

# Lowes Wealth Management September 2008 - Performance Update

I hope that all is well.

Since our last communication, global stock markets have been taken to the cleaners. We have been largely unaffected by this as we moved our clients to more than 90% cash before the crisis entered its most unpleasant phase. We are now seeing some startling opportunities to buy, albeit caution is still very much required.

We therefore begin with an outline of why we feel that circumstances are now right for a measured re-entry into the market, plus some of the safeguards that we are applying to remove as much risk as possible.

Given the crisis that has developed, we have also written an accessible but extremely comprehensive overview of the credit crunch, including why we believe there is light at the end of the tunnel. This is available here:

[http://www.loweswealth.com/pdf/The\\_Credit\\_Crunch\\_Anatomy\\_of\\_a\\_Crisis\\_October\\_2008.pdf](http://www.loweswealth.com/pdf/The_Credit_Crunch_Anatomy_of_a_Crisis_October_2008.pdf)

(You may get a screen with a flashing message at the top that you'll need to click to give permission to download the document.).

Next, we are approaching our 3<sup>rd</sup> trading anniversary and to make our strategy accessible to UK investors, we are launching a UK-authorized fund (subject to FSA approval) on November 3<sup>rd</sup>. A full announcement will come later this month (as well as a comprehensive overview of our performance over our first 3 years of trading) but initial details are below.

Finally, we provide up to date performance information to the end of September. We have continued to outperform ALL major markets, with a level of volatility below that of the FTSE 100.

**"Buy when there's blood in the streets, *even if the blood is your own.*"**

For some time, we have been holding in excess of 90% cash on behalf of our investors. We have therefore been largely unaffected by the carnage that has recently unfolded in global markets.

It is my belief that the circumstances are now in place that will enable investors who employ strict value investment criteria to identify and gradually invest into select high-quality companies at prices that will in the future be recognised as once-in-a-lifetime investment opportunities.

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We're not saying that markets have necessarily hit bottom, nor are we saying that we want to rush in and commit 100% of our capital straight away. And even within our own investment team there are widely divergent opinions about how things will unfold. But we believe that, just as our policy of steadily reducing our exposure to the market protected our investors from the worst of the losses, so now a 6-12 month process of capitalizing on opportunities created on the back of irrational fear and panic will lay the foundations for superb returns going forwards. The value investment methodology that we use was developed by Benjamin Graham and published in 1934 as a result of his experiences of the Great Depression. Graham identified and elaborated principles that worked to protect investors from a risk of collapse and allowed them to identify when certain companies had fallen to levels at which they represented phenomenal value. Value investment does not enable you to predict the bottom or the top of a market, but it allows an investor to benefit from irrational fear and greed to buy when prices are very low and sell when they are out of line with the fundamentals.

For the classical value investor, recent market events are tremendously exciting. It is by capitalising on panic that the greatest returns are made.

Intellectually, all investors agree that the way to make money in investment is simple. You buy low and sell high. But most investors do the opposite, buying on the back of greed and selling on the back of fear. Whilst many investors, when times are good, agree that it makes sense to take a contrarian approach to market movements, in reality few do. As human beings we are psychologically susceptible to the herd mentality. This is why following a strict, clinical value investment approach has produced such consistently strong returns - it sets the investor aside from the herd.

Our research is focusing on companies that are not in any danger of failure, even if the credit crunch worsens. Companies that do not depend on debt for their operational needs and that sell products and services that will be necessary even if global economic activity is severely reduced. Companies that are involved in long term macro economic trends that will continue to drive economic activity even if the demand for high end luxury goods falls off a cliff. Companies that possess all of the above traits and yet have been marked down by blind panic to levels at which the tangible assets that they own, the dividends that they pay and the profits that they will continue to make are all vastly undervalued.

## **The Credit Crunch - Anatomy of a Crisis - Is there Light at the End of the Tunnel?**

Our in-depth examination of the credit crunch is an accessible but comprehensive overview of the crisis, examining its myriad causes, its spread and its current status. We explain why the

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crisis is not over, but at the same time, why we believe that recent government announcements may hold the key to resolving the worst aspects of the crisis.

