

INVESTMENT UPDATE

9 September 2011

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PRIVATE MEDICAL INSURANCE

According to a survey, the main reasons for going private were the fear of superbugs such as MRSA and hospital cleanliness, and a desire to avoid long waiting lists.

Private medical insurance (PMI) can allow you to avoid NHS waiting lists and receive fast-track consultations and private treatment for short-term, curable medical problems. You are treated privately in an NHS hospital or in a private hospital. PMI doesn't cover every medical eventuality, however, so it's important to select your cover carefully.

PMI is not essential. The UK is one of the few places in the world that has a universal free health service. However, if you have disposable income and all your finances are in order, then PMI could be for you if you feel it will give you and your family peace of mind.

It is essential to understand. :-

- PMI doesn't replace all NHS services - for example, accident and emergency treatments aren't covered.
- With very serious illnesses, you will not necessarily receive treatment more quickly with PMI than you would under the NHS.
- You won't have unconstrained choice over where you are treated or by whom.
- You won't always get treatment in a private hospital. You could end up on an NHS ward rather than in a private room.

If you wish to discuss this option further please call your consultant who can discuss this and any other protection needs you may have.

(main source "Which.co.uk" PMI)

PERFORMANCE UPDATE

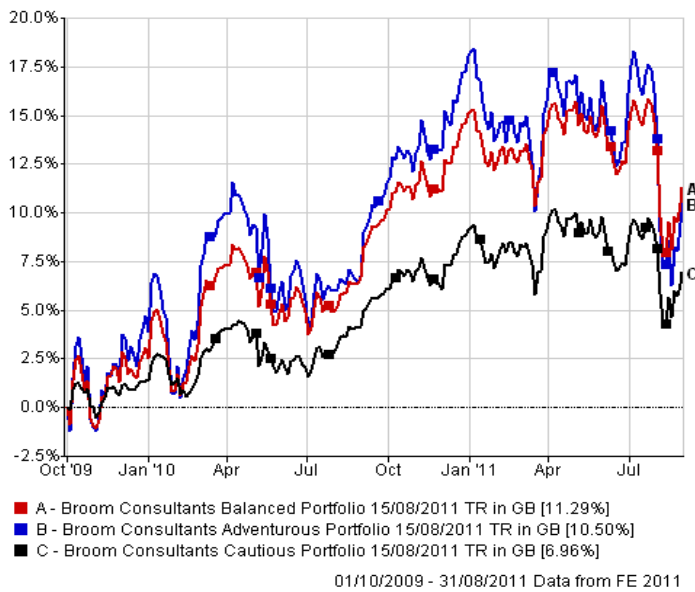
During August, the FTSE 100 fell from 5848 to 5387, a loss of 7.88%. At one stage it was down by 17%. Other stock markets fell further with the German stock market falling by 20.1% in August. The "Broom Consultants" Cautious, Balanced and Adventurous Investment Strategies fell by 1.84%, 2.99% and 4.91% respectively.

Over the last year, our three most popular strategies have performed as follows:

- Cautious** + 2.68%
- Balanced** + 4.33%
- Adventurous** + 3.50%

The graph below shows how the Broom Consultants Investment Strategies have fluctuated since launch and the table details the performance of our strategies compared to our benchmarks:

Since Launch



Various Time Periods

	1 Month	1 Year	Since Launch
Broom Consultants - Cautious Portfolio	-1.84%	2.68%	6.96%
Benchmark - Cautious	-3.74%	2.87%	7.92%
Benchmark - Cash	0.14%	1.54%	2.77%
Broom Consultants - Balanced Portfolio	-2.99%	4.33%	11.29%
Benchmark	-6.23%	4.15%	8.48%
Broom Consultants - Adventurous Portfolio	-4.91%	3.50%	10.50%
Benchmark	-7.37%	5.57%	7.92%
Average Outperformance	1.89%	-0.47%	2.34%

The last six weeks has been a very turbulent and tough time for stock markets. The chart below shows the main US stock market over the last year and how the series of rising lows was suddenly broken by one of the sharpest series of daily falls ever recorded:



Even though the US debt ceiling was raised and the European debt problems have been contained, there was some shock economic data from the US which has meant that there is a much higher chance of the US economy falling back into recession. This shock news sent global stock markets falling and they are continuing to experience higher than normal daily gains and losses. The consensus of opinion was that the West would continue to grow, albeit slowly, but now the number of economists predicting another recession in the West has grown. It is the fear of recession that is now driving stock market returns.

