

I hope this finds you in good health and that you have had a good summer (or winter for those in the other hemisphere).

Market Overview

I am pleased to continue the theme of my last letter and report that there has been a marked change in market sentiment. Over the past 6 months we have witnessed erratic shifts in global equity markets and in the 2 months since I last wrote they dropped and then recovered again. However the overall sentiment continues to improve. Hence there are some good reasons for optimism and I have highlighted these in blue below.

Following the occupation of Baghdad and successful conclusion to the war, a lot of the investor uncertainty that had been inhibiting recovery in the equity markets has gone. The 2nd quarter has seen investors focusing their attention back towards economic and corporate fundamentals and this has led to improved confidence in the markets and prompted a post war bounce. [Many indices have recorded their strongest quarterly gains for more than three years, further supporting investors' confidence that economic growth and corporate profits are set for a recovery.](#)

Monetary and fiscal policy in the US and the UK continue to promote economic recovery, whereas control of inflation has taken a back seat. With bonds and equities both moving positively in tandem, it reflects the belief that [monetary policy will be easier for some time to come and, indeed, that we may see further rate cuts.](#) Crucially the US authorities continued willingness to consider other more radical measures, such as actually buying government bonds directly, also provides support to financial markets. The level of personal debt in UK is worrying the Bank of England and they warn it could cause property prices to come down. Both the UK and US economies have been buoyed up by increased consumer spending as a result of the boom in mortgage refinancing as households have been extracting the capital gains in their property. The Bank of England and Federal Reserve have to tread carefully down this path.

But you really need to paint a very bleak picture on the economy in order to make money out of government bonds from here. This doesn't mean there will be a significant sell-off. But just as technology stocks back in 1999 looked very overvalued and few would call the top, now many are struggling to justify bond yields last seen almost 50 years ago. Bonds showed abnormal strength last year and have dropped significantly recently. Most analysts remain convinced that government bonds are overvalued. We saw investment grade bond values rise in value at the same time as equity markets. This is often the case when low interest rates create the first signs of economic recovery and this is coupled with tentative signs of growth. As for corporate bonds, the easy capital gains have now been realised. [With the recent sell off in bonds, their prices have come down which has the effect of increasing their yields. US 10 year bond yields have increased from 3.1% mid June to 4.5% this week.](#) However this could serve as a break on further interest rate reductions and will put pressure on the housing market.

[With a 25% rebound in equities, everyone is asking if this can this be sustained? Many analysts believe it can.](#) June saw the S&P 500 Composite Index break through the psychologically important 1000 level - the first time in almost a year. Better news flow appears to be priced into the market. The market rally however, continues to be driven by the smaller and medium-companies and not the more liquid larger-capitalised stocks, as investors chase the lower quality more volatile stocks. Economic data remains mixed. One of the biggest issues for the US economy remains that of unemployment. The jobless claims figure, has remained above the 400,000 level now for 18 weeks. The recent rally has left market valuations appearing somewhat stretched, and there may well be a period of consolidation and profit taking, until economic data, corporate earnings and the earnings outlook show evidence of sustained improvement.

There is increasing evidence that corporate trading has generally stopped getting worse and year-on-year profits are improving. Confidence is now building that we will soon see the start of a gradual turnaround which will gather pace into 2004. Indeed the surprise could well be that after substantial corporate balance sheet repair and restructuring, company earnings are more geared to any improvement in trading than we realise. The recent 'Baghdad Bounce' marks a turning point in market psychology. Some analysts are forecasting that the markets will see a drop after the recent large gains, but it seems unlikely that the recent market lows will be revisited and now investors need to consider the potential upside. However, it is important to rein back overly bullish sentiment. [Yes, further upside is likely in the next six months, but progress will be choppy](#) as news ebbs and flows in a more or less positive direction. For every few optimists there is a pessimist and some of the latter are predicting a fall. [This strengthens my arguments for using a fund of funds with a stop loss strategy such as those that are managed by Lanson & Collins Stewart.](#)

The strength of the Euro has been a problem for some European exporters. However, [there are signs that the US dollar is now stabilising](#) and some funds are moving assets towards Europe as opportunities arise and confidence starts to return. The Federal Reserve does not regard the weak US dollar as a problem for the US. It causes problems for the rest of the world but helps the US economy recover and they do not perceive many risks for inflation as a result.

[Last month saw strong performance from Japanese equity markets and evidence of improved investor sentiment.](#)

Foreign investors are returning to the Japanese market, and there were 17 consecutive days of trading volumes being over the Y1bn level - the first time since 1989. Evidence is emerging that companies are genuinely trying to turn things around and are getting a handle on their businesses through restructuring.

