chartered accountants & business advisers
MORE THAN ACCOUNTANTS

INVESTMENT BULLETIN

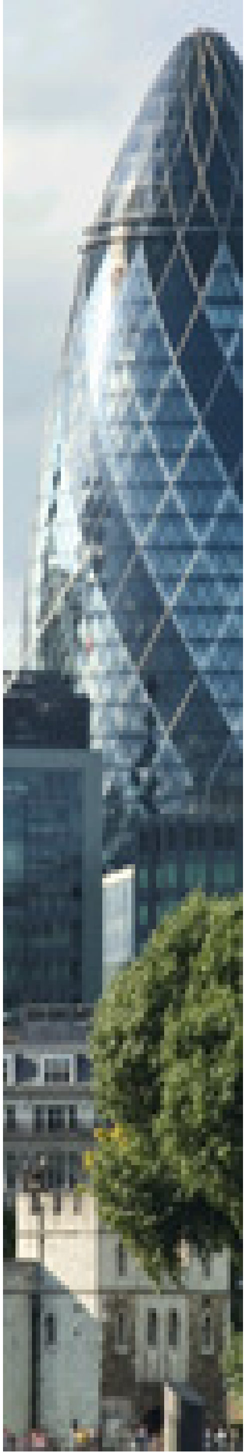
Published
12/11

In association with our preferred Partner 'Dobson & Hodge Ltd'

01302 311777 | info@ar-accountants.co.uk | www.ar-accountants.co.uk

The Autumn Statement has come and gone and, thankfully, there were no major shocks.

As we approach the festive period we continue to see uncertainty in the investment markets - reflecting the problems facing the Euro and the wider global economy.



Tough Times

The Autumn Statement from Chancellor of the Exchequer George Osborne provided little cheer for either businesses or individuals, going so far as to sound a warning that the UK's "debt challenge is even greater than we thought". The UK government will have to borrow more money and accelerate the programme of spending cuts. Overall government borrowing for 2011 / 12 is expected to overshoot the Chancellor's previous target to reach £127 billion. Although debt is expected to come down eventually, Osborne admitted the decline would not be as quick as the government had wished.

Borrowing is now forecast to decline to £120 billion during 2012 / 13, to £100 billion during 2013 / 14 and eventually to £24 billion by 2016 / 17. The UK's debt-to-GDP ratio is now expected to peak at 78% in 2014 / 15, compared with previous expectations of a peak of 70.9% in 2013 / 14. Expectations for economic expansion were drastically scaled back. The Office for Budget Responsibility (OBR) cuts its forecast for UK economic growth in 2011 from 1.7% to 0.9%, and slashed its forecast for 2012 from 2.5% to 0.7%.

The outlook for jobs has deteriorated and the OBR expects the rate of unemployment to peak at 8.7% in 2012, compared with earlier expectations of a peak of 8.2% in 2011. The number of public sector jobs to be lost by 2017 has soared from 400,000 to 710,000 and public sector pay rises will be capped at 1% for two years once the current pay freeze has ended. Elsewhere, on a slightly brighter note, the controversial 3p-per-litre in fuel duty that was scheduled to take effect in January 2012 has been abandoned and the rise scheduled for August 2012 has been cut from 5p to 3p.

Looking to the immediate future, the OBR believes the UK economy will narrowly avoid falling back into recession. The economy is expected to contract by 0.1% during the final three months of 2011, and then to register growth of 0.1% in the first quarter of 2012. Nevertheless, the OBR warned that the UK has a one-in three chance of falling into recession next year.

In particular, it believes the eurozone poses a substantial risk to the UK's economic growth, commenting, "the probability of a much worse outcome is greater than the probability of a much better one". For his part, the Chancellor warned: "If the rest of Europe heads into recession it may prove hard to avoid one here in the UK.

Markets update

Share prices experienced another month of marked volatility during November, characterised by mounting fears over Italy's financial stability. In the US, the S & P 500 index fell 0.5% while closer to home, the FTSE 100 index registered an overall loss of 0.7%. In Europe, the CAC 40 index fell 2.7% and the DAX index fell 0.9%. Meanwhile a combination of political and financial turmoil ensured significant volatility in Italy, where the FTSE MIB index fell 4.7% over November as a whole.

More positively, having spent months raising its 'Required Reserve Ratio' to 21.5% in order to curb banking lending and cool inflationary pressures, the People's Bank of China suddenly announced an unexpected interest rate cut of half a percent-age point. Although unforeseen, the change in policy stance was warmly welcomed by investors around the word.

The OECD expects the global economy to grow by 3.8% in 2011 and by 3.4% in 2012 although this forecast was tempered with a warning that a "negative event" in Europe could seriously undermine global growth. The OECD expects a "mild" recession in the euro area in the near term and also warned that the UK recovery has halted. The US economy is forecast to expand by 1.7% in 2011 and by 2% in 2012, although the OECD remains concerned over the failure of Congress to solve the country's deficit

Trading indices

Exchange-traded funds (ETFs) are a relatively new addition to the investment basket and have proved very popular with investors. Like shares, ETFs are listed on the stockmarket, but they track an index rather than any individual company.

This index could be something straightforward - like the FTSE All-Share - or it could be more complicated or sector-specific such as the commodities index.

The main benefit is that they have low expense ratios and minimum investment levels in line with shares. However, they can also prove a very effective way to gain access to obscure investments such as forestry or sugar should you want to add spice to a wider portfolio.

The rules of investing

INVEST WITH A LONG TERM VIEW

It's hard work - and largely pointless - trying to time your investment so you buy right at the bottom and sell right at the top. Similarly, trying to make short-term profits by turning over investments quickly can also prove fruitless, can get expensive - and carries a high risk.

In the short-term, markets are highly volatile and what happens today is no indicator for tomorrow. However, longer term, things are more predictable. Therefore, target your portfolio at appropriate, quality companies or funds and give them the time and space they need to grow.

'AR' is a trading style of Alan Roberts & Company Ltd, Chartered Accountants and Tax Advisers, 294 Balby Road, Doncaster, DN4 0QF
Registered in England & Wales under Company Number:: 04503670
Regulated by the Institute of Chartered Accountants in England & Wales for a range of investment business activities.