



ECS Investment Newsletter January 2010

The unpredictable road to recovery!

Last January we were looking at the FTSE 100 index at around 4550 before its subsequent fall to around 3500 in March. At the time there was much doom and gloom around. The destruction of the financial world was nigh! So imagine the surprise when investors find that despite all the talk of various V, U, extended U and W shaped recovery we have seen the FTSE rebound to grow by some 54% from its lowest point of the year to reach the dizzy heights of 5400. Not many would have put money on that at the start of the year! Those investors who stuck to their original strategy have reaped the benefits and many portfolios have seen substantial gains from their 2009 lows.

So it's all back to normal then? Well I don't think many people feel we are out of the woods just yet but there is no doubt we have greater financial stability, which is not a bad start. It is likely in 2010 that we will see continued volatility, as the effects of recession continue to bite and the government of the day introduces measures to tackle the heavy spending spree it embarked upon in 2009. Economically this year will be a tough time and I'm sure at times it will feel like things are getting worse rather than better. That said equity markets are predicted to trade at higher levels during the year even though we are likely to experience more volatility along the way. Many commentators feel global emerging markets and the Far East will lead the way in investment returns and certainly offer the better potential of most of the developed markets.

Property, which proved to be less resilient in 2009, at least appears to have hit its "bottom" and now offers the chance for consistent returns over the medium term. Whilst we are unlikely to see great levels of capital appreciation property has returned to its roots of offering an attractive yield of around 7 to 8% with the potential for capital gains over the longer term. The shorter term will still prove difficult but if you are investing for the medium term property is starting to look attractive again.

As ever the keys to success in the investment market are diversification of asset holdings and time invested in the market. For those worried about investing during times of volatility it is always worth drip feeding money into the market on a regular basis. As taxation looks set to rise it is also well worth ensuring your investments are being made in the most tax efficient manner.

ISA Allowances

In the April 2009 Budget, the chancellor Alistair Darling announced that from 6 October 2009 the ISA subscription limit will **increase to £10,200** for anyone eligible to invest in an ISA who was **born on or before 5 April 1960** (That is, those people who will be **aged 50 or over** during the current tax year). Up to £5,100 of the new ISA allowance can be saved in a cash ISA with one provider. The remainder of the £10,200 can be invested in a stocks and shares ISA with either the same or another provider. Alternatively, the full £10,200 can be invested in a stocks and shares ISA with one provider.

If you're not yet 50 then from 6 April 2010 anybody who is eligible for an ISA will be able to take advantage of the new higher limits.

You can also reduce the risks of investing at the "wrong time" by drip feeding money into the market and undoubtedly that is why we are seeing a number of investors setting up regular contributions to the new maximum level of £850 per month. So if you want some additional safety why not feed your capital in this way? It is surprising how quickly you can build up a substantial ISA holding using the new allowances. As ever though it's about time in the market rather than the actual timing.

Making contributions in excess of your ISA allowance

If you want to contribute more then it is very easy to make contributions in excess of your ISA allowances and to arrange for these to be subsequently moved into the ISA account without additional further charges.

Where should I invest for the best return?

As ever it all depends on what your attitude to risk is. Cash rates are pretty poor currently particularly when you take tax into account and many people are now turning to investment markets. If you already have a diversified portfolio of funds you will have a good blend of assets which you can add to.

If you are thinking of adding new money into managed funds on either a regular or single contribution basis then here are a few options you may wish to consider depending on your risk profile and investment time horizon.

Cautious Managed

A good fund in this sector is the Gartmore Cautious Managed. The fund manager Chris Burvill has successfully managed this fund through the recent financial crisis and managed to limit the volatility. It is well rated and has a good track record.

Balanced

Newton Managed is one of our well rated balanced funds for those who want a good balance of investments for a medium risk investor.

Aggressive

The majority of opinion is that the best prospects for growth are in overseas market and in particular emerging markets. Robin Geffen runs the well rated and quite aggressive Neptune Global Equity fund and operates with a high conviction to emerging markets. The funds objective is "to generate capital growth from a concentrated portfolio of global securities, selected from across world equity markets, with a view to attaining top quartile performance within the appropriate peer group".

Investment Review

Whatever your financial position remember you should regular check that the investments you hold are aligned to your attitude to risk and your current financial objectives. If have not done this recently then please give me a call and I will happily arrange to do this with you.

And finally.....

Although the year ahead looks like another tough one I doubt that we will see quite the same traumatic times we experienced last year. So finally, as an eternal optimist, can I raise my "half full" glass to wish you a very happy and prosperous 2010!

Cheers!

Tom Morris, Investment Manager

What about those looking for income?

Income tends to be an issue for many people and as ever there is no perfect solution; however there are a variety of equity based solutions which you could consider:-

Invesco Perpetual Distribution Fund

Distribution funds tend to be quite cautious managed funds. They typically invest the majority of money into UK fixed interest and UK equity holdings to achieve a combination of income and capital growth. The Invesco Perpetual Distribution fund is well rated by independent rating agencies and a good example with a running yield of 6.5% p.a.

The investment objective of this fund is to "to achieve a balance of income and capital growth through a portfolio of primarily UK equity and fixed interest securities. In pursuing this objective, the fund managers may include investments that they consider appropriate, which include transferable securities, money market instruments, warrants, collective investment schemes, deposits and other permitted investments and transactions".

Schroder Income

Income funds generally invest in higher yielding UK equities that provide the opportunity to benefit from regular distribution of dividend income. As such they hold little or no fixed interest assets and therefore have a higher risk profile than distribution funds. These funds also offer the opportunity for capital growth as well as equity market rise. However as we know equities can fall as well as rise and capital values can fall. The Schroder Income fund is well rated by independent rating agencies and a good example with a running yield of around 4.5% p.a.

The investment objective of this fund is "to provide a growing income by investing primarily in UK equities. The Fund Manager focuses on shares which trade at a relatively low valuation compared to the company's assets or profit growth prospects".

Schroder Income Maximiser

This fund operates in a slightly different way to the normal income fund although it holds very similar assets. As its name suggests it looks to maximise the income streams from the assets it holds and use financial techniques to improve the yield. Schroder have successfully met their targeted 7% income from this fund since its launch three years ago, however capital values can suffer more at volatiles times due to the focus on maximising income streams. However for those seeking a high income level it is worth considering. If you would like further details then please give me a call.