

Investment Summary

30 September 2009

Investment Commentary

Happy Days Are Here Again...!

Readers may be familiar with this jolly song copyrighted in 1929 by Ager and Yellen and subsequently used in the 1930 film *Chasing Rainbows*. The song is best remembered in the United States as the campaign song used by Franklin Delano Roosevelt in his successful 1932 US Presidential campaign during the Great Depression.

Since our last commentary in June 2009, a sense of 'normality' seems to have developed. We are told that house prices have stopped falling and may even be rising. We know that the FT 100 index has increased by 21% during the past three months giving a year to date performance of 13.5% (so that it is 21% below where it was on 2 January 2008).

There have been no further Government orchestrated rescues of high street banks, England's football squad qualified for the World Cup Finals in South Africa and England defeated Australia to win the Ashes (both clearly 'normal' events). What a summer! It didn't really matter that the weather was only so-so.

Those of you who follow our commentaries regularly will recall that we were hoping for a reference to 1696 in this issue. 1696 was the year in which Freedom of the Press was granted. With this in mind, that great monitor of public sentiment, *The Sun* newspaper, publicly shifted its allegiance during September from Labour to the Conservatives.

Even the Labour Party's organ grinder in chief was seemingly powerless to stop this change in sentiment, although it was inferred that his services were available to the Conservatives in the event that they were to win the 2010 General Election. (Well, no point flogging a dead horse, even a brown one).



So what is happening?

It is our view that the (pre-election) combination of the much referred to 'Quantitative Easing' strategy, which commenced formally in March 2009 along with historically low interest rates, has to date successfully fuelled demand for 'risk assets' such as equities. Equities have looked good value compared to cash and Government bonds. Money has to be invested somewhere and much of what has not been hoarded by the banks to shore up their still fragile asset bases has found itself in the equity markets.

Investment Commentary (CONTINUED)

Do we think the rally could last?

Yes. So long as these 'loose' conditions remain in place, there appear to be few reasons why a rally in equities should not continue. However, rallies created by momentum rather than underlying fundamentals have historically corrected sharply and with little warning.

As Neil Woodford, manager of the top ranking Invesco Perpetual High Income Fund, remarked recently: "It has been a rather strange year for the stock market. The bigger the hole in the balance sheet and the more dividend has been cut, the better the share price of the company concerned has done". Mr Woodford refers to this as a market on steroids; a recovery sponsored by the Government; and argues that once the fiscal and monetary stimulus comes to an end, a clearer picture will emerge of the fundamental health of the economy.

Although the 'sugar boost' administered over the last nine months or so has produced visible results, the problem is that the UK Government cannot keep borrowing indefinitely at these levels. The level of UK Government debt continues to gallop to new highs and Sterling has recently reduced in value significantly against the Euro and other currencies.

According to the Adam Smith Institute, a leading think tank, Britain will have the largest budget deficit of any OECD country in 2010; in 2000 it was the 7th lowest. The OECD is made up of 30 of the world's leading economies. Is this what our Prime Minister meant by "Prudence"?

As Roger Altman (deputy US Treasury Secretary under President Bill Clinton) commented: "Massive deficits raise interest rates, cut private investment and depress standards of living. But there is no precedent for financial markets lending such amounts over ten years at anywhere near current interest rates and exchange rates." True, Mr Altman was referring to the US economy although we would suggest that his comments are just as relevant to the UK.

The Impossible Dream?

Most would agree that the current recession and the troubles leading up to it were caused by excessive leverage (borrowing) in both public and private sectors.

The Government's pledge to lead the U.K. economy from recession involves more Government spending (increasing public debt). In other words, more debt is supposed to solve the problem of over-indebtedness.

"Sounds strange" some readers might say, and we would agree.

Summary

The bubble has burst, long live the bubble! Whilst it is our view that equities could continue to do well, at least in the shorter term, this would hardly be surprising in light of the financial framework put in place via ultra low interest rates and Quantitative Easing.

We continue to urge clients to be extremely vigilant. Quantitative Easing and ultra low interest rates seem misplaced alongside unprecedented Government deficits and borrowing. Were the former to change, for whatever reason, the underlying fragility of the economy could be harshly revealed.

In the meantime, enjoy the rally as brought to you by HM Government and UK taxpayers. Just like the organ grinder, have a contingency though.

Cash Deposits

Given recent events in the global financial system we have reviewed the selection of banks with whom Barnett Waddingham have established streamlined application processes for pension scheme bank accounts. We can also help with personal, corporate and charity monies and term deposits are also available over varying time periods:

Rates as at 30 September 2009*

Scottish Widows Bank 1 Year Fixed Term Deposit Account:	2.50% AER**
Scottish Widows Bank Deposit Account: (Minimum interest rate 0.25% below Base Rate)	2.00% AER***
Bank of Scotland Deposit Account: (Minimum interest rate 0.20% above Base Rate)	0.70% AER
Bank of Scotland Current Account: (Minimum interest rate 0.20% below Base Rate)	0.30% AER

(Source: Barnett Waddingham Investments LLP)

* Bank of England Base Rate 0.50%.