All of our portfolios had been conservatively managed prior to the August falls as we had the majority of our stock market exposure in funds that invest in large global companies that are paying good dividends. Whilst the FTSE100 has fallen by 8.65% over the last 6 months, every one of the equity funds that we currently hold in our portfolios has actually made money over the last 6 months.

During August, we also reduced the equity exposure across our portfolios and switched into funds that have continued on their upward trends e.g. inflation linked bonds. The result of having a defensive portfolio prior to the falls and reducing equity exposure has resulted in your losses being minimised during this difficult period.

Whilst we do not enjoy telling you that you have lost any money, we are pleased that these losses have been minimised and that if you had invested in most other investment strategies then you would have lost significantly more money. The six month outperformance of our portfolios versus their benchmarks, along with the approximate equity exposure we had in the portfolio on July 1st and the approximate exposure that we have now, is shown below:

Cautious

Equity exposure 1 st July	44%	Equity exposure now	29%
6 month outperformance	1.74%		

Balanced

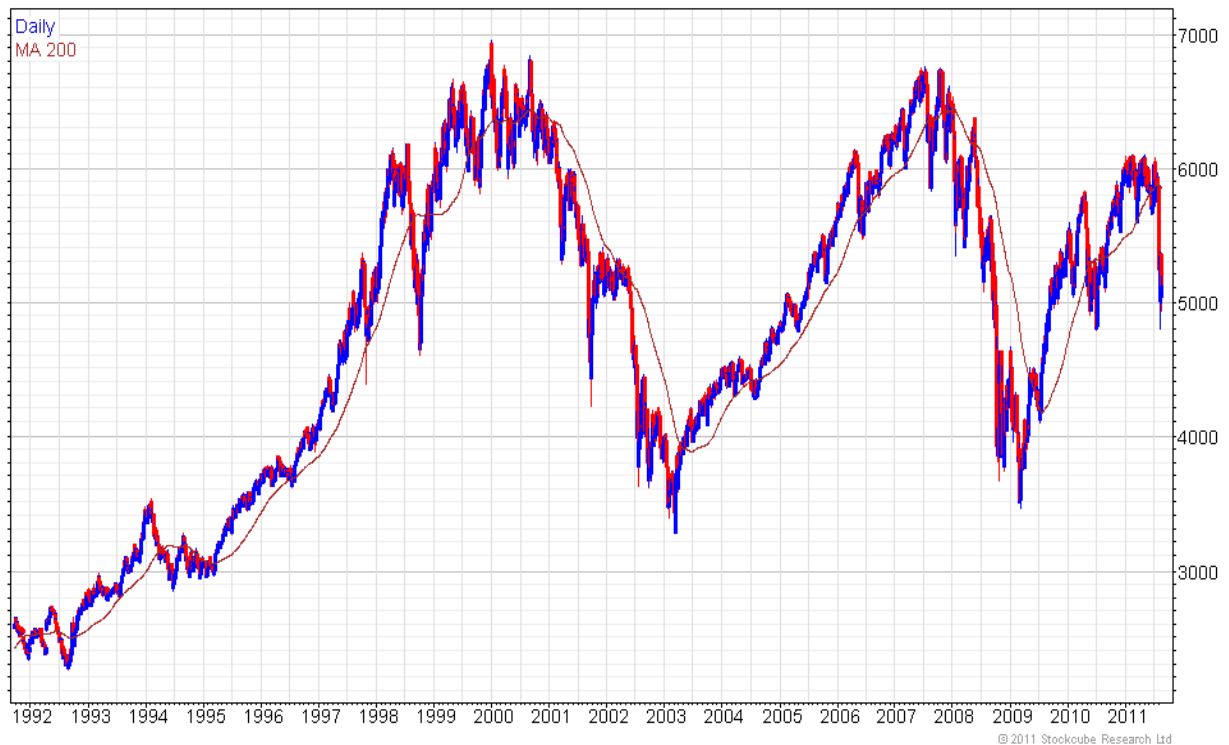
Equity exposure 1 st July	54%	Equity exposure now	37%
6 month outperformance	4.72%		

