

Investment Update

The table below shows the level of the FTSE100 index (which represents about 85% of the UK stockmarket) taking the first trading day of each month opening figures for 2008. At the time of writing the FTSE100 has fallen further to around 5650, representing a fall in June of 400 points or around 6%. As a consequence since January the FTSE has fallen nearly 11%. This has largely been caused by the continuing effects of the credit crunch and rising oil prices which have a knock-on effect of reduced profitability for most businesses.



Date (2008)	FTSE 100 Opening Level
02 January	6416.70
01 February	5879.80
01 March	5884.30
01 April	5702.10
01 May	6087.30
01 June	6053.50

In the context of a 10 year cycle, the FTSE100 index opened in January 1998 at 5135.50. This reflects an average annual growth rate of 2.25% in the last 10 years. The previous 10 years saw the FTSE100 open at 1712.70, reflecting growth between January 1988 and January 1998 of an average 11.61% each year. The 20 year period sees the average annual return reduced to 6.83%.

One could argue that if your investments grew at annualised returns of around these figures then you did well – you effectively beat the market. This said, I have happened to pick statistics from January and frankly this data really does little more than reflect the averages across the same single day over 20 years, so I am mindful of using data that is open to misinterpretation.

The chart below, shows the graphic interpretation of what has happened. The circled part is 1987 – what many still remember as the crash.



In the context of the last 20 years, the October 1987 crash appears to be nothing more than a small correction. The bigger story is surely the rapid growth from 1996 which was much like a bubble that was set to burst. This is very easy to say in hindsight. Many people that invested in 1999-2000 are still nursing losses.

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Clearly many people have also achieved far better returns, which is partly due to luck. If you invested in March 2003 you have seen significant gains over the last 5 years. The problem with the media and indeed the financial services industry is the focus on the short-term. This is entirely unhelpful when planning to build a pension fund, repay a mortgage, or plan education fees for children. We must keep the long-term bigger picture in mind. So what I really mean is that investment return expectations should be realistic - if you achieve anything over 7% you are beating the average.

Another valuable lesson is to adhere to the proverbial warning about keeping all of your eggs in one basket, which is why at Solomon's we spend time building a portfolio of funds from the global markets which include cash, property, fixed interest, shares and bonds. This is actually the key to a good portfolio and providing a higher degree of security.

The markets are currently in some disarray. I am not anticipating a major fall; from a longer-term perspective we are on track with expectations. So whilst there is much bad news around, this is largely short-term, sensationalist and frankly irrelevant to any long-term planning. It is highly relevant to those nearing the time that they require their funds, be it for a mortgage, pension or general capital. However for investors, the lower prices are effectively a discount and a good time to invest.

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