

I hope that you are well.

### **The End of the Credit Crunch?**

In April investors heaved a sigh of collective relief. All major equity markets rebounded on hopes that the worst of the credit crunch was over. Aggressive policies by central banks to ensure that financial institutions had access to sufficient liquidity reassured investors, but failed to significantly lower interbank lending rates, which remained stubbornly high.

So, is the credit crunch over? Some say yes – that the bottom of the market was the bailout of Bear Sterns. This showed that the Federal Reserve will stand behind any major institution to ensure that systemic risks to the financial system remain under control. On the other hand, whilst the Fed's determination to bail out financial institutions that are deemed as 'too big to fail' looks real enough, the underlying problems of the western world remain deeply entrenched, and it is unlikely that they can be resolved rapidly.

Excesses of debt-fuelled consumption, built up over the last decade or so and driven until recently by ever-rising house prices will take time to unwind. In a sense, central banks are damned if they do and damned if they don't. Aggressive discounting of interest rates threatens to protect those who, chasing a fast buck, took on far more debt than they could handle. And, if successful, such a policy may well prevent the deflation of a credit bubble that, whilst painful, is necessary for the longer term health of the various economies. If central banks fail to take aggressive action, reasoning that those who indulged in debt-fuelled speculation (affordable only until an unsustainable rise in asset prices came to an end) should suffer the consequences of their greed, they are likely to be lambasted by vote seeking populists who rarely look beyond their own selfish interests (politicians) and who claim to be protecting the decent common citizen (swayable voters in at-risk constituencies).

The only answer to "Is this the end of the credit crunch?" is that nobody really knows. Those that profess to have the answer are simply attempting to delude themselves or others, whether by design or ignorance. The banks themselves are unable to accurately assess their own exposures. The interwoven nature of global markets, credit default swaps, sovereign wealth funds, aggressive trading by hedge funds etc. all combine to make a system so staggeringly complex that no one can fully comprehend the possible outcomes of various occurrences.

### **Sane Strategies for an Insane World**

# Lowes Wealth Management April 2008 - Performance Update

So, is the only sane response to hide away from all of this? To put your money into a variety of hopefully safe assets and weather out the storm?

Perhaps. But, in a sense, you have to pay to play. It is only by being open to a certain level of risk that you open up to the potential for attractive rewards. And it is at the time of greatest uncertainty (when blood is on the streets), that the best deals are available. The trick is to pin down the risks as much as possible.

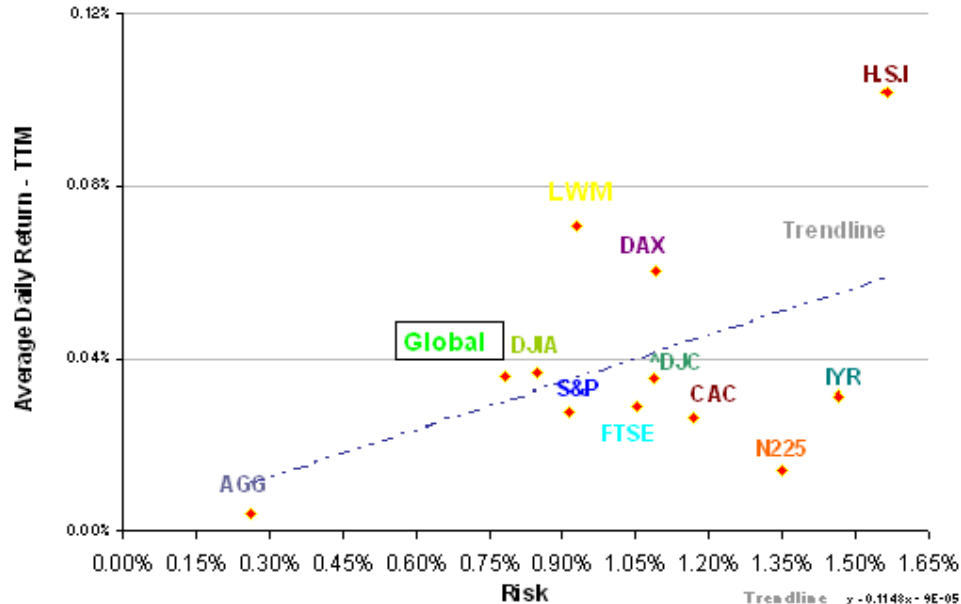
At Lowes Wealth Management, we search for what we consider to be the best 25-35 companies from around the world, using a hard-core value investment method. By focusing on identifying solid companies with tangible assets that are available in the market at a substantial discount to their real value, we reduce our risks. Ironically, the greater the discount to true value that we are able to discover, the lower our chances of loss *and* the higher the likely returns that will be achieved as these companies' stock prices adjust to reflect their underlying value.