Adventurous

Equity exposure 1 st July	80%	Equity exposure now	55%
6 month outperformance	4.63%		

WHAT NOW FOR OUR INVESTMENT STRATEGIES?

1. Should we be buying Equities now that they have fallen?
2. Below is a chart of the UK stock market over the last 20 years:



After stock markets fall there are many investment managers promoting the merits of buying “after the dip”. Buying on the dips does work extremely well when the dips are relatively small but buying on the dips when they are larger has a much greater chance of losing money. If we look at the FTSE100 over the last twenty years then we can see that buying on a large dip in September 1998 and May 2010 worked well but didn't during the first serious falls in 2001 and 2007 as the markets initially bounced but then fell by 30-40%.

Therefore, there is a serious risk of markets falling much further from here and we therefore do not want to rush in and increase your exposure to equities today. Our investment strategy does not look to time the bottom of the market but instead looks to increase your exposure when a new positive trend develops. We are also not reducing your exposure to equities any further at the moment as you are generally invested in funds that are performing extremely well, due to the fact that they are investing in global, high yielding and highly profitable companies (see below).

3. What trends are proving positive?

Inflation linked bonds are on a strong trend and the two funds that we have exposure to are performing as follows:



02/09/2010 - 02/09/2011 Data from FE 2011

Blackrock's Gold & General fund is also performing well and is up 13% in the last two months.

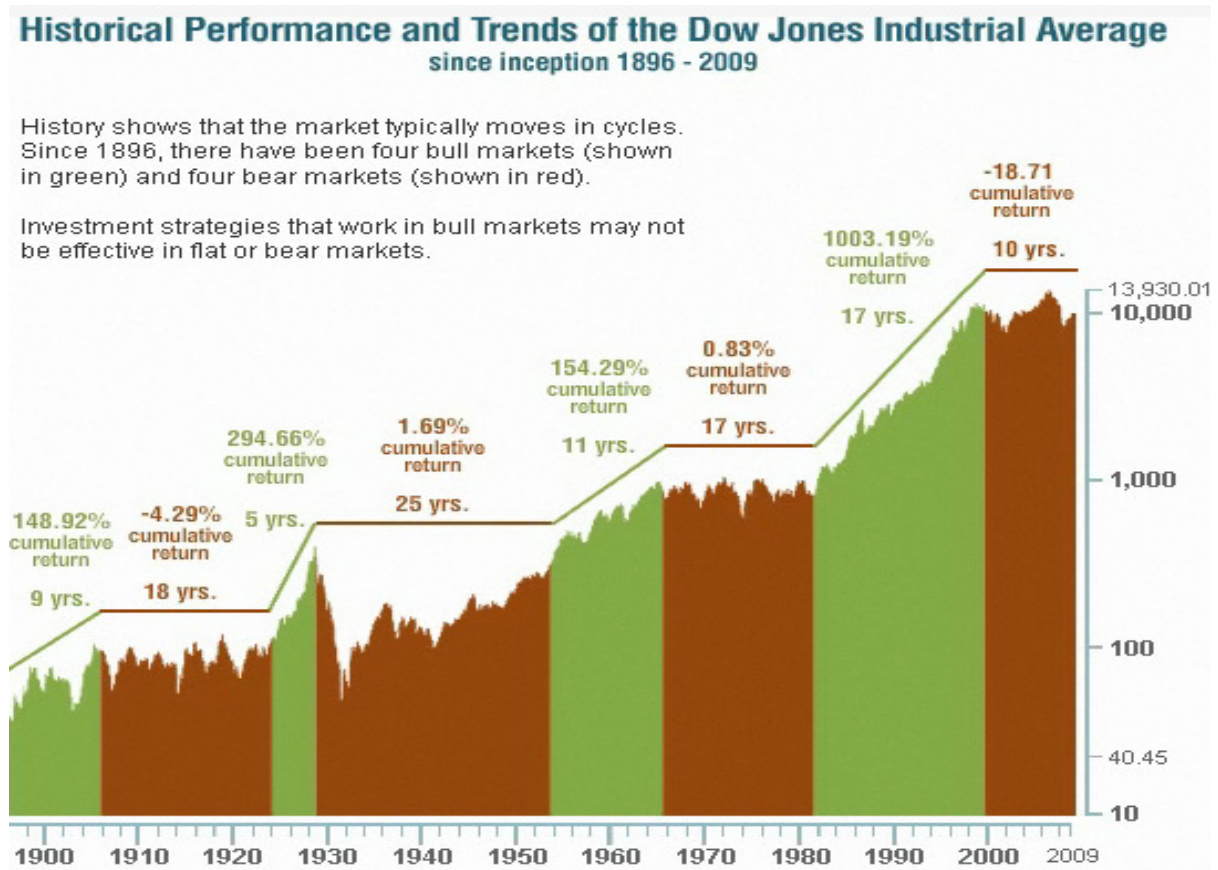
Finally, Asian currencies are continuing on their upward trend, which means money is still flowing from West to East. The chart below is the Asian Dollar Index and as the line goes up then you are making money on the currency exchange by investing in Asian assets:



