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Newsletter Winter 2008

Festive Cheer Long Overdue

The last few newsletters have focussed almost exclusively on the investment markets and the economy, so it will come as no surprise that this one does exactly the same!

The events of the last 3 months have been so dramatic that it is impossible to cover them in one newsletter. Advisers and clients alike are no doubt feeling the effects of the economic turmoil in recent weeks and for many it feels like waking up with a huge hangover!

To remind ourselves of the speed of the downturn, and in no particular order, here are some of the events of the last 12 – 16 weeks:

- 158 year old Investment bank, Lehman Brothers goes bankrupt, at the time the 3rd largest investment bank in the US.
- Fannie Mae and Freddie Mac taken into Conservatorship (Nationalised) by the US Government, thus taking on ½ of US mortgage debt.
- Collapse of the Icelandic Banking System
- Launch of the TARP (Troubled Asset Relief Program) in the US, costing taxpayers an estimated $700bn. Similar packages launched in the UK, Europe and Asia, at a cost of over £1trillion
- Part Nationalisation of the UK banking system
- Interest rates cut around the world on the same day in agreed move
- US bailout of AIG, the world's largest insurer
- Merger of HBOS and Lloyds TSB, Competition Law waived
- UK base rate slashed by 1.5% to 3%
- FTSE 100 Index lost 21% in October, the vast majority in 4 trading days
- UK house prices reached 5 year low, inflation reached 10 year high, oil prices drop by 60%

These events have led many commentators to describe the financial situation as the worst witnessed since 1929. On October 27th, the FTSE briefly touched 3660, a level to which it had not fallen since the aftermath of the attacks on the Twin Towers in September 2001.

In the shadow of these events, it has been very difficult to remain positive, particularly with the spectre of recession looming large. However, there are a number of reasons to be positive as we move towards the end of the year:

- Inflation is now on the retreat, the official rate dropping by 0.7% on November 18th
- Base rates look likely to reduce again before the end of the year, falls are being passed on to Tracker Mortgages
- Efforts to stabilise the banking system look to have worked
- The FTSE 100 has picked up by over 10% (at the time of writing) from the October lows
- Oil and food prices have retreated from highs
- Governments around the world appear united in tackling the credit issues and addressing recessionary concerns

As a large number of our clients are invested in the markets, recent events have not been good news for fund values. Indeed, what was looking like a disappointing year was made much worse during October as fear and panic selling threatened all asset classes. Apart from finding it impossible to react quickly enough, the option to run for safer assets was removed as it became very possible that the banking system would fail. We will probably never know just how close we came to witnessing complete meltdown during this period.

As the majority of our clients are medium to long-term investors, we have consistently felt that panicking in this period was the wrong thing to do. In any event, the alternatives have not been there, as every asset class has suffered. When you consider that millions of pounds have been lost in Icelandic banks, selecting cash as a safe haven has not been an option. Market movements have been so dramatic that several trading days saw the FTSE move more than 500 points (10%) in a session.

Although we expect volatility and much sideways movement to continue over the next few months, there are signs that we may have witnessed the worst. For long-term investors, the prices of equities and fixed interest stock are as attractive as we have seen in 20 years. Markets are very quick to price recession in and equally quick to react positively before we emerge from recession. Much of our time has been spent with Fund Managers and specialists on the subject, and the general consensus appears to be that we are very close to, if not already at, the bottom of the market.

For medium-term investors, phasing money into the market may offer a less risky strategy. As always, we stress the need for a balanced portfolio and now more than ever, we stress the need for emergency funds.

We remain positive about the medium to long-term benefits of equities and other assets. We always advocate holding some money in cash, but continue to question its long-term effectiveness for capital growth. With interest rates now low and looking like moving lower, equities, fixed interest and property look increasingly attractive alternatives. We certainly feel that at this point, share prices have fallen too far as they have been driven down by panic selling.

It would make sense to point out that over the very short term (the next 3 months) we may see further declines in equity markets, as companies get all of the bad news out onto their balance sheets. It may be that companies use this opportunity to 'clear the decks' before the end of the year in order to start the new one afresh. Trying to predict the market over the short term is a foolish exercise as we will only know where the bottom is when we pass it. Calling the bottom of the market is impossible, but we feel that at these prices, investors are buying value over the medium to long-term.

In conclusion, it is fair to say that 2008 has been the most difficult year we have faced. The 'credit crunch' has become part of everyday language for even the least financially aware. Whilst we feel that the economy faces a lean time over the next few months, we do feel that the opportunity for investment through pensions and life policies is one that should not be ignored. We have urged the majority of our medium to long-term clients to sit tight with their investments, unless they require funds urgently or personal circumstances have changed. For people looking to invest new money, the next few months may offer a buying opportunity that we won't see again for a long time. We urge all of our clients to contact us if they have any questions about any new or existing planning.

As part of our own effort to respond to the current spirit of austerity, Leedhams have decided this year not to send out Christmas Cards but instead felt that it would be more practical to donate the money to a good cause. We will therefore be making a contribution to BOLTON HOSPICE in December.

All our staff at Leedhams would like to wish our clients and their families a very happy, more prosperous and less unpredictable 2009!

In addition to our Christmas Donation, we are trying to raise money for Bolton Hospice to help them refurbish their communal lounge. If you would be interesting in donating towards this excellent cause, please give our office a ring and ask to speak to Andrew.

For further information please ring our office on 01204 366522, email us at admin@leedham-ifa.co.uk or alternatively return the FREEPOST slip below to **Leedham IFA Ltd, FREEPOST BL5244, BOLTON , Bolton BL1 3YZ**:

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