

PROSPECTS FOR INVESTMENT

Investment in commercial property is a good way of spreading risk beyond the equities and fixed interest securities of which most portfolios are composed. Property has asset backing and produces an income which usually exceeds that available from shares.

However, the laws of supply and demand operate in the property market as elsewhere, and recently demand has exceeded supply and the return on property investments has been driven to historically low levels. So now is not the time to be buying UK property funds, though existing investors will be cheered by the improved tax treatment bestowed on property unit trusts.

So what type of investment asset is a good buy at the moment? Certainly not UK fixed interest securities. Rising interest rates are always bad news for fixed interest, and there has been a series of rises over recent months with the possibility of more to come, as the Bank of England tries to rein in the economy in order to contain inflation, which has again raised its head after a prolonged period of quiescence.

Looking abroad for both property and fixed interest could be an option, and there is an increasing number of funds taking a global view. In the case of property, at least, the prospects seem interesting.

Equally, there are arguments for looking beyond the UK for equity holdings, particularly at a time when the buying power of the pound sterling is strong. Opinions about the UK market are divided, but most pundits are counselling caution after a four year 'bull' market in the UK, and predicting possible setbacks.

Others are more sanguine about the United States, suggesting that the weak dollar, which has undermined recent performance for UK investors, may be

stabilising and that the market is not expensive.

Asian markets are also considered attractive, despite some concerns that soaring economic growth in China, which has fuelled activity throughout the region, may be unsustainable.

The comment has been made that whatever China makes will go down in price and whatever China needs will go up in price. A case in point is natural resources and in particular oil, whose value is also underpinned by concerns about global warming and on-going tensions in the Middle East.

When it comes to the question of how best to invest overseas, the objective should be to select holdings which will behave differently in response to changing circumstances – what the experts call non-correlated diversification. In this respect it is known that as a result of increased economic globalisation, the share markets of the major economies tend to move in unison, but emerging markets and specialist markets are affected by different factors.

So one strategy might be to select a Global fund (such as that recently launched by Fidelity following the splitting of Anthony Bolton's flagship Special Situations Fund) with an emerging markets or natural resources fund.

In pursuit of non-correlation, equities would normally be complemented by fixed-interest holdings, but fixed-interest returns are currently being bettered by cash, which is also the safe haven in times of uncertainty.

John Chatfeild-Roberts of Jupiter recently moved 25% of one of his multi-manager funds into cash – a move which underlines the flexibility of multi-manager and its value as a holding to tuck away and forget about, on the basis that the manager will be minding the shop.

Another possible means of protecting against market uncertainty is the new type of

"long/ short" fund which enables the manager to benefit from market falls by going "short" of shares which he expects to fall in value – that is to say, contracting to borrow and sell at today's price shares which he expects to be able to buy back at a lower price at a lower date. However, such funds are by definition higher risk and should be treated with caution.

Overall, investors should be seeking a balance in their portfolios between equities, fixed interest, property, natural resources and cash.



PUTTING THE CLIENT FIRST

The Financial Services Authority, which authorises and regulates financial firms, is proposing to draw a distinction between those financial advisers who work on a fee basis and possess specialist qualifications (referred to in the FSA's Discussion Paper as "professional" advisers) and those who are remunerated by commission paid by the providers of the products which they sell.

In making this distinction the FSA is recognising that financial planning has become a profession which can begin to claim similar status to solicitors and accountants. What distinguishes the established professions is their commitment to putting the interests of the client first. Unfortunately, this commitment has not been shared by all financial advisers, some of whom have been driven by the lure of commission payments to make unsuitable recommendations.

The principle holds good that no one can serve more than one master. Advisers who put their clients first will treat any commission they receive as belonging to the client.

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	<p>Clairville York Limited The Bellbourne 103 High Street Esher Surrey KT10 9QE Tel: 01372 470 477</p>	
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