



ArkFinanceTM
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The Angle

Issue 2 May 19 2007

Welcome to our second 2007 issue of The Angle. In this issue I will be looking at the year to date performance of primary investment assets & markets. But first some exciting news on our web site, which we have just re-launched after a period of major redevelopment.

New Web Site Launched

If you have not yet seen our brand new web site, please take a few minutes to have a look at ArkFinance.ie. We have a daily market index report with trend charts, an investment portfolio calculator and also a pension funding calculator. We will continue to develop the site further, to bring added value to site visitors and to our clients.

Index	Value	Change
ASX 200	5,171.96	+17.96
EURO STOXX	4,170.22	+17.22
DAX	4,170.22	+17.22
FTSE 100	4,170.22	+17.22
NASDAQ	2,170.22	+17.22
S&P 500	1,170.22	+17.22
HK 100	1,170.22	+17.22
Nikkei 225	1,170.22	+17.22

2007 The Story So Far

Equities – As predicted earlier in the year in Issue 1, equity markets have seen a return to more normal levels of volatility. The first quarter saw many of the worlds markets fall back, although all major markets have regained their foothold and are in positive territory for the year to date. The fall in value of global equity markets by 4.8%, was the largest one week fall since markets started an upward trend in March 2003. There were two reasons for the temporary downward movement in equity markets which occurred in late Feb and which started to reverse in mid March.

Firstly; the Chinese government hinted at changes (reducing the availability of credit & changes in capital gains taxes) to slow down the increasing rise of the Chinese stock markets. The impact that this news had on world markets underlines the critical importance of the Chinese economy to the global economy. I cannot think of any other “emerging market” that could have such an impact across the world. It underlines the fact, if we did need reminding, that the Chinese economy is a serious player on the world stage.

Secondly; at the same time, US sub prime mortgage lenders were reporting increases in the level of mortgage defaults. This was seen as a worrying factor for financial institutions which were exposed to such lending and brought US financial stocks downwards. The financial sector makes up such a large part of a market, and this sector will have a significant impact on how an overall market index performs.

Europe – The overall Europe S&P350 market index is up 6.3%, with many countries showing moderate to strong growth. The Irish index [ISEQ] is lagging other European markets showing a year to date return of 1.9%, this in contrast to a 27% annual return in 2006. The German [DAX] is showing a strong year to date return of 12.8%. The UK FTSE100 is up 5.5% in local currency terms. I would continue to hold a positive view on european stock markets. However, I would reduce exposure to the Irish stock market, due to the slowdown in construction activity and the reliance the Irish economy has on the growth of this sector.



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Market	Index	Year to Date Return 31.12.06 to 11.05.07	
		Local Currency %	Euro %
US	S&P 500	6.2	3.6
US	NASDAQ	6.1	3.6
Europe	FT/S&P Europe Ex. U.K.	7.8	7.8
Ireland	ISEQ	1.9	1.9
UK	FTSE 100	5.5	4.3
Japan	Topix	2.5	-0.9
Hong Kong	Hang Seng	2.5	-0.5
Australia	S&P/ASX 200	11.1	14.3
Bonds	Merrill Lynch Euro over 5 year Govt.	-0.8	-0.8

USA – One of the reasons why we did not recommend the US for equity investment in Issue 1, was mainly based on the expectation of a continued depreciation in the USD versus euro. The main US market indices have returned year to date 6.2% growth. However for a euro investor who is exposed to foreign exchange movements this translates into 3.6% in euro terms. I would continue to ignore USD equity investment, unless the foreign exchange exposure is hedged.

ASIA – The SSE (Shanghai Composite Index) breached the 4,000 mark on May 9th and is up 50% on a year to date basis. There are concerns that a lot of Chinese nationals are cashing in savings accounts for investment in Chinese equities. During April 4.79million share accounts were opened by Chinese investors, this compares to 3.08million accounts opened in the whole of 2006. There is a real risk of a short term bubble and the Chinese government may intervene to cool the market, however intervention would have short term negative impact on prices.

India's BSE – Sensex index is flat on a year to date basis, while we did say China was our favourite amongst the emerging Asian markets, it's a disappointing return year to date for no apparent reason, for the other main global growth economy. The Indian economy is on track to grow by 9% this year and despite a rise in interest rates to curb inflation, the medium outlook for the economy there is positive. Exposure to this market is possible through a specialist managed fund or an ETF such as the MSCI India Index Fund (INP).

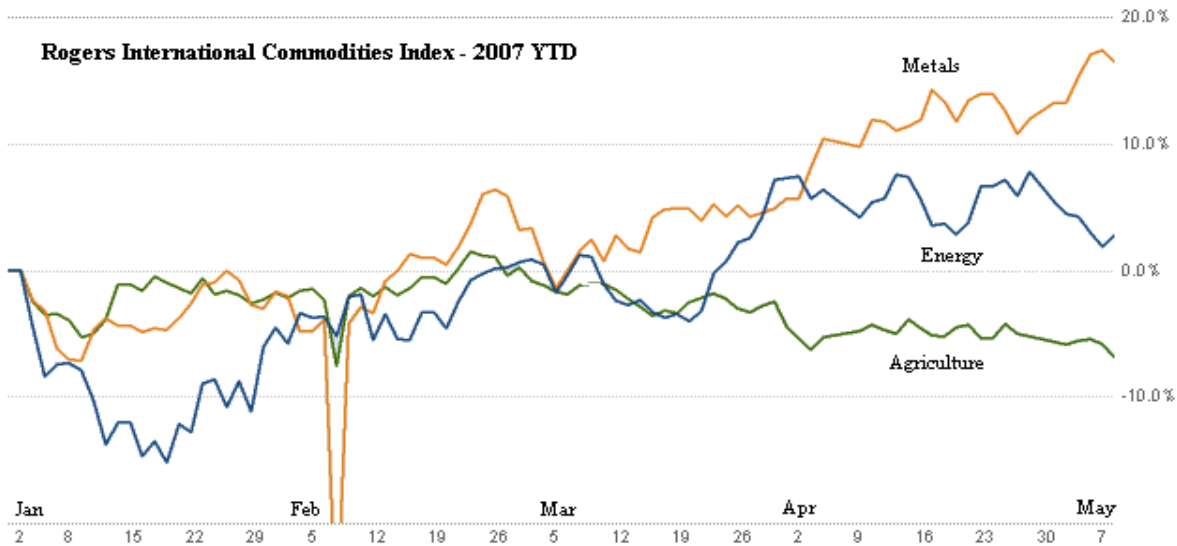
More traditional markets Japan and Hong Kong are up a moderate 2.5% LC year to date, however when stated in Euro terms both are in negative territory. The Australian market is up a healthy 11.1% LC year to date. I would continue to take a positive medium to long term view of emerging Asian market growth, with plenty of ups and downs along the way. I expect to see the Hong Kong market outperform the Japan market in 2007.