You can see that in 2008 money flowed out of Asia during the credit crunch and anybody investing in Asian stock markets not only lost from them falling but also lost on the currency conversion. During this crash money has actually flowed in to Asia proving that it is beginning to be a safe haven i.e. do you want to give your money to European governments or Asian ones? We continue to remain overweight in Asia.

4. Long term what will make stock markets go much higher?

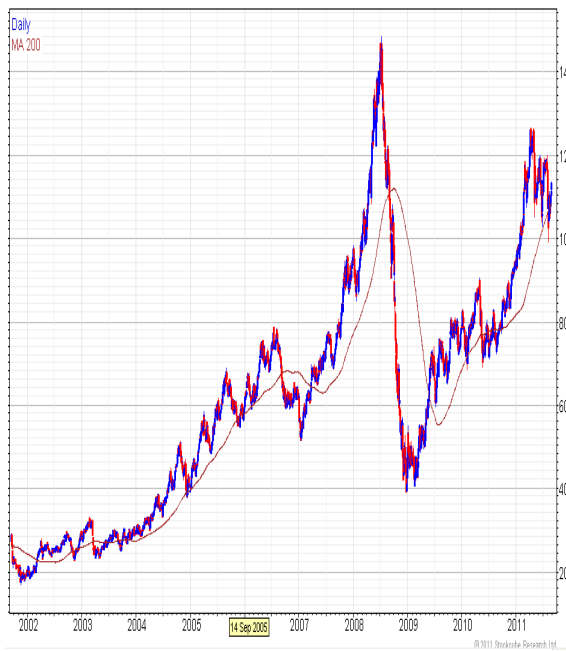
The UK stock market was at the same price level in 1997 as it is today. This means that investors have made very little money over the last 14 years. In September 2010 we printed the following chart:



We are therefore still in a flat cycle, so what will take us into a new bull cycle?

The problem for the West is too much debt, and the problem for the emerging markets is too much inflation. We believe that stock markets will enter a bull phase again once inflation is tamed. Despite the threats of recession in the West, inflation is proving to be persistent and this is causing problems especially in India and Brazil. If we look at the prices of different commodities, you can see that they are still rising:

Oil



Copper



Corn



Rice



What is particularly worrying is that rice, which is the staple food for half the world's population, is beginning to go up in price again. Rising food prices were arguably the trigger for the recent Arab uprising. If the prices of these commodities fall in the short term, then interest rates in the emerging markets could fall and this would probably trigger a bounce in stock markets. Interest rates in India are 9% and inflation is up at 9.44%, which is a huge concern. Only when inflation begins to fall, then interest rates can come down and stock markets could make further long-term gains.

