

May 2010



INVESTMENT – UPDATE POST ELECTION

The objective of our investment strategy is to produce consistent returns with a volatility that matches your risk profile. There have clearly been two main issues in the headlines over the last few weeks:

UK General Election

Now that the results are known, it is no surprise that a 'hung parliament' is the result. Whilst this has largely been priced into the stock market, this has not been the cause of the recent slide in prices. We continue to invest in equities, as we have seen the strengthening of corporate balance sheets by the repayment of debt and the raising of additional shareholder capital. The performance of equities will be aided by the recovery of the global economy allowing the growth of earnings to continue apace over

the next few years. As an asset class we are comfortable with the level of exposure and provided that the indices continue in their longterm uptrend lines then we see no reason to change our strategy. In our overall asset allocation we are running in excess of 50% of the portfolios in non-Sterling assets, largely denominated in US dollars, seeking to benefit from the 'managed' devaluation of Sterling over the coming period of austerity.



EuroZone

We have all seen the newscasts showing the social unrest of Greece after their bailout by the other members of the Eurozone and the IMF. It seems highly likely that this will spread and the 'contagion' effect will engulf Portugal, Spain and Ireland over the coming months.

How that will affect investments in Europe and in particular those Euro denominated as the currency is clearly under attack at the moment, making the likelihood of severe underperformance much greater. As a result, we are seeing the development of several scenarios; the two main ones are that a) The Euro will break up, leaving the core European Group or b) the Euro will maintain its composition but it will be devalued against other major currencies possibly by 25%. Neither of these is particularly appealing.

There is no reason to buy Greek Bonds denominated in Euros even when the yields being offered were above 20%, as the outcome of what happens in Greece and any potential bailout is just too unpredictable.

Putting the potential Greek default into context:

- Greece has outstanding debt of Euro 254bn.
- Lehman defaulted on roughly half that amount in 2008.
- Argentina defaulted on approximately 80bn Euros equivalent in 2001.
- Russia was a paltry \$73bn back in 1998.

All of these events had major impacts on global markets, so we are absolutely

right to be worried about Greece. The ripples of the Greek worries are rapidly becoming waves. Naturally it has been the other peripheral Euro sovereigns of Portugal, Ireland and Spain that have been hit first. This has then spread on to the banks, which have been sold off with little regard to specific Greek exposures.

This is aptly summed up by Bill Goss, the legendary bond investor's thoughts on rating agencies views on Spain: 'S&P just this past week downgraded Spain "one-notch" to AA from AA+, cautioning that they could face another downgrade if they were not careful. Oooh – so tough! And believe it or not, Moody's and Fitch still have them as AAA's. Here is a country with 20% unemployment, recent current account deficit of 10%, that has defaulted 13 times in the past two centuries, whose bonds are already trading at Baa levels, and whose fate is increasingly dependent on the kindness of the EU and IMF to bail them out. Some AAA!'

So where is safe?

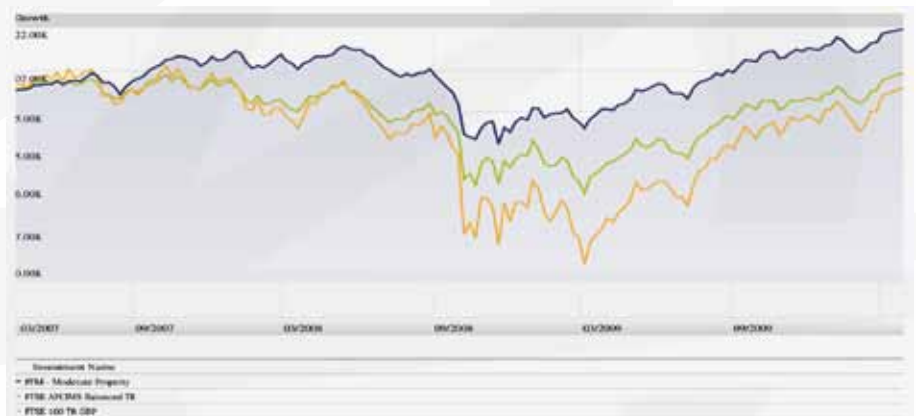
Nowhere can be completely safe, but certain sectors will have very low beta to the recent turmoil. Gilts would normally provide a safe haven for £ investors, but we believe that even shorter dated ones

have yet to fully price-in future rate rises and nearly all types of gilts are already at or near historically low yield levels. So we prefer certain investment grade corporates and even some financials where PIGS exposure is low; as well as a diversified high yield corporate bond fund where the manager has a history of well researched credit analysis.

For our models, the area that does concern us the most is not equities but our ownership of Sovereign Debt. As we observed the in the US both Berkshire Hathaway (Warren Buffet's investment fund) and Procter & Gamble, both of which are AAA rated, were able to borrow at rates below (yes lower than) the US Treasury could issue 2yr notes.

Does this affect our strategies? Clearly, in a way it does, as we are currently reviewing all our holdings of Government bonds. Whilst we believe that as an asset class we should hold 'bonds', it is more of concern as to which borrowers we are comfortable with, rather than proposing to sell out of bonds altogether. As always, we endeavour to provide an explanation of our thinking, but we unfortunately do not have a 'crystal ball'. We remain firmly convinced that good asset allocation will continue to provide satisfactory long term investment returns...

And once again do not rely upon the headline grabbing press to 'scare' you into taking precipitous short term action which could seriously harm your wealth...



SEYMOUR MULLENS
& CO LTD



Upperton Farmhouse, 2 Enys Road, Eastbourne, BN21 2DE England
Tel: 01323 411610 info@seymul.co www.seymul.co

Seymour Mullens & Co Ltd is a member of the PFM Group