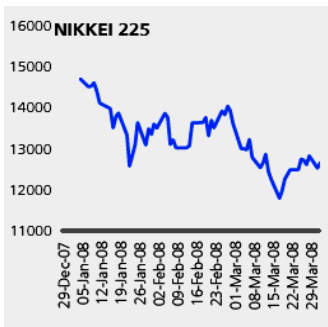
Nevertheless, there are bright spots. The labour market seems intact, with more people in jobs in February than at any other point since official records began in 1971. And more recently the Bank of England has announced plans to ease the ongoing liquidity problem by means of swapping the highest quality mortgage-backed securities [at a discounted value] for Government bonds for a one-year period, renewable for a total of three years. Also further interest rate cuts in the near future cannot be ruled out.





In **Japan** the Nikkei 225 Index fell -18.2%, the Topix by -17.8% and the 2nd section was down by -16.3%.

As with most stock markets, the US financial situation did have a major influence on Japanese equities over the quarter. The economic data continued to be mixed; exporters were affected by the stronger yen, and as seen in the recent Japanese Tankan survey business confidence showed a significant fall in sentiment.



These markets still remain the growth engine of the world, but it was always difficult to see how they could completely decouple from the events of the US.

With weaker global growth ahead and the US consumer at risk it is fairly difficult to see how emerging markets will not marginally suffer some short-term earnings revisions.

However, these markets will continue to deliver higher growth than the global average in 2008 and so any current weakness should be viewed as a long-term investment opportunity.

In the **Bond Markets** the JP Morgan Global Government Bond Index was up by +9.7%, the JP Morgan US Government Bond Index +4.7% and the FTSE All Stocks Gilt Index rose by +1.3%.

Bond markets have been a safe haven for investors in the first quarter of 2008, but now they have lost some of their appeal as equities are now looking better value than bonds.



In **Asian markets** [ex-Japan] Hong Kong fell by -17.8%, Australia -15.8%, Malaysia -13.8%, Singapore -13.6% Indonesia -10.8% and South Korea -10.2%.

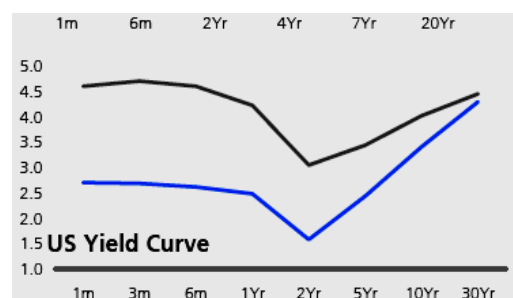
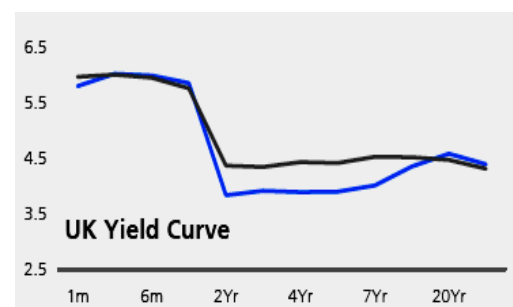
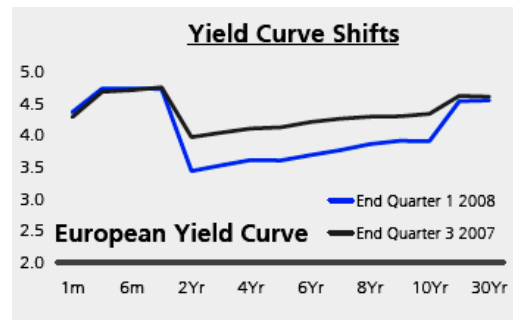
The uncertain outlook on the global economy and the fairly high valuation levels began to weigh heavily on the Asian markets in the first quarter of 2008.

While many of these markets had given global investors a very healthy return last year it was inevitable that the events in the US and profit taking would finally have some affect on these markets. Nonetheless the long-term growth and prosperity for these regions still remain fairly intact.