## **Volatility & Returns – LWM vs. Major Markets**

To illustrate how this strategy has fared, let's look at the volatility and returns of major markets in comparison to the LWM portfolio, since we began trading in October 2005 to end of April 2008.

# Lowes Wealth Management April 2008 - Performance Update

Risk and Returns Graph Daily



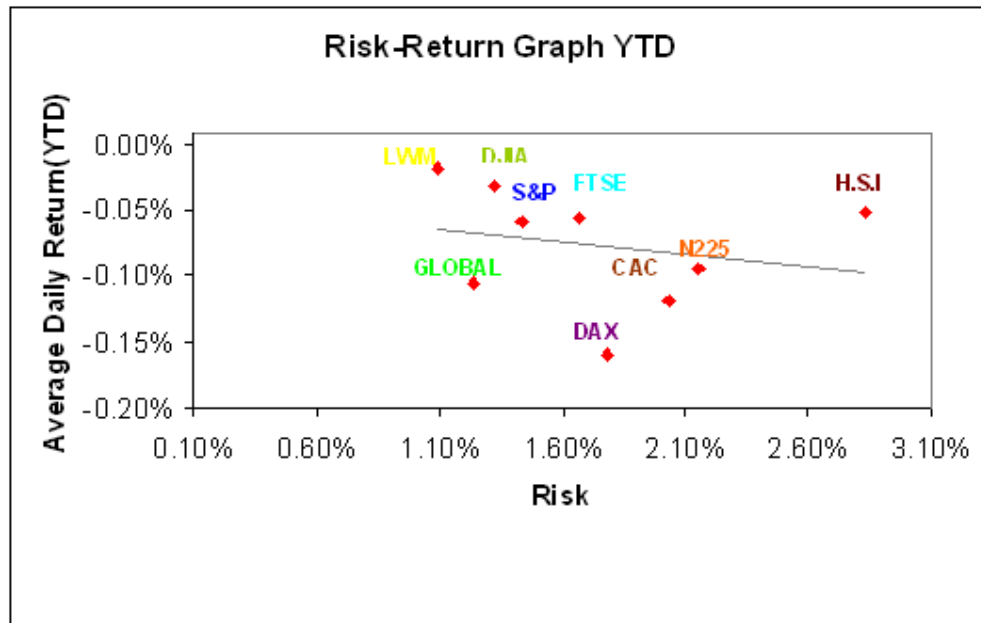
"Risk" in this graph is measured by the *standard deviation* of total daily returns during the last 12 months for each index and market. The standard deviation is a measure of statistical dispersion that shows the variability of returns earned by an investment portfolio.

In this graph, the higher the position of the index, the better the daily average return. The further right, the higher the daily average volatility. As can be clearly seen, the LWM portfolio has outperformed all indices, except for the Hang Seng Index (Hong Kong). But crucially, this outperformance has been achieved with a *considerably lower than average level of volatility*. In fact, the LWM portfolio has lower volatility than the FTSE 100, which is quite incredible given that the LWM portfolio typically consists of only 25 – 35 stocks.

(Note that the 'Global' index is the composite index that we use as a good comparison to where we invest. LWM has vastly outperformed this index, albeit with higher volatility. This higher volatility would be expected, as the global index comprises many more stocks than the LWM portfolio – more than 1,000.).

