INVESTMENT OUTLOOK - Q1 2013

INTRODUCTION:-

A lot has happened at Forrester-Hyde in the past three months – we achieved Chartered status, one of only 300 Companies nationally, we published our new Private Client Agreement in response to RDR, Retail Distribution Review, our Portfolios will celebrate their fifth birthday on 1 April and four of the five key Portfolios have outperformed the benchmark.

From April, the Company will adopt the title 'Chartered Financial Planners' and enclose a CII Factsheet titled 'Proud of Our Status'. Forrester-Hyde Limited remain an Independent Adviser with access to the whole of market. The Company is owned by the Directors without external investment.

RDR is intended to bring transparency to the products you invest in and the charges you incur. RDR has created a level playing field which we welcome. Commission is no longer payable on the advised sale of Retail Investment Products and the fees charged by the Intermediary for their service have to be disclosed and agreed in advance. We adopted this model five years ago when we launched our Wealth Management Programme.

In summary, our Company has been awarded Chartered Status by the Chartered Insurance Institute. Our fee model is transparent, compliant with RDR and highly competitive and our key funds have performed at or above target since launch on 1 April 2008.

2008, the Lehman Brothers fall triggers the global banking crisis, our goal initially was to preserve capital which we did successfully. Capital preservation remains a cornerstone of our strategy and we look to manage risk and volatility. However, we believe stability is returning to global markets and with Cash and Bonds returning yields below the rate of inflation have increased Equity exposure in all Portfolios.

Our Investment Committee meet monthly. Behind the scenes the team analyse research from a range of sources and Rob Marek regularly interviews Fund Managers. We publish "Outlook" quarterly in December, March, June and September. We review the asset allocation of each of our Portfolios and back test the funds in which we advise you invest. Where appropriate we advise switching out of funds, for example, if they have underperform or if a respected Manager leaves and we are not confident of his replacement. We intermediate on your behalf in the sale and reinvestment. The fees we charge for our Intermediation Service will no longer be subject to VAT.

On the investment front, we were increasingly bullish through 2012 and this has been rewarded. Quantitative easing by central banks will buoy asset prices and quality shares continue to look good value on historic price-earnings terms. Obama has been re-elected in the US, there is political stability in China and Japan, France has no credible policy for economic reform and Angela Merkel will seek re-election next year but domestically Germany is economically sound. That all said there will be volatility. The Euro crisis is not over. It is simply not possible to squeeze fiscally different nations with widely divergent competitiveness into a one size fits all currency. Austerity is not the solution and the Italians are on a collision course with the ECB/Germany. In the US the Republicans have forced through an $85bn reduction in US Government spending.

We remain quietly optimistic for the immediate future and are not recommending any change this quarter to the asset allocation or the underlying funds in which you invest.

		3 Month %	12 Month %
Core:	Conservative	4.54	7.42
	Cautious	6.01	8.44
	Balanced	8.01	9.54
	Assertive	9.82	11.94
	Aggressive	11.61	13.15
Passive:	Cautious	6.01	8.44
	Balanced	8.01	9.54
	Assertive	9.44	15.12
Income:	Cautious	3.47	8.61
	Balanced	6.85	12.91
	Ethical	6.41	10.92
Tactical:	Conservative	4.54	7.42
	Balanced	7.11	11.19
	Aggressive	11.61	13.15

Indices:		**3 Month %**	**12 Month %**
	DJ Euro Stoxx 50 Cap	9.00	11.26
	FTSE-100	9.05	12.44
	FTSE-British Government Gilts	-1.54	2.55
	IBOXX Corp. Bond All Mats.	0.45	11.29
	MSCI Emerging Markets	10.86	5.54
	MSCI World Index	13.23	16.49
	S&P 500	13.38	18.59

INVESTMENT OUTLOOK - Q4 2012

ASSET CLASS OUTLOOK:-

CASH:-

Borrowers have celebrated the fourth anniversary of the bank rate falling to 0.5%. The fall has alienated savers and at the same time failed to stimulate the economy. Paul Tucker, the Deputy Bank of England Governor, has suggested the Bank could charge the lending banks for depositing in reserve accounts, in effect a negative interest rate. Sweden imposed negative interest rates in 2009, Denmark introduced a negative rate of -0.2% on some deposits last July, whilst Japan is considering this option.