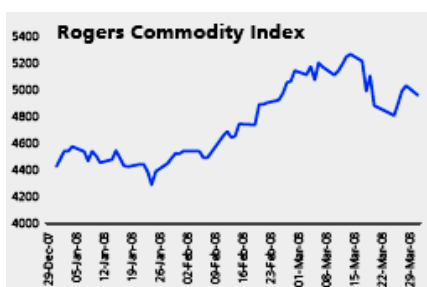
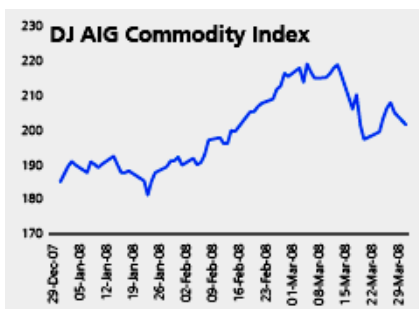


In the **Emerging Markets** Vietnam was down by -44.2%, Israel -19.3% and Kenya by -11.05%. However, some markets remained in positive territory: Morocco was up by +15.7%, Nigeria +10.8%, Egypt +7.7%, Pakistan +7.4%, Mexico +4.7% and South Africa by **+2.2%**.

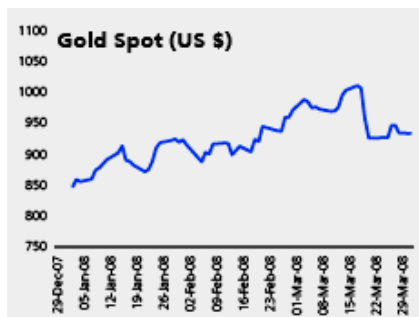
Within the much talked about "**BRIC**" economies Brazil was down by -4.6%, Russia -10.3%, India -22.9% and China -29.0%.



The performance of **commodity markets** remained very strong over the quarter with the DJ AIG Commodity Index up by +10.9% and the Rogers International Commodity Index +12.0%

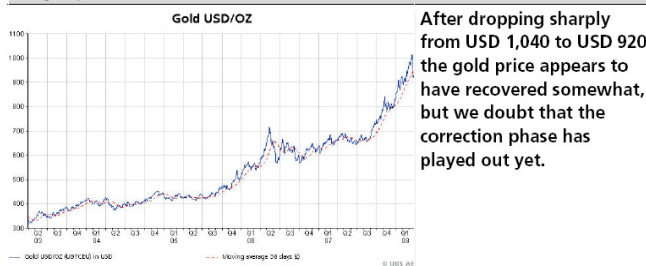


In **precious metals** we saw Gold rise by +12.0%, Silver +21.0% and Platinum +33.4%.



While the gold price did record a new all-time high, selling pressure from hedge funds and a press release that the IMF [International Monetary Fund] was a potential seller saw the price weaken.

Gold price has stabilized
The gold price has recovered from last week's low .



After dropping sharply from USD 1,040 to USD 920 the gold price appears to have recovered somewhat, but we doubt that the correction phase has played out yet.

Source: UBS WMR

01.04.2008

In the **industrial metals sector**, copper rose by +25.2%, tin +24.6%, aluminium +24.2%, lead +10.7% and zinc +0.04%

Commodity Returns			
in %	2007	YTD ¹	last 5y
DJ AIG CI ER	-2.7	10.9	82.5
AIG Energy ER	-44.2	15.6	41.6
AIG Industrial Metals ER	64.3	19.6	274.0
AIG Precious Metals ER	21.2	12.8	156.9
AIG Grains ER	17.8	9.5	55.1
AIG Livestock ER	-10.5	-14.2	-16.0
AIG Soft ER	-16.1	0.1	-19.4

¹YTD = year-to-date.

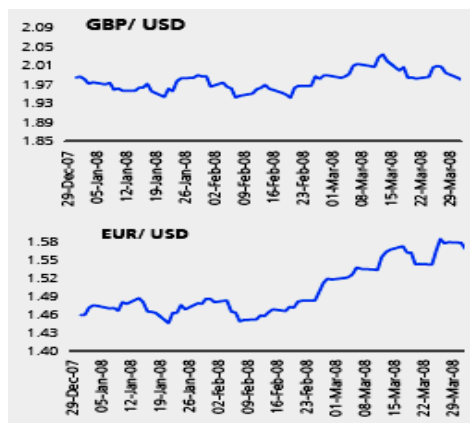
Sources: UBS WMR , Bloomberg, as of 31 March 2008

The performances of precious and base metals have been somewhat spectacular, but it's the agricultural and soft commodities that have featured in the financial press. This is because concerns about world food consumption versus the falling supply levels have been brought to the attention of governments and politicians by senior officials of the United Nations.

