



## ECS Investment Newsletter August 2009

I did say in my last newsletter I was holding off with my communication entitled “They think it’s all over..... IT IS NOW!” and that is also my position as I write, but it is interesting just how quickly things have started to change. There is no doubt we have had some kind of a rally and whilst we are not out of the woods just yet there are a number of reasons to be optimistic.

We are still at market levels (FTSE100 @ 4650) that were available in June 1997 so there is still plenty of value around for anyone with a medium to longer term time horizon. Those who have remained on the sidelines over the last 12 months should seriously consider venturing into equity markets at these levels.

There appears to be more stability in the markets and certainly much progress has been made in the recapitalisation of the banking sector. Recent UK company results have on the whole been pretty positive but it would be naïve to believe it is all plain sailing from here either. On the whole though we have seen some progress from the gloom of 6 to 12 months ago.

Cash is no longer providing the same returns that have been previously enjoyed particularly from savings that are now maturing from previously fixed rate cash deposits. Some clients have been alarmed at how little their instant access accounts are now earning when they have been motivated to ask. It’s surprising how often people lose track of exactly what their savings accounts are paying them, particularly after tax!

So below are a few options you should consider if you are looking to increase your wealth or simply ensuring your savings keep pace or even ahead of inflation.

### 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 now you can build up a substantial ISA’s 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.

## So where should I invest?

### Fixed Interest Funds

If you are a cautious investor your first port of call may well be fixed interest funds which have done very well over the last 6 months, particularly in the corporate bond sector. There are likely to be further gains over the next 12 months and we currently favour funds which actively manage the mix of the different types of fixed interest instruments within the fund. This obviously lets the fund manager respond to changes to market conditions to maximise returns whilst helping to manage the varying market risks.

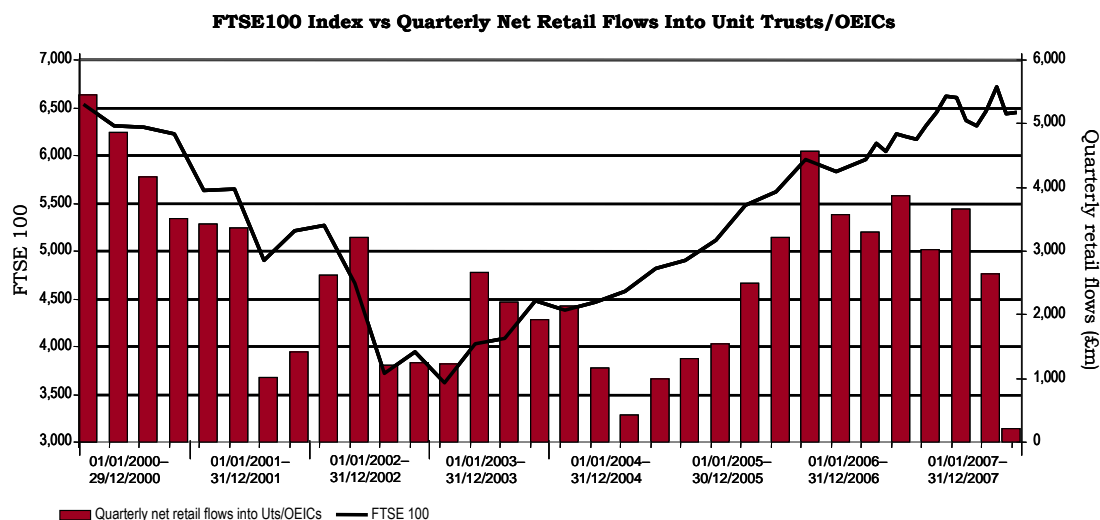
### Cautious Investments

A number of investors have returned to the markets by utilising cautious managed funds where the asset allocation is actively managed as the investment conditions change. This helps to reduce the volatility of the investment whilst still giving you some exposure to equities.

### Equity Funds

Whilst no one can call the bottom of the market with any degree of certainty the FTSE Index has certainly seen a small rally from the 4,000 to 4,200 levels we were bouncing along at 3 months ago. If you are investing for the longer term you will probably look back in a few years time and see what a great opportunity these market levels offered. As ever if you are looking for medium to long term growth then equities is where you are really likely to see the gains.

The graph below shows how the level of retail fund sales always follows the state of the market i.e. when the markets are at their highest people buy in their droves.



When the market is low, undoubtedly the best time to buy, most people are too worried to invest and therefore miss the best opportunities. It is true that fortune favours the brave! ... and markets have never failed to recover given time. Remember also that patience is a virtue.

### And finally .....

If you are waiting for my communication "They think it's all over..... IT IS NOW!" remember that by the time you have read that particular newsletter you will have already missed some significant gains. So why not give me a call now if you wish to discuss your investment options.

Tom Morris  
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