investment update

AN INTERESTING QUARTER

Stable, yet still nervous

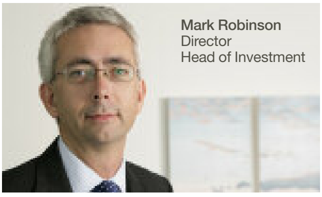
PROPERTY – THE ORIGINAL INDIAN ROPE TRICK?

Up, up and up

BERRY WINS ANOTHER PRIVATE ASSET MANAGERS AWARD

2007 proved a better year than 2006

B E R R Y



As has often been the case in the past, the rather modest looking percentage increases in stockmarkets in the first quarter of 2007 hide a good deal of underlying volatility during the period. Global stockmarkets rose by around 3% in sterling terms, having been below their starting level mid way through the period. What has been very encouraging has been the speed with which stockmarkets have recovered from two distinct setbacks.

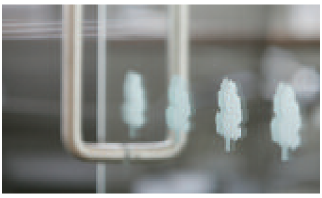
There have been several market corrections and subsequent recoveries over the past four years, but none have been quite as rapid as the two seen recently. Why has this been so? The answer probably lies in a fundamental confidence in markets and the fact that the global economy is actually in pretty reasonable shape: GDP growth in the US, Japan, Eurozone and UK economies is expected to be extraordinarily synchronised this year at around 2.5%; stockmarket valuations and profits growth, although slowing, are also quite healthy, and a continued wall of liquidity is highly supportive for markets generally.

However, at this stage in the stockmarket cycle it is hardly surprising that the slightest whiff of a problem causes share and bond markets to wobble. Volatility in all asset classes is something that we believe will become more of a feature for investors to grapple with this year. Increased volatility does not necessarily mean an end to the four year journey of positive markets – on the contrary, increased volatility provides opportunity for a number of strategies and active managers to make gains against a generally rather unexciting backdrop. We have not been shy in admitting that we prefer active rather than passive, index-hugging managers, and volatile market conditions should play into their hands even more this year.

Jamie Berry

April 2007

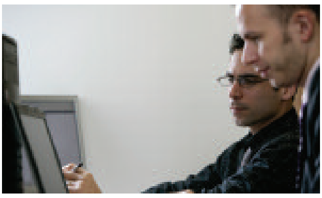
PROPERTY – THE ORIGINAL INDIAN ROPE TRICK?



The state of the UK residential property market continues to be a favourite dinner party topic for the chattering classes. With the average UK house price approaching £200,000, getting young people onto the housing ladder has become very difficult indeed without parental support or taking on mortgages based on very high multiples of earnings. So are house prices overvalued?

The answer, almost certainly, is ‘yes’, particularly in the South East. Are house prices heading for a major correction? Probably ‘no’, at least in the short term, for several reasons. First, the relatively stable inflationary backdrop in the rest of the economy means that excessive monetary tightening is unlikely to occur, enabling even the most indebted of borrowers to sleep relatively easily at night. Second, the jobs market is quite benign and wage growth is under control: the trend in both the employment and unemployment rate is flat and the growth in average earnings, excluding bonuses, has decreased slightly in recent months. Third, and arguably the most influential reason, there is still a major shortage of property.

> “…enabling even the most indebted of borrowers to sleep relatively easily.”



The government-commissioned Barker Review of Housing Supply, published in 2004, made the slightly obvious observation that to improve macroeconomic stability and deliver greater affordability for individuals, a lower trend in house prices was desirable. It went on to conclude that in order to deliver a trend in real house prices of 1.8%, an additional 70,000 houses each year in England might be required. It also recommended changes to the planning system. Yet three years on the government has effectively admitted that it is still not meeting its housing targets. Part of the problem lies in the barriers to development, including an understandable NIMBY attitude from existing homeowners.

“...the government... is still not meeting its housing targets. ”

However, for as long as we have a shortage of housing in this country, property prices are unlikely to see a sustained correction. It is, however, good to see the latest Halifax survey on house prices showing a more moderate pace of growth last month: this is probably the best we can expect, unless of course inflation and interest rates take off and impact the employment market, which also seems unlikely in the near term.

It is also important to remember that mortgage habits today are different to those of previous generations. Today, taking out an interest-only rather than repayment mortgage is much more commonplace, providing more cash in borrowers’ pockets and postponing the day when the loan needs to be repaid. However, a high degree of self-discipline is required to make other arrangements to pay off the loan, and in this regard we are fortunate to have a much more flexible and developed savings market than we did even ten years ago.

Personal Equity Plans and their successor, Individual Savings Accounts, have enabled investors to make individual choices about where and how their money is invested, without some of the ties and disappointments of more traditional investments routes, the most notable one being With Profits endowment policies.

"...it is still worrying to see such high levels of debt being accumulated... "

The framework for pension savings has also improved in recent years, again allowing greater investment choice through the development of Self Invested Personal Pensions (SIPPs) and their continued benefits of tax relief on contributions, plus a still generous amount of tax-free cash at retirement age. It is the latter element that is seen by many as providing an efficient means with which to pay off a significant part of today's borrowing. Whilst it is still worrying to see such high levels of debt being accumulated, particularly mortgage-related, on the other side of the equation we have a much more flexible and innovative savings market, providing a platform for significant channelling of investment into stockmarkets and other asset classes. Perhaps consumers can live for both today and tomorrow after all.

"...we have a much more flexible and innovative savings market... "

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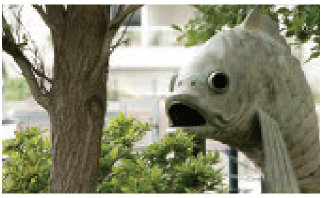

The Oscar ceremony for the UK's wealth management industry took place in March. The Private Asset Managers (PAM) Awards ceremony was held in London and we were once again pleased to be in the spotlight. After the successes of 2006 when we were shortlisted to receive three awards, we were shortlisted this year to win four awards in important categories, including two for our investment performance – the acid test of what we do.

The Private Asset Managers awards are the wealth management industry's recognised premier awards, and judged by many professional advisers as the key recognition of success. Happily, we were joint winners of the award for the quality and clarity of our reporting, and were just pipped at the post in the performance league tables. It is always pleasing to receive these accolades for core aspects of what we do, but we do not stand still in this business and continue to strive for excellence in everything we do.

PAM AWARDS

Joint Winner
Quality & clarity of Investment reporting
PAM Awards 2007

PAM AWARDS

Shortlisted
Investment performance – balanced portfolios
PAM Awards 2007

PAM AWARDS

Shortlisted
Investment performance – defensive portfolios
PAM Awards 2007

PAM AWARDS

Shortlisted
Overall service quality for high net worth investors
PAM Awards 2007

Berry Asset Management PLC
101 The Chambers, Chelsea Harbour
London SW10 0XF

Telephone: +44 (0)20 7376 3476
Within UK: 0845 456 0586
Facsimile: +44 (0)20 7823 3348
E-mail: Enquiries@berry.co.uk
www.berry.co.uk

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