This report is available here:

[http://www.loweswealth.com/pdf/The\\_Credit\\_Crunch\\_Anatomy\\_of\\_a\\_Crisis\\_October\\_2008.pdf](http://www.loweswealth.com/pdf/The_Credit_Crunch_Anatomy_of_a_Crisis_October_2008.pdf)

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## **3<sup>rd</sup> year Performance Anniversary and UK Fund Launch Announcement**

October 26<sup>th</sup> will be the 3<sup>rd</sup> anniversary for our value investment strategy. To date, we have massively outperformed ALL major markets whilst maintaining a considerably lower level of volatility than the FTSE 100.

We are delighted to announce that, subject to FSA approval, we will be launching the Elite LWM East-West Value Fund on November 3<sup>rd</sup>. This UK-authorized and sterling denominated fund will make our investment strategy easily accessible for UK investors.

We will provide full details on the fund, plus a comprehensive overview of our 3 year performance anniversary, later this month.

## **LWM Performance to end September 2008**

Late in 2007, we moved to more than 50% cash. Over the summer, and before the markets entered their incredible tailspin, we moved to more than 90% cash.

As a result, our performance is currently affected by changes in currency levels rather than movements in stock markets. We price our performance in US Dollars but we hold a range of major currencies to diversify currency risk. Given the recent rise in the USD, our headline performance figures have been depressed. In fact, our GBP and EUR clients have benefitted from the rise in the USD.

Nonetheless, our move to cash has protected our clients from the worst of the crisis and has therefore enabled us to continue to increase our outperformance of ALL global markets. At the same time, our volatility remains considerably lower than that of the UK FTSE 100.

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 seek to reduce risk whilst maintaining the possibility of generating superior returns. Since launch we have outperformed all major markets.

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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,

Justin

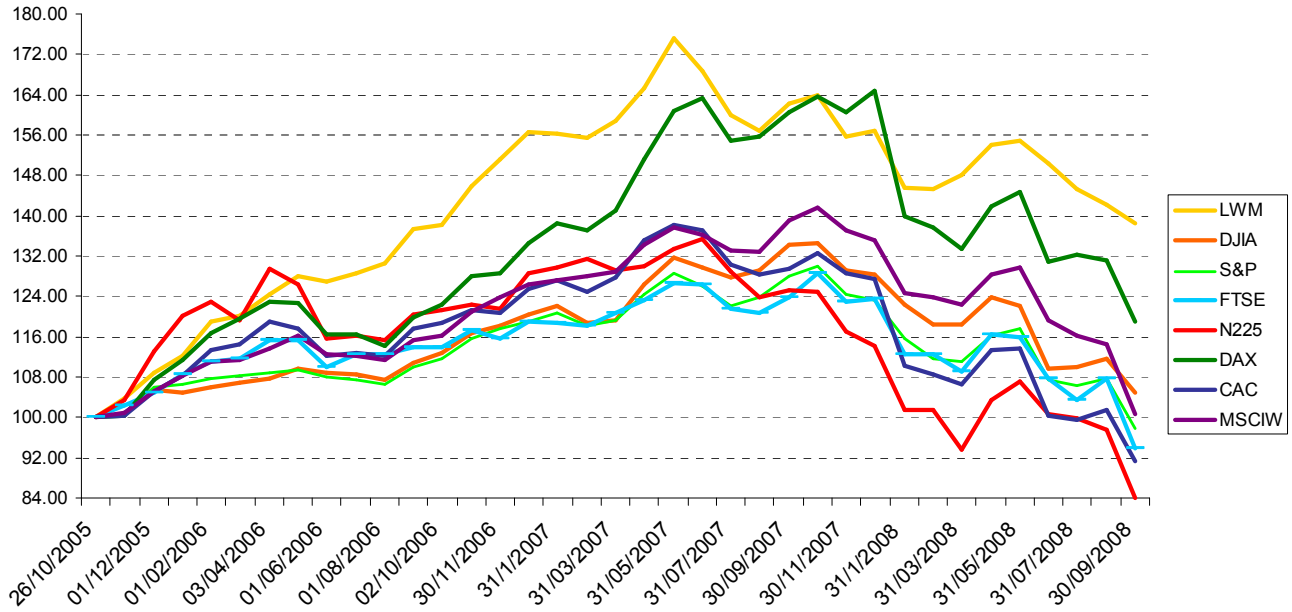
[www.loweswealth.com](http://www.loweswealth.com)

