



## Welcome to the Summer Issue of Our Newsletter

ONE thing that we can always be sure of is the unpredictability of world events. At the beginning of the year no-one could have foreseen the earthquake in Japan with its tragic consequences on a human, environmental and economic level. Nor was it obvious that such unrest could be possible in the Arab states and for it to spread at such an alarming speed.

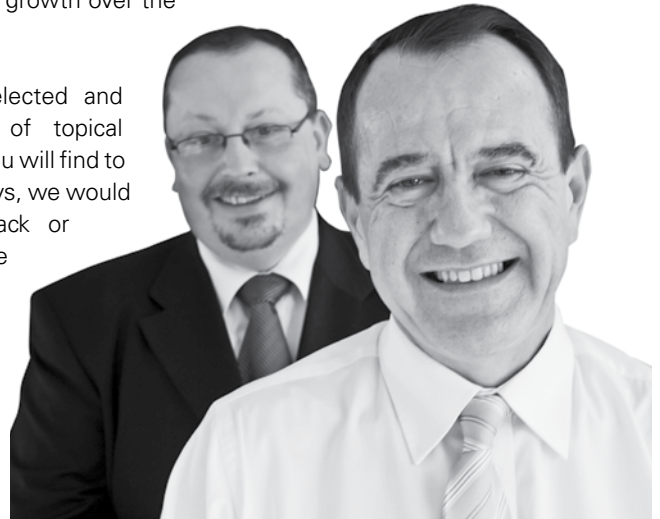
As you would expect, factors such as these inevitably affect investments in one way or another. We strongly believe that these events serve to endorse our philosophy of diversifying portfolios and regularly reviewing individual arrangements. This can take account of current and expected market conditions as well as personal objectives. They say that the proof of the pudding is in

the eating, and we are pleased that all portfolios under our direction have weathered the storms and most have achieved a respectable growth over the period.

We have carefully selected and prepared a number of topical articles that we hope you will find to be of interest. As always, we would welcome your feedback or comments so we hope you will let us know your thoughts on the content.

In the meantime, let's hope that we have a summer with some sunshine!

Chris Polawski and Simon Bullivent

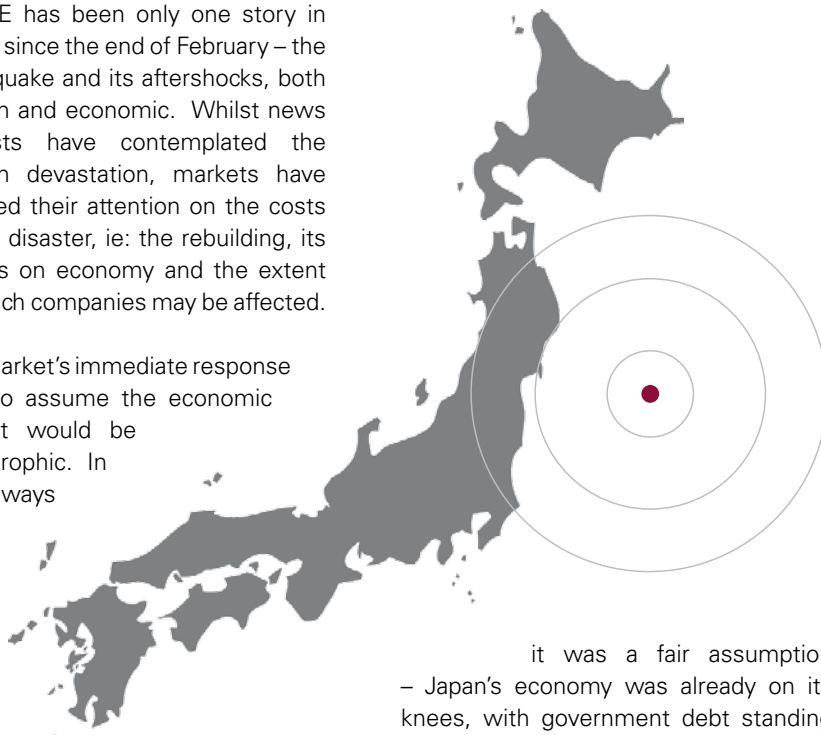


## Japan Aftershocks

### These can Continue in the Economy Long after the Earthquake

THERE has been only one story in Japan since the end of February – the earthquake and its aftershocks, both human and economic. Whilst news analysts have contemplated the human devastation, markets have focused their attention on the costs of the disaster, ie: the rebuilding, its effects on economy and the extent to which companies may be affected.

The market's immediate response was to assume the economic impact would be catastrophic. In many ways



it was a fair assumption – Japan's economy was already on its knees, with government debt standing

at over 200% of GDP (the highest of any developed nation). Economists seriously questioned how a Japanese government in an already weak position could support the colossal rebuilding costs required. However, towards the end of the month, more sanguine assessments emerged. Goldman Sachs estimated the impact on real GDP could be to reduce it by 0.5% or more in 2011. The group thinks the final figures will depend on how long the power outages continue. If they are all but over by the end of April, the impact will be far lower than if they continue into June or July.