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Commodities – The overall Rogers Commodities Index is up 3.39% year to date to the end of April. The chart below shows that most of those gains are within the metals segment. 80% of the energy index is composed of Oil, which has traded in a range between \$60 and \$70 since March, in January it was traded at \$55 a barrel.



Metals – Driving most of the growth in commodity indices in 2007 has been the growth in base metal prices. Driving this price increase; has been an increase in demand from emerging economies, particularly China. Base metal prices fluctuate based on demand and the size of inventories of the metals. Many commodity analysts are expecting a price correction soon for many of the base metals. However Copper reached a high of €8,788 a ton in 2006 and is still behind that price.

Uranium, is not actually traded on a market (for obvious reasons), but there is a measurement by some specialist companies who monitor the prices that are being paid at present. As we expected, the price of uranium continues to increase as many countries have made strategic decisions to increase or move towards nuclear generated power. Note that uranium is not included in the commodity index above. Most direct route to investing in uranium is purchasing direct shares in mining companies who mine uranium.

Metal Price Trends 2007				
		Latest Price	Opening 2006	Movement YTD
Nickel	\$ / t	53,200	33,550	59%
Zinc	\$ / t	4,023	4,259	-6%
Tin	\$ / t	14,425	11,620	24%
Lead	\$ / t	2,060	1,725	19%
Silver	\$ / oz	13	13	1%
Copper	\$ / t	7,906	6,201	27%
Aluminium	\$ / t	3,805	2,830	34%
Palladium	\$ / oz	364	332	10%
Gold	\$ / oz	669	640	5%
Platinum	\$ / oz	1,330	1,136	17%
Uranium	\$ / lb	120	72	66%



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Bonds – With continued price growth in other asset classes and a positive global economic outlook, the bond market has not been attractive for investors. Year to date the Merrill Lynch Euro government bond index is showing a year to date return of -0.8%.

Property –



Ireland – Residential - There was no real surprise when the latest PTSB price index, showed a monthly decline in house prices nationally, in March. The slowdown in price increases started in Quarter 4 2006. The annual price index is up 7.4% however this cloaks the monthly decline in prices. In tandem with a slowdown in prices, there has been a slowdown in market activity. It is anticipated that the passing of the general election will see the market return to normal volumes, with final clarity on the future of stamp duty. The impact of increases in interest rates can not be overstated, with a potential for two further 0.25% increases in the ECB rate before the end of 2007.



Ireland – Commercial - In contrast to the residential market, commercial property capital returns to year end of March 2007 was 18.5% [Jones Lang LaSalle Irish Property Index], with a quarter 1 price increase of 1.7%. Property yields continue to decrease however. The expectation is that total 2007 return on commercial property will be around 15% [CBRE], a significant fall back from total returns of 28.5% in 2006.

Prime Yields	
Retail High Street	2.50%
Retail Shopping Centre	3.50%
Office	3.75%
Retail Warehouse	4.25%
Industrial	4.75%

UK – Residential – The April Halifax UK House price index – shows annual UK residential price inflation at 10.9%, with a monthly national price increase of 1.1%. This is a slight reduction on monthly increases from Jan to March which reflects the Bank Of England rate increase in Jan. The Bank Of England have again raised the base rate to 5.5% in May. I would expect that the 2007 annual residential index to end the year near the 9%, mark as it was in 2006. Regionally Northern Ireland prices are up 37% annually to end of March, with urban house prices in Co. Armagh and Co. Down up 55% in the last 12 months. Who said you needed to travel afar for the next property hot spot!! One of the drivers of these price increases is investors from the south, who are investing in Northern Ireland.



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UK – Commercial – As the prices attained for UK commercial properties continues to see rental yields being compressed, the total returns from UK commercial property have started to moderate. The most recently published IPD commercial property index (to end of April 2007) shows a 12 month total return of 14.8%, with 3% total returns for year to date.

Prime Yields

Retail (High Street)	4.00%
Retail (Warehousing)	4.00%
Office (Central London)	4.30%
Office (Provincial)	4.50%
Industrial	5.00%

Our revised 2007 investment asset split (not necessarily yours)

Equities –	50%	5% Ire, 10% UK, 20% Europe (excl. UK & Ire) 15% Asia (excl. Japan)
Property –	40%	UK commercial (Office & Retail)
Commodities –	10%	Uranium (Cameco)

Note I have reduced exposure to equities in Ire (-5pts) and UK (-5pts) and increased the equity allocation in Europe (excl. UK & Ire). Also Asian equities are excl. Japan market.

By Morton Rennick - QFA ACMA

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