

I hope that you are well.

Those hoping to have heard the last of the sub-prime inspired credit crunch were sorely disappointed. November was a month with plenty of news – almost all of it bad. The major carnage was once again experienced in the financial sector, although few sectors or markets escaped harm.

Let's look at some of the key elements that are behind recent events, before looking forward to what can be expected in 2008.

The Ghost of Christmas Present?

“Toto, I’ve a Feeling we’re not in Kansas Anymore...” *Dorothy, The Wizard of Oz, 1939*

With markets in disarray, how did we come to this situation?

The credit crunch came about due to a huge bubble in house prices that was itself down to overly loose monetary policy (particularly in the US) and lax lending practices. Millions of US homeowners now have unaffordable mortgages that will be reset to higher rates on properties that have already fallen to below the value they initially paid. With the likelihood of further (possibly substantial) falls in property prices, a vast number of homeowners may default on their mortgages. These mortgage debts, many of which were considered the safest of assets, were purchased by financial institutions. They are now being rated of lower and lower quality, forcing institutions to write down their value. Because many of these assets were not carried on the balance sheet, and because no one quite knows how to value the assets, it has been almost impossible to tell which of the financial companies are unsound. The share prices of virtually the entire financial sector have been decimated as a result.

One danger is that now, banks need to rebuild their capital ratios, resulting in their being forced to curtail their lending activities. Tighter credit means more foreclosures, meaning that the mortgage debt further deteriorates in value, meaning further write offs in assets, meaning further requirements to tighten lending etc. This reduces spending in the economy, causing unemployment to increase and house prices to tumble, further reinforcing mortgage defaults, further reducing the ability of consumers to spend and further weakening the economy. The seemingly virtuous circle of recent years (growth, more jobs, rising asset prices, more spending, growth) is replaced by a vicious circle that could become very nasty indeed.

For whom the bell tolls

One by one, the great and the good of western financial institutions have been named, shamed and have seen their share prices decimated. These include: HSBC, Barclays, Royal Bank of Scotland, UBS, Merrill Lynch, Bear Sterns, Morgan Stanley, Citigroup, Washington Mutual etc. Write-downs relating to the sub-prime crisis are now estimated in the region of US \$100–\$400 billion. These estimates are themselves overshadowed by the concurrent destruction of market capitalization – Freddie Mac, US government sponsored mortgage giant, announced a write down of \$2bn and saw its share price fall by 29% in one day. In November, the US market had its biggest monthly decline since September 2002. It is now off more than 10% since the high reached earlier this year, marking this as an official correction. But financials have led the way and suffered far more – the financial sector is down more than 16% from its high.

Oil, gold and the USD

In early November, Oil hit a record high (in nominal terms) of more than \$99 per barrel. Gold hit a 28-year high of \$845 per troy ounce. On the back of a reduction in interest rates on October 31st, plus speculation about countries such as China and the petrodollar nations reducing their purchasing of US dollars, the USD continued to slide, reaching a record low of more than 1.49 USD : EUR.

Whilst a continued slide in the value of the USD is certainly possible, from a EUR / GBP perspective the USD is starting to look good value. Although over the last few years the USD has fallen substantially against a basket of global currencies, the brunt of this fall has been borne largely by the 'western currencies' EUR, GBP, CAD, AUD etc. This has now resulted in a situation where European exporters in particular are finding it more and more difficult to compete. (Airbus recently announced that the rise of EUR compared to USD was 'life threatening'.). This has helped to dramatically boost US exports, which has been a significant silver-lining for the US economy over recent months.

The countries whose currencies have not risen dramatically against the USD are facing problems of their own. China has allowed the RMB to appreciate only gradually against the USD. The petrodollar nations maintain a currency peg to the dollar. These managed exchange rate systems can result in destructive market forces becoming pent up, forces that, if not handled carefully, can destabilize the entire economy. Examples of this in China include bubbles in asset prices such as property and shares, together with inflation that has hit a 10-year high. Also, the Chinese government has recently begun to crackdown (almost certainly in vain) on the massive illegal foreign exchange operations which it is claimed has the potential to destabilize both China and Hong Kong. For the petrodollar nations, a peg with the dollar means that these countries, which are already experiencing rising inflation, are tied to US monetary policy. Given that US monetary policy has become more loose, this further stokes inflation. Just like Britain and the ERM, there may well come a time when something has to give.

Housing prices

Consumer confidence in the US hit the lowest point since the immediate aftermath of Hurricane Katrina. House prices fell again and are now down 4.5% year on year to the end of the third quarter. A more dramatic illustration of the scale of the slowdown in the US housing markets is that sales of existing homes were 20.7% lower than the previous year.

