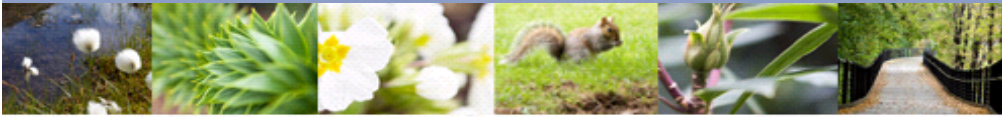


News & Views



June 2010

Inflationary pressures rise

UK interest rates have now remained at their all-time low of 0.5% for over a year. The UK has crept tentatively out of recession but the new Government are now anxiously looking at ways to cut costs without doing anything to derail a very fragile recovery.

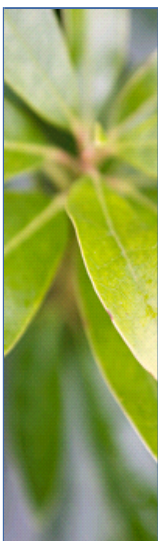
However, the UK Consumer Price Index reached 3.4% during March. In his open letter to the Chancellor of the Exchequer back in January, the Governor of the Bank of England (BoE), Mervyn King considered the rise to be a "temporary deviation" and suggested inflation will fall back below the Government-set target level of 2% in the second half of 2010. Even taking King's explanation for the sudden rise in prices into consideration, it is worth remembering the rate of inflation has almost doubled since November 2009. Indeed, only a few months ago, deflation seemed the more credible risk. In normal circumstances, the BoE would increase the cost of borrowing in order to cool inflation. However, rates are unlikely to rise in the short term because policymakers fear higher interest rates could endanger the UK's economic recovery.

Low interest rates are generally good news for borrowers, but are bad news for savers, who have already endured a year of exceptionally low interest rates. Returns on cash are meagre and high inflation is eroding the real value of cash. Looking ahead, Britons face the combined problems of high inflation and rising taxes, both of which will put additional – and unwelcome – pressure on disposable income.



Welcome to our latest newsletter. Sorry we missed May, unfortunately the Spring bank holidays got in the way!

If you have any questions about the issues raised in this issue, please do not hesitate to contact us.



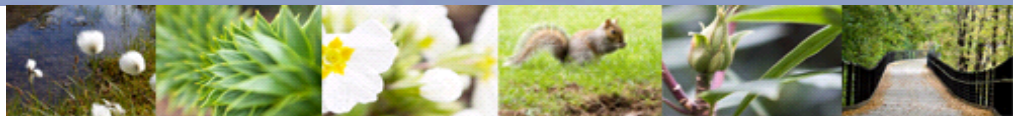
Considering property

For investors looking for income, with a chance of capital growth, the property market has been very popular. Also, because its performance is not closely correlated to that of equities or bonds, it has offered diversification benefits, helping to smooth out the peaks and troughs of a portfolio's returns.

Commercial property, however, is very expensive for individual investors as lot sizes tend to be large and the long-term management of property is onerous. Property funds therefore offer an alternative, providing diversification across a number of buildings, perhaps also mixed with more liquid property shares, for a much smaller investment.

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Planning for success

Step No 4. BE SMART

Benjamin Franklin's belief that "by failing to prepare, you are preparing to fail" might be something of a cliché in the twenty-first century, but it is worth thinking about before you begin the financial planning process. Not only do you need to make your objectives clear, you can also make them SMART. This is business speak for making sure you are Specific about what you are trying to achieve, can Measure the success (or failure) to keep your plans on track, keep them both Attainable and Realistic given your own circumstances, and that in the end, you will see something Tangible in return for the work you have put in.

Dawn of a new politics

After a couple of nail-chewing weeks, the UK finally has a new government. It may not be quite what markets would have wished for - equally it is not as bad as they might have feared. But this is uncharted territory with the UK coping with an economic crisis and a political set-up not seen for a generation. Do investors need to prepare themselves for a bumpy ride? Or are the new government's policies likely to bring stability?

First, it must be said that some measure of certainty is welcome. Markets hate uncertainty and the mere fact that a government has been formed has allowed them to concentrate on other areas (like the crisis in the Eurozone). The pound has seen a small rally against the Euro since the election, though this may be more a function of the potential weakness across Continental Europe than a vote of confidence in the new government.

More certainty of government is good for gilts, as is the fact that all the major rating agencies said the outcome of the election did not, in itself, change their view on the outlook for the UK. That said, many problems do remain: Over-supply continues to be an issue and the rating agencies may not look so favourably if credible steps are not taken relatively quickly to deal with the deficit. All eyes will be on the new budget on 22nd June.

It is difficult to make a case for any rise in interest rates in the short-term and most forecasters are predicting the smallest of hikes (0.5-1%) or none at all by the end of the year. With tax rises and public spending cuts on the horizon, plus deflationary pressures still at work and sterling stronger, any interest rate rise could be crippling for the recovery and the Bank of England has indicated that interest rates are likely to remain low for longer than the market currently expects. However, that does mean income seekers will have to continue to look for alternatives to cash.

Equity markets have more to worry about than the UK election. They are, it seems, more concerned with global growth prospects and the Eurozone crisis than they are with the domestic politics of the UK. With two-thirds of the FTSE 100 earnings coming from outside the UK, this is certainly a more appropriate focus. However, the June budget may see a renewed focus on domestic issues.

Coalition is not a disaster. Markets had expected a hung parliament and the current compromise is probably as good as they could have hoped for. The true extent of the compromise is unlikely to be seen until the first budget. Watch this space.



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