

Happy New Year!

During 2008 we moved our clients heavily into cash. This enabled us to post positive returns in what was a very difficult year. On December 1st, we launched the Elite LWM East-West Value Fund, a UK-authorized fund that makes our classical value investment strategy easily accessible to UK investors.

The Elite LWM East-West Value Fund was awarded the **Product of the Month** award for December by What Investment Magazine. An excerpt from this article is below. But first, we take a look at what we expect from global markets during 2009 and the trading strategy that we will be employing as a result.

View of Global Markets for 2009

In the summer of 2008 we were so concerned by the global economic situation that we moved nearly 90% of the assets that we manage into cash. Now, following the substantial falls incurred by all markets in October / November and the recent rally, how do we view the prospects for global markets during 2009?

Lately, a tremendous amount of bad news (decimated car sales, Madoff, further falls in key housing markets, beleaguered retailers etc.) has emerged but been largely ignored by investors. Markets have jumped around 20% from their lows in November. So is recovery imminent? After all, a current cliché is that stock markets lead the economy by 6 months, meaning that the recent rally is justified assuming that a broad-based recovery will begin in H2 2009.

This may be the case – only time will tell. But disturbingly, there are a number of key indicators that suggest that investors could be anticipating a considerably shorter recession than will actually occur.

The Negatives...

Consider first the discrepancy between debt and equity markets. Spreads are suggesting that defaults on corporate debt are likely to be at 1930s levels. This is very much at odds with the message from equity markets.

Then consider housing. A key factor for achieving a well-grounded recovery will be for housing markets to bottom out. In key markets this seems to still be a long way off. Falls in December in both the US and UK showed no sign of slowing. Inventories of unsold housing are still at near record levels. Credit is still hard to come by so even potential house buyers that want to take advantage of falling prices are finding it hard to get a mortgage.

Lowes Wealth Management December 2008 & Our 2009 Outlook

And don't think that the write-offs for the financial industry are behind us. In the US, there is still a huge amount of sub prime, Alt-A and even prime mortgage debt that is going to sour. On top of this, you have massive amounts of now unsecured home-equity lines of credit, car loans, student loans and credit card debt. As an example, credit card debt in the US alone tops \$1 trillion, of which around \$250 billion may well be written off. Remember that much of this debt was securitised and sold far and wide, so this is just not a US problem.

But the key is unemployment. It is one thing for people to continue to pay their mortgages when they are in negative equity. It is another thing entirely for them to pay their mortgages if they are laid off. With consumer spending falling, the sales for big-ticket items are in freefall. This is causing companies in virtually all sectors to slash workforces. This in turn causes the pain to increase, as unemployment, or the threat of unemployment, causes consumers to further reduce their consumption.

The sheer amount of deleveraging that is required by banks, hedge funds, governments and individuals is likely to put continued pressure on asset prices. The UK looks at great risk due to its tremendously high levels of debt (UK consumers are more indebted than their US counterparts), the fact that financial services make up such a large part of the UK economy and the sheer scale of its housing boom over the last decade.

And whereas major markets are typically grappling with property busts and too much consumption-linked debt, many emerging markets (plus Germany and Japan) are suffering from a collapse in demand in their main markets – i.e. the first-world economies. The only fundamental cure for the current situation is for the inhabitants of the first world to reduce their consumption and save more over an extended period. But this will take a long time to achieve and in the short term will only exacerbate the situation. In a sense, with regards the only sustainable and grounded course of action to achieve fundamental recovery, we are damned if we do and damned if we don't.

We now see the bursting of two bubbles. A near decade long housing boom that ranks as the biggest asset bubble in history, combined with the bursting of a consumer credit bubble that began to inflate in the early 1980s under Reagan and Thatcher. The seeds of current market distress were long in the making. It is unlikely that a fundamental resolution of such entrenched issues can be achieved in such a short period of time.

We therefore believe that it is entirely possible, if not likely, that markets will lurch substantially further downwards in the short term.

And Positives...?

But, despite all of the above, we are tremendously optimistic. The reason for this is that we would argue that investors should approach the current uncertainty from a completely different angle. We believe that in many

ways, focusing on the question of how markets will perform over the next 12 months creates a very real danger of missing the bigger picture.

