Independent Financial Advisers

Investment Commentary
6 Months to February 2012

The period under review began with significant falls in August when the USA was stripped of its AAA status by Standard and Poors, the independent rating agency. Negative sentiment continued with the continuing debt crisis in Europe and the prospect of a Greek default.

Quite a few of our clients commented on the "forthright" tone of our last Investment Commentary (October 2011 – available on our website www.hda-ifa.co.uk if you haven't seen it) – most of you were hoping that our opinion was correct. Well, we are sticking to our guns. We still believe that it's all about the banks.

The banks will not be allowed to fail but, at the same time, the politicians have to be seen to bring them to heel. We have just seen a high profile poke in the eye for "Fred the Shred" not to mention the colossal pressure brought to bear on Stephen Hester of RBS to forego his seven figure bonus. This has nothing to do with fairness. This is all about the politicians seeking the moral high ground so that we will feel less aggrieved about "austerity".

So, individuals and markets are caught in the crossfire between greedy bankers and posturing politicians. In the UK the Trade Unions will jump up and down a bit and the Public Sector will have to take a long hard look at the real world but, by and large, we are not doing too badly. The Americans are just getting on with it. They have an election looming which, perhaps, is taking their mind off other things. Some healthy employment data and a bit of good luck could well see healthy economic growth in the US in 2012.

Continental Europe looks certain to be "stop start" for a while longer. Greece, Portugal *et al* will have to be bailed out. Someone just has to find the right coloured sugar to put on the pill ….

We can be sure then that market volatility will continue for some time to come. We should never forget, however, that markets are ***forward looking***. As economic and political issues become clearer, markets will pre-empt the likely consequences. Remember that prices generally have been heavily depressed by uncertainty and fear. As those factors dissipate it seems highly likely that markets may rise quickly. The laws of supply and demand will not be denied. It is almost universally agreed that equity markets are the obvious choice for longer term growth. With interest rates close to zero and treasury/gilt yields at all time lows, equity markets at depressed prices are an incredibly compelling proposition!

The HDA Investment Portfolios are structured to suit all tastes. We offer portfolios that are fully exposed for those who are happy to ride the roller coaster of modern markets. For those of you with more moderate or cautious tastes our "Cash Plus" portfolios offer varying levels of market exposure with very careful risk control.

The short and long term performance of the HDA portfolios is well ahead of targets and benchmarks. At the most recent meeting of our Investment Committee we made only very minor changes to our more aggressive portfolios and left our more cautious portfolios unchanged. We are particularly pleased to note that volatility has remained within our target range for all portfolios.

1st February 2012