

Hi,

I hope all is well with you and your family. As usual there is much information here. Please cast an eye over the contents to pick out what is of interest to you.

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1. Economic Outlook

With the American market up 15%, the MCSI world index up 17%, the UK is lagging behind at 7.5% so far this year. However, European markets are now at an 11 month high and the US markets at a 5 month high. The S&P500 seems to be meeting resistance at the 1060 level. As always there are 2 views on the market. The economists believe the bear market is over and that we are now seeing good economic growth in most parts of the world. The chartist and technical analysts believe there is too much optimism and that the markets have risen too far too quickly and are due for a correction. Some points of interest:

- A report by the Royal Bank of Scotland indicates that the global economy is in for a period of long-term sustainable growth and low inflation. The report predicts UK GDP growth for 2003 of 2%, which is higher than a consensus figure of 1.7%. The Treasury's prediction, which has been criticised as being over optimistic, is 2% - 2.5%. For the US, the Bank's prediction for 2003 is GDP growth of 3% against a consensus of 2.6%. The report is less positive about Europe where it forecasts that GDP growth for 2003 will be 0.3% against a consensus of 0.5%. However, the figures for Japan show a healthy 2.7% versus average forecasts of just 1.9%.
- Figures announced last month show that the US economy grew at an annual rate of 7.2% in the three months to September, which is the fastest pace for nearly twenty years. Recent employment figures show that unemployment is reducing faster than expected.
- Companies have been reporting their results for the three months to September and have surprised analysts on both sides of the Atlantic. The number of times the analysts' expectations have been exceeded sits at a three year high.
- Further signs of economic recovery appear to lie in the fact that companies are raising dividend payments on the back of rising profits. In the first half of the year, nearly 60% of firms in the FTSE All Share that made announcements increased their dividends and the number of dividend cuts is at its lowest level for three years. In 2002 dividend payouts were reduced by an average of 2%. In contrast, in 2003 dividends are expected to rise by 4% as the economy expands, with growth of 6% forecast for 2004.
- The upturn in market performance has been reflected in investors' desires to get back into equities. In the UK, the Investment Management Association has reported that sales of ISAs in September were up 27% on last year. In the USA mutual fund receipts have been the highest for 3 years.
- Latin America and Eastern Europe have been the best performing fund sectors over the last year with the average returns from the best funds in these regions showing over 40% growth so far. Following the 15% drop in the Russian market last week on the back of the arrest of Mikhail Khodorkovsky and the seizure of shares in the Yukos oil company, some experts reportedly believe that now is a good time to buy into Russia provided President Putin does not use his political weight to influence the markets. Thailand, China and India have also seen excellent growth this year. The best returns in the last 12 months came from China, Japan, India, Brazil, Chile & Korea.
- Once again there are encouraging predictions for China with economic growth forecast to be 8.5% this year. It is predicted that China's economy will be larger than the UK's within the next two years, although there is a question over how long such growth can be maintained.
- China is still in the headlines on the back of its trading position with the US. As China continues to peg its currency to the dollar, exports to the US from China continue to have an impact on the US job figures. China is running up a trade surplus with America which is estimated to hit US\$130 billion this year. With the currencies pegged there is no prospect of Chinese exports in America becoming dearer or US goods becoming cheaper in China. On this basis there has been talk of a 27% tariff on Chinese goods coming to the US to offset the

effect of China's undervalued currency. With a US Presidential election only one year away, President Bush is coming under pressure from trade unions and a coalition of business groups to take action to protect jobs.

- Japan is continuing to attract attention from the pundits. With Japanese equities standing at 30% higher than their April position, the rally is reported to be on the back of recognition that shares in Japanese companies were very cheap with more than half of the country's listed companies trading below book value. There is a view that, in spite of the recent rise, Japanese equities are still cheap with about 40% of companies trading below their net asset value.
- Once again, China has been cited as a potential key player in Japan's economic fortunes. China's new manufacturing plants need both basic materials and sophisticated machinery that Japan can supply aplenty. In addition, Japan can also supply the consumer goods that China's emerging middle class consumers are seeking. The fact that cross-shareholdings in some of Japan's biggest businesses have now been unwound also means that the imbalance in the supply and demand for equities is no longer there.
- Some continental analysts are reportedly of the opinion that the bear market in European equities is actually over after a 5.7% increase in asset volumes being managed in the region this year. European volumes under management rose by a total of €3.9 trillion in the first six months of 2003 compared with a figure of US\$6.8 trillion in the US, an increase of 6.7%, and a fall in Japanese fund volume inflows of 1%.
- Investor confidence is also reportedly at a high. The latest Merrill Lynch survey of fund manager opinion shows that sentiment towards equities has risen to levels not seen since the peak of the last bull market in 2000. There is also evidence of increasing confidence in the idea that the market falls on the back of the war in Iraq and the SARS outbreak were short term hiccups in an otherwise positive underlying environment that has prevailed throughout the period.
- Retail sales in the US are also a source of good news having shown strong performance. Consumer and corporate activity appear to have responded positively to the stimuli introduced by the Bush administration and the threat of deflation has reportedly diminished.
- It is reported to be unlikely that there will be any change in the US base rate of 1% before the next Presidential election in November 2004. European Central Bank (ECB) has a new governor and he has left the Euro rate unchanged as France and Germany's economies are still suffering badly. It appears unlikely that he will change its policy of keeping rates at 2% until well into next year, with an outside chance of a further rate cut. However the UK and Australia are very worried by their high level of consumer debt, mainly on the back of recent property rises and have both raised interest rates. By raising their rate 0.25% to 3.75% the Bank of England is the first major economy to raise rates.