Certainly, the majority of economists expect what impact there is to be short and sharp. A number have even suggested that, once the immediate difficulties are dealt with, the rebuilding of infrastructure in Japan may provide a much needed boost to the economy.

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# Water – the New Oil of The 21<sup>st</sup> Century?

## A Personal View by Simon Bullivent

MANY of you already know that I treat my personal investments very differently to how I would advise a client. I am a high risk taker with my own money, and I like to keep an eye on what I would consider to be future opportunities even when they are not in vogue.

As we harmlessly boil the kettle for a cup of tea, it would never occur to most of us that we may be consuming a natural resource that could potentially have more value than oil. Credible sources from United Nations agencies and world economic forums warn that a catastrophic water shortage could prove an even bigger threat to mankind this century than soaring food prices and the relentless exhaustion of energy reserves.

The Earth has a finite stock of water - there is precisely the same amount of it on the planet as there was in the age of the dinosaurs. But water use has been growing far faster than the number of people. During the 20th century the world population increased fourfold, and the amount of freshwater that it used increased nine times over.

Already, it is reported that 2.8 billion people live in areas of high water stress, and that this will rise to 3.9 billion by 2030. By that time, water scarcity could cut world harvests by 30 per cent – equivalent to all the grain grown in the US and India. And global warming is taking an increasing toll.

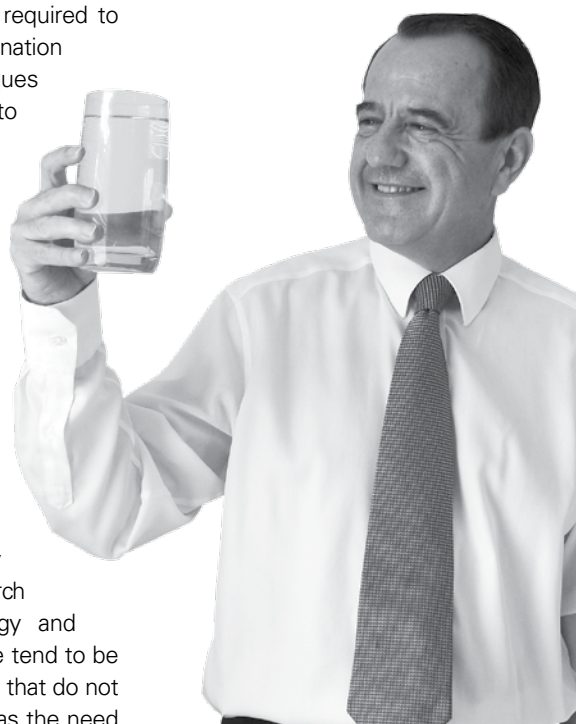
For example, the glaciers of the Himalayas, which act as gigantic water deposits supplying two billion people in Asia, are melting ever faster as global warming accelerates.

For the investor, this could be a phenomenal opportunity for growth. Consider the infrastructure required to competently manage water, along say the lines of electricity and the National Grid – and then consider this globally. The result would be pipelines and refineries that could dwarf the current global networks for oil and gas. Also consider the technology required to meet the challenge – desalination plants, new filtration techniques and automated metering to name but a few. All of this will need to be designed, built and managed. On top of this, water could well become a commodity with a high price where profits are to be made.

But this is not an easy field to invest in early. Currently, except for utilities companies and a handful of very small enterprises, there is no “pure” way to invest directly in the opportunity. Research & development of technology and design & build of infrastructure tend to be small parts of large companies that do not specialise in water. However as the need

increases and governments begin to act (and spend), I believe there is little doubt that a whole new industry will emerge. And with it, the investment opportunities should become available to all of us.

Of course, one needs to recognise that such speculation involves massive risk. Generally one must only use money one can afford to lose, balanced against only the possibility of significant gains. Although water is becoming short it is still quite capable of causing a financial drowning!



## Preparing for Spending Cuts

### Many Eggs in Many Baskets



AS you can probably guess from the many contradictory reactions to the spending cuts, no one can really tell which way the economy will go in the short term. As an investor, therefore, you could be forgiven for not knowing how to position your portfolio whilst we find out.

However, some rules never change and the first: making sure your holdings are well diversified, is exactly for times like

this. Over expose yourself to a single asset class – say, equities – and its performance will mirror only the fortunes of the equity market.

But, if you choose a range of asset classes from across different countries, the different elements will all perform differently. If one does badly, the chances are another will do better and compensate for some of that downside, and give more potential for growth.

## ISAs

### Tax Free – Yes Please!

YOU only receive one ISA allowance every tax year. Since you cannot carry your allowance over to next year, if you do not use it, come the end of the tax year, you will lose it.

The annual allowance has been raised for everyone this tax year, to £10,680 (2011/12), up to £5,340 can be placed in cash - and this is available to be used any time up until 5 April 2012. However, you don't have to wait. You can invest any time from now and, particularly with cash ISAs, you might benefit more from doing so. The earlier you get your money into a deposit account, the more interest you will earn.