Looking at some of the highlights: **cocoa** hit a 28-year high, and **corn** prices rose too – that was because the outlook for next year's crops was expected to be lower as farmers intended to switch crop rotations to **wheat** and **soybeans** based upon higher profit margins. **Coffee** companies raised their prices on jars of instant and packet ground coffee as the prices for unroasted beans surged. And the price of rice rocketed to a 34-year high as the Philippines awarded a tender at an average of US\$708.0 a tonne.

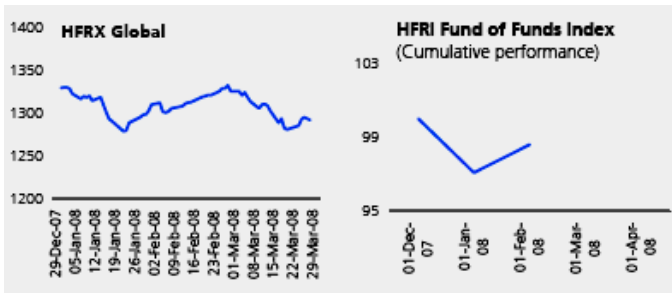
In the **currency markets** the US dollar and sterling both weakened against a basket of currencies while the Swiss franc and Japanese yen appreciated sharply.

The euro continued to strengthen against the dollar hitting record highs as the diverging monetary policy stances of the eurozone and the United States kept the single currency well supported.



The **hedge fund** industry has continued to suffer from ongoing announcements of funds being liquidated or going bust as further exposure towards the US sub-prime mortgage market was made more evident. While this asset class remains a lower risk strategy for investors the “fund of funds” approach to the industry still seems the less risky and more prudent way of investing.

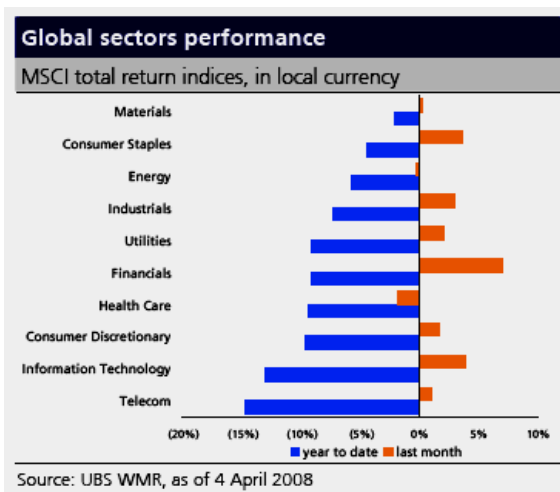
In terms of performance both the HFRX Global Index and the HFRI “fund of funds” index were down -1.4% and -2.8% respectively.



Looking ahead

The outlook for financial markets in 2008 was always going to be difficult after the destruction in the global financial sector in 2007, which was caused by the US sub-prime mortgage debacle and the preceding credit crunch.

In the first quarter of 2008 we have experienced a major sell-off in global equities. This in turn left all of the constituents of the MSCI Global Sector Index in negative territory [local currency].



For the best part of nine months we have seen global equity markets trend downwards as the credit crunch, inflation and contraction in global and earnings growth have all gained momentum.

This in turn has put the central banks in a real quandary while in the US the Federal Reserve Bank has cut rates aggressively to try to head off recession. The monetary policy makers of Europe have been more hawkish about cutting rates as they fear inflation in the eurozone could soon be a real problem.

However, since moving into the second quarter of this year investors and strategists have become more optimistic, believing that the worst might be over. Undoubtedly more write-offs from the banks could be announced over the coming months and tight credit is still in evidence with three month libor rates still relatively high.

We are maintaining our cautious approach to investment, but it is worth noting that in our last quarterly review we mentioned that “catalysts are never obvious until they appear in the world’s history books, and that events such as this do happen from time to time”.

With that in mind, it is worth considering that these extreme stock market corrections eventually create investment opportunities - and although further volatility might be experienced over the coming months, longer-term investors should begin to consider acquiring assets selectively.

