



Ark FinanceTM

Independent Advice for Independent People

t. 1890 639 639 w. www.arkfinance.ie



The Angle

Issue 6 – Oct 14 2008

F.E.A.R – For Everything A Reason! For Everyone A Recession? We got the FEAR!

It's difficult to pick a day when to stop editing this edition of The Angle. As soon as it appears that markets have settled, another wild market swing occurs. My desktop TV monitor has the words **Market Crisis '08** burned into the screen from watching events unfold over the last number of weeks. With equity markets showing record falls last week the worlds central banks cut base rates, the Bank Of England announced a £50bn injection of direct capital to UK banks, the US Federal Reserve are now lending directly to the commercial markets bypassing the US banks, four emerging equity markets stopped trading, commodity prices have seen a massive drop, with UK deposits at risk in Iceland the UK government declared a cold war on Iceland (which now appears Bankrupt) by freezing all UK based assets. There are so many stories happening so quickly, it's hard to keep focus. But there is one consistent theme across all of this, FEAR. Fear of a sustained global recession, due to a lack of capital for companies to expand and economies to grow.



The financial crisis we were led to believe, was an issue of liquidity, as banks ceased to lend to each other. It's not liquidity any longer; it's one of capital deficiencies within some of the world's largest banks. This is the reason for the FEAR. There are however countries that are awash with capital; Russia, which offered to help bail out the Icelandic government (now see who gets to the Artic oil fields first), China, which has \$1.8trn of foreign reserves and has already bought up equity stakes in US financial companies, and the middle east, where the oil rich countries hold massive foreign reserves.

The UK government and the Euro leaders have worked to provide a consolidated plan to help the ailing banking sector. It would appear that it should work and the financial world will return to a more stable environment. Markets have regained some ground on last week's crash. The financial crisis will get fixed, it has to. However the words leverage and debt will be looked upon differently, by both the investor and the lender of the debt. The availability of cheap capital helped fuel investment markets but this is now a thing of the past.

The other more pressing issue facing us is the Irish situation. The government has guaranteed Bank deposits and debt instruments. This helped keep one or two of the Irish Banks afloat for the time being. But it's obvious that the Irish banks need recapitalisation. The Irish government is struggling with its own annual budget with approx €11bn to be borrowed in 2009 to fund government activities. Can it afford to borrow further on behalf of the Banks? All of this debt will have to be paid for and with a faltering economy, tax receipts are in sharp decline. There will be some help from the ECB in reducing base rates, but this will not kick start the housing sector, a major economic driver and tax collector for Ireland.

I feel the immediate outlook for Ireland is bleak, with huge risks on multinational jobs such as Dell. The biggest failing of the government is that there is no strategy to replace these jobs when they do eventually go overseas. SME's have to let staff go, as they struggle with their working capital requirements without the help of their banks. The duration for the Irish recession, will be best case 18 months, worse case well let's look ahead with a positive attitude. Regardless of what gets pulled out of the budget hat later toady, it will not reverse the recession the country has entered.



Ark Finance™

Independent Advice for Independent People

t. 1890 639 639 w. www.arkfinance.ie



Equities –

“If you consider all that has occurred in 2008 and all of the recent economic turmoil, it could be argued that most primary markets are holding up reasonably well.” **The Angle June 2008**. I obviously spoke too soon! Markets have been in turmoil since the Lehman banking collapse. The chart below shows equity market performance to end of Sept. There has been many changes on this chart since last week, mostly negative movements.

2008 YTD Equity Market Performance

(sept 30)

Market	Index	LC return %	Euro return %
Latin America	S&P Lac 40	-23.9%	-29.1%
Russia	RTSI	-47.2%	-52.5%
Japan	Nikkei	-26.4%	-16.9%
US	S&P 500	-20.6%	-25.8%
UK	FTSE 100	-24.1%	-31.2%
Asia	MSCI Asia Ex Japan	-38.0%	-43.2%
Australia	S&P/ ASX 200	-27.4%	-33.9%
Hong Kong	Hang Seng	-34.8%	-30.4%
Europe	S&P Euro Plus	-29.8%	-29.8%
Germany	DAX	-27.5%	-27.5%
Ireland	ISEQ	-48.8%	-48.8%
India	Sensex	-36.7%	-48.7%
China	Shanghai Composite	-56.4%	-45.5%
Global	S&P 1200	-24.9%	-30.1%

While the headlines talk about market woes, longer term investors should look to where the growth will come back strongest. The longer term value has to be in emerging markets, which have little or no direct involvement in the Banking crisis. But emerging equity markets are feeling the heat, with the expectation of lowering global demand for market exports. I would look at the BRIC countries; Brazil, Russia, India and China. Notably China and Russia offer investors the best longer term returns.

