

Lowes Wealth Management July 2007 - Performance Update

In July, the rollercoaster ride continued. In June, our portfolio fell, then recovered, then went down again. In July, we recovered all lost ground before once again giving up all of the gains (and more) in a two-week slide that affected all markets. The US was the least hit, with the S&P giving up -3.2%. The FTSE lost -3.75%, the Nikkei -4.9% and the CAC -5.02%. We were down -5.06% and the DAX dropped by -5.28%. The LWM portfolio has now returned 58.57% since launch in October 2005.

Rather than focus on stocks that went up (our best performers were Korean: steel group Posco (+18.7%) and Korea Electric Power (+8.4%), it probably makes sense to look at the stocks that suffered the most! Our worst stocks were all in the US, and all were related, to a greater or lesser extent, to US real estate. Four stocks lost more than 10%: W Holdings Inc continued to slide, with -16% for July. PMI – a US insurance group – returned -24%. MGIC Investments – another US insurer – returned -32%. Finally, Fremont General, recent hero with a 75% gain, this time gave almost all of it back with -46%.

The reason for all of this?

SUB-PRIME

All the fun of the fair

In previous housing bubbles, commission-driven Real Estate agents would have been restrained somewhat by the banks that were providing the mortgages. It's not in the banks interests to have people default. This time, however, it was different. The banks were selling on their debt as quickly as possible. Because no one expected to be the one carrying the can and everyone had an angle, there was a tremendous rush to lend to those irrespective of their likely ability to repay. The mortgages provided to those with the worst credit are known as sub-prime. The next level is Alt-A. Only now does the market seem to be waking up to the fact that selling mortgages to those who can't really afford them

(example: Ninja mortgages for those with No Income, Job or Assets!) is probably not a good idea. Well, not at any rate if you have to carry the can if (when) the person defaults.

Wall Street was earning huge amounts of money from buying this debt, making it over, then selling it on in forms such as Collateralized Debt Obligations (CDOs). These were sold to investors who were unaware of the true risk of the assets that they were purchasing. Ratings agencies have also been tarred as they were prepared to provide many of these assets with the highest credit ratings, ratings that are now, in many cases, being downgraded.

But how bad is the sub-prime / Alt-A issue really? Is it something that is tremendously damaging to the entire economy? Or merely the death knell for some of the more dodgy real estate companies in the US? The true answer is, nobody knows. The packaging and reselling of debt has dispersed risk far and wide. More worrying is the possibility of a major credit crunch. If lenders over-tighten their assessment criteria and choke the supply of cash, believing armageddon to be imminent, they could provoke the very crisis that they are trying to guard against.

Where next?

Are we seeing a much-needed adjustment that will mean that stock markets are more sensibly priced and that risks are being more properly accounted for – an adjustment that will lay the foundations for healthier growth from a world economy that is still, on most measures, in good shape? Or are we seeing the start of a crisis that will be exacerbated simply by people's fear of what could happen? A fear that creates the circumstances for more serious losses and therefore becomes self-fulfilling?

On a certain level, the answer is that it shouldn't really matter. Investors in equity markets should be in for the long haul, and should expect to have to ride out some turbulent conditions. Those that choose

their stocks carefully and that stay invested over the longer term are those that reap the rewards. Anyone that is panicking at the first signs of trouble shouldn't have been invested in the first place. But the real answer is that, as usual, the markets are likely to overreact. At the moment, anything connected to the US housing market is being hammered, whether or not there is any real linkage to sub-prime. Whilst we expect continued volatility, share prices are actually starting to look attractive again. The likelihood is that there will be some incredible bargains becoming available for those brave enough to take a contrarian stance.

As I wrote for our September review last year:

"My belief is that the pessimistic / optimistic switch that was flipping back and forth is currently firmly set to the optimistic position..."

"...Although many of the signs from the US economy are very positive, I think it extremely likely that we will have a reversal in sentiment in the near future. Should this occur, we believe that investor perception will tilt too far in the pessimist direction and will provide an excellent opportunity to buy back into the markets."

How exposed is the LWM portfolio to sub-prime?

