4th Edition – 2009

# Investorinsight

Global stock markets had a good third quarter as some of the major economies started to emerge from the recession. Shares clawed back more of the losses that they sustained in the third quarter of 2008.

In the UK, over the 12 month period ending 30/09/09, the FTSE 100 Index grew by 9.5%. However, since March UK shares have enjoyed a truly bumper period. For the 6 month period ending 30/09/09, the index increased by 33.7%. At the beginning of the year there were still concerns about a possible global depression and as soon as that was discounted, this remarkable period of stock market growth commenced.

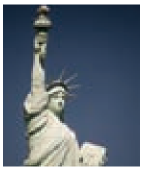
The next 12 months are likely to remain challenging, but it's important to remember that the UK does have a number of world class companies that will continue to prosper. Of course, a weak pound is good for UK based exporters.

In this edition you'll find our usual market round-up below. Over the page another index, the FTSE 250 Index, which is a very exciting and dynamic part of the UK stock market is introduced. In our 'Back to basics' section we explain the difference between active and passive funds.

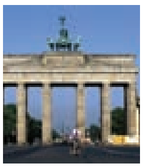
## Market round-up (July - September 2009)

### Shares

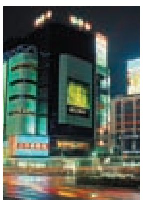
**UK shares** rallied strongly as the FTSE 100 Index enjoyed its strongest ever quarter. The index ended the period up 21.9%. Financial shares were among the market leaders, partly due to the Bank of England's monetary policies.



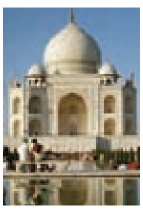
**US shares** posted strong returns with the S&P 500 Index up 19%. Although consumer confidence remained poor due to concerns about rising unemployment, investors took comfort from rising house sales and an increase in manufacturing output, which has received a boost from an increase in car production.



**European shares** had a very good third quarter. Business confidence was on the rise, whilst the contraction in the manufacturing and service industries slowed. More significantly, France and Germany officially came out of recession during the period.



Compared to other regions **Japanese shares** disappointed. Though industrial production beat forecasts, the unemployment situation remains a concern. During the recent elections the Democratic Party of Japan won a landslide victory.



**Emerging markets** had a good third quarter due to a change in the risk appetite of some investors. Across Asia, growth expectations were revised up as expansionary government policies softened the blow of the global slump on the region's economy. A surge in bank lending helped to maintain growth at a higher pace than had been forecast.

### Fixed Interest

**Corporate bonds** continued to perform well on the back of encouraging company profits. In particular, high yield bonds impressed because they are perceived to offer good value and the likelihood of companies defaulting on their payments has been revised downwards.

**Global government bonds** only made modest gains over the three months.

### Property

Commercial **property** steadied over the period and in August capital values increased for the first time since mid-2007. Though sentiment towards property has improved, it is the quality part of the sector that is benefiting. Forecasts are being revised upwards and positive returns are anticipated for 2010 and beyond.

### What can we expect in the coming months?

The rally in share prices that we have witnessed globally over the last six months has mainly been in response to the huge government stimulus packages. In the UK it now seems we will face a slow climb out of the recession as unemployment continues to rise. Part of the problem is that we are going through a period where consumers would rather save than spend their money.

The outlook for the major emerging markets, such as China, remains good and it seems likely that they will continue to drive world economic growth. There is always the possibility that they may suffer a market correction (fall in share prices), but their long-term outlook continues to remain bright.

The information shown refers to the past. Past performance is not a reliable guide to future performance.

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# Back to basics...

**You may have heard of passive funds and active funds, but do you actually know what they do? Below we introduce the two main different types of fund management.**

## Passive funds

- Passive or 'index tracking' funds are managed with the aim of copying the specific index that they are tracking. For example, by tracking the FTSE All-Share, a fund manager will be investing in the same shares and in the same proportions as this index.
- The manager will not make any 'active' decisions and this is why these types of funds are known as 'passive'.
- The manager of a passive fund is aiming to match the return of an index, rather than trying to beat it. This means that when the index rises the fund will rise and when the index falls so will the fund.

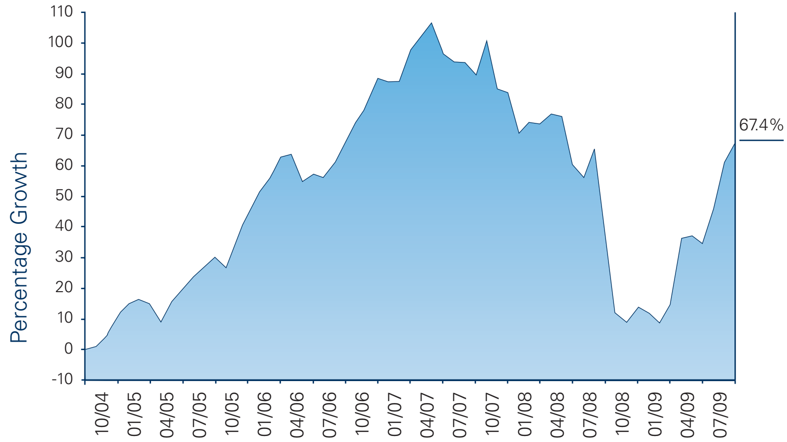
## Active funds

- Active funds are managed with the aim of generating returns greater than the market, as measured by a benchmark, such as an index.
- This is done by basing stock purchase and sale decisions on a combination or factors, including the current economic environment, as well as more company specific issues, such as profitability, market share and strength of management.
- Depending on the fund's objective, active fund managers may have little or no constraint on their investment choice.
- When this is the case they can concentrate purely on what they consider to be the most promising opportunities, regardless of industry sector or company size, and will look to use their stock picking abilities to try to both maximise gains in rising markets, as well as minimise losses when markets are falling.

# Key market indicator in focus...

## FTSE 250 Index

- The FTSE 250 Index represents the 101st to 350th largest companies on the London Stock Exchange. The main advantage of investing in these types of companies, also known as mid-caps, is that they often have greater growth potential than their larger counterparts.
- The significant number of company changes that take place in this index every year make it a very dynamic and exciting part of the UK market. The Carphone Warehouse, HMV and ITV are all currently members of the FTSE 250 index and over the last five years it has risen by 67.4%. In comparison, the FTSE All-Share Index, has increased by just 35.1% over the same time period.




30/09/04 – 30/09/09

Source: Lipper – percentage growth, total return in GBP

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## Things to consider...

**No.1: Risk and Reward** – In life risk and reward generally go hand in hand. Investment risk is the chance you have of making or losing money on any investment. Generally, the more risk you are prepared to take, the greater your potential gain, or loss. All of our pension funds are risk rated and it's important that you consider this factor when deciding which funds to invest in. You could get back less than you've paid in.

**No.2: Default Investment Option** – Lots of people rely on a default fund option for their pension plan. This means that they have not expressed any preferences about what to invest in and the decision has been made for them. If you are in your pension plan's default fund, it is important that you understand what it invests in. This is to ensure that it reflects your attitude to risk.

If you are in any doubt about your investment decisions, you should contact your financial adviser. If you don't have a financial adviser but would like independent financial advice, you can find an IFA in your area at **www.unbiased.co.uk**.

This document should not be used for making investment decisions.

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