Therefore, by monitoring the prices of these commodities we can get a better indication of when the next possible long term bull market will commence.

GREECE TO DEFAULT SHORTLY

The latest European bailout announced that they would buy up the bonds of European Governments. This was an attempt to stabilise the market and to stop the risk of contagion spreading to other parts of Europe like Spain and Italy. The following charts show the rate of interest that each country has to pay for their debts:

Spain



Italy



Ireland



Greece



From the charts above you can see how the yields on Italian and Spanish debt spiked upwards and then fell dramatically. You can also see how the problems in Ireland appear to be abating and that August has ensured that Europe has more time to deal with its debt problems. However, the politicians appear to have forgotten to buy Greek bonds and the interest rate after dropping sharply has risen back up to 18%. **What this tells us is that Greece will now almost certainly default on its debt and whether it remains part of the single currency is the next issue.**

WHAT RISK ARE YOU TAKING WITH YOUR MONEY?

One of the most important factors that affect the returns in your portfolio is the risk that you are taking. Our objective is to reduce the risk of your portfolio during the bad times and increase it during the good times so that we protect your wealth in the bad investment periods and you remain invested and benefit from the good investment periods. If this is achieved successfully then the overall risk to your portfolio will reduce and your losses will be minimised during the bad times.

But how do we measure the risk that you are taking?

The best measure is something called volatility. This is simply a measure of how much your portfolio moves on a daily/weekly basis. For example, if a portfolio grows by 10% in a month and then falls by 5% the next it is much more volatile than a portfolio that grows by 2.5% in each of the two months. Most investors would prefer to be in the second portfolio as the returns are the same but the risk is much less. The objective of managing a portfolio is therefore to maximise returns but minimise the volatility (risk).

So what are the risks of our portfolios?

We use the annual volatility as our preferred measure and the higher it is then the more risky the portfolio is. The table below shows the volatility of each of Broom Consultant's portfolios against the average fund:

Broom Consultant's Investment Portfolios	Volatility	Benchmark Funds	Volatility
Cautious	4.66	Average Cautious	5.95
Balanced	6.46	Average Balanced	9.94
Adventurous	9.03	Average Adventurous	12.09

By comparison, the UK Stock Market FTSE 100 has a volatility of 13.21 and Emerging Market Equities has a volatility of 17.12.

SUMMARY

Despite this being a tough period for investing money, our longer-term investment strategy remains the same and that can be summarised as follows:

1. We want to have more money in asset classes that demonstrate strong upward trends;
2. We want to invest in companies that are producing high levels of dividend income, as we believe that interest rates will remain low for much longer and these companies will do the best during the global slowdown that we are experiencing;
3. We remain rooted to exploiting the shift in global power away from the West and towards the East. This means we invest more money than the average manager in emerging markets.

Having the ability to invest in any asset class and by significantly increasing and decreasing exposure to each asset class over time is the best way of navigating your wealth through the economic and asset class cycles over our lifetimes. The recent crash was caused by some shock unexpected economic data and whilst we have managed to minimise losses, we did not expect falls of this magnitude. We have managed to recover quite a bit of the losses over the month due to the positioning of our portfolios prior to the crash and the subsequent changes that were made.

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Please note that this document does not constitute a recommendation. It is intended only to provide you with a guide to how Broom Consultants manages client money. The past is not necessarily a guide to future performance. The value of any investments can go down as well as up and you may not get back the full amount invested. Taxation is subject to change and you may have to pay tax on any gains. The Broom Consultants portfolios are unlikely to exactly mirror our clients portfolios due to the timing of the initial investment and the speed of response to our fund switch recommendations. The figures above therefore assume a client invested on the launch day and have responded immediately to our recommendations. All figures and charts are provided by Financial Express.