In terms of asset classes, equity markets appear to look cheap versus bonds. This is partly because they are discounting weak earnings growth for 2008 and investors have taken refuge in cash and fixed interest while the turmoil of the global equity markets unwinds.

An earnings retraction does remain a concern, but the aggressive rate cuts from central banks will eventually have a positive effect on both economic and earning growth, which will allow equities to stage a sustainable recovery.



Therefore looking at the global equity picture the Asian and Emerging markets still appear relatively attractive.

Growth in these regions should remain strong by historical standards; they will not prove completely immune to the global slowdown, but they should offer better growth prospects than the western markets.

The outlook for Japan and the economy remains a concern, however inflation is finally picking up - March CPI excluding food went up +1.2%, which is the biggest gain in 10 years. The bond markets have fallen sharply on the back of this data, raising the expectations of higher interest rates. This is being viewed as good news.

The political scene is confusing and the company earnings results for the Japanese exporters are dire, but the stock market has rallied at the beginning of the 2nd quarter. This is mainly due to institutional investors and asset allocators trying to cover their underweight positions in Japan.

In the United States the aggressive rate cut programme should help the economy; however, short term concerns about a recession hang over the market. The US large caps are likely to endure the economic climate better than the small caps - they have a wider audience as global exporters that will benefit from the recent US dollar weakness.

In continental Europe valuation on equities remains attractive, however, exporting companies are suffering from a very strong euro and the likelihood of rate cuts does not appear imminent.

Looking slightly nearer home, the UK equity market appears attractively valued. Obviously the financial banks and property sectors may continue to put some additional pressure on the market but in general the larger caps stocks appear to be outperforming their mid and smaller cap brethren.

In terms of investment themes the commodities boom would now appear to be in a long term secular bull market driven by the growth in regions such as China, India, Brazil, Russia and Africa.

These rapidly growing economies are expected to continue with their heavy expenditure programmes in infrastructure. This basically means that the demands for these commodities and resources will far outstrip the current supply chain.

Once again, in terms of agricultural commodities the use of biofuels and soaring Asian demand for various foods could keep world food prices at painfully high levels for some years to come. Over the past year, world food prices have risen by approximately 57% with the likes of wheat and rice doubling in price. In fact since the end of last quarter the price of rice has now surged to around US\$1,000.00 a tonne. Soyabeans, coffee and corn have also been in short supply as tight inventory levels have kept these agricultural commodities at premium price levels.

On a more cautious note the commodities boom does reflect similar parallels to other booms such as the credit and technology bubbles. Therefore, on a risk and reward basis, a continual monitoring of the situation is paramount.

Finally, the rally in global equities that we have seen since mid March is now reaching an interesting juncture and we will soon be able to see whether this is a classic "dead cat bounce" or a sustainable rally. So far this relief rally has been fairly impressive and looks to be the latter.

While it is terribly difficult to call a bottom of a market after such devastation, the consensus is that the global credit crunch is now reflected in most stock prices and that the longer term story for investment through a well diversified portfolio still remains intact.

With this in mind, it leads us on to the question that most investors will ask their financial adviser "when is it the right time to invest?" We think the answer is "when you have the money to invest", as there is no perfect time and history has taught us that over long periods of time well diversified portfolios of varying asset classes have delivered good returns far above that of cash.

Obviously there are other important questions that you need to consider before making such a commitment, such as:

- ❖ What are your investment objectives?
- ❖ What is your time horizon?
- ❖ What is your risk appetite?

These and other questions can be discussed with us so that all of your longer term objectives can be met.

Risk Warning

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Intelligent Wealth Management

*'To invest successfully over a lifetime
Does not require a stratospheric IQ,
Unusual business insight, or inside information.
What is needed is a sound intellectual
Framework for making decisions and the
Ability to keep emotions from corroding
That framework'.*

Warren Buffet in the foreword to Benjamin
Graham's 1974 classic, The Intelligent Investor.

***"Never invest in any idea you can't illustrate with a
crayon"***

Peter Lynch

Peter Lynch was the fund manager of the Fidelity
Magellan Fund until he retired in 1990.

He was the author of One up on Wall Street and Beating
the street.