



Green Shoots or Rose Tinted Spectacles?

Every week a new analyst, commentator or economist tells us there are definitely signs of an economic recovery. Then almost immediately we hear an equally respected source announce that the recession will be longer and deeper than expected. So who is right?

To help you make up your mind Tony O'Dwyer, Investment Director at Truestone answers key questions on the health of the economy and how it will impact investments across the next twelve months.

Why have equities rallied so strongly over the last three months – does this indicate the beginning of the end of the recession?

Equities are rising in value because buyers are back in the market; and they are back for two reasons. Firstly, they are now confident that there are no more systemic failures such as Lehman Brothers to emerge. Following the shock of the Lehman's collapse, governments have shown that they will go to great lengths to prevent large corporate business failures.

The second reason is simply the perception that equity prices have been low, so buyers have reasoned that they can make a profit by buying over the last few months.

Do you expect the increase in equity prices to continue?

We do not yet see this as the start of a bull run in equity markets. Prices have risen so there are fewer bargains to be had. For a sustained market recovery the recent increases need to be underpinned by strong performance and profits from listed companies. This will be difficult in the midst of a recession.

It is important to remember that the stock market and the economy are very different things and at the moment they are quite divorced from each other. The credit crunch is still with us and banks are only lending in situations where there is virtually no risk of default; this applies in both the personal and corporate markets. Unemployment is anticipated to rise to three million by the end of 2009 and possibly further in 2010. This must mean reduced consumer spending and that will be reflected in corporate results.

The banks led us into this recession – have their problems been resolved yet?

The short answer is 'no'. Some of the banks racked up commitments of over 40 times the capital they had as security. Even the estimated £1.2 trillion underwritten by the tax payer is insufficient to recapitalise the banks to the extent that they can start to lend normally and energise the economy.

Have you got any more bad news?

I think there are two things to watch out for. As you probably know the government will need to borrow money to fund the measures



Tony O'Dwyer – Investment Director

it is taking. To do this it will issue a large number of Gilts (loan notes) for sale. Historically the UK has always had a top class AAA rating as a borrower of money but there is a risk we could lose this status. If we do, the value of Gilts may fall which will impact the value of many portfolios. The market is wary of the large borrowing requirement, and bond yields have increased to reflect this unease.

On the road to recovery we expect to see a spike in inflation levels. Higher inflation is generally seen as a bad thing but the authorities may be slower to react this time around because it does erode the value of the debt that the economy is living with. It would in effect speed up the cleansing of the economy.

So is there any good news?

There is always good news if you know where to look. It is crucial at times like this to know the fund managers who really understand their sector and will be very selective in choosing which companies to invest in. Fund manager and asset allocation selection will be paramount in preserving capital during this recession.

The emerging markets sector looks positive. China and Latin America are still growing markets but do not have the legacy debt problems that exist in the developed economies.

Also investments in **resources**, for example metals and power are likely to perform well. There are many infrastructure projects underway across the globe as governments are spending to stave off the recession. These will increase demand for building materials and again emerging market nations will be both producing and consuming these types of asset.

(continued overleaf)



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With the right fund manager, there are still opportunities for investment in equities and corporate bonds. While we are not keen on government debt (Gilts) we have identified corporate bond funds such as the M&G Optimal Income Fund and the Legal & General Dynamic Bond Trust where the fund manager is picking high quality businesses to invest in.

Because **Absolute Return Funds** do not rely on continually higher markets to deliver a return, we are including investments such as the CF Octopus Dynamic Fund and Standard Life Global Absolute Return Strategies Fund in

portfolios we construct. These types of fund can prosper just as well in a falling market and offer investors the benefit of not being tied directly to the ups and downs of the main equity markets.

What about 2010?

There are some very interesting opportunities that may emerge by 2010.

Yields in **commercial property** are now rising to attractive levels. We do not think the time is yet right to go into commercial property, particularly as the banks still have issues in refinancing this market and the recession will result in further business failures. However during 2010 we may be recommending this asset class.

Similarly **distressed corporate debt** (debt which has been marked down in price) could offer the opportunity of good positive returns. We will be tracking this carefully over the next few months but would not expect to recommend it until 2010 or when we see a decline in business failures.

