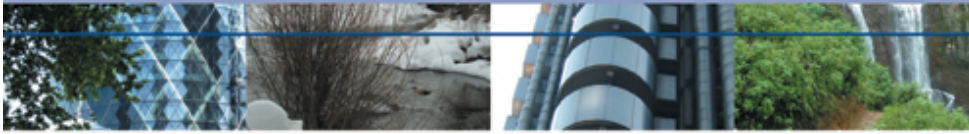


News & Views



EBS - Autumn 2008

Current market view

It is now over a year since the credit crunch first hit and yet we seem no nearer understanding the full extent of the problems. It is this ongoing uncertainty which is really driving markets downwards and which may keep them volatile for a while to come. The key questions are 'How much worse will it get?' and 'How do I protect my investments?'

The first question is almost impossible to answer. The future is never guaranteed in stock markets and, commentators have no collective view. A few of them will definitely be right, but we currently have no idea which ones.

The second is easier to address. Volatility and market surprises are at the heart of equity investing and these events highlight just how seriously the warning 'the value of equities can go down as well as up' should be taken.

Things may look bad but selling now simply consolidates any loss already suffered. Then, if and when markets rebound, you will also miss out on the upside. However, with a widely diversified portfolio and adequate reserves for any emergencies during this period, you can stay invested and wait for normality to return. If markets fall further, your portfolio on paper will also fall further and you may have to wait longer before it gets back to where it was - but at least you are giving yourself the chance for this to happen. If you pull out now, your money is definitely lost.

The best advice is therefore to take a step back and remember why you made your investment. Be comforted with the thought that, if your portfolio is balanced and your needs are unchanged then this news should not be a reason to panic. However, there may be some ways in which we can work to minimise the effects of any further negative news which might emerge, whilst also allowing you to benefit if and when positive momentum returns.

Of course, if you do have any questions in light of the market falls, then please get in touch.

BRAND NEW WEBSITE

For further topical information & free guides including '10 Golden Rules of Investing' and 'Recession-Proofing Your Portfolio' visit our brand new website www.ebsfs.co.uk

Business & economic news has been very much front page news in recent times. This newsletter provides some valuable, topical information which we hope you will find of interest. As always, please get in touch if you would like a personal review, we are here to help.

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Q: Why is making...

...a decision on interest rates so difficult?

A: In January, Mervyn King, Governor of the Bank of England, warned 2008 could be a tough year for the UK economy. He forecast a slowdown as consumers tighten their belts and reduce spending. This fuelled expectations of an interest rate cut. However, fuel prices and energy bills are high and King predicted "a period of above-target inflation". This leaves the Bank caught between a rock and hard place. If rates are eased further, it could fuel inflation – but if rates stay on hold, this risks suppressing the prospects for economic growth.

Explaining the credit crunch

In a nutshell, credit crunch describes a situation where businesses and consumers find it difficult to obtain loans because lenders are concerned about the risk of defaults. The current, prolonged credit crunch has arisen from the fallout of rising defaults in the US sub-prime mortgage market.

In the low interest rate environment, lenders made it easy for those with lower credit scores to obtain credit. These 'sub-prime' loans were then sold on to financial institutions and hedge funds through securitised products on the secondary market.

However, as interest rates began to rise and market conditions worsened, these debt packages lost value – meaning banks were left holding assets worth much less than they initially paid. As a result, they became difficult to sell on and some banks had no other option but to write off some of the debts and close investment funds with exposure to them.

The ability of buyers and sellers to trade on the financial markets is known as liquidity. When credit becomes expensive in this way, the liquidity in debt markets becomes restricted - and because it cannot be sold easily, institutions become less willing to lend in the first place. For anyone trying to borrow, this is bad news.

As a result, you would expect to see an increased pressure on company performance. A lack of borrowing means corporate management can't easily turn to the market for financing. Private investors buying and selling shares might see losses from companies whose business plans depend on credit.

The market in general could be affected as the share prices of some UK stocks were being supported by share buy-back activity - often funded by borrowing. In the personal market, it is becoming more difficult for those wishing to arrange mortgages – particularly those who might be classed as 'sub-prime'.

It's clear that tighter global credit conditions are predicted to slow economic growth and we are seeing illustrations of the impact as high street retailers report tough conditions. Despite positive words on the US economy from Federal Chairman Ben Bernanke, it is still unclear how long this situation will continue.



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