In sector terms, look for a rebound on the stronger Banks, Banco Santander would appear strong through recent acquisitions. Strong companies with cash such as Nokia should also do well long term.



Ark Finance™

Independent Advice for Independent People

t. 1890 639 639 w. www.arkfinance.ie



Commodities –

The growth trend in commodities has been downward in line with all asset classes. The oil bubble has burst as I had foreseen and commodity prices overall are down -6% year to date to Sept 30th. The year to date trends of the sub segments of the index are Metals -15%, Agriculture -10% and Energy +1%.



A barrel of Brent crude oil fell below \$80 last week for the first time since early 2008. I feel the price point for oil is \$110, after this demand would appear to weaken due to price. Commodities would appear to offer longer term value, with the recent flight to cash and bonds.



Ark FinanceTM

Independent Advice for Independent People

t. 1890 639 639 w. www.arkfinance.ie



Property –

Ireland –



Residential – According to the Sept PTSB/ESRI index, house prices declined by an average of -6.0% over the first eight months of the year. The twelve month price decline is now at -9.9% to August. This is below the generally accepted view of market price decline of between 15% - 20% over the last 18 months. This index is based on completed PTSB mortgages in August and is no longer a worthy indicator, as mortgage completions are now taking longer, are at a low level and PTSB has ceased lending to any great level.

Regardless of residential prices, the level of activity in the residential market remains very low. With ECB rates now on a downward trend there maybe some pick up on residential activity in the new year.

Commercial – According to the SCS / IPD property index; the quarter 2 2008 total return for Irish commercial property was -6.2%. The lowest ever return on the index since it began in 1995! Capital values reduced by -7.2%. The year to date total return is -8.5% with capital value declines of -10.5%.

Jun-08	Total return	Income return	Capital growth
	3 mths	3 mths	3 mths
All property	-6.2%	1.0%	-7.2%
Retail	-7.3%	0.9%	-8.1%
Office	-6.3%	1.1%	-7.3%
Industrial	-1%	1.3%	-2.2%

Future quarters will see further declines in both capital values and a weakening in rental growth, as the recession bites rental reviews. Total annual returns will likely decline to -20% as the new commercial market is effectively stalled due to lack of capital and existing tenants look for rent freezes when rental reviews take place.

UK –

Residential – Quarter 3 house prices in the UK declined -5.2%. This is a -11% decline on a year to date basis and a twelve month drop of -12.4%. The recent Bank Of England rate reductions has helped house affordability, however retail Banks are still not lending and have pulled many mortgage products from the market. Hopefully the recapitalisation of the UK banking system will help start lending again and see buyer demand increase. It will be 2009 before prices are expected to bottom out, assuming that the UK's economy can pull quickly out of a recession and that the banking issues are resolved by the UK government's actions.



ArkFinance™

Independent Advice for Independent People

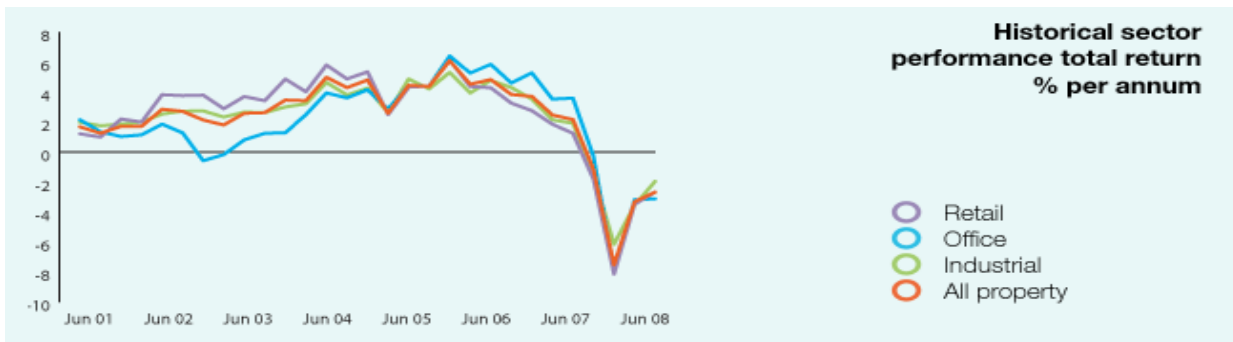
t. 1890 639 639 w. www.arkfinance.ie



UK – Commercial – The most recently published IPD UK commercial property index to end of June 2008 shows the quarter 2 total return for all UK commercial property was down -2.7% (capital growth down -4.0%). The total twelve month return was -14.0%, while 2008 year to date total returns are now -6%.