Assuming that you consider yourself a genuine investor in equities as opposed to someone who gambles on short-term equity movements, what should be your investment time horizon? Academically, most of us would answer 3-5 years as a minimum. Then why do the actions of most investors belie an incredibly short-term focus?

The real question to ask is, if I invest today, am I likely to lay the foundations for solid returns over the duration of my investment timeframe? And we believe that the answer to this question is an unequivocal 'yes'.

At Lowes Wealth Management, we do not invest in markets. We invest in what we consider to be the 25-35 best value companies from around the world. And therein lies an incredible opportunity for investors that act in accordance with their investment time horizons.

We invest solely on the basis of classical value principles. We emphasise companies strong in tangible assets that operate with low levels of debt. We are now seeing opportunities to carefully and gradually move back into the market, one stock at a time. We believe that some of the opportunities to invest in superb companies that are now presenting themselves will, in the future, be seen with hindsight as once-in-a-lifetime investment opportunities.

The key is to invest in companies for which there is no existential risk – that are not in danger of capitulation should credit continue to be hard to come by. Companies whose products and services will be in demand even if the global economy does take an additional downwards lurch. That can capitalise on solid global trends that are not likely to go away (such as Asian infrastructure development and an oil price that is likely to rebound given the development of economies such as China and India).

We do not know if by buying these companies we will be buying at the bottom. Indeed, no investor can know this, except in hindsight, long after the opportunity has passed. But we can identify a select group of superb businesses, investing in which is likely to provide for fabulous returns over the longer term.

And if you are an equity investor with a long-term investment horizon, what more could you want?

Our Trading Strategy for 2009

The Elite LWM East-West Value Fund was launched on December 1st. On January 5th, the fund moved from its initial offer period into normal trading and we have just begun to place trades.



Due to our anticipation of ongoing volatility, we will look to capitalise on the current situation. We will be using a combination of outright purchases and the selling of put options to average into global markets over the next 5-9 months. In the short term, we will be paying a great deal of attention to extremely undervalued companies that have no existential risk, that are offering a substantial dividend yield and that have the financial resources to continue to provide this dividend.

What Investment Product of the Month

What Investment *Product of the month Nov 2008*

Product of the Month: Elite LWM East-West Value Fund

Lowes Wealth Management (LWM), the Beijing-based fund manager, has teamed up with WAY Fund Managers to launch the Elite LWM East-West Value Fund, the first sub-fund of the Elite LWM Value Portfolio.

The fund follows LWM's value investing strategy, which has returned 50 per cent since launch in October 2005 to July 2008, against 19 per cent for its benchmark index, MSCI World.

This fund will be eligible for investment within ISAs, SIPPs and SSASs, with a minimum investment level of £5,000 for lump sums or £100 per month for regular savers.

Minimum investment: £5,000 or £100 lump sum for regular savers
Initial charge: 5 per cent
Annual management fee: 1.5 per cent
Contact: www.elitefa.com or www.loweswealth.com



Philip Johnson is a director at Kenwood Associates

Philip Johnson says: Lowes Wealth Management follows a hard-core value investment approach. It places a heavy focus on companies with tangible assets and has a policy of valuing companies very conservatively.



The value approach can have a dramatic effect on fund performance – that is assuming, of course, the fund manager gets it right – and Lowes has been successful in getting it right.

Value investment cannot pinpoint the bottom or the top of the market. However, by applying strict value criteria and by looking for companies that are viable and sustainable businesses, the value investor maximises the chance of doing what every investor should be doing – buying low and selling at a higher price level.

This concentrated portfolio aims to look for the best 25 to 35 value companies in the world. Having analysts based in Beijing to provide research and support should give an interesting and unusual perspective on global economic developments.

Examples of company shares that may be held in this fund are: Anglo American (Gold Mining) South Africa, Antofagasta Plc (Copper Mining) UK, ConocoPhillips (Oil) US, Plaza Centers NV (Retail and Entertainment Property) Netherlands and Southern Cross Healthcare (Healthcare) UK.

I like the contrarian approach to the investment. It avoids the herd mentality. By investing only in those companies that are substantially undervalued, the value investor automatically concentrates on companies that, for whatever reason, are currently out of favour.

With world stock markets at low levels this should be a good time to benefit from Lowes'

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Please let us know if you would like more information on any of the above.

Wishing you a very prosperous 2009,
Justin
Managing Director
Lowes Wealth Management
www.loweswealth.com

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.

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