If we now look at volatility for all major markets for 2008 year to date:

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So far this year, all markets (as well as the LWM portfolio) have been negative. Therefore, the lower down on the graph the index appears, the worse its performance. As above, the further to the right, the greater the volatility. Perhaps the most interesting thing here is that during a time of tremendous uncertainty and volatility, LWM's portfolio has not only been the best performer (in that the portfolio is down the least of all markets) but has done so with the lowest volatility of all – better even than that of the global portfolio!

## Performance for April 2008

In April, the best performing stock market was the Nikkei which, after a terrible spell of late, increased by 10.57%. In Europe the UK FTSE was up 6.76%, followed by the German DAX with 6.33% and the French CAC with 6.15%. The US S&P 500 returned 4.76% and the Dow Jones 4.54%.

The LWM portfolio produced a steady as she goes 3.93%.

Our best performing stocks in April were MGIC Investments (23.74% US), Korea Electric Power (9.25% Asia), Latecoere (6.49% Europe) and HSBC (5.96% UK). A better indicator of our US holdings is recent

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buy Hardinge, which was up 21.22% and represents a much larger share of our portfolio than MGIC, which was one of two stocks that we hold that have been savaged by the sub prime meltdown.

Our worst performing stocks were Fremont General (-58.83% - US) and Aero Inventory (-4.17% UK). None of our European or Asian stocks were negative. As above, Fremont General is the other of two stocks that have been hit by sub prime and now makes up only a tiny fraction (less than 0.2%) of our portfolio. A better indication of the poor end of US performance was Bank of America (-0.98%) which was the worst performing US stock that we held through the month that represents a significant part of our portfolio.

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,  
Stuart

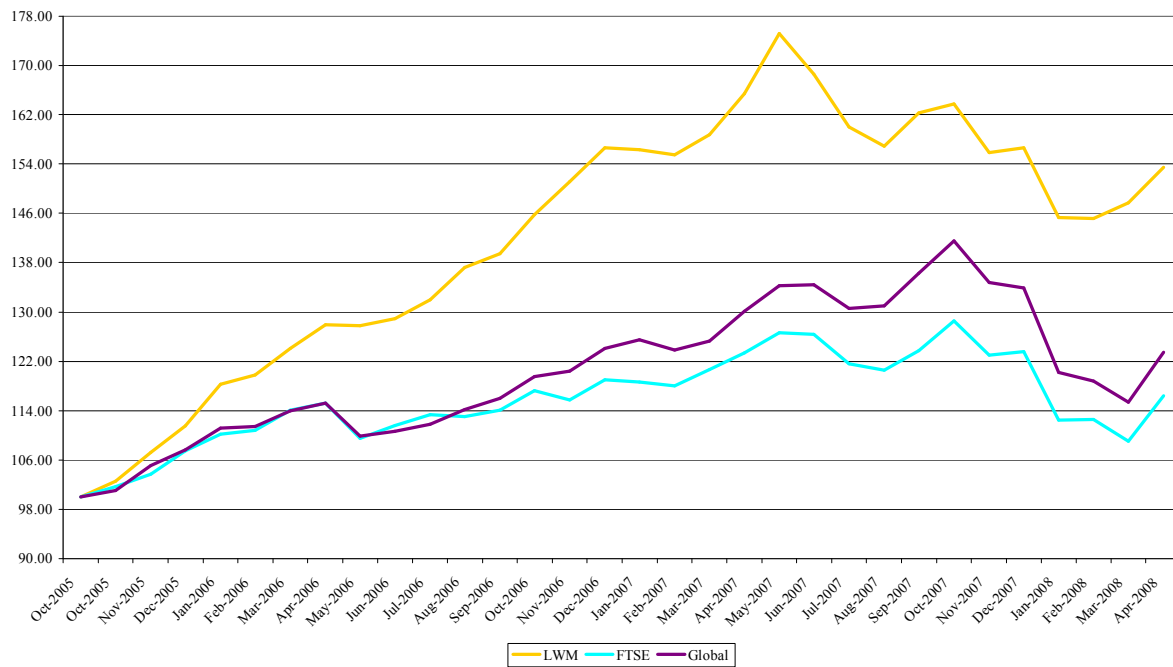
[www.loweswealth.com](http://www.loweswealth.com)