The Pacific Basin region has seen evidence that local investors were slowly investing in their equity markets again. The large proportion of cash they bring to the market provides a good impetus for the market rally to run further. Until now, foreign investors have been the predominant drivers. Technology stocks in particular have done well recently, benefiting from the global demand for higher risk investments and by better sales figures and a better pricing outlook for chip manufacturers

Performance

It is good to see the amount of red almost disappear at last and this is certainly a reason to be cheerful. You will notice how much the funds we follow have beaten the general market indices and hence the average investment funds. **Having come through the worst market crash for over 30 years, monthly savers should be considering restarting or increasing contributions. These can be to the same funds or you can diversify into others.**

To 22nd August 2003

	Price	1 month	2003 ytd	1 year	since 1 Jan 2002
Lanson International Growth	0.984	3.1%	14.4%	7.9%	5.8%
Lanson Optima Fund	0.584	2.6%	11.5%	9.2%	-2.2%
Collins Stewart Aggressive USD	1.096	4.2%	16.7%	18.7%	17.8%
Collins Stewart Growth USD	0.913	2.4%	10.8%	9.1%	2.5%
Student Accommodation (GBP)	1.178	0.0%	3.1%	6.1%	12.1%
Momentum All Weather	1.054	-0.2%	4.8%	2.7%	3.5%
S&P 500 Capital Return	996.8	1.7%	9.7%	8.8%	-15.0%
Dow Jones Indust Cap Return	9333.8	2.0%	8.5%	7.7%	-9.0%
NASDAQ	1782.1	3.9%	28.5%	35.5%	-13.5%
FTSE 100	4206.4	2.6%	5.0%	-0.5%	-21.0%

To end of July 2003

Premier Low Risk Fund (GBP)	1.268	0.5%	2.5%	3.7%	7.6%
Quadrige GCT USD	1951.28	-3.1%	4.7%	27%	77%

The Student Accommodation Fund has closed to new investors as they have taken more money than they can invest and it would dilute their earnings if they take in more. FPI are looking to find a suitable replacement. There are other property funds for lump sum investors.

As you will have noticed, I have increasingly featured a wider range of FPI and other companies' funds as a means of diversifying investments. I am a firm believer in the advantages of using a professional company to manage your investment and that choosing those that run funds of funds is the best strategy as you are not locked into any particular region or type of asset as the manager can change investments to follow different markets. Collins Stewart and Lanson provide diversification as they both invest in the best funds worldwide. These are selected from the regions showing the strongest growth and the managers have strategies to minimise losses and move money out when markets drop. This has worked well over the past 2 years as you can see.

For lump sum investors there are more opportunities to diversify. It is sensible to have some money in managed equity funds of funds but also to place some in other types of asset:

Traded Life Policies (Viaticals)

Viaticals are the sale of American life insurance policies from seriously ill old people or terminally ill people who would otherwise not be able to afford to keep their policy going and it would lapse. It enables them to have cash to spend before they die. You can invest in this and receive a fixed guaranteed return. The only risk factor in this is that you invest in one or more policies with a chosen life expectancy and then only get paid out as each policyholder dies. You can spread your investment by taking a share of a number of different policies with different expectancies. For example you could buy a share of 2 policies with a 5 year and a 6 year expectancy. Either could pay out in months or conversely could go beyond the expectancy. The pay out is the same either way. The returns, based on these life expectancies are:

36 month maturity	42%
48 month maturity	50%
60 month maturity	60%
72 month maturity	72%

Hedge Funds

Quadriga, the high performing managed futures hedge fund, has launched a new fund with a capital guarantee. This has a projected return of 10-12% pa with a volatility of 10%. The capital is guaranteed by ABN Amro Bank and any profits over 18% pa are also locked into the guarantee. I will send details of this by separate email.

There are other funds of hedge funds such as All Weather that are available for monthly savers through FPI.

Property Funds

Whereas most of these are UK based, the Brandeaux Group (who run the Student Accommodation and Ground Rent funds) have funds that are hedged to Euro and USD and expect to see 8-10% growth.

Keeping Up To Date – Statements & Prices

Some of you have mentioned that you have not heard from FPI for a long time. I would remind you that they only send statements out annually on the anniversary of your plan. They do give us access to your information and our admin manager Sian Dodsworth, can email them to you upon request. We do not have software to send them regularly but will gladly provide them upon request. Her email is sian@lansonfinancial.com

You can follow the fund prices of the Lanson funds at www.lansonfinancial.com The client's user id is **lfclient** and the password is **idh2704** You may be pleased to know that we are developing a new website with all the relevant information for the funds we follow in one place.

The other FPI funds can be tracked at http://www.fpiom.com/main_site/funds/ManPrices.htm

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