truestone

NEWSLETTER JANUARY/FEBRUARY 2009

Experience pays off

In October 2007 news coming out of the USA and other economic indicators hinted that the UK economy could be hit by a significant downturn. In particular investments in commercial property and equities were likely to be badly affected.

On the basis of this information, Truestone made a decision to significantly reduce exposure to these two types of asset when advising clients on how to invest their capital. Where appropriate, money was redirected to the relative safety of fixed interest, cash and alternative investments. The result has been beneficial to the value of investment portfolios held by many clients.

Track the trends

We believe all wealth managers have a duty to maintain a high level of knowledge of macro–economic trends such as growth, interest rates, inflation and employment levels. Only by doing this are we able to identify the threats to the capital you invest through us or identify the most promising types of asset, geographical regions and industries to invest in.

Within Truestone we employ a Technical Team of four people who monitor and interpret these trends as well as comparing the performance of the wide range of investment opportunities available on the market. From tracking the price of gold to scanning the latest interest rates on cash accounts, by focusing our resources in this way we believe we can identify investment strategies that will be successful for our clients.

The Technical Team - Lyndon Heppolette (at the back), Ben Stevens, Jeannie Boyle & William Townsend

Overall responsibility for the development of those strategies sits with two people, Angus Branfield, the director who oversees the advice provided to Truestone's private clients and Tony O'Dwyer, our Investment Director.

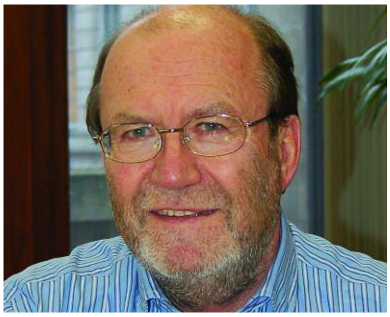
Tony has worked for over 30 years in analysing and understanding investment markets. Importantly that means he has acquired his knowledge across three economic cycles, experiencing both the 'booms' and the 'busts'. Such experience is invaluable as the UK enters recession for the first time in over 15 years.

Bespoke portfolios

Using the research from the Technical Team, Truestone consultants build investment portfolios around your specific goals and your attitude towards investment risk. Each portfolio will be different. Shown below is the typical asset allocation for someone who is investing for the long term and has a 'Balanced' approach to risk, meaning that they can accept some risk to reap the potentially higher returns this allows but would not be comfortable with high levels of volatility. By spreading capital across a number of different types of asset, this arrangement provides the potential for growth but is less likely to suffer steep falls in capital value. Interestingly, only a quarter of the portfolio is allocated to equities which for so many people is the default investment selection.

A balanced portfolio

Type of Asset	Asset Allocation
UK Equities	10%
International Equities	15%
Commercial Property	5%
Alternative Property	10%
Alternative Investments	25%
Fixed Interest	30%
Cash	5%
Total	**100%**



Tony O'Dwyer, Investment Director

Within each of the categories of asset listed, the Technical Team will then seek out the best fund management companies and the most suitable funds for your needs. Both the proportions listed and the particular funds selected will change through time in line with our view of the wider economic indicators and specific fund performance.

Alternative investments

Of particular interest amongst these categories is the type of asset described as 'Alternative Investments' which include a range of investments such as commodities, forestry and microfinance. These are selected primarily because their performance is relatively unconnected to the movements of major stock markets. As a result they may act as a buffer against sometimes dramatic falls in equity values. Clients that have taken up alternative investments over the last 6 months are making very positive returns. For further information about alternative investments please contact Angus Branfield on **0845 362 8425**.

Benchmarks

To help ensure we maintain strong performance in each category we set benchmarks that we aim to beat. For example we aim to beat the performance of the FTSE All Share Index on the returns we obtain from the 10% of the portfolio invested in UK equities.

To make the most of this service it is also important for you to keep in regular contact with your consultant. This will allow you to adjust your portfolio as new trends emerge and benefit from new investment opportunities as they become available.

If you want to find out more about our advisory portfolio management service call **0845 362 8425** or email **assetmanagement@truestone.co.uk**

Ian Handley predicts opportunities to move to fixed rate mortgages in 2009

Truestone Private Finance started to move many of its clients on to tracker rate mortgages in Autumn 2008 ahead of the three rapid reductions in the Bank of England base rate. We were convinced that as the base rate dropped, lenders would use the opportunity to increase their margins. This very much proved to be the case. We saw typical margins increase rapidly from 1% over base rate to the current position where most mortgages are a minimum of 2% over base rate.

Clients who had mortgage renewals in early 2009 and took advantage of booking their rate slightly earlier than is normal practice, have really gained, while those that went on the tracker route as early as Summer 2008 have done very well indeed!