## Lowes Wealth Management End of the Month 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	0.96	-4.85	0.65	0.15
2008	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
	-7.19	-0.13	1.82	4.00	0.61	-2.90	-3.44	-2.09	-2.68				-11.79

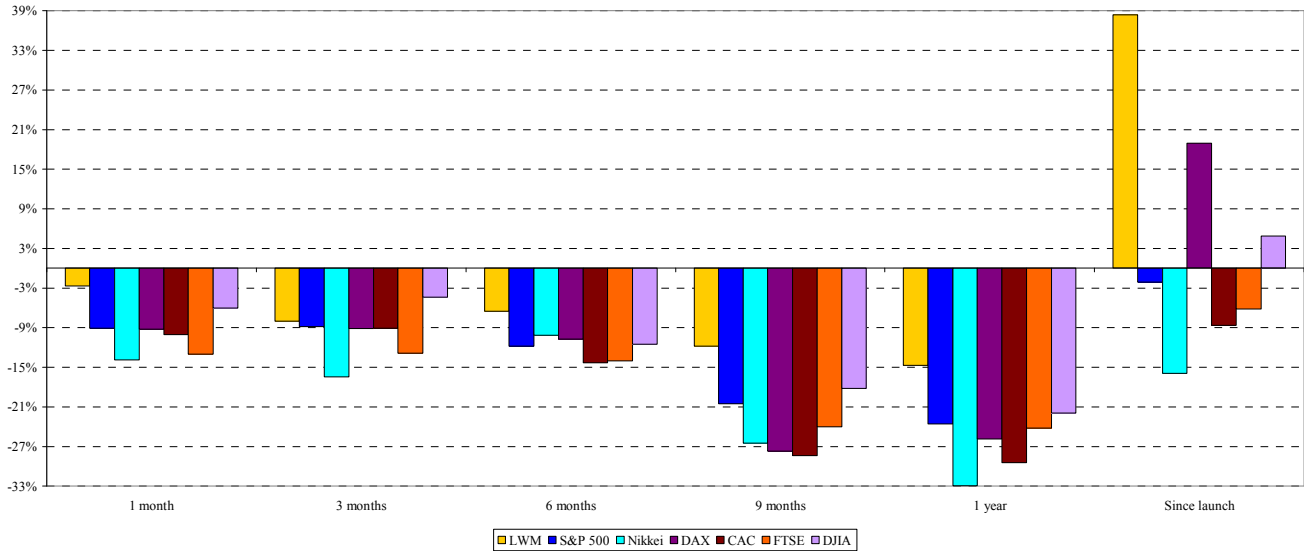
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Monthly Returns - LWM vs. Major Markets



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Performance as of September 30th, 2008



	LWM	S&P 500	Nikkei	DAX	CAC	FTSE	DJIA
1 month	-2.68%	-9.08%	-13.87%	-9.21%	-10.05%	-13.02%	-6.00%
3 months	-7.99%	-8.88%	-16.48%	-9.15%	-9.08%	-12.86%	-4.40%
6 months	-6.53%	-11.82%	-10.11%	-10.78%	-14.34%	-14.02%	-11.52%
9 months	-11.79%	-20.57%	-26.44%	-27.72%	-28.34%	-24.07%	-18.20%
1 year	-14.71%	-23.61%	-32.92%	-25.83%	-29.46%	-24.19%	-21.91%
Since launch	38.38%	-2.10%	-15.94%	18.98%	-8.63%	-6.22%	4.89%

## Key

LWM	Lowes Wealth Management
S&P 500	US Standard and Poor's Index
Nikkei 225	Japanese Index
DAX	German Index
CAC	French Index
FTSE	UK FTSE 100 Index
DJIA	US Dow Jones Index
MSCIW	Morgan Stanley World Index

# Lowes Wealth Management

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### 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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