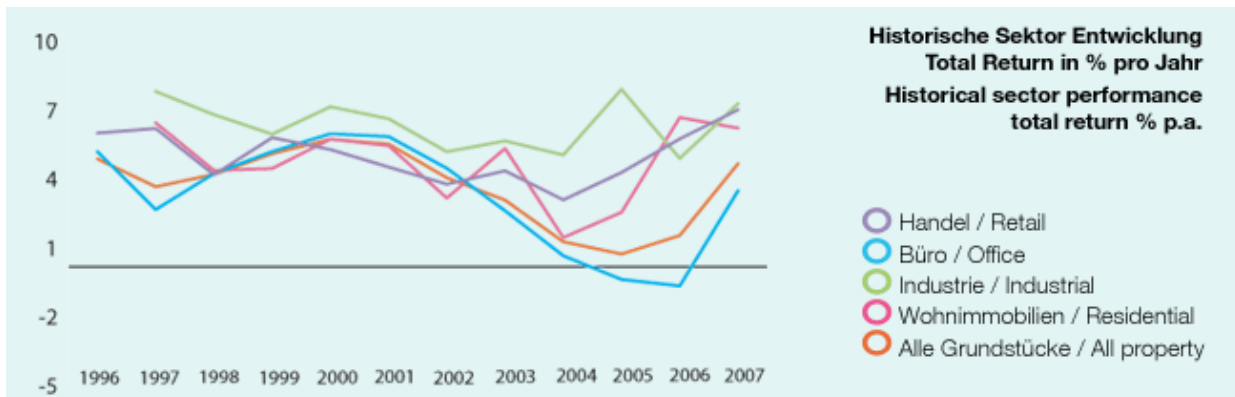
The market has stalled, with very little new capital entering the market. Banks are not lending to the commercial property sector as they have seen valuations decrease rapidly over the last twelve months. Rents are slowing, with office rentals actually showing a negative return in quarter 2.

UK Commercial Property Returns Trend



Germany – Commercial

A location that has and still is attracting a lot of inward capital into commercial property is Germany. Post reunification the Germany economy struggled for a number of years. It would appear that the German economy has finally started to come through this period of reunification and is now showing growth. Obviously global factors may affect this recent growth trend; however German commercial property is expected to offer steady returns, with high rental yields and with rental reviews tied to the CPI.





Ark FinanceTM

Independent Advice for Independent People

t. 1890 639 639 w. www.arkfinance.ie



My "Angle" portfolio is down -25% year to date to Sept 30. Obviously my long term target is to make money! However we are still ahead of the **S&P Global equity index** which is down -30.1% in Euro terms, beating this index needs to be our 2008 target.

Here is how each asset class returned within the portfolio from June to Sept 30th

Equities	-23.3%
Property	-10.0%
Commodities	-10.3%
Total	-18.7%

2008 starting base portfolio value was €50,150 all bought in Jan 1. Valued Sept 30th €37,367.

My reset "Angle" investment portfolio (*not necessarily yours*)

- Equities – 55%** **10% Europe ex UK** (FTSE Euro+) | **10% India** (Sensex) | **10% China SSE** | **5% Latin America** (S&P LAC40) | **10% US S&P 500** | **5% Russia** (RTSI) | **5% specific stocks***
- Property – 25%** **5% UK Commercial** (IPD) | **10% Asian** (**TSE REIT Index) | **10% German Commercial** (IPD)
- Commodities - 20%** **20% Commodity Index** (RICIX)

Note: I have reset investment split on percentages outlined above on Sept 30th. I have bought into those equity markets which have seen the highest level of decline. I have also bought into German property which is still attracting inward flows of capital investment.

*I sold out of Cameco stock during the summer (at a small profit) and have replaced Anglo (lets not go there) & IAWS (which has merged Swiss Hiestand AG) with; Banco Santander, ARYZTA (IAWS new name) and Nokia.

** **REIT** indices are based on companies exposed to property assets. Direct property investment should be viewed as long term and will differ from the indices used in this portfolio.

By Morton Rennick – ACMA QFA

The outlook of potential investment returns does not constitute an offer or provision of service from Ark Finance. The views are those of the author and should not be taken as individual advice or recommendations. Before investing you should discuss with your financial advisor your objectives, investment experience, attitudes to risk and your investment term. Each individual has a unique investment risk profile, which should be assessed before investing. Past performances do not guarantee future performances.