Fixed rate opportunity

We do not think that the window to swap from low tracker rate mortgages to competitive fixed rate mortgages will be open for very long in 2009. We believe this because the number of lenders and fixed rate products has greatly diminished over the last six months, where typically, only the high street names are now competitive. This is because their funding comes from retail deposits; individual saving accounts, rather than from the wholesale money market. Until the wholesale money market gets going again with the banks trusting to lend to each other, we will have a real lack of competitively priced, fixed rate loans. However, at the very point that confidence inspires those markets to work again we will probably see a rapid revival in some areas of the property market and this is also likely to bring concerns about rising inflation. The inflationary concerns could lead to rapid increases in wholesale interest rates.

Truestone will therefore be monitoring fixed rate offers very closely indeed to try and optimise the switch back to this type of deal for as many clients as possible.

Birthday

Truestone Private Finance has just celebrated its second birthday and we were delighted to announce that in such a short time and latterly in a difficult market we have so far arranged over £100 million of finance.

For mortgage advice you can call Truestone Private Finance on **0845 362 8428** or email **ian.handley@truestone.co.uk**

Please remember your home may be repossessed if you do not keep up repayments on your mortgage.

The Financial Services Authority require us to state that there will be an initial fee for mortgage advice. The precise amount will depend upon your circumstances, but we estimate it will be £395. You have the option to pay us a fee and receive any commission which we are paid by the lender. If you choose this option, we estimate that the fee will be 1% of the mortgage amount, for example if you borrow £100,000 our fee will be £1,000. We would be happy to discuss how best to construct any potential fees. Please be aware that you may have to pay a charge to your existing lender should you decide to change your mortgage.

Truestone at Number 10

A delegation from Truestone was invited to participate in discussions with a senior government adviser at 10 Downing Street. The aim of the exercise was to encourage businesses to get involved in social investment. The company's record of work with philanthropists, microfinance and setting up foundations to promote corporate philanthropy and social investment were acknowledged as an example of best practice.

For more information please contact Neil Sandy on **neil.sandy@truestone.co.uk**

Neil Sandy, Chief Operating Officer & Peter West, Philanthopy Consultant outside 10 Downing Street.

Social investments deliver

Despite the hostile conditions, especially in the latter part of 2008, Truestone have been able to source social investments that have delivered very positive returns. You must, however, remember that past performance is not a guide to future performance and these investments may go down as well as up.

Relatively untouched by the turmoil in major stock markets, and benefiting from currency movements during the year, specific investments in microfinance and forestry in developing nations appear to have bucked global trends.

According to Paul Szkiler, Chairman of Truestone: 'A year is a very short period over which to judge performance. However, these types of opportunity make sense on two levels. Not only do they aim to help disadvantaged communities in developing nations lift themselves out of poverty, they should also now be taken seriously for their investment performance.'

If you wish to find out more about our selection of socially motivated investments, and whether they are suitable for your own financial circumstances, please contact your consultant or Paul Szkiler on **0845 362 8425** or email **socialinvestments@truestone.co.uk**

Sacrifice your salary to beat Darling's tax increases

The impact of Alistair Darling's increases in Income Tax for those earning over £150,000 and higher rates of National Insurance Contributions (NICs) can be mitigated by sacrificing salary to boost pension contributions.

By not taking part of your earnings as salary but rather having the money paid into a company pension scheme it is possible to mitigate the Income Tax and NICs that would normally be due. This option may be used to greatly increase the amount being paid into your pension and potentially save employers the cost of their NICs.

Truestone Employee Benefits is able to advise employers on how to introduce salary sacrifice. If you want to find out more call John Deacon, Head of Employee Benefits on **0845 362 8426**.

How to prepare your portfolio when investment markets are falling?

When the economy is slowing down, it offers an opportunity to review your portfolio and position it to weather any storms which might lie ahead or take advantage of any opportunities that may arise. This does not mean you need to make sweeping changes. After all, weatherproofing your house against the winter does not mean you tear it down and rebuild it. Instead you make sensible, incremental changes that provide some additional strength.

10 things to consider:

1. Diversify

It is the basic number one rule of investing but it needs reaffirming. Generally, different types of assets perform well or poorly at different times. If your portfolio is invested in a single asset class – for example, equities – its performance will follow the fortunes of the equity market. If equity markets are volatile, returns are likely to be volatile. However, if your portfolio contains a selection of different types of asset, and is also spread across different countries and regions of the world, the elements can perform differently at different times – so if one is doing badly, the chances are another could be doing better and may compensate for some of the downside.

