



## ECS Investment Newsletter January 2011

### Onwards and upwards in 2011?

When we entered January 2010 the FTSE 100 Index was doing well from the low of 3500 in 2009 and the outlook for 2010 was promising. With markets remaining nervous and rising fears surrounding further fallout of the credit crunch in the Euro zone, markets fell back to around 5000 before climbing to a close at 6000 by the end of 2010. As investors have found out weathering the volatility has led to good gains certainly when compared to the feeble level paid on instant access savings accounts.

For those with money earning a meagre 0.5% in an investment account gross (0.4% to 0.3% net) there are real issues. Inflation has started to climb with the Consumer Prices Index (CPI) hitting 3.7%. So even those invested in higher fixed rate accounts will find their net rate may well not be keeping pace with inflation. Savers do need to consider investing into real assets if they want their savings to have a chance of outpacing inflation. If you invested in equity income funds the dividend income is currently providing a much higher return than deposit holdings with the opportunity of providing additional capital appreciation.

Many feel that investment markets will continue to grow this year even though we may continue to see some more volatility. The economic outlook remains positive but weak. We expect to see a continuation of weaker growth in the developed west compared to the greater growth opportunities in emerging countries. With this in mind I have outlined comments on the main asset classes although as ever I would say ..... I do not have a crystal ball!!

#### **Fixed Interest**

Last year fixed interest funds did well and although the returns this year will not match those of last year there are still opportunities in corporate bond funds which should mean some reasonable returns. We would also suggest including some strategic bond funds or high yield bonds in portfolios. Strategic bond funds generally are able to look at worldwide opportunities and as well as being able to invest across the entire spectrum of fixed interest from sovereign debts through corporate bonds and into high yield bonds at the other end of the spectrum dependant on market conditions. Pure high yield bond funds are invested where returns are the greatest but there is therefore an increased chance of company defaults.

#### **Property**

Property had a solid year but many in the market feel returns will be more subdued this year. With income rental around 6% this could be eroded if we see any fall back in valuations this year. That said the outlook for property over the medium to longer term is starting to look worthwhile again.

#### **Equities**

Equity markets look good value both in the UK and globally. There is no doubt that the developed western economies are saddled with debt and will have to settle for low levels of growth in the foreseeable future

In the meantime some of the global markets who do not have the same debt issues are set to see much greater growth. Of course there will be more volatility ahead but the trend over the next few years should be positive. There are some great prospects for growth in the Far East and emerging markets for those who are prepared to accept greater risks. Remember equity growth is rarely achieved in straight lines so you should be prepared for some volatility.

In summary we expect 2011 to be another positive year for investment markets, but returns are unlikely to match 2010. Valuations suggest equities offer greater potential for returns than fixed income. Due to its equity-like characteristics high yield corporate debt is likely to outperform both its lower yielding investment grade peers and government bonds.

Slow growth in developed economies will heighten the attractions of emerging-market equities and currencies, as well as developed market companies that derive a larger proportion of their revenue from these faster growing areas

As ever, a diversified portfolio aligned to your current attitude to risk is the way forward.

### **ISA Allowances**

Remember the current ISA allowance is £10,200. Up to £5,100 of this 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.

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 now you can build up a substantial ISA holding using the new allowances.

The government announced plans to increase the allowance in line with inflation from April 2011. The new allowance will then be increased to £10,680.

For those with investments in collectives it is worth noting the current capital gains tax limit is £10,100. The current rate of 18% on gains over this amount is set to increase to 28% from April so it is worth looking at any impending disposals that may be effected sooner rather than later.

### **And finally...**

In June last year I repeated the advice that “I still have faith that equity markets will deliver if you are prepared to stick it out through the tough times”. Those who have done so have seen good growth in the latter half of 2010 and at this time I can see no reason to change my opinion about future growth prospects.

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