



Independent Financial Advisers

Investment Commentary 6 Months to October 2011

We will take it as read that all investment periods are difficult, frustrating and volatile until further notice! After a period of relative calm in May, June and July the markets were well and truly routed in August when Standard & Poors, the independent rating agency, stripped the USA of its AAA status. The FTSE-100 Index fell 17% in double quick time as the world and his wife sold “risk assets” (shares to you and me) in a knee jerk reaction to this unthinkable development.

Attention was quickly refocused across the pond on our own debt problems in Europe, in particular the fearful potential consequences of Greece defaulting on its sovereign debt. Quite strange when you think that Greece has actually been in default for more than half the years since 1800!

Did the US downgrade matter? Not really. US Treasuries actually rallied during the following week. AA debt is still a pretty good bet when stocks and commodities are all falling on concerns of slowing global economic growth.

Is Greece the issue closer to home? Of course not – it’s the banks again. The European Central Bank (ECB) is not concerned about the governments of Greece, Italy, Portugal, Spain or Ireland – but it is very concerned about the fate of the large banks of Northern Europe who have invested heavily in the debt issued by these countries. If the banks aren’t saved, “New Europe” and the Euro will fail. One way or the other, ***that will not be allowed to happen.***

Ultimately, you and I will pay for the recapitalisation of the banks. That’s very frustrating when we have no control over their past or future actions. Maybe it is time for a completely new financial system

So what does this mean for the markets? Well, if the unthinkable happens and the banks are allowed to fail, the short term effects would be catastrophic. We would be in largely uncharted waters and with no idea of the shape of the future, markets would (in my opinion) fall off a precipice. Do I think this will happen? – absolutely not! The banks will not be allowed to fail. A solution will be proposed and agreed shortly and (in my opinion) the considerable pent up demand in the markets will be released and valuations will soar.

How long it will be before we face the same problems again will depend very much on our politicians. To what extent will they be prepared to sacrifice self-interest for the long term good of all? Unfortunately, I think we know the answer to that one!

In such troubled times and with such volatile markets the need for ***active investment management*** has never been greater. Avoid the natural temptation to “sell low”. Don’t hate markets because they fall – you always knew it could happen. Make sure you understand and accept the risks you face in the short term but also remain focused on your longer term aims and goals.

The HDA “Cash Plus” Portfolios remain defensively positioned and are comfortably ahead of target over three years. Over shorter terms the average returns are below our longer term target as we would expect in the current economic environment. Volatility remains within our target range for all portfolios.

1st October 2011