## Lowes Wealth Management Monthly Performance

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	-4.86	0.53	0.02
2008	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
	-7.23	-0.13	1.76	3.93									-2.01

## LWM vs. FTSE 100 & Global Composite Index

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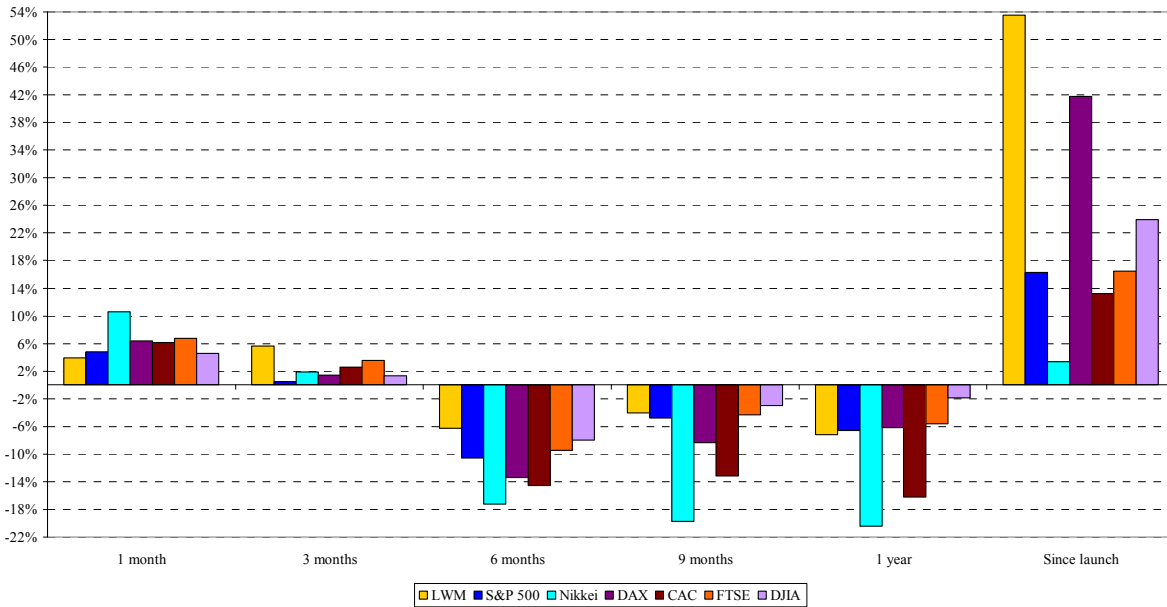


The global index is made up in the following way:

S&P 500 (US)	40%
FTSE 100 (UK)	20%
DAX (Germany)	10%
CAC (France)	10%
Nikkei (Japan)	10%
HSI (Hong Kong)	10%

# Lowes Wealth Management April 2008 - Performance Update

Performance as of April 30th, 2008



	LWM	S&P 500	Nikkei	DAX	CAC	FTSE	DJIA
1 month	3.93%	4.76%	10.57%	6.33%	6.15%	6.76%	4.54%
3 months	5.62%	0.51%	1.89%	1.42%	2.60%	3.53%	1.34%
6 months	-6.28%	-10.57%	-17.25%	-13.35%	-14.56%	-9.44%	-7.97%
9 months	-4.06%	-4.79%	-19.71%	-8.38%	-13.12%	-4.29%	-2.97%
1 year	-7.20%	-6.53%	-20.40%	-6.21%	-16.17%	-5.61%	-1.86%
Since launch	53.51%	16.30%	3.40%	41.79%	13.23%	16.44%	23.93%

## Key

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

# Lowes Wealth Management April 2008 - Performance Update

## **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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