

Happy Chinese New Year!

I hope that you are well.

Those that were hoping that 2008 would bring an end to the falls in global stock markets were more than disappointed – January was an absolutely horrific month for all major markets.

Much of the story has by now become familiar. Sub prime feeding into worries about the world economy, over indebted consumers, high price of oil, the fear of inflation yada yada yada. But this month, into the mix came a new name, a trader for Société Générale (SG) called Jérôme Kerviel.

According to SG, Kerviel had managed to elude risk controls and build up unauthorised trading positions of €50 billion, which led to losses of €4.9 billion. (Although few are convinced that the bank could have been completely unaware of Kerviel's activities given the sheer scale of the amounts involved.). SG quickly unwound its positions, trading which was almost certainly behind the mayhem of a number of unbelievably volatile days. In London in the financial district the restaurants were deserted at lunch as no one felt able to leave their desks given what was occurring! Investors that were using leverage were receiving margin calls from their brokers. To avoid their positions being forcibly sold, they were forced to liquidate other assets to reduce their exposure. Everything therefore became correlated and fell together – even assets that you would normally expect to move in opposite directions. It will be interesting to see quite what carnage has hit the hedge fund industry as a result of a pattern of price movements that will almost certainly, once again, defy their computer models.

The Federal Reserve rode to the rescue, unexpectedly slashing 0.75% from the funds and discount rates on January 22nd. This calmed markets for the short term, as did a further 0.5% cut on January 30th. More sober commentators wondered whether the Federal Reserve, in seeking to assuage market panic, had become a victim of the panic itself. A big factor in maintaining the stability in inflation in recent years has been due to the fact that western nationals believe that their central banks will keep inflation low. Because they do not perceive inflation as a problem, workers have not been pushy when it comes to negotiating pay rises. Therefore, inflationary pay rises have not occurred which helps to keep inflation low – a belief in a low inflation outlook helps to create a low inflation reality. If the Federal Reserve allows inflation to spike as a result of trying to protect stock markets, this virtuous circle might turn vicious.

From a personal standpoint, I wonder at the optimism that markets have shown over the last year or two. Potentially huge problems were dismissed as markets hit new highs. Apart from a wobble in May / June of 2006, the upward trend was incredibly consistent until the summer of 2007. The question that may well be relevant is: Have we or are we about to see a fundamental shift in investors' outlook from optimism to pessimism?

Lowes Wealth Management January 2008 - Performance Update

When markets boom, falls are often seen as chances to buy more. The underlying outlook is one of optimism. However, when markets really crash, rises are seen as chances to sell at a slightly better price and pessimism has become the dominant outlook. Far be it from me to complain about such an event – this is, after all, where value investors tend to make the purchases that bring about the best profits! But from a short-term perspective, if the optimism really has buckled, we could see further, sharp falls in the months ahead. But ultimately, markets rise, markets fall. The seeds of the next surge in equity prices are often sown as a result of the restorative measures taken by corporations following a substantial market crash.

After the rally that followed the first rate cut by the Fed, we sold a number of stocks that we felt could easily suffer substantial losses in the short term. We now hold around 50% of total assets in cash. Our strategy remains classic value – hold good stocks for the long term, whilst sifting through the wreckage of current events to accumulate quality stocks for which the prices have become irresistible.

In January the worst affected markets were the German DAX (-15.07%), the French CAC (-13.46%) and the Nikkei (-11.21%). Not quite so bad were the FTSE (-8.94%), the S&P 500 (-6.12%) and the Dow (-4.63%). The LWM portfolio (-7.21%) performed better than average. However, these figures do not include the cash that we hold for clients, which provided us with a great deal of protection.

Our best performing stocks in January were W Holdings (19.80% - US), Unibail-Rodamco (8.4% - Europe). None of our UK or Asian stocks were positive for the month.

Our worst performing stocks were MGIC Investments (-17.9% - US), Aero Inventory (-14.3% - UK), BMW (-13.1% - Europe) and United Micro-Electronics (-12.1% - Asia).

At LWM we operate according to a strict value-based investment methodology. We focus on undervalued tangible assets, established companies and strong dividends. By purchasing companies at a substantial discount to their intrinsic value, we reduce risk and maintain the possibility of generating superior returns. Since launch we have outperformed all major markets.

Please forward this to any friends or colleagues for whom you feel this may be of interest. If this has been forwarded to you and you would like to receive monthly performance updates, please let me know.

Kind regards,



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Justin

www.loweswealth.com

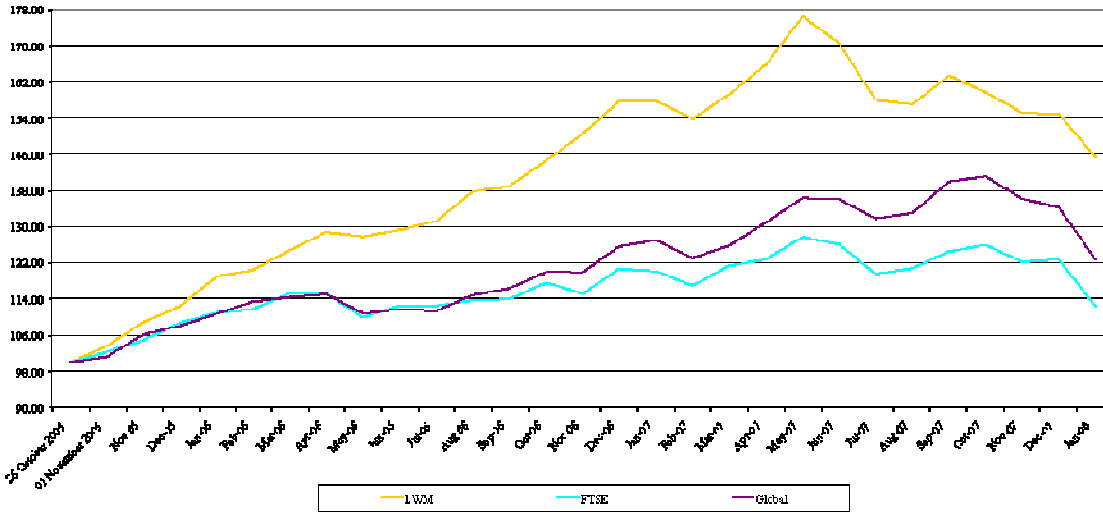
Lowes Wealth Management Monthly Performance Table

