Sunday, 16th August 2009

Offshore Holdings Advisory
August 2009 Newsletter
www.investrightnow.com

Market and Currency update – 13th August 2009

(A Personal View by R B Skepper)
(For professional investors and businessmen/women only)

FTSE 100: 4755 – 13th August 2009

David Buick announced on Bloomberg this morning that everybody who is anybody in the city, is away on holiday now and only "The Brain Dead" are left behind.

As one of the latter, I am reassured in a feeling I have had for years that "The Brains" in the City are invariably the source of its problems.

Biologically, the size of the brain appears to be in inverse proportion to the amount of common sense it possesses. These starred firsts, with their feet firmly planted in mid air, are headlong into every bubble - the bankers have an especial flair for this – and usually the first to panic. Such conduct would turn every economic setback into a calamity were it not for the "stupid public". They turn off the bad news, in which incidentally the "impartial" left of Lenin BBC revels, switch to watching football, and get on with life as best they can. So economic meltdown is averted.

Anyway the brain dead haven't been doing too badly recently. In spite of looking already overbought by the 10% rise in July, the market keeps going on up.

There is no doubt that by historical standards there is still a literally vast amount of money sitting on the sidelines with no prospect of getting any decent return from cash holdings.

So any substantial or even minor setback is likely to see more of this money moving back into equities.

In recent months corporate bonds have been the principal beneficiary of this cash mountain. Perceived to be less risky than equities they have attracted the lion's share, and all the higher yielding corporate bonds have put in a remarkable performance over the last six months. Some of the more risky financial bonds have doubled, and the corporate bonds of cyclical companies like BMW, GKN, Lafarge etc: have shown 10-20% appreciation since launch as well as a good running yield of frequently more than 7%.

A lot of these bonds are now looking fairly fully valued with little or no protection at these higher levels against a resurgence of inflation. So it is not surprising that more money is moving towards equities, which are seen as a long term inflation proof asset.

Another perverse factor is the very wrong pro-cyclicality of bank, pension fund, and insurance REGULATION, and new accountancy rules. This virtually means they cannot buy when stock markets are low and their collateral values have fallen, but after the market has risen substantially the

Offshore Holdings Advisory and Mediation Services Company Limited is incorporated in the Kingdom of Thailand under the Treaty of Amity and Economic Relations and was registered as such on May 22, 2001 with incorporation number (5) 868/2544.

recovery of collateral values enables them to buy more equities again.

This is exacerbated by “mark to market” accountancy where, as the iconic head of AXA, Henry de Castries, pointed out after Lehman’s collapse :
“If a forced seller leads to one house in a street selling at a very low price it is ridiculous to value every other house in the street at that distressed sale value” - but this is precisely what “mark to market” forces on them.

So in the U.K. a few distressed sales in the property market in 2008 led to virtually the entire U.K. quoted property sector becoming technically insolvent.

It is just as pro-cyclical (i.e. makes the cycle worse in both directions) in a booming market. Illiquid stocks rise to great heights and then large holdings of big institutions are marked to market, though no way could such large chunks ever sell at anything like the marginal inflated price.

But apparent collateral soars, so greater debt can be taken on. There will have to be changes to this valuation method. It just exacerbates booms and busts. One possible alteration could be a liquidity based “adjuster” - to stock market values anyway.

So with markets now back to near pre-Lehman levels there is more institutional capacity to buy. That does not automatically mean that they will use it. But it does mean it is a potential added prop to the recovery.

History warns us that massive rallies do occur in bear markets. The U.S. market rose 110% from its low in 1932

Offshore Holdings Advisory and Mediation Services Company Limited is incorporated in the Kingdom of Thailand under the Treaty of Amity and Economic Relations and was registered as such on May 22, 2001 with incorporation number (5) 868/2544.

only to drop 70% in 1933 before the new bull market began. Markets worldwide – and London just tags along with movements elsewhere (it is a tail, not the dog) - have been buoyed from panic levels.

Firstly the massive injection of funds coordinated by governments virtually worldwide stopped the potentially dangerous contraction of the money supply.

Secondly, more recently, the indications are that in the more financially robust economies - those with low personal and stable government borrowing - business has picked up. The good figures from both France and Germany yesterday indicating their economies had actually grown, rather than just contracted less, in the second quarter, was a pleasant surprise. It certainly took all the commentating experts by surprise. Neither country has indulged in quantitative easing, but both countries share low consumer debt, no mortgage problem at all, and a banking system - though wounded by the subprime fall out – that had continued to support small and medium sized businesses.

In France all mortgages have been controlled by The Bank of France since the war with a maximum of 80% loan to value, and very strict criteria on loan to earnings.

The British banking system, in spite of only being alive because it is living off all our, the public's money, has treated the public quite disgracefully - hiking fees and rates, and squeezing viciously small and medium businesses - these which employ 75% of the private sector workforce.
Anecdotal evidence confirms this strongly. This is making economic recovery more difficult in the U.K. albeit the

tourist and export industries have had a boost from the fallen £.

Meanwhile the Public Sector has continued, at horrendous national expense, to create paper and verbiage.

It's just worth repeating the appalling spiral of Public sector overheads since Labour took over. £375Billion in 1998, now £680Billion.This is core – before any exceptional costs of bank bail outs or pump priming. The worry is that much of the pump priming has been misspent and poorly targeted, adding to long term debt but not to wealth.

A headline in today's Telegraph reads:
"Schools "swamped" by 1.3M words of Whitehall advice"– almost 4000 pages of government guidance every year to each school, including a 90 page document advising head teachers on how to cut down on bureaucracy!!
11 quangos churning out this drivel are costing a cool £1.2 BILLION a year.

Whilst the private sector has taken all the pain, not a job has been culled in the bloated public domain. In fact more people have been taken on to create new agencies to "help the unemployed" etc - as if these idiots could produce jobs out of a hat. Or failed agencies like the FSA are taking on more people at extra public cost, when what is needed is many fewer people do the job better.

Whatever happens in world stock markets from current levels, we are likely to see a divergence of performance from country to country. Then, companies, big or small, spanning global markets with their products, regardless of their home base, are best placed to grow their profits.

There remains much uncertainty and disagreement among economists and economic soothsayers of the type of recovery, whether V shaped, or W shaped, or just very slow and long.

It seems unhelpful from an investment management view to speculate or plump for any particular prediction. Of the many around, by definition, only one is bound to be right, but the person who made it almost certainly does not know he is going to be right, and statistically, as always, 90% will be wrong – that is typically what happens every year with the “experts” predicting exchange rates 12 months out.

Short term, the stock markets seem to be heading for levels that do not leave a lot of room for disappointment. But within stock markets there remain significant areas of good value whilst others that look stretched.

We are, I think, once again in a “market of stocks” rather than indiscriminate wholesale movement of panic or euphoria.

R.B. Skepper
14th August 2009

To view this online please go to http://www.investrightnow.com/news.htm

Disclaimer - Important information
The views expressed in this News Letter are the personal views of Robert Skepper and do not reflect the general views of Brewin Dolphin Securities. Please note that the value of investments and the income derived from them may fluctuate and an investor may not receive back the amount originally invested. **Past performance is not necessarily a guide to the future** . The investments and investment services referred to in this document may not be suitable for all investors and if in doubt, an investor should seek advice from a qualified investment adviser. Current tax levels and reliefs may change and the value of any relief depends on individual circumstances.

KEY FEATURES OF A PRIVATE CLIENT SERVICE DISCRETIONARY MANAGED INVESTMENT PORTFOLIO

- Personalized service – each portfolio is managed individually according to client risk profile and investment objective(s).
- Portfolios are managed to achieve total returns, rather than to simply track global market indices
- No withdrawal fees of any sort at any time – always 100% access to all capital
- Lower client costs – Brewin Dolphin accesses global markets directly to eliminate charges levied by fund management companies and life insurance firms - i.e. 'no middlemen costs'
- The team at Brewin Dolphin headed by Robert Skepper and has expertise in managing expatriate and overseas investors' wealth
- Robert Skepper graduated from Cambridge in 1961 and was trained at Buckmaster & Moore, then a leading stock brokerage which is now part of Credit Suisse First Boston. He joined Brewin Dolphin in 1986 as a private client portfolio manager.
- Brewin Dolphin is a founding member of the London Stock Exchange and has over 250 years of experience in managing private client wealth
- Brewin Dolphin is the leading private client stock brokerage in the UK and currently manages over 21 billion GBP for over 100,000 clients
- Brewin Dolphin has 38 offices and over 1300 staff throughout the UK including the Channel Islands of Jersey and Guernsey
- Client accounts are domiciled at Brewin Dolphin offices on the Channel Islands in a tax-free environment as individual Offshore Nominee Accounts
- Brewin Dolphin is regulated by the Financial Services Authority (FSA) in the UK with their registry number being 2135876
- Brewin Dolphin is insured to 50 million GBP per private client against fraud
- Online account valuations available
- Telephone and fax dealing available
- Access to a range of financial vehicles, such as PEP's, ISA's and SIP's
- Access to global stock markets including investment funds, investment trusts, stocks, bonds and cash at institutional rates
- Transparent and simple fee structure – 1.5% to 1.75% annual management fee, a one-time 0.5% to 5% introducer's fee, and direct stock market access dealing fees of 1.5% on first 12,500 GBP, 0.7% on the next 12,500 GBP and 0.5% on the remainder

Disclaimer - Important information:
Past performance is not necessarily a guide to the future

Wealth Management

Offshore Holdings Advisory

Asia Office
245/43 Moo 3, Srisoonthorn Road
Srisoonthorn,Thalang
83110 Phuket , THAILAND
tel: +66 (0)76 270 925 fax: +66 (0)76 270 926
cell: +66 (0)89 871 1782
global cell: +1 207 249 9602
heathnorris@investrightnow.com
www.investrightnow.com

Administrative Office
2 Clifton Road
PO Box 2339
Clifton, Bristol BS8 9BT
England UNITED KINGDOM
tel/fax: +44 (0)117 330 6767
cell: +44 7976 261 627
info@investrightnow.com
www.investrightnow.com

If you have any feedback relating to any of the contents of this newsletter please don't hesitate to get in touch with us at info@investrightnow.com