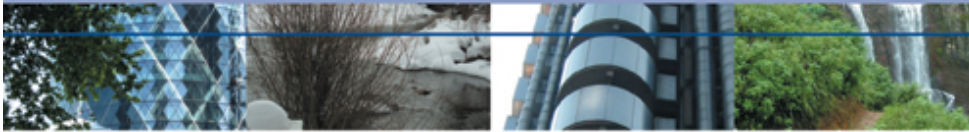


News & Views



Mercater 001

The same mistakes...

"To err is human" said Alexander Pope - but in investment, it costs money. Better to learn from the mistakes of others and try to avoid the major pitfalls.

Investors can make many mistakes but one of the most common is to follow the herd. When markets are high, they can scramble to invest, thinking they could miss out. Then, when markets are falling, they often sell out. The most recent example is the dot com boom which persuaded millions of ordinary investors to part with their savings - and sadly, many are left even today with only a fraction of what they invested. Don't get carried away by the moment. The best way to make money is to buy low and sell high.

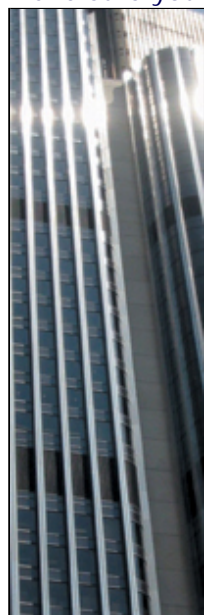
Such stories of large falls in markets do make investors nervous and sometimes, even though the long term position is unchanged, some panic sell at the smallest sign of a dip. This only crystallises a loss and can also mean missing out on those longer term benefits. Markets will always go down as well as up - so if you are scared by such volatility, take advice and perhaps even avoid equities completely.

Finally, some ambitiously believe they can time markets. Yet even experts agree this is a near-impossibility. Investment should never be gone into lightly. Be clear about your objectives, your timelines and the risks - and make sure your portfolio is run accordingly.

Welcome to the latest edition of News & Views, our update on developments in the world's stockmarkets.

If you would like to discuss any of the issues raised in this newsletter, please do not hesitate to give us a call.

Contact us:



Guide to the future?

Past performance continues to be a key feature of investment advertising and with over 2,000 UK-domiciled funds available, it is easy to be influenced by it. But how much guidance does it offer? Past performance figures can help you identify which funds have done well to date - but it does not say why, or indicate how performance was affected by market conditions. On their own, they also cannot indicate how the returns were generated: Did they all come from one lucky stock idea or were they more evenly spread? It is much more important to match a fund's objectives to your own needs. However, as part of a wider research process, the figures can be a useful filter.

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Explaining ETFs

Exchange-traded funds (ETFs) are a relatively new addition to the investment basket and have proved very popular with investors. Like shares, ETFs are listed on the stock market, but they track an index rather than any individual company. This index could be something straightforward - like the FTSE All-Share - or it could be more complicated or sector specific such as a commodities index. The main benefit is that they have low expense ratios and minimum investment levels in line with shares. However, they can also prove a very effective way to gain access to obscure investments such as forestry or sugar should you want to add spice to a wider portfolio.

Market turmoil continues

After an eventful end to 2007, investors continue to view 2008 with apprehension. The last few months have seen the collapse of the US sub-prime mortgage market, the credit crunch, and the nationalisation of a UK bank. Speculation over the possible length and severity of the fallout continues to dominate headlines. Meanwhile, fears of an economic slowdown in the US, coupled with soaring food and energy bills, have compounded the pervading atmosphere of nervousness.

For companies, the credit crunch has led to a sharp increase in the cost of borrowing. Although many companies are in relatively strong financial shape, some – particularly smaller companies – are finding tighter credit conditions hard. This could ultimately lead to job losses and higher unemployment figures.

On the consumer side, what was a booming housing market fuelled confidence, giving UK homeowners, in hindsight, an over-inflated sense of wealth. This, coupled with the availability of easy credit, encouraged many to borrow large sums of money. However, the collapse of the sub-prime mortgage market has severely cut access to easy credit and house prices are now falling across the UK. Consumers are becoming more wary about their spending and many UK retailers are reporting a more difficult environment.

This has sent a worrying signal to those already concerned about prospects for economic growth. Sentiment amongst equity investors has taken a further knock. Nevertheless, the UK corporate environment remains in relatively good shape: it is possible to find well-managed companies with strong balance sheets. However, selectivity and realistic expectations are important during this time of uncertainty.

Looking ahead, investor sentiment remains fragile and bad news continues to cause disproportionate levels of response. Markets are highly volatile and investors have good reason to be wary in the short term; however, stock markets tend to be driven in the short-term not by logic, but by emotional factors such as fear (and greed): the key is to stay calm, think long-term, and be selective. Astute long-term investors should remain objective and remember that, in the words of Franklin D Roosevelt, "the only thing we have to fear is fear itself".

Note: views expressed are based on information available as at 1 June 08 and are subject to change.



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