2. Look beyond your home market

With diversity in mind, perhaps you can start looking overseas for opportunities. A UK-focused portfolio might seem a sensible and conservative option for a UK-based investor. However, this strategy leaves you and your portfolio at the mercy of only domestic sentiment. Other areas of the world may offer a complementary outlook during this time and may be better placed to help you through any domestic downturn. You need to be aware of the risks involved with international markets, and consider the risks associated with fluctuations in the value of currencies but even a small step into developed western economies can diversify some of your risk.

3. Be prepared to roll with the punches

Your attitude during negative periods is as important as your portfolio's structure. Economies can't keep growing indefinitely, and downturns may happen every few years. Successful investors tend to be pragmatic and realistic, they invest for the long-term and expect that whilst there will be good times, there will also be some bad. A short-term downturn should not be seen as reason to panic.

4. Look beyond the economic data

Remember that economic data releases are backward looking. At the start of a slowdown, figures will continue to appear positive, perhaps contradicting our everyday experiences, as old data remains in the calculation. Similarly, once economic growth begins to recover, it will take a while to be fully reflected in the new data. Headlines that scream "worst figures for 30 years" confirm what we have just been through but do not necessarily reflect the prospects for tomorrow. What they do, however, is fan the flames of investor uncertainty – and sell newspapers!

5. Cash is not necessarily king

During a recession, it is very tempting to get out of the stock market and opt instead for the perceived safety of cash. However, timing the market can be risky. Stock markets are volatile, which means that, just as they can fall quickly, they can also recover quickly, with little or no warning. If equities are the right asset class for you, moving out of them when you have already suffered a loss could mean missing out when they finally begin to recover. Moreover, inflation can impact the purchasing power of cash over time.

6. Go for quality

During stock market downturns, high-quality established companies tend to bear up better than their newer or more debt laden peers. A tough environment helps to separate the wheat from the chaff; struggling companies may be forced to cut their dividends and release negative trading statements. Holding quality stocks, therefore, could help you ride out some of the storm. It is also worth noting that, if everything is falling, this could provide a great opportunity to pick up more quality stocks at relatively cheap prices.

7. Assess your exposure to "small caps"

Historically, as an asset class, smaller companies have been the worst affected during a downturn. You therefore need to be sure of your attitude to risk before you take any significant holdings. When things are going well, small caps, as they are known, can offer the possibility of greater gains than their larger peers – but when things are going badly, the losses can also be much greater.

8. Check if you are overexposed

Different industry sectors tend to perform well at different stages of the investment cycle. During an economic slowdown, some companies are less sensitive to the effects because we all continue to need them, even though our income falls – food retailers, pharmaceuticals and utilities for example. Consequently, these tend to hold up better than, say, leisure companies and house builders which depend on us having money to spare. It is always worth holding onto high-quality companies regardless of short-term hitches - but now may be a good time to ensure you are not overexposed.

9. Think long-term

'Recession' is commonly defined as two consecutive quarters of negative growth (in the Gross Domestic Product). Six months in the average lifetime of a portfolio is not long – and even if you take into account the negative behaviour of markets both in anticipation of, and in the aftermath of such data, it is still only a short time compared with the 20 plus years over which we plan for our retirements.

10. This is a fire drill – not a fire

A fire drill is a good thing: the fire might never actually occur; however, if the worst happens, at least you can be confident you have taken all the appropriate precautions! The real secret is to make sure you plan your portfolio properly, with an expert. Then, if and when a downturn strikes, you can review your portfolio.

For further information on our advisory portfolio management service please speak with your Truestone consultant or call us on 0845 362 8425.

Latest rates for cash savings

Truestone reviews the market to identify the leading rates for cash savings accounts and cash bonds. It is our belief that, in general, interest rates paid on cash deposits are likely to fall during early 2009 but as at 8th January the following are available. Please contact your consultant or call 0845 362 8425 for more information on cash savings for both onshore and offshore accounts.

Please note that you may be able to find higher rates; however, we set a minimum level of financial strength for any cash account providers we are prepared to recommend.

Type	Rate	Provider	Financial Strength
Cash ISA	4.75% Variable	Money By Mini (Newcastle BS)	BBB+
Instant Access	5.00% Variable	ING Bank	AA +
1 year term onshore bond	4.60% Fixed	Anglo-Irish	A -
1 year term offshore bond	5.25% Fixed	Anglo-Irish	A -

Sources: www.standardandpoors.com, www.moneyextra.co.uk, www.moneyfacts.co.uk

As returns from cash accounts fall, what are the alternatives?

Expect lower returns from cash accounts and fixed term bonds

As the problems that started in the financial sector spread to the wider economy, we have entered a recession that some analysts believe could last for at least two years. With credit remaining tight and inflation falling from its recent high levels, authorities across both the UK and Europe are reducing interest rates to prop up economic activity. A fall in interest rates to under 1% is predicted by many forecasters.