Given that far more of the wealth of the average consumer is tied up in property as opposed to shares, sustained falls in housing have a more substantial impact on consumer spending than do sustained falls in equity markets.

Of the larger European markets, UK and Spanish property prices are also looking precariously poised. But if things were really to go pear shaped, many markets that have experienced recent property booms could start to look shaky.

Looking forward to 2008

So where do we go from here?

In the short term, volatility is likely to remain extremely high and investors extremely wary. There will still be a lot of bad news about write-offs and falling house prices. The question is: How long will it take to 'get through' the credit crisis? The only real answer is still: Nobody knows. A pessimistic interpretation is that the worst could be yet to come.

But, irrespective of what happens, there will be a recovery. Ironically, it is usually only when things look at their darkest that the bottom will have been reached (as everyone that would be likely to sell has already sold).

From our perspective, some of the world's biggest financial companies look phenomenal value. Sovereign wealth funds and emerging multi-nationals in China are already buying into some of the biggest names, taking minority stakes in search of technical know-how and superb returns. Already, Barclays, UBS and Citigroup (among others) have received substantial investment.

Whilst caution remains advisable, a careful acquisition of big names at rock-bottom prices should provide for outstanding returns over the longer term.

Performance for November



Lowes Wealth Management November 2007 - Performance Update

In November, all major markets recorded losses, ranging from the Japanese Nikkei -6.31%, the S&P, -4.40%, the FTSE -4.30%, the Dow -4.01%, the French CAC -3.03% and the German DAX -1.85%. LWM's portfolio registered losses of -4.88%.

For the last several months, LWM has been holding the majority of our new clients' portfolios largely in cash (typically around 80%) to protect against anticipated volatility. This will not be reflected in our headline performance figures, which show only the equities that we hold on behalf of our clients.

Our best performing stocks for November were MGIC Investment (21% - US), Matsushita (6% - Japan), Wm. Morrison (4% - UK) and E.on AG (3% - Europe).

Our worst performing stocks were Posco (-14% - Korea), Latecoere (-20% - France) Persimmon (-24% - UK) and W Holding Inc (-44% - US).

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.

Have a great Xmas / New Year!

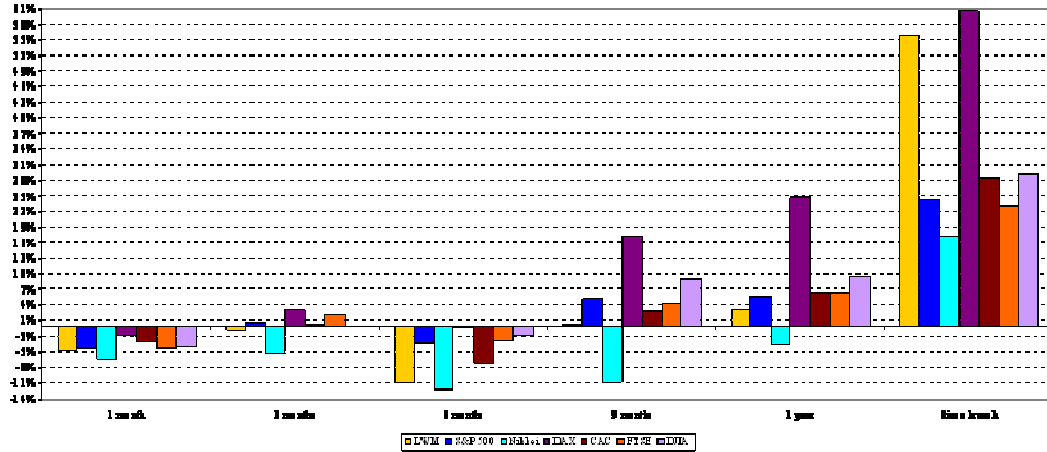
Kind regards,

Justin

www.loweswealth.com

Lowes Wealth Management November 2007 - Performance Update

Performance as of November 30, 2007



	LWM	S&P 500	Nikkei	DAX	CAC	FTSE	DJIA
1 month	-4.88%	-4.40%	-6.31%	-1.85%	-3.03%	-4.30%	-4.01%
3 months	-0.69%	0.49%	-5.36%	3.04%	0.14%	2.05%	0.10%
6 months	-11.06%	-3.23%	-12.28%	-0.16%	-7.10%	-2.85%	-1.88%
9 months	0.23%	5.28%	-10.93%	17.20%	2.80%	4.23%	8.99%
1 year	3.12%	5.75%	-3.65%	24.75%	6.44%	6.34%	9.41%
Since launch	55.84%	24.32%	17.06%	60.60%	28.51%	23.04%	29.26%

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.

Lowes Wealth Management

November 2007 - Performance Update

The performance figures that we quote are the returns on our entire equity portfolio. Thus, we measure 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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