2005	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
	-	-	-	-	-	-	-	-	-	2.52	4.56	4.08	11.56
2006	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
	6.00	1.30	3.61	3.10	-0.17	0.94	2.36	3.97	1.61	4.52	3.70	3.65	40.41
2007	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
	-0.21	-0.53	2.10	4.21	5.92	-3.78	-5.09	-1.93	3.39	0.98	-4.83	0.52	0.06
2008	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
	-7.21	-	-	-	-	-	-	-	-	-	-	-	-7.21

Given that we are now focusing on distribution into the UK, we have introduced a new performance graph. This shows our performance against the FTSE and against a composite global index, which represents a more accurate comparison given the global portfolio held by LWM.

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LWM vs. FTSE & Global Composite

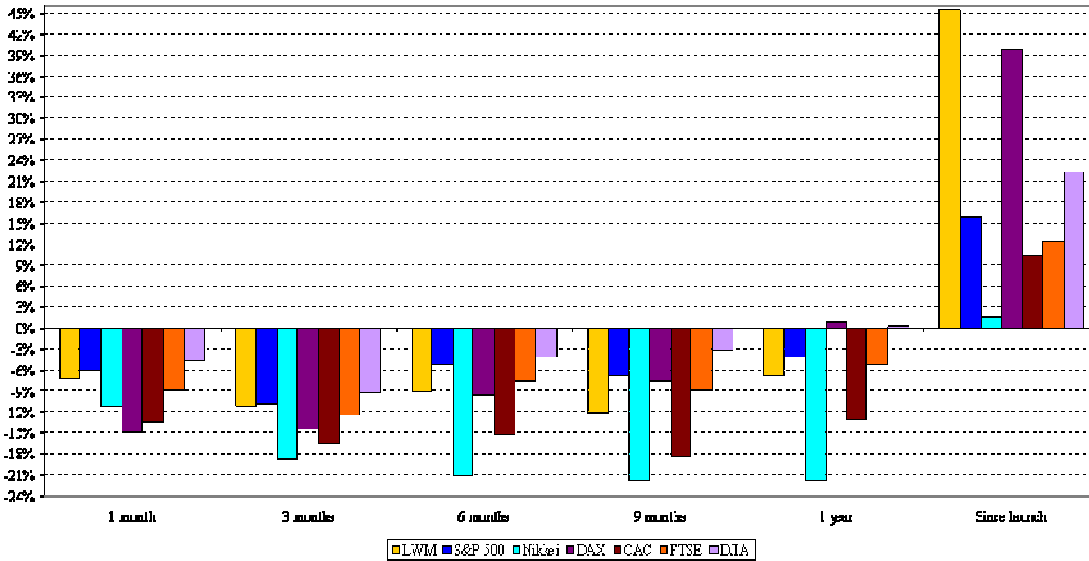


The global index is made up in the following way:

S&P	(US)	40%
FTSE	(UK)	20%
DAX	(Germany)	10%
CAC	(France)	10%
Nikkei	(Japan)	10%
HSI	(Hong Kong)	10%

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Performance as of January 31st, 2008



	LWM	S&P 500	Nikkei	DAX	CAC	FTSE	DJIA
1 month	-7.21%	-6.12%	-11.21%	-15.07%	-13.46%	-8.94%	-4.63%
3 months	-11.23%	-11.03%	-18.79%	-14.56%	-16.73%	-12.52%	-9.19%
6 months	-9.11%	-5.27%	-21.20%	-9.66%	-15.32%	-7.55%	-4.25%
9 months	-12.09%	-7.00%	-21.88%	-7.52%	-18.29%	-8.83%	-3.16%
1 year	-6.96%	-4.15%	-21.81%	0.92%	-13.17%	-5.21%	0.23%
Since launch	45.43%	15.71%	1.47%	39.81%	10.36%	12.47%	22.29%

Key

- LWM – Lowes Wealth Management
- MSCIW – Morgan Stanley Global Index
- S&P 500 – US Standard and Poor's Index
- FTSE – UK Index
- DAX – German Index
- CAC – French Index
- N225 – Japanese Nikkei Index

*** An explanation of how we derive our performance figures.**

The performance figures that we quote are the returns on our entire equity portfolio. Thus, it measures the performance of all stocks that we have bought on behalf of our clients. This is a gross return (no charges are calculated) and is expressed in US Dollars, the currency most commonly invested by our clients. We measure only the performance of the equities that we hold – we do not factor in any cash that is held.

Whilst this is, therefore, an accurate measure of the performance of our portfolio, each individual client's returns will be different due to charges, the cash that we hold on their behalf and depending upon when and in which currency they invested.

Please note: As always, I've tried to ensure that this will go out only to those who will be interested in this information. If you don't want to receive this in future please let me know and I'll take you off the list immediately

Disclaimer

Stated performance reflects equity gains, exclusive of any fees.

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