

# Investment Update

5 August 2011

## Comments on recent market volatility

The drop in the World's stock markets in recent days has been a difficult one for the media to report on because there isn't really any new news that has caused it. The effect has raised concerns of the stock markets and the focus has drawn in on debt issues in the US and Europe.

The Menzies Wealth Management (MWM) portfolios are managed on a diversified basis and therefore your own portfolio will not have fallen as far as those indexes being reported on. However your portfolios will have reduced and you need to be thinking how you wish to go from here.

MWM have invested your money for the medium to long term and we have always said there will be short term fluctuations as we go along. Our advice is that you remain invested as we do not know when markets will correct and how quickly. If you believe your situation has changed then do please contact us to discuss your options.

### **US and European Markets**

Despite agreement being reached on raising the government's debt ceiling in the USA, markets have continued to fall in recent days. The debt ceiling is usually a technical issue and is raised regularly, without normally being commented on by the outside world and in common with almost everyone else in the market we always expected

agreement to be reached, to prevent the US Government having to default on its obligations. However political brinkmanship caused the stakes to be increased well beyond comfort levels last week.

Although crisis has duly been averted, the protracted debate has served to focus attention on the rapid growth in the US deficit, and the apparent lack of a plan, by Barack Obama, to bring it back to normal levels within a measureable time frame.

This has been an unwelcome reminder to markets of the fragility of sovereign budgets in the developed world, following so quickly on the deal to finance Greece's debts that addressed Greece's immediate crisis, but did little to resolve long term structural problem in the Eurozone. Indeed it is now evident that the deal has not arrested growing worries that the much bigger economies of Spain and Italy may also need external help in financing their deficits.

Meanwhile economic statistics continue to suggest that economic growth in the

developed world may be slowing from the levels of the last year, potentially putting further strain on government finances.

The combination of the above brings us to the weakness of recent days. We expect nervousness and volatility to persist. However we are also aware that the timetable for the raising of UK interest rates seems to have been deferred, that individual company results are still tending to surprise on the upside, and that corporate cash flow continues to improve. Valuations and dividend yields also look attractive in comparison with other asset classes as long as we do not experience a credit shock similar to that of 2008/9.

So we feel that strong nerves may indeed be needed in the coming weeks, but none more so than at this moment in time.

**Eric Norman-Walker**  
Chairman of MWM  
Investment Committee

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