With the US dollar the weakest it has been for a long time because of the huge US balance of payments deficit aggravated by the Iraqi war, the gold price has risen. Gold is always a safe haven in time of uncertainty or USD weakness. [Friends Provident have now added a gold fund to their mirror fund range.] It is widely predicted that the price will rise another 5% or more to cross the \$400 per ounce level. From the point of view of most major currencies, it is a good time to be investing in USD assets and a bad time to move from USD (or Dirhams) to any other currency.

South Africans have seen the Rand strengthen to levels not seen for many years and many analysts believe it is reaching a peak and that as the USD strengthens, gold will weaken and so will the Rand. If you are considering taking money out of South Africa, it is a good time to do it, but you don't need me to tell you that it is not a good time to send money back home, unless you really have to. A similar argument applies to Australia and New Zealand.

Property markets around the world continue to grow in value to the concern of many Central Banks. Investors taking money out of the stock markets after the crash in 2000 and 2001 have fuelled the boom and The Economist Property survey published in June contained the following table:

Waiting for the crash 10

Average house prices

	% over-valuation relative to 1975-2002 average*	% price fall forecast over 4 years†
Australia	31	-20
Britain	34	-25
Ireland	42	-20‡
Netherlands	44	-30
Spain	52	-30‡
United States	15	-10

* Based on average of house prices/income and house prices/rent ratios † Assumes: prices undershoot by 5-10%; annual wage inflation 3%, except Spain and Ireland 4% ‡ Assumes 10% rise in equilibrium price

Source: *The Economist*

If you missed it, you can find the full survey at <http://www.economist.com/surveys/showsurvey.cfm?issue=20030531>
 If you have a problem finding it, let me know and I can email it.

One thing however is clear, from a long-term perspective the US, UK & world stock market indices are still a long way below their long-term trend lines. The UK is furthest below its trend line, followed by the MCSI world index and then the S&P500. However the US stock market is the size of the rest of the world put together so cannot be ignored. With the exception of Germany and France, most of the world's major economies are showing signs of recovery. As we pull out of the bear market, history shows that markets take several steps forward and one back but the prospects for medium term growth are now very good.

2. Investment Strategy

As always, diversification is the key and in particular as markets grow at different rates, an investment approach using "funds of funds" is the best way to ensure your money is being actively managed. The old days of staying with the same funds is no longer the best policy. The Lanson Financial & Collins Stewart funds of funds have out performed the markets over the past 2 years and show every sign of continuing to do so. Both groups select the best performing regions and then the best funds in each region. They review the performance of their selected funds and move money out if they drop. Lanson uses an automated methodology to select the funds and determine a "stop loss" whereas Collins Stewart use a macro economic methodology to determine when to enter and leave a fund. The main thing though is that both groups actively manage their assets. Lanson changed fund manager 2 years ago and improved their strategy and the changes have worked very well.

The Momentum All Weather Fund is a fund of hedge funds designed to be of low volatility and give steady low risk growth and can be used to balance the predominantly equity investments of Lanson & Collins Stewart.

One thing is proven, that the way to accumulate wealth is by saving regularly each month. Many people forget this when markets are down but those who have continued to save through the down periods will show the most gain when markets recover. Regular saving means that you "average in" over a long period and are not so subjected to market fluctuations.

For example saving \$500 per month for 25 years at a growth rate of 10% pa (the average S&P 500 growth since 1975) yields over \$660,000. Or at 8% (the average very long term S&P growth rate) yields \$475,000.