Retirees have been hardest hit by the loss of deposit interest and rates are not set to rise anytime soon, in fact money markets are not pricing in a rise of 0.25% before 2017. One of the culprits is the Government's Funding for Lending Scheme, FLS. £80bn was made available to Banks in November 2012 at discounted rates, with the proviso that Banks lent to small businesses and to house buyers with the aim of stimulating the economy. The unintended consequence, however, has been to suppress deposit interest rates.

Our Portfolios include a cash element but in search of positive returns we have looked beyond Cash to structured funds, many of which have now been reclassified as short-term bond funds, to include M&G Short Dated Corporate Bond, formerly the M&G High Interest Fund. These are not Cash Funds and cannot be liquidated quickly. In light of reclassification our Portfolios are now marginally underweight Cash and in summary will remain underweight for the foreseeable future. At the same time we are seeking out value in alternative enhanced funds that invest in a variety of Cash derivatives.

Outlook – Neutral to Negative

COMMODITIES:-

China is growing but more slowly and surprised with a 4.7% increase in economic output in Q4 2012, ending a run of seven consecutive quarters of falling growth. Andrew Mackenzie, CEO of BHP, has announced his Company will downsize and an early casualty may be a disposal of the Nickel and Aluminium divisions. Last year, BHP sold its Diamond operation to Harry Winston and has pulled out of other projects to include the Mount Nimba Iron Ore Mine. BHP is more diversified than its competitor, Rio Tinto Zinc, has already taken big write downs on ill-timed acquisitions yet is trading at a price-to-earnings discount to the sector.

In December we moved from Positive to Neutral and will maintain this stance as we do not see an increase in demand before Q4 2013. Currently inventories are being reduced and profits will not increase until later in the recovery cycle.

To date we have been negative Gold, down 13% over 12 months, but with China seeking to position the Renmibe as an alternative reserve currency, anticipate they will be building their Gold reserve to match that of the US at 8,000 tonnes. Our position on Gold has moved from Neutral to Positive.

Outlook – Remain Neutral, Gold Positive

PROPERTY:-

House prices rose for the first time in 9 months, albeit by 0.1% month on month, as anticipated the increase is focused on London and the South-East. Leading house builders, including Taylor Wimpey, announced a surge in demand and this has translated into improved profitability. Against trend, High Street retailers posted February sales up 3.9% from a year earlier after a 0.4% dip in January. The weakening pound has encouraged overseas investment in the property sector and continuing low interest rates should increase housing demand. However, we remain neutral but anticipate increasing exposure from Q3 2013.

Outlook –Neutral

EQUITY – ASIA PACIFIC INCLUDING JAPAN:-

China continues to lead the way, posting 4.7% growth in economic output in Q4 2012, and this despite a strengthening currency, a maturing labour market driving up wage cost and a slow down in demand from debt laden developed Countries. Vietnam and Indonesia offer a competitive manufacturing base, whilst India is growing an affluent, by Indian standard, middle class with an appetite for consumer goods.

A weak Yen has aided Japanese export and the newly elected Prime Minister, Shinzô Abe, is bringing pressure to bear on the fiscally conservative Bank of Japan to adopt a more aggressive monetary policy. Last year we moved from negative to neutral, which reaped rewards for our Investors but we remain to be convinced that the economic tide has turned for Japan.

Outlook – Neutral

INVESTMENT OUTLOOK - Q4 2012

EQUITY - EMERGING MARKETS:-
Emerging Markets have continued the growth trend seen in Q3 and Q4 2012. Debt levels are manageable and there is a healthy and growing financial sector. There is evidence of a sound dividend discipline which should filter through to improved yields in our Portfolios. On balance demographics and economic growth are rising, a phenomenon not seen in the developed world. The negatives include a maturing labour market and inflationary pressure.

Outlook – Remain Overweight

EQUITY – EUROPE:-
Europe continues to contract fiscally and there is evidence the periphery is now negatively impacting the core, where data suggests both the French and the German economies are slowing. We are less concerned with Germany where we think global export demand will pick up and the domestic economy is structurally in good shape. France, however, is a different matter. There is an immediate need for reform in the domestic economy which is a potential time bomb at the heart of Europe. Sarkozy sought to spend his way out but this only exacerbated the problem and Francois Hollande does not have the political will, strategy or support to drive through the reforms that are now necessary and long overdue.