For stocks and shares ISAs, there are those who try to 'time' their investment - that is, buy when prices appear cheaper (and thereby benefit more as

they recover). However, even experts seldom manage to time the market on a consistent basis, and individuals can find it even more difficult.

If you are concerned about market volatility, a better idea than 'timing' might be to drip feed your money in on perhaps a monthly basis - in other words, invest smaller regular amounts - to smooth out the risk of a price fall by buying your investment at a range of different price levels. This system is called 'pound cost averaging' and can offer long-term benefits, particularly for nervous, first-time investors.

Regardless of how you invest your money, however, remember you only receive one allowance a year. It is therefore best to start your research early and speak to your professional adviser about all the

options. This will help ensure you make the right decision.



## Interest Rates

### The Only Way is Up

THE nine members of the Bank of England's (BoE's) interest-rate-setting committee voted by six to three in favour of maintaining UK rates at an all-time low of 0.5% at their May meeting. This decision caused no great surprise, given the current environment of muted economic growth and high inflation. The rate of inflation reached 4.5% during April and the BoE believes it could rise as high as 5% during 2011.

The Monetary Policy Committee (MPC) continues to grapple with the same unappealing choice: either to increase the cost of borrowing in order to curb inflationary pressures, or to maintain interest rates at their current exceptionally low levels in order to support economic growth. The minutes of the MPC's May meeting revealed a "wider-than-usual" range of views about the outlook for economic growth. They also highlighted "substantial uncertainties" over the effect of the squeeze on real household incomes, the extent to which exports

will support growth and whether high profits within the corporate sector would be reinvested or distributed.

This was the fourth consecutive month that three members of the Committee have voted for an increase in interest rates. MPC member Andrew Sentance – the member who has pressed most

vigorously for a rate increase – is leaving the Committee and will be replaced by Ben Broadbent, formerly of Goldman Sachs. In a speech delivered during April, Mr Sentance warned that the MPC might have undermined its own credibility by not adjusting its interest-rate policy settings early enough.

The question is not whether the MPC will increase interest rates, but when. The Confederation of British Industry believes that the BoE will raise rates later this year, while the influential Ernst & Young ITEM Club expects the MPC will "hold fire" until at least November. The Ernst & Young ITEM Club believes that inflation will continue to increase over the coming months, but does not expect wages to rise significantly, as there is plenty of spare capacity in the labour market. Meanwhile, the British Chambers of Commerce (BCC) has highlighted the international factors – such as commodity prices and high import prices – that are fuelling UK inflation. The BCC believes that "premature" interest rate rises could have a severely negative effect on jobs and economic growth, and urged the MPC to maintain rates at their current level over the next few months in order to avoid derailing the fragile economic recovery.

# 0.5%

# Centenarians on the Increase

## The Pressure on Pensions is Immense



IT has long been accepted that improvements in medicine, lifestyle and an understanding of the effects which habits such as smoking can have on our health means life expectancy is increasing. Future

generations will enjoy much longer and healthier lives on average than their predecessors. However, figures released in April 2011 by the Department of Work & Pensions illustrate rather accurately exactly what that means. These figures suggest, of the under 16s already alive today, over a quarter are going to reach the age of 100 – and already, the average new-born female is going to live to over 90.

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However, figures released in April 2011 by the Department of Work & Pensions illustrate rather accurately

As Steve Webb, Minister for Pensions, commented at the time, this means that millions of people will spend over a third of their life in retirement. However, as the DWP were quick to point out, this news also coincides with a period during which pension savings are in serious decline.

An ageing population is putting our welfare system under significant pressure as more people need not only pension income but also healthcare, incapacity support and help within the home. You can therefore have no expectation that your State Pension will provide anything other than a safety cushion when the time comes. If your retirement plans include holidays, visiting relatives and treating yourself on occasion, then its time to take control of your savings and start building up a retirement fund of your own.

# The Chancellor's Second Budget

## The Jaws Tighten Amid a Few Crumbs of Comfort

DELIVERING his second Budget in less than a year, Chancellor of the Exchequer George Osborne admitted UK economic growth is likely to be somewhat weaker than expected although he described his Budget as being "for growth" and focused on measures to boost UK businesses and entrepreneurship. These measures were then accompanied by a tax on North Sea oil companies and an increased levy on banks.

On an individual level, the personal tax allowance was increased by £630 to £8,105 from April 2012, a measure that will also benefit those paying the higher 40% tax rate (though the higher age allowance for pensioners remains untouched). The top tax rate of 50% remains intact for now, but Osborne warned it would cause "lasting damage

to our economy if it were to become permanent." Interestingly, the Chancellor also announced a consultation about possible measures to merge Income Tax and National Insurance – a move that would ultimately increase transparency. Elsewhere, 10,000 first-time buyers are to be helped onto the housing ladder and given assistance to buy newly built properties.

The biggest changes, however, appeared to be aimed at entrepreneurs and investors in small business, with significant increases in entrepreneurs relief and in the limits and allowances surrounding business-related tax-efficient savings schemes. Despite concerns about growth from the Office of Budgetary Responsibility, these increases led to encouraging

comments from the leading business investors as they welcomed the changes as a "shot in the arm".



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