** This rate is fixed for twelve months from 16 November 2009. Applications must be received and accepted by Scottish Widows Bank before 16 November 2009.

Following this date the rates available from Scottish Widows may be reviewed.

*** Decreases to 1.75% AER on balances below £50,000.

New Service

Many of you will have held investments in bonds, shares and managed funds within your pension schemes for a number of years. If you would like to receive a report, free of charge, which will show you how these investments have performed on both an absolute and relative basis versus similar funds or benchmarks such as the Bank of England Base Rate, please let your usual Barnett Waddingham consultant know.

Our Services

Investment advisory services

At Barnett Waddingham Investments LLP, we are constantly vigilant to the fact that investments in non-cash assets such as property, shares, fixed interest securities and other assets can go down in value as well as up. We also frequently remind ourselves and investors that an asset or portfolio which has decreased in value by, say, 50% then needs to increase in value by 100% in order to restore the original value. Estimations and forecasts are an inevitable aspect of the financial world but we believe it is wise to remember this simple yet incontrovertible fact. Losses hurt and whilst most investors like their portfolios to achieve attractive growth, it is also common to find that investors dislike losses more than they like gains.

We believe that people make a difference to investment returns. To us, it is common sense that, as in any profession, there are good fund managers and bad fund managers. Our job is to find the winners to ensure that performance remains excellent compared to their peers.

Our investment service is customised to the needs and requirements of each client. Only high quality, liquid assets are recommended. High charges and penalties are avoided and there is a real emphasis on transparency and simplicity.

Combining these principles with an assessment of investors' propensity for investment risk forms the core of our investment service.

Our Services (CONTINUED)

Direct offer investment services

For those clients who prefer to select their own investments without advice from Barnett Waddingham Investments LLP, we offer a service in conjunction with Selftrade, one of the UK's largest execution-only stockbrokers and part of the Société Générale Group. A wide range of listed investments including UK and international shares, gilts and investment funds is available via Selftrade.

Barnett Waddingham Investments LLP also has its own share class of an Open-Ended Investment Company fund managed by Sarasin LLP. By investing in this fund on a direct offer basis, there are no entry or exit costs – meaning that a £25,000 investment would have an immediate cash-in value of £25,000.

The fund accepts lump sums or monthly payments and is categorised as a Cautious Managed fund by the Investment Management Association. The fund aims to achieve a minimum return of RPI plus 3% on a rolling three year basis.

Retirement options services

The decisions made at retirement such as annuity purchase and income drawdown can have important ramifications in respect of death benefits and the level of risk to one's pension capital and income. There are also many pensioners utilising income drawdown who face the prospect of falling pension levels in the coming years because of falls in asset prices, gilt yields and interest rates. We believe that detailed advice on retirement options is crucial in order to improve the chances that expectations will be met. Amongst the services provided is a 'whole of market' annuity advisory service via which we are frequently able to facilitate substantial increases in annuity income compared with the rates available elsewhere.



Would you like to know more?

If you are interested in more details of any of the above, please contact your usual Barnett Waddingham consultant.



Barnett Waddingham - OCTOBER 2009

Chalfont Court
Hill Avenue
Amersham
HP6 5BB
Tel: 01494 788100
Fax: 01494 788800

Rigby Hall, Rigby Lane
Bromsgrove
B60 2EW
Tel: 01527 559111
Fax: 01527 559222

St James's House
St James's Square
Cheltenham
GL50 3PR
Tel: 01242 538500
Fax: 01242 538501

163 West George Street
Glasgow
G2 2JJ
Tel: 0141 243 4400
Fax: 0141 243 4432

West Riding House
67 Albion Street
Leeds
LS1 5AA
Tel: 0113 394 3700
Fax: 0113 394 3760

Port of Liverpool Building
Pier Head
Liverpool
L3 1BW
Tel: 0151 235 6600
Fax: 0151 235 6640

Cheapside House
138 Cheapside
London
EC2V 6BW
Tel: 020 7776 2200
Fax: 020 7776 3800

Barnett Waddingham LLP is a body corporate with members to whom we refer as "partners". A list of members can be inspected at the registered office.

Barnett Waddingham LLP (OC307678), BW SIPP LLP (OC322417), Barnett Waddingham Investments LLP (OC323081), and Barnett Waddingham Actuaries and Consultants Limited (06498431) are registered in England and Wales with their registered office at Cheapside House, 138 Cheapside, London EC2V 6BW.

Barnett Waddingham LLP is authorised and regulated by the Financial Services Authority and is licensed by the Institute of Actuaries for a range of investment business activities. Barnett Waddingham Investments LLP and BW SIPP LLP are authorised and regulated by the Financial Services Authority. Barnett Waddingham Actuaries and Consultants Limited is regulated by the Institute of Actuaries in respect of a range of investment business activities.