LWM currently invests in 36 stocks, of which, 2-3 are associated with the sub-prime issue. However, we avoid stocks carrying a lot of debt, which are the ones most likely at risk should there be a credit squeeze. We also focus on well established companies trading at or below their net-asset value. All of this means that, whilst we'll get caught up in general volatility as will all of the market, our solid research process and careful stock selection is likely to enable us to avoid the worst of the losses and be ready to buy some high-quality companies that are unfairly marked down. We're also hoping to see a

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substantial rebound in some of our worst-affected stocks once the more emotional reaction of the market subsides.

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.

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,

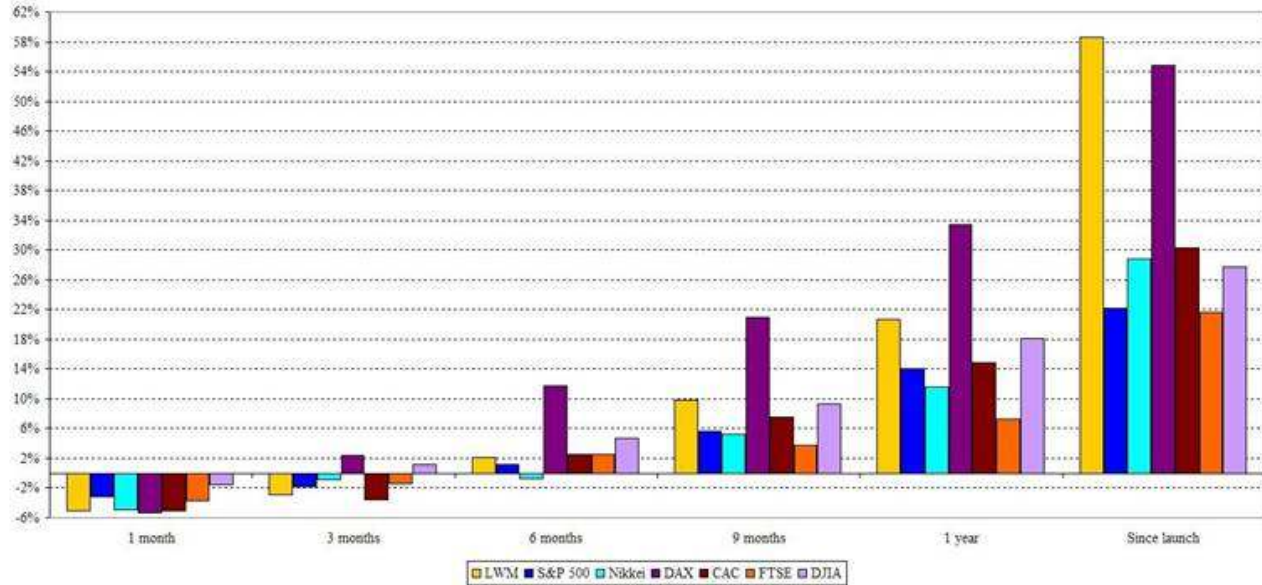
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Lowes Wealth Management – July Performance Report

Performance as of July 31, 2007



	LWM	S&P 500	DJIA	Nikkei	FTSE	DAX	CAC
1 month	-5.06%	-3.20%	-1.47%	-4.90%	-3.75%	-5.28%	-5.02%
3 months	-2.85%	-1.83%	1.14%	-0.87%	-1.38%	2.37%	-3.51%
6 months	2.19%	1.18%	4.68%	-0.77%	2.53%	11.71%	2.55%
9 months	9.90%	5.61%	9.36%	5.18%	3.77%	20.98%	7.52%
1 year	20.70%	13.99%	18.12%	11.59%	7.28%	33.48%	14.81%
Since launch	58.57%	22.15%	27.71%	28.77%	21.66%	54.75%	30.33%

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 figure that we quote is the total return on our entire equity portfolio. Thus, it measures the performance of all stocks that we actually own on behalf of our clients. This is a gross return (no charges are calculated) and is expressed in US Dollars. (Which is the currency most commonly invested by our clients.). We measure only the performance of the equity that we hold – we do not factor in any cash that is held. (Which will tend to dilute performance when our stocks rise in value, but dilute losses when our stocks fall.).

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

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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