The likelihood of an extreme outcome, the break-up of the Eurozone has receded as a result of action by the ECB but we believe the Euro crisis has not gone away it has merely been swept under the carpet. The European Economic Advisory Group, EEAG, points out that the Eurozone crisis is in fact three different crisis rolled into one. The Sovereign Debt and Banking crises are in effect a mere symptom of an underlying problem of divergent competitiveness which has resulted in an unreconciled, good old-fashioned balance of payments crisis. Normally trade and capital imbalances of the sort that have been allowed to build up in the Eurozone are corrected through exchange rate adjustment, but of course that cannot happen in a single currency area. These imbalances were first financed through bank lending from the core, surplus countries, which were, in effect, lending the deficit countries the money to buy their goods. When the banking crisis caused this deficit financing to dry up, the weaker nations were left instead to fall back on public support from European bail out funds and the European Central Bank.

The EEAG analysis details three possible solutions. One is exit and external devaluation for deficit countries. A second is internal devaluation through falling prices and wages in deficit nations. A third is internal devaluation through rising prices in the core. It is the second of these two options that Eurozone policy makers have opted for. Exit for one or more of the weakest nations has been ruled out for fear of contagion it might generate. Strongly rising prices in the core is also rejected on account of the damage it would do to savers. In effect their wealth would be devalued an impossible ask for Angela Merkle to sell to her voters.

Analysis by Goldman Sachs has suggested that Germany would need to suffer an inflation rate 4% higher than the periphery for a period of ten to fifteen years to achieve such a revaluation and eradicate the imbalances. This implies a 40% decline in German wealth all other things being equal. That leaves the periphery having to assume all the burden of the adjustment. Goldman Sachs estimates a 35% internal devaluation be required to return Portugal to competitiveness, 30% by Greece, 20% by Spain whilst Italy requires a 10-15% adjustment.

Europe faces a decade of deleveraging and as a consequence low growth rates. We expect little upside through 2013. However, inflation is low and will remain so and we favour funds that invest in Companies that can sustain earnings growth. We expect earnings growth above 5% as Europe is the home of many world-beating Companies, with strong balance sheets and high free-cash flow yields. We remain neutral but may look to adopt a more positive stance later in 2013.

Outlook – Neutral

EQUITY - United Kingdom:-
Despite the one notch downgrade by Moody's, Investors are keeping faith with the UK regarding the downgrade as irrelevant. The weakening pound has aided Exporters. Leading Companies generate the preponderance of revenues overseas and are paid in currencies that have in the main risen against the pound, boosting earnings. Dividend yields remain high, UK Companies paid £80.4bn in dividends during 2012, an all time record. This is to be welcomed in a low yield environment, with RPI at 3% and 10 year UK Gilt yields at 2% or less.

The pendulum has now swung away from debt driven acquisition, which offered quick returns for Shareholders but burdened Companies with debt levels that could not be sustained in recession. Companies are typically paying down debt and rewarding Shareholders. So we favour funds that invest in Companies who derive their earnings overseas but, in addition, we are now turning our attention to domestically oriented Companies that are well managed and competitively positioned to take market share.

In conclusion, we remain overweight and are positive on the outlook for UK Equity.

Outlook –Overweight

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INVESTMENT OUTLOOK - Q4 2012

EQUITY – US:-
Analysts agree that the manufacturing sector is recovering. Factory activity in January expanded at the fastest pace in nine months and orders for durable goods rose by 6.3% in all there are signs the economy continues to grow. The housing market continues to recover, with December house prices some 6% higher than a year earlier. Sales of new homes jumped almost 16% in January and were 29% higher than the previous year. Consumers also continue to replace their cars and trucks, with sales running more than 5% above last year, which itself was a good year. This is reflected in Share prices which are some 8% higher than a year ago. Consumer confidence has recovered from a January dip and is now above last year's level.

Barrack Obama has been re-elected for a further 4 years and despite the recent cuts announced, Government spending will be more than 7% higher than when Obama was first elected. Currently the US borrows $40 out of every $100 that is spent. The Republicans have forced through $85b reduction in spending, but in practice this equates to a 1% reduction in spending during the remaining 7 months of the US fiscal year and on a full year basis equates to a 2% reduction overall. Alongside this, the President is pushing for an increase in the hourly minimum wage, up from $7.25 to $9.00. Regulation is in train that will drive up energy costs and lead to the closure of many coal fired power plants and finally businesses will be subject to Obamacare, a tax if they do not buy mandated, generous health insurance for their employees. Notwithstanding we remain positive and for the moment are overweight but we will continue to monitor the impact of budget cuts.