So there you have it – no end to the recession yet, although expect some periodic stock market rallies. Keep a wary eye on Gilts but consider emerging markets, resource funds and absolute return funds. Stick to the fund managers who really know their market and opt for quality when they invest. What could be easier?

Featured Funds

Despite the volatility being experienced in financial markets, there are still opportunities and investment strategies that offer the potential of strong positive returns. In this edition we feature two funds that have performed well in their respective sectors of the market.

First under the spotlight is a Legal & General bond fund which demonstrates the value of a fund manager who follows a strategy of selecting high quality companies to invest in. The second fund from Ignis Hexam, is one that is capitalising on the potential of the emerging markets sector which is less encumbered by the excessive debt of the developed economies.

Legal & General Dynamic Bond Trust

Fund size: **£55 million**
 Fund Manager: **Richard Hodges**
 Yield: **6.4%**
 Launch: **May 2007**

The collapse of Lehman Brothers in September 2008 brought chaos to credit markets.

Banks were threatened by bankruptcy or nationalisation which threw normal market rules out of the window. Those who previously counted on bank bonds for healthy yields faced heavy capital losses. The Investment Management Association (IMA) Strategic Bond sector lost 13.53% of its value in 2008.

Faced with a high level of volatility in credit markets, the Truestone Investment Management Committee (IMC) approved the Legal & General Dynamic Bond Trust (L&G DBT) in November 2008 for use in client portfolios. The L&G DBT is able to utilise derivatives to hedge against currency risk as well as "shorting" to deliver potential gains in a falling market.

Since launch the fund has achieved gains of 18.1% compared to a sector average of -9%. This outperformance has been achieved without taking on added risk. Much of the fund's success is due to L&G's market power. The Group holds around 5% of all UK equities and one-sixth of the corporate bond market. This allows it boardroom level access to bond issuers, which is extremely valuable when

The top 5 Sterling Strategic Bond funds over the past 6 months are:

Old Mutual Dynamic Bond	31.3 %
L&G Dynamic Bond Trust	20.4 %
Jupiter Strategic Bond	20.1 %
New Star High Yield Bond	18.9 %
M&G Optimal Income	16.4 %
IMA average for the Sterling Strategic Bond sector	5.7 %

Figures for the last six months ending 02.07.09 Source: Truestone

Performance of the Legal & General Dynamic Bond Trust since launch



■ A - L&G - Dynamic Bond TR [18.10%]
 ■ B - IMA Sterling Strategic Bond TR in GB [-9.00%]

30/4/2007 - 17/06/2009 ©
 Data provided by Financial Express 2009

high quality new issues are in high demand.

The fund manager, Richard Hodges was headhunted by L&G and previously ran the Gartmore Corporate Bond fund which was itself always in the top 25% of funds within its sector during his time in charge.

The initial charge for going into this fund is usually 3% of the amount invested, with a 1.25% annual management charge.

Truestone clients do not pay the initial charge and the annual management charge is reduced to 0.6%.

Please be aware that the past performance of a fund is not necessarily a guide to its performance in the future. The value of investments may rise or fall due to the volatility of world markets, interest rates and capital values or, for investments held in overseas markets, changes in the rate of exchange in the currency in which the investments are denominated. You may not necessarily get back the amount you invested. Where you are unsure about any specific investment or other decision, you should obtain appropriate expert independent advice.

Ignis Hexam Global Emerging Markets Fund

Fund size: **£12 million**
(target £100 million)

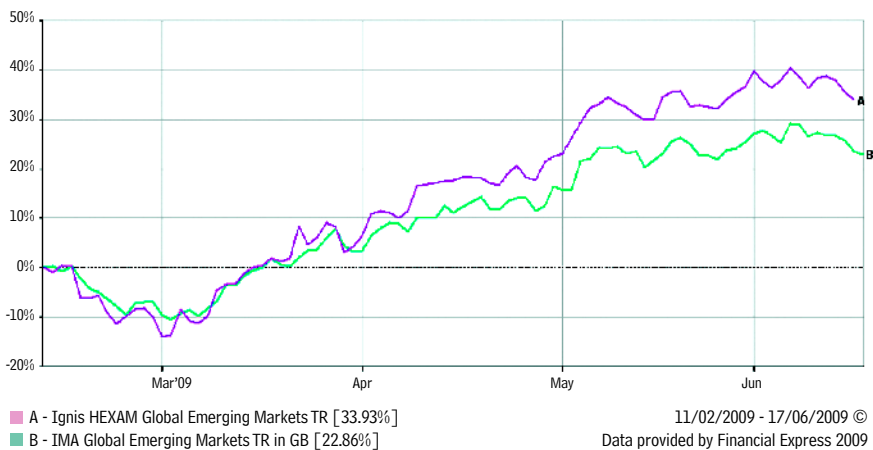
Fund manager: **Byron Collings**
(Lead Manager)

Launch: **February 2009**

Developing and emerging markets such as Brazil, Russia, India and China (BRIC) can potentially offer better "value" possibilities as they don't suffer from the same debt issues as the more developed economies. Indeed it is possible that any recovery is as likely to be led by China as the US. In order to tap into this growth potential Truestone has increased its exposure to the Emerging Markets sector by adding the Ignis Hexam Global Emerging Markets Fund to portfolios.

The investment team has almost 50 years of combined experience of investing in emerging markets and believes that in a developing economy, value can always be found regardless of the global direction of equities.

Performance of the Ignis Hexam Global Emerging Markets Fund since launch



The fund is relatively small and is nimble enough to buy and sell stocks quickly which we feel is crucial in volatile markets. The fund is not for the faint hearted and most investors should consider this as a long term investment and only as part of a balanced portfolio.

Ignis Hexam has achieved 33.36% over the last 3 months against the Investment Management Association Global Emerging

Markets benchmark return of 22.89% and is the top performing fund.

The initial charge for going into this fund is usually 5.25% of the amount invested, with an annual management charge of 1.5%.

Truestone clients do not pay the initial charge and the annual management charge is reduced to 0.75%.

Please contact your consultant or call 0845 362 8425 if you would like to know more about either of our featured funds and to see if they are suitable for your circumstances.

Please be aware that the past performance of a fund is not necessarily a guide to its performance in the future. The value of investments may rise or fall due to the volatility of world markets, interest rates and capital values or, for investments held in overseas markets, changes in the rate of exchange in the currency in which the investments are denominated. You may not necessarily get back the amount you invested. Where you are unsure about any specific investment or other decision, you should obtain appropriate expert independent advice.

Protected Rights Pensions and SIPPs

For over 20 years people have been allowed to contract-out of the State Second Pension, previously the State Earnings Related Pension Scheme (SERPS). Contracting-out meant that a proportion of your National Insurance Contributions were redirected into a personal pension, where it would be invested by an insurance company. These funds are

known as 'Protected Rights' pensions. Rules applying to these funds mean that they have been ring-fenced from other pension arrangements. Often they have been left to languish in poorly performing and expensive funds. A relaxation of the rules from October 2008 now allows savers to take more control of Protected Rights money so that they can

now be placed in Self Invested Personal Pensions (SIPPs) which offer a wider choice of investment opportunities.

Contact your consultant to find out more about Protected Rights pension funds and SIPPs or call 0845 362 8425.

Latest Cash Account Rates

As you will be aware, interest rates on cash accounts remain low. These are the latest rates for savings providers with a credit rating of A+ or higher. It is worth noting that whilst they describe themselves as instant access accounts, the market leading products from ING and Abbey only become market leading when they are held for more than 12 months and receive their annual bonus payment.

Type	Rate	Provider	Financial Strength	Access	Conditions
Instant Access	2.75%	ING	AA-	Phone, Web	2.22% bonus after 12 months
	2.50%	Abbey	AA	Phone, Web, Post	2.00% bonus after 12 months
Cash ISA	3.00%	Abbey	AA	Phone, Web, Post	£9k min
	2.10%	Scottish Widows Bank	A+	Web	—
Term	3.75%	Abbey	AA	Phone, Web, Post	£25K min
	3.7%	Cheshire Bank	A+	Branch, Post	—

Sources: www.standardandpoors.com, www.moneyextra.co.uk and www.moneyfacts.co.uk – rates available as at 24 June 2009

If you would like more information on setting up low risk investments or cash savings accounts please call us on 0845 362 8425 and we will help you find a suitable solution.

Not Necessarily "in a fix"

Ian Handley, Head of Truestone Private Finance believes that commentators who are telling mortgage holders to move to fixed rate deals may have got it wrong. Sometimes it is better to do nothing.

In my January/February newsletter article I predicted that the window to move into good value fixed rate mortgages in 2009 would not be open for long! Guess what, it has been and gone in a blink, with the best five year fixed rate deals all increasing in the last two weeks to just under 5%.

So, are the big name pundits like Charcol & Savills right to say that you should fix now?

I am not convinced, especially if you are one of the many clients with an existing tracker mortgage that is less than 1% over base rate, and therefore currently paying the equivalent of 1.5%, or even if you have come off an old fixed rate and are on the lender's Standard Variable Rate - typically 2.5%.

The big question is how fast the Bank of England base rate will increase. Looking at a range of forecasts this could range from 1.5% to 4% by December 2010. I am inclined towards the lower figure with possibly a quarter percent rise per quarter next year. I think the recent feel good factor about the overall economy is overstated: Government debt is huge and growing, unemployment is growing, Sterling has strengthened. The UK has yet to undergo a massive restructuring of its manufacturing base to supply products to a 'new green economy' or address the need to reduce public spending. All this points to recent price rises in the cost of longer term money being more about scarcity of money than a belief that "things are taking off".

Back to basics

When things are uncertain it is as well to remember the basic economics of supply and demand. Lack of supply increases price. At the coal face I can never remember so few suppliers of mortgages. In the case of Buy-To-Let (BTL) there are barely more than 10 lenders, many of which are indirectly funded by the Government. Upfront fees are typically 2.5 - 3.5% for BTL. Why? In my view it is because the lenders want to pay off their debt to the government as quickly as possible and be denationalised. As soon as a good value product arrives in the market the lender is swamped with applications, so they price upwards to control demand. Even for low risk clients, there are not many more lenders to choose from and whilst the fees are less excessive the same principle applies. The top few lenders are pricing upwards mainly to control the number of applications not because the rates are appropriate.

Stick or twist?

So here goes, if you have a good tracker mortgage you might as well make the big savings on your mortgage now whilst times may be tight and take your chances later. There is every chance that as the Bank rate rises, tracker margins will reduce to offset some of the price rise.

Also as money supply and mortgage providers (with mortgages now very profitable there will be new entrants) slowly increase, fixed rates



Ian Handley – Head of Truestone Private Finance

will see conflicting pressures - the increased supply of funds will partially compensate for the macro economic upward pressure on rates from inflation. I would not be surprised to see fixed and tracker mortgages at, or close to 5% for the next couple of years.

Overall, if you have a cheap rate mortgage now, use the savings to pay down the mortgage or more expensive debt, and as your rate drifts up keep an eye on the alternatives. One thing is for sure, if you fix your rate now it could treble the current cost of your mortgage. I am not convinced that by taking out a fixed rate of around 5% now you will be saving money in the long run.

If you think you might need advice on your mortgage, please call Ian on 0845 362 8428 or email ian.handley@truestone.co.uk

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

If you decide to use the services of Truestone Private Finance, there will be a fee for mortgage advice. The precise amount will depend on your circumstances. 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 total amount will be 1% of the loan. For example on a £100,000 mortgage you will pay £1,000.

Latest Mortgage Rates

The rates below are based on a loan of £200,000 repaid across a 25 year term. Some rates are only available for cases where the loan is 60% or less of the property value due to the tighter lending criteria in place across the market.

Residential Fixed Rate Mortgages

Lender	Initial rate	Term	Fee	Monthly repayment
Abbey	4.18%	2 yrs	£995	£1,075.65
Platform	4.99%	3 yrs	nil	£1,168.02
Leek BS	5.49%	5 yrs	£495	£1,226.98

Residential Tracker/Variable Rate Mortgages*

Lender	Initial rate	Term	Fee	Monthly repayment
Woolwich	3.24%	For the life of the mortgage	£999	£973.58
Abbey	2.99%	3 yrs	£995	£947.38
Halifax	3.79%	until 31.07.2014	£499	£1,032.62

* Rates will change as the relevant base rates to which they are linked rise or fall. Source: Trilogid, rates available as at 2 July 2009

Please call Ian Handley on 0845 362 8428 for advice on a mortgage that will suit your personal circumstances. Or email ian.handley@truestone.co.uk with any questions you may have.



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