



SPECIAL MARKET UPDATE

8 August 2011

UPDATE ON ECONOMIC AND FINANCIAL MARKET EVENTS

Last week saw dramatic moves on most of the world's financial markets, accompanied by dramatic reporting of the events in the news media. Such moves inevitably raise concerns in investors' minds. These events tend not to happen without some root cause - the following review analyses the issues that we've seen and considers how concerned investors should really be.

WHAT HAPPENED LAST WEEK AND WHY?

Strange as it may sound, nothing materially new happened last week. It is important to remember that even though economies operate on a much larger scale, the basic principles you and I have to live by are the same, i.e. money-in has to be the same or higher than money out and if we borrow from the bank, we have to be able to pay it back.

The problems which led up to the declines in the markets had been building for a number of weeks and have two main causes. First, governments throughout the world have borrowed too much money in recent years and are now struggling to pay it back. There is much discussion about how quickly this borrowed money should be repaid and, as there is little agreement, the lenders of this money are becoming more concerned. Secondly, and closely related to the amount of money borrowed, are signs that economic growth is in danger of stopping. Were this to happen, it would make repaying the borrowed money much harder. Last week saw the lenders begin to lose patience with the government borrowers. This led investors to worry about what would happen if various countries, especially in Europe, could not repay the money they had borrowed. This led to further declines in the markets. With so many people on holiday, especially the politicians who could have done something to provide reassurance, the declines continued.

WHAT DOES THIS MEAN FOR THE FUTURE?

What this means for the future needs to be split between the short term (the next year or two) and the longer term. In the short term, it would be wrong to say there aren't substantial issues that need to be dealt with in many, although not all, large economies. Parts of Europe have too much debt which needs to be paid back. Some countries need to boost economic

growth to generate jobs. Other countries have the opposite problems of too much growth and excessive savings. All this needs to be brought back into balance. This is a difficult task and so far, politicians are generally not getting to grips with the issues. Market moves like last week, however, serve to remind the politicians of the need to act and, over the weekend, we have seen positive developments which go some way to addressing the concerns.

In the long term, there remains every reason to be positive. The last few years have seen a dramatic change in the world's economy with countries such as China, India and Brazil emerging as areas for future growth. The economic growth, which enables companies to pay the interest on their bonds or grow their earnings and which ultimately generates income for investors, is not in danger.

SHOULD I BE WORRIED?

Although it can be distressing to see the headlines we have seen over the last week, such events are sadly not unusual in financial markets. The financial plan we have worked with you to develop takes into account that such events can happen.

As part of our investment process, we look to reduