



# Investment View

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A Personal Investment View for Thoughtful Investors

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**Stuart Bryant**  
Chairman - Certified Financial Planner  
[stuart@sdb.co.uk](mailto:stuart@sdb.co.uk)



**Jo Watt**  
Director - Certified Financial Planner  
[jo@sdb.co.uk](mailto:jo@sdb.co.uk)

## Momentum Uplift

In our February 2010 Newsletter, we commented upon the loss of market momentum generally; however, since early February 2010, we have seen an uplift in many markets and, particularly in the UK, there is some improved performance – albeit down to the strength of the US Dollar.

## China



In Sterling, we have seen a 44% increase in the *db x-trackers FTSE/Xinhua China 25 Fund* over the past twelve months.

As mentioned in our February 2010 Newsletter, there is a high degree of volatility and an enormous amount of negative sentiment about China, for example: the property bubble and other over-capacity/over-bought positions. China is always a difficult market to read and understand, but one over-riding issue remaining at the front of our thinking is that, as a nation, it requires an enormous amount of infrastructure. Therefore, unlike the developed markets in the UK, Europe and the USA, its people will drive the consumer demand since, as yet, they do not have all the consumer goods and infrastructure they need; whereas, for example, in the UK and Europe, we are seeing a slowing down of spending in order to deal with our enormous budget deficits.

## India



This is an enormous continent on which it is very difficult to generalise; however, virtually the same arguments exist for the Indian people, as for the

Chinese, except that the Indian population is, generally, far more mobile.

There have been a fairly serious series of events in India which have affected the market price of the Indian stockmarket; however, the growth we have seen over the last twelve months is over 42%.

## Gold, Precious and Industrial Metals



In view of the strength of the US Dollar, gold has shown some serious weakness and hit a short-term low in February 2010, although it has subsequently rallied. However, gold is still perceived to be a currency and is also deemed to be a safe haven, when times become difficult.

There is very little to suggest that gold will drop further, other than due to further dollar strength or geo-political pressures, and we continue to expect gold to perform in the short term.

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Website: [www.sdb.co.uk](http://www.sdb.co.uk) — Telephone: 01782 712233

Bryant House, Silverdale Road, Wolstanton,  
Newcastle-under-Lyme, Staffordshire ST5 8BQ.

## Emerging Markets



Recently, much has been said and written about emerging markets; however, we believe the majority of the markets in which our clients are invested can now be classified as

developing markets, with markets becoming more liquid and corporate governance starting to show some control.

This does not apply to all emerging markets, but the ones in which we are particularly interested are now showing signs of further growth. For example: on a year-on-year basis, the *iShares MSCI Emerging Markets Fund* is showing just under 70% growth in the last twelve months.

## UK General Election..... General Election.....General Election

There is some speculation that Gordon Brown may approach the Queen week commencing 05 April 2010, with a view to asking for permission to dissolve parliament and holding a General Election.

How may that affect the world markets? We suspect the effects, as always, will be very muted; however, in the UK, we have a number of interesting challenges, the main one being fears of a "hung parliament". A hung parliament would not be very well received by the stockmarket and this may cause some short term unease amongst investors which may lead to a bout of selling in the UK.

Generally speaking, our clients have little exposure to the UK and we do not feel it would be appropriate, at this time, to take exposure. However, on a more global basis, it is evident that markets are continuing to recover and it may well be that we will, within the short term, consider taking larger positions in the world markets.

## Inflation

We have seen some evidence to suggest that inflation is far stronger and far more of a risk than we had recently thought. Although the *Consumer Price Index* was 3%, the *Retail Price Index* was 3.7%.



Although inflation is not something we should welcome with open arms, it is one of the tools that central banks have in order to deal with the rising debt.

Recent research suggests we will, as a nation, have over £1.5 trillion worth of debt to deal with at the end of April 2010 and, as there is already pressure on prices, it is reasonable to expect to see high levels of inflation, at some point in the future.

Over the last twelve months, we have seen an increase of almost 8% in the *iShares £ Index-Linked Gifts Fund* and, although this may be topping out, it is fairly indicative of how the world sees inflation in the UK.

## Good News from Transact

As you are already aware, Transact have recently announced amendments to their pricing policy, which means clients will benefit from a reduction in specified charges. This is excellent news, as this will have a beneficial impact on client portfolios.

## Summary

We have a number of very specific challenges in front of us as a nation. Our UK stockmarket has shown some very valiant resilience in the last twelve months and has recovered in excess of 50%; however, we still suspect there is a possibility of a further dip, if a geo-political problem should emerge.

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