

## Credit Crunch Update



**Dominic:** I remain very concerned about the state of the global economy. Investors find themselves in a very difficult position of seeing portfolios fall in value, yet recognising that cash deposit accounts may be even more insecure. Regrettably this is not helped by somewhat impotent political leadership around the world and we seem to be witnessing the “panic herd”. It

would appear that the US will eventually pass their \$700bn (USbn) bail-out, which will hopefully see some relief to markets, however I believe that there will be more “bad news” and that this initiative is too little, too late and an opportunity for some to finally “come clean”. It has been very difficult to release our e-zine as a new twist occurs.

We are at a cross-road for investment. Obviously I do not know the future, so cannot offer any form of guarantee about which direction markets may head. The reality is that these are very uncertain times, something that normally the markets revel in. The investment story remains accurate and true – investment requires a long-term mindset – over the long-term, equities (shares) outperform cash and provide real growth (beating inflation) keeping spending-power rising. I have provided details about the impact of inflation and how this is really the “enemy” of investors.

Unfortunately, this truth does little to comfort investors. Clearly our desire is to grow the value of your funds – not see them fall. We have been counselling a lower risk approach to investment for the time being. In reality, amidst a media apparently eager to seize on every piece of bad news, which serves only to worsen the situation.

It is natural to want to blame someone for the mess that is currently unfolding. The sense of powerlessness is very real, yet there are actions that we can take:

1. Portfolios should be balanced across various asset classes according to your attitude towards investment risk (loss)
2. You may wish to reduce this further for the short term to a very low risk strategy, however be aware that knowing when to “get back in” to the market is arguably harder than knowing when to get out. Market timing is phenomenally difficult to get right. No one does this with consistent success, indeed research has proven that attempts to do so actually decrease value. To demonstrate anything more than luck, requires a 12-year track record (statistically speaking)
3. You have to live with your investment decisions, so these need to be made in a positive fashion, rather than negatively
4. Long-term thinking is hard, as Kipling’s poem “If” – it is hard to keep your head when all around you are losing theirs (to paraphrase)

# SOLOMON'S

INDEPENDENT FINANCIAL ADVICE

Whilst many within the financial services sector have acted unwisely, there is a degree to which far more have acted with mathematical naivety. I know that credit card companies have been bombarding us all with enough marketing material to fill a very large hole, but this merely plays into our sense of keeping up with the Joneses... the drive to constantly spend money we don't have, on things we don't "need" to impress people that we don't know and probably wouldn't like. It sounds harsh, but much of this has to do with personal budgeting - a difficult, but vital, discipline. Multiply this across institutions and governments and you inevitably lead to... credit meltdown. It would certainly appear that many institutions – who should know better have not the first idea about budgeting or pricing.

So we need to return to the fundamentals of personal finance:

- 1. Spend less than you earn**
- 2. Have a financial plan (and a plan for your life – start with the end in mind)**
- 3. Build liquidity = readily available savings**
- 4. Review annually.**
- 4.5. There is no substitute for quality**

This is nothing new. Indeed as a client you would have heard us say this on numerous occasions. It is simply a great pity that the largest economies in the world have failed to implement the same process as our clients.

Reviewing your financial planning is no more important now than it was last month, 3 or 10 years ago. It was important then and remains important now. As the Chartered Insurance Institute recently said of tax planning:

*"Once some tax planning has been done it should not be forgotten. Changes to tax law occur very frequently, making an annual review of a client's investments and tax position is extremely important."*

The key to successful financial planning, whatever the economic climate, is to apply these founding principles.

## **Consequences and hope for the future**

We are now reaping what has been sown into our economies. I am concerned that many businesses will suffer considerably, but however painful the coming months may be, they will pass in time. Markets will recover. Whilst I believe the markets will be somewhat sanguine, the biggest failure will be ignoring the issues that have resulted in this situation. Please pass on the above principles to anyone that you can find to listen, the best way to truly learn something is to teach it to someone else. Here is Kipling's poem in full, linguistically out of date, but the content remains timeless.

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INDEPENDENT FINANCIAL ADVICE

## IF

If you can keep your head when all about you  
Are losing theirs and blaming it on you,  
If you can trust yourself when all men doubt you  
But make allowance for their doubting too,  
If you can wait and not be tired by waiting,  
Or being lied about, don't deal in lies,  
Or being hated, don't give way to hating,  
And yet don't look too good, nor talk too wise:

If you can dream--and not make dreams your master,  
If you can think--and not make thoughts your aim;  
If you can meet with Triumph and Disaster  
And treat those two impostors just the same;  
If you can bear to hear the truth you've spoken  
Twisted by knaves to make a trap for fools,  
Or watch the things you gave your life to, broken,  
And stoop and build 'em up with worn-out tools:

If you can make one heap of all your winnings  
And risk it all on one turn of pitch-and-toss,  
And lose, and start again at your beginnings  
And never breath a word about your loss;  
If you can force your heart and nerve and sinew  
To serve your turn long after they are gone,  
And so hold on when there is nothing in you  
Except the Will which says to them: "Hold on!"

If you can talk with crowds and keep your virtue,  
Or walk with kings--nor lose the common touch,  
If neither foes nor loving friends can hurt you;  
If all men count with you, but none too much,  
If you can fill the unforgiving minute  
With sixty seconds' worth of distance run,  
Yours is the Earth and everything that's in it,  
And--which is more--you'll be a Man, my son!

--*Rudyard Kipling*