



INDEPENDENT FINANCIAL ADVISERS LTD



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Newsletter Summer 2008

The Bear Market bites

During the last 18 months we have witnessed huge levels of volatility across investment and property markets. In our last newsletter, we covered the ongoing issues in US and UK housing, the series of interest rate cuts and attempts to spur the market by US government tax incentives. Although this caused a rally throughout March and into April, we have since seen markets around the world fall to their lowest level in almost three years, following further pressure on banking shares, the continuing demise of both UK and US residential property markets and the drying up of global liquidity as the 'credit crunch' continues to rumble on.

However, two further factors have added more pain to global economics – the growth of inflation and surge in oil prices.

Despite attempts to boost economic activity through cutting interest rates, both the Bank of England and the Federal Reserve are becoming increasingly concerned about inflation. Recent figures suggest UK inflation has now reached 3.8%, well above the 2% target rate, and even this figure may be well below 'real' inflation, as both fuel and food prices have surged.

The almost relentless charge in oil prices is also harmful to the economy. Oil prices have risen by nearly 100% in the last year, which affects everyone, as the price of transporting goods and services around the world has

soared. Whilst it hits almost every industry, the general public feel the pain more than most at the petrol pumps.

Finally, in mid July, two huge US corporations, Fannie May and Freddie Mac, came under intense speculation, as it was feared that they had become insolvent and were on the verge of failure. These two companies are essential to the US economy as they either own or underwrite nearly half of the US's \$5 trillion US home mortgage debt. Hank Paulson (US Treasury Secretary) was quick to dampen these fears and equally swift to announce Federal support for the two companies, crucially that the government would be prepared to purchase shares in them if necessary. This could be considered a smart move, as nationalising the debt would have increased the US debts by 1/3, making Northern Rock look like a drop in the ocean!

Despite some relief following these moves, the FTSE and Dow Jones both began the week commencing 14th July in 'Bear Market' territory, as both have lost more than 20% of their value since their peak just 12 months ago.

How does this affect us and our clients?

People receiving statements over the last twelve months will no doubt have noticed significant drops in the values of their pensions and investments. Although we always stress the benefits of holding a diverse portfolio, more speculative clients (those invested predominantly in shares) will have seen the largest falls. Those who have spread their investments will also have seen

drops, as both fixed interest and property funds have failed to perform. In short, the only way to make money over the last year has been by staying in cash. However, this has its own risks, as we have seen threats to the strength of several large banking institutions, as people become increasingly concerned about their failing and the resulting threat to their deposits.

Despite these falls, we do not see the need for panic. As with all markets, the value of investments can and will fall as well as rise. Whilst it is certain that share prices can and have fallen, it is equally certain that they will rebound at some point. For longer term investors, this could prove an excellent time to invest in shares as they are trading at a level below long term averages.

Historically, bear markets tend to last around 12 months, and have always been followed by a 'bull market' as prices surge when confidence returns. The key in these situations is not to panic, because selling at this point would involve 'crystallising' negative returns, whereas at the moment they are 'paper losses'. Equally however, it is important not to bury our heads in the sand. Things can and possibly will, get worse in the short term and switching between certain funds now could prove sensible.

What is certain is that the overall economic picture looks rather gloomy at present. Banks are very unwilling to lend money, which has a knock on effect on house prices, which in turn affects consumer confidence, which ultimately dampens economic growth. We remain cautiously optimistic about the future although we expect investment markets to continue to

come under pressure in the short term, as there are many problems that need to be resolved. We also believe that the financial system will look a better place after this, since it may lead to more responsible lending and less over-speculation in property.

We are as always committed to reviewing and restructuring clients' portfolios as and when necessary and welcome the opportunity to review your financial plans. Times are difficult at the moment, but we have been in these situations before and will continue to work hard to get through them.

Exams and Qualifications

The last couple of months have been a busy one for us as we continue to promote the importance of professional development to our staff. Paraplanner James Lloyd has successfully attained CF1, the first Financial Planning exam, and he expects to take the next exam in the coming weeks as he works towards the Certificate in Financial Planning. Adviser Andrew Leedham passed the Personal Tax exam which completes the Diploma in Financial Planning. We feel it is crucial that all our staff are as highly qualified as possible in order to maintain and improve on our high standards of client care.

Please note, the above views are for information only and should not be treated as advice. The value of your investments can fall as well as rise. The value of your capital can fall and you may get back less than you invested. For a full and personalised financial review, please contact Leedhams to book an appointment.

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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