Outlook –Overweight

FIXED INTEREST – GOVERNMENT:-
Despite the UK losing its prized 'AAA' rating, Sovereign Wealth Funds are keeping faith with UK Government Bonds. Sovereign Wealth Funds hold tens of billions of pounds in UK Gilts. The biggest holders in Asia are the Chinese, Korean and Singapore Sovereign Wealth Funds, whilst in the oil-rich Middle East the leaders include the Kuwait and Abu Dhabi Funds. The recent weakness of Sterling has also presented a buying opportunity as it makes pound denominated assets cheaper. The pound has fallen more than 7% against the dollar to $1.5031 since 22 December 2012.

In practice, the global financial crisis has reduced the number of safe havens for cash. Despite the downgrade UK Gilt Markets have rallied as money has flowed out of Europe amid worries over the political situation in Italy. We do not see an increase in the bank rate before 2017, so in the short-term we believe there will be continued demand, but in the medium to long term we believe Gilts will experience increasing volatility to uncharacteristic levels. This will ultimately lead to a significant fall in the Gilt Index, with losses to Gilt Investors. In the interim 10 year UK Gilt yields are at or below 2%.

Outlook – Neutral

FIXED INTEREST - CORPORATE:-
In our Portfolios the returns from Bonds has correlated to dividend yields. Our strategy is to seek out and invest in funds that have the flexibility to generate returns in an unconventional manner, for example SWIP Absolute Bond Fund, through use of duration trading, credit default swaps, short and relative trades and currency positions.

Further, we are looking for funds that maintain consistent levels of risk and do no therefore change their volatility characteristics. We will maintain this strategy until such time as interest rates increase when we will revisit more conventional Bond funds.

Outlook - Neutral

SUMMARY:-

The slow-growth environment in developed markets will continue to promote fears of renewed recession but the global market appears to be stabilising. Data from China and the US has been encouraging to date, however monetary easing has failed to promote growth as hoped.

The tough decisions in France and the US remain the high level of Government spending. Spending cuts are required but need to be balanced with incentives encouraging Companies in the Private Sector invest for growth. This requires certainty over the longer-term fiscal and growth outlook.

Bill Gross of PIMCO has this week warned that

"credit spreads, nor interest rates cannot be officially compressed forever, nor can Stock prices rise perpetually on their coat tails".

IMPORTANT NOTICE

Investments can fall in value as well as rise so you could get back less than you invest. The value of an investment will depend on the future rate of return and the effect of charges; neither capital nor income is guaranteed. Our advice is based on current regulation, which is subject to change, the rates of tax payable and tax benefits we refer to are those that currently apply, they change over time and how they impact will depend on your personal circumstance.

Chartered Financial Planners

Proud of our status

Our Chartered status

We're proud to have been awarded the prestigious title **'Chartered Financial Planners'** by the Chartered Insurance Institute (CII).

This title is only awarded to firms committed to developing and maintaining the knowledge and capability of their people so they can deliver the highest quality advice.

Chartered firms must also follow a demanding code of ethical practice. This means they must work in a principled manner that places clients' interests at the heart of the advice they give.

Chartered status – granted by the Privy Council – is the industry's gold standard for financial planners and is currently met by fewer than 300 firms across the country.

Why you should use a firm of Chartered Financial Planners

Chartered status brings with it serious obligations. We are required to ensure the advice, service and ongoing support we provide to you is:

- of the highest quality
- based solely on your researched needs
- provided by someone operating within their level of competency.

We meet our obligations in a number of ways...

- a commitment to the technical and professional development of staff, such as professional qualifications
- all staff members who deal with customers belong to the industry's professional body the Personal Finance Society (PFS), the dedicated financial planning arm of the CII Group, and adhere to its Code of Ethics which is enforced through disciplinary sanctions
- we adhere to the PFS's continuing professional development requirements, ensuring our staff keep their knowledge and skill-set up-to-date.

A Chartered title is a commitment to an overall standard of customer excellence and professionalism.

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