Those making savings now will see particularly good growth in the coming years as we recover from the worst market crash since 1974. Now is a good time to review your contribution level.

3. Fund Performance

To 3rd November 2003

Price 1 month 2003 ytd 1 year since 1 Jan 2002

Lanson International Growth	1.055	5.3%	22.7%	22.7%	13.4%	since launch in May02
Lanson Optima Fund	0.626	5.7%	19.5%	19.7%	4.9%	
Collins Stewart Aggressive USD	1.175	2.6%	25.1%	29.1%	26.3%	
Collins Stewart Growth USD	0.968	2.9%	17.5%	20.8%	8.6%	
Student Accommodation (GBP)	1.208	1.2%	5.7%	7.0%	15.8%	Closed to new investors
Momentum All Weather (USD)	1.066	0.7%	6.1%	7.5%	6.8%	
S&P 500 Capital Return	1052	1.3%	15.8%	17.6%	-10.3%	
Dow Jones Indust Cap Return	9821	1.5%	14.2%	15.0%	-4.3%	
NASDAQ	1959	2.3%	41.3%	44.1%	-4.9%	
FTSE 100 (in GBP)	4303	-0.2%	7.5%	6.7%	-19.2%	
To end of Oct 2003						
Quadriga GCT USD	2077.75	10.2%	11.5%	31%	89%	
To end of Sept 2003						
Premier Low Risk Fund (GBP)	1.279	0.6%	3.5%	4.2%	9.1%	

This shows that "funds of funds" are able to out-perform index tracking funds.

Lanson Fund Holdings	OPTIMA	LIG	at 31 Oct 03	
Investments	81.0%	83.67%		
Cash Deposits	19.0%	16.33%		

Collins Stewart fund reports are available in the Friends Provident website.

The Lanson Financial half yearly review for July will be sent out any day now by mail.

The Student Accommodation fund is now closed to new investors but has been replaced by 2 funds for lump sums only, one of these is run by the Brandeaux Group who manage the Student Fund and the Ground Rent Fund.

Momentum All Weather has done well this mainly on the back of the distressed securities sector. They have been buying debts from banks at a discount and then renegotiating terms with the debtors.

The Quadriga fund had a very good start to the year and then fell away after the Iraq war. Managed futures funds are very volatile and need strong movements in their markets (up or down) to make money and these have been lacking of let. However in the past 6 weeks these funds have started to recover very well.

4. Medical Insurance

I know most of you have made provision for medical insurance but if not, we can provide this through 2 of the best companies worldwide. For those needing worldwide cover including the USA then the Danish company IHI offer the best product by far. For those not needing cover in North America then we recommend BUPA. If you need more information, please let me know.

5. Viatical Developments and Shepherds Traded Life Fund

The Mutual Benefits viatical investments (the purchase of life insurance policies from elderly seriously ill or terminally ill Americans) are still proving popular for safe investments as the capital and returns are fixed and come direct from an AA rated US insurance company. More folks are wanting to cash in their policies and use the money to enhance their last days.

As I always recommend that if you intend to invest in these, it is prudent to buy more than 1 policy, this involves an investment of at least US\$40,000. For those wishing to invest smaller amounts then a British company Shepherds (Financial) Ltd have a fund that buys these. This means that you can invest with just \$15,000 and have some liquidity and smoothing of returns. The expected return is around 9% pa in USD after charges and there is reasonable

certainty of achieving this as the underlying assets and returns are guaranteed by US insurance companies with an AM Best rating of B+ or better.

6. Guaranteed Hedge Funds

We work with the MAN Investment Group and with Quadriga. MAN are a British company and the largest hedge fund management group in the world now with over \$30 billion under management.

Quadriga is an Austrian company and manages over \$500 million in managed futures.

Both companies offer hedge funds with a capital guarantee from time to time and MAN have one out at the moment, which I sent to many of you recently. It guarantees 120% return and targets 15% pa growth, previous tranches have achieved their targets. Minimum investment is \$50,000.

Hedge funds are very complex but have now come of age and proved very reliable over the past years showing no correlation to stock markets and making good gains. Certainly they should now form part of a balanced portfolio. If you would like to know more, please let me know.

7. Friends Provident Statements

Just to remind you, Friends Provident only send statements on your policy anniversary. They make the information available to our office each day but have not provided software to mass email them. If you would like a statement at any time please ask Sian and she will send one. I regret that we do not have a system for doing this on a scheduled basis. It is purely ad hoc.

Friends Provident now make a charge of GBP 100 for retrospective statements so if you want a valuation on a particular date please ensure you ask Sian on or before that date. We do not have the capability to print retrospective valuations.