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*'Growing by
recommendation'*

Putting volatility into context

If ever there was a time to illustrate the need for the general investor to take the long term view, it was illustrated in the week of 15-19th September. We have comments from two respected investment houses on the matter, and a comment from one of the most experienced fund managers Invesco Perpetual's Neil Woodford.

The movements in the FTSE 100 index over the week 15-19 September provides an interesting story.

Day	Event	FTSE 100 movement
Monday	Lehman brothers bankruptcy	-3.92%
Tuesday	Rescue of AIG	-3.43%
Wednesday	HBOS takeover by Lloyds TSB	-2.25%
Thursday	US \$180bn liquidity injection by central banks	-0.66%
Friday	US announces rescue proposals	+8.84%
Weekly Change		-1.95%

Despite the unprecedented events summarised above, the FTSE 100 ended less than 2% weaker, which was a smaller percentage movement than that seen in the previous three weeks.

Week	FTSE 100 movement
8-12 September	+3.36%
1-5 September	-7.02%
25-29 August	+2.38%

A week that encompasses our key investment philosophy

Volatile markets can test an investor's resolve and 2008 has so far been one of the most turbulent periods for many years. The causes, rooted in the US sub prime crisis and the subsequent implications for global banks, have been well documented. Neil Woodford commented:

"This week will go down in history as one that saw unprecedented events within financial markets and it has been one of

the most turbulent of my investment career. However, whilst the coordinated action of central banks underlines the seriousness of the situation, their efforts demonstrate a commitment to resolving the underlying issues."

Whilst the underlying causes this time around are new, periods of weakness in markets have been seen before and they reinforce the need to keep a long-term perspective. Stockmarket history has shown that one way of managing volatility has been to remain invested.

Investor confidence was no doubt severely tested by the chain of events that dominated the week, but those that chose to exit the market would have missed out on the FTSE 100's largest ever one-day gain.

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This once again showed that when equity markets bounce from a period of weakness they often do so quickly and significantly, underlining the rationale for remaining invested.

As financial markets continue to work through their current challenges further volatility is likely. However, what the events of 15-19 September show is that looking at daily swings in the context of the week as a whole can change the picture significantly. Extending this premise out to months, years and decades, the impact even of extreme short-term changes, often becomes negligible. Whilst no-one can predict exactly how the current situation will develop, maintaining a long-term view does allow for investment decisions to be made dispassionately and within a broader perspective.

The other view in a similar vein but highlighting a longer historical period and of a more international flavour, came from JPMorgan, making the point that time, not timing is the key to successful investing.

When the market climate is uncertain, investors often become nervous and lose sight of their long-term investment goals. They are often tempted to postpone new investment, and even to sell their current holdings with the aim of reinvesting when the stock market stabilises.

However, if investors are able to take a long-term view, it is often best to hold onto investments through periods of volatility.

The pitfalls of market timing

Of course, all investors would like to be able to predict the movements of the market, buying at the bottom and selling at the top. This is called market timing.

Unfortunately, it is very difficult to time movements in and out of the market, particularly in periods of extreme volatility. And getting it wrong can significantly affect the performance of investments.

Selling at the first sign of a downturn can prove particularly bad. Sharp falls in markets are often followed by sharp gains. While it may be tempting for investors fearing further losses to sell their investments, they risk locking in losses and missing out on gains.

Often the time to buy is in the words of Sir John Templeton ‘at the time of maximum pessimism’ and the last few weeks have certainly provided plenty to be pessimistic about. Whether we have seen the bottom of the market we shall have to wait and see, but I think that if you are investing for the long term (five years plus), then we may be looking back in a few years time and viewing this as a buying opportunity. If you would like to talk to us about your holdings, review your portfolio, or indeed invest new monies, please feel free to contact your usual adviser.

Colin Moat, Director

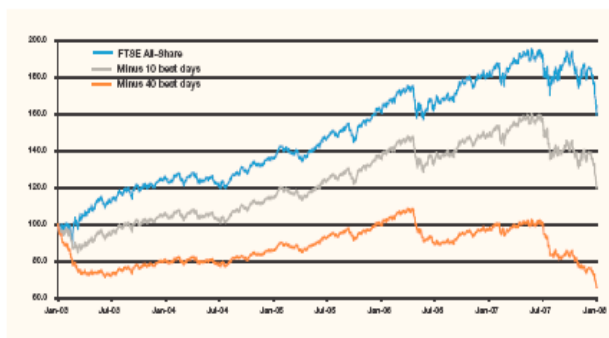
In for the long haul

The long-term performance of equities demonstrates that there is no need to time the markets; it’s enough just to be in the markets. Research shows that investments made when the market has already begun to recover, and those made when it is still falling, have still paid dividends.

In contrast, waiting for a better time to invest can cost investors dearly. As the graph below illustrates, investors who remained fully invested in the UK market over the last five years would have received returns in excess of 60%. In contrast, investors who missed out on the ten best days would have seen their returns cut to just 40%, while those who missed the best 40 days would have made just 4%.

Many of the stock market’s best days have come immediately after sharp falls.

FTSE All-Share performance over the past five years



Source: Bloomberg/JPM

And this doesn’t only apply to the UK market. The table below takes the example of other major markets, and shows the pitfalls of trying to time the markets and getting it wrong.

Market	Index	Fully Invested	Missing best 10 days	Missing best 40 days
UK	FTSE All-Share	63.4	40.0	3.9
US	S&P 500	56.4	11.6	-39.2
Global	MSCI World	63.7	21.6	-26.2

Source: Bloomberg/Datastream. Returns from 01/09/02 to 28/08/07.