As a result the interest rates paid on cash deposit accounts may also fall. This means that some clients should consider locking into the higher levels of return currently on offer from cash accounts and fixed term bonds, if possible.

An alternative approach that could produce a higher return

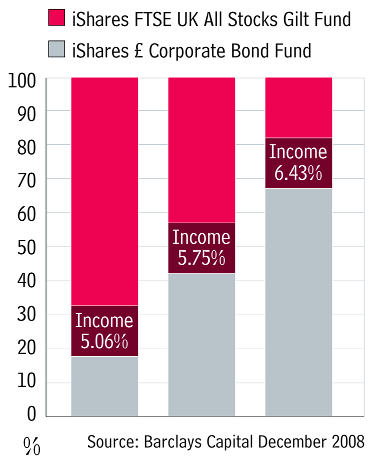
Truestone has identified two funds which may be combined in a number of ways, to offer the potential of delivering a steady income at a level that is anticipated to be well above returns from cash accounts during 2009.

Both funds are iShares which means that they can be easily bought and sold just like any other shares on the stock market. They also have a low annual management charge at 0.2% and no initial charge. As a result iShares are a low cost alternative to index trackers.

- The **'iShares FTSE UK All Stocks Gilt'** fund invests entirely in UK Government Gilts. These are short, medium and long term loans to the UK Government and therefore carry virtually no risk of default. Because of the low risk this fund offers a yield, currently (as at 31st December 2008) 4.37% per annum, paid half yearly.
- The **'iShares £ Corporate Bond'** fund invests in loans to large corporations. Corporate bonds are generally regarded as a lower risk option than equities, however there is always a risk of default by borrowers. As a result the fund offers a higher yield, currently (as at 31st December 2008) 7.12% per annum, paid quarterly.

The two funds can be combined in any way you choose as illustrated by the graph below. For example if you invested 50% of your capital in each, the annual yield (your annual income) would be 5.75%. You could choose to be more adventurous by putting more of your money into the corporate bond fund to receive a higher income but with some extra risk. Alternatively, you can reduce the risk by putting a greater proportion into the gilt fund and receive a lower income. Please remember these investments do not include the same security of capital which is provided by a deposit account.

Below is an illustration using the current income levels for the two funds. By selecting different proportions of each fund you can achieve an appropriate balance of risk and potential return.



Source: Barclays Capital December 2008

By buying into these iShare funds now, you can share in the high rates offered. If and when equity markets do recover you will have the opportunity of switching into equity funds or remaining in these iShares.

Please note that the value of your investment and any income you receive from it can go down as well as up and you may not get back the full amount invested. Also, be aware that Financial Services Compensation Scheme protection does not apply to iShares. There is no cancellation period on investments into iShares and therefore once we receive your written instruction to buy, you will be unable to cancel.

Why you might consider this option:

1. We believe interest rates are likely to continue to fall and this will reduce the returns available from cash deposit accounts and fixed term bonds
2. Underlying assets in the gilt fund are backed by the UK Government and it is consequently a low risk investment
3. The funds can be bought in small amounts and be combined to deliver differing levels of risk and return
4. iShares are exchange traded funds listed on the London stock market and managed by Barclays Global Investors
5. Annual management charges are low at 0.2% per annum with no initial charge
6. Both funds are automatically readjusted to maintain their levels of risk and return
7. Both funds are available as ISAs and can be placed in Self Invested Personal Pensions (SIPPs)

For further information call us on **0845 362 8425**.

New school in Sierra Leone

Truestone employees have been working with a charity (A Call To Business) in West Africa. November saw the start of a major building project in Sierra Leone. Thanks to the generosity of one of our clients a new school is being built just outside the capital, Freetown. In a further development, donations have also been made available to support a growing microfinance organisation, operating across the country to help entrepreneurs start small businesses. We are organising our fourth trip to Sierra Leone in April. The trip is open to anyone wishing to explore social investment and philanthropic activities in the country.

For more information on our work in West Africa call Marjie Sutton on **020 7488 7110**.

Truestone Asset Management plc, Dixon House, 72 – 75 Fenchurch Street, London EC3M 4BR.

Truestone Private Finance, Truestone Employee Benefits and Truestone are trading names of Truestone Asset Management plc which is authorised and regulated by the Financial Services Authority.

Please remember that any tax reliefs referred to are those currently applying, but levels and the basis of, as well as reliefs from, taxation are subject to change.

This Newsletter is published solely to help clients be kept informed. It does not constitute a personal recommendation in any way whatsoever. You should contact Truestone for individual advice to establish the suitability of any of the subjects mentioned for your own circumstances.

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