



Summer 2013

Oh dear, what can the matter be?

We asked Standard Life Wealth, a discretionary fund manager with whom we have some clients, for their take on the current market turmoil :-

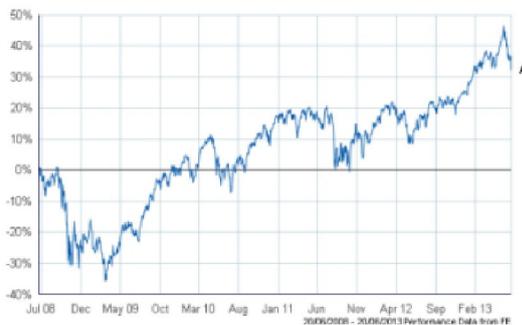
"What has spooked markets over the past month? Following almost 5 strong months in markets, things turned decidedly sour in May and have continued on that path to date. In the past few weeks, the Japanese equity market has fallen, Emerging Market currencies have fallen vs. the US\$, the US\$ has fallen vs. the €, inflation linked bonds have fallen, and US Treasury yields have risen (so their prices have fallen). Probably this decline is a combination of two major factors, related to the comments from Ben Bernanke, of the US Federal Reserve and the Prime Minister of Japan, Shinzo Abe. For most of the past year markets in many assets classes have been ignoring core fundamentals and have traded more on central bank comments.

Good economic news had stopped being good news for the markets. Consider US employment data. The 2 main surveys are the Non-Farm Payrolls and the ADP survey. Both released numbers recently and under 'normal' market conditions, a good survey result, showing more jobs created, would suggest a healthy economy that is growing. This should be good indicator of business health and therefore should be a positive indicator for the stock market.

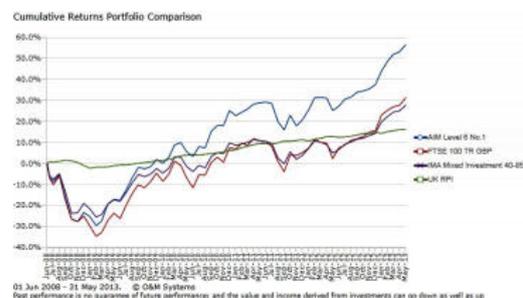
Under the current 'abnormal' market conditions, this logic may not hold. This is because of the impact that monetary policy is exerting, which in this case is the Federal Reserve's \$85billion monthly bond purchases. This policy has been linked with propping up the markets at a time when there is otherwise little good news to drive markets. In its recent meeting, the Fed stated that it would continue with these bond purchases until such time as there was a clear improvement in the US job market."

In all this, it is important not to forget that markets rallied very strongly at the start of 2013. If you consider the performance of the FTSE-100 over the last 5 years, you can see that over the last year and over 5 years, good returns have been made.

Have a look at the following charts. Click on either for a larger view which will open a new window.



FTSE 100 July 08 - Jun 23 13 - Source Financial Express



Of course, you don't just invest in the "Footsie" though. The second chart shows our Level 6 No.1 portfolio from Jun 08 to the end of May 13. (We can only go to the end of full months on this system).

If the Spring seemed slow in making its presence then Summer is equally tardy.

We have seen a huge rise in values over most financial markets followed by something of a retrenchment as, contrary to logic, the global economic outlook has improved.

As usual, if you have any requests for articles or information, or want this to be sent to any friends and family, then please let us know.

Our Services

We are able to offer qualified advice in areas other than pure investment, such as:-

- Equity Release
- Care Fee Planning
- Mortgages
- Income Protection
- Life & Critical Illness cover
- Pension Planning
- Inheritance Tax Planning
- Wills and Estate Planning
- Lasting Powers of Attorney



Retirement Options

If you are thinking of saving for retirement, then you might consider a pension is the best way to achieve your retirement goals. However, this is not the only way and, in particular, ISAs can be a useful tool.

Pensions and ISAs are taxed differently. Your pension contributions will qualify for tax rebates upfront but then the income you receive, once you have taken out your tax-free lump sum, will be taxable. With an ISA, contributions are made out of taxed income but any withdrawals are tax-free.

The tax rebates are important as they add value upfront which will influence the size of annuity that can be bought. Equally, if you use it to buy a pension annuity, those payments are guaranteed for life, though taxable, while withdrawing the equivalent from an ISA can be less predictable. Nevertheless, an ISA is much more flexible.

The question is often not whether an ISA or pension is better but how to structure a portfolio using both.



Markets - continued

Another investment house has reached similar conclusions to Standard Life Wealth, but expressed its thought differently! This from Revera Funds:-

"Anyone who has young children (or has had in the last 20 years) is likely to have faced the dilemma of just how often you should use the miracle of Calpol. I know parents who agonise over the rights and wrongs of giving medicine on request from a child. In a way, we parents are our own worst enemy. We say things like "this will make it better", when we know it will do nothing of the sort – it will simply make you feel better whilst your body finds other ways of fixing whatever is ailing you. In the child's mind, however, it becomes crucial in future to feel better, irrespective of what is wrong.

I can't help but think there is an awful lot of this in the market's reaction to both of the last two FOMC meetings. What do we know now that we didn't know at 7:29pm on Wednesday?

We know that the Fed now believes that US GDP growth will be higher and unemployment lower than it did at its last meeting. We know that if the US economy pans out the way the committee believes it will, then the Fed will reduce monthly bond purchases later this year, and will stop buying altogether by the middle of next year. We know that the vast majority of the committee believes that the first increase in the Fed Funds Rate will not happen until 2015.

This is unequivocally good news. QE is like Calpol – it has made the process of re-adjustment to bank and personal balance sheets less painful; but it wasn't the cure. The cure involved more saving, less spending, a re-adjustment of asset values, and a refocus on efficiency. The patient is healing – but he appears to be petrified about how he is going to feel once Papa Ben takes the Calpol away. Well, to carry on the analogy – he is just going to have to be a big boy and accept it, because he doesn't need it anymore.

Largely lost in the melee over the last 24 hours has been stronger than expected data covering UK retail sales, UK mortgage lending, French manufacturing activity and the Philly Fed manufacturing survey. The only counterpoint has been a slightly weaker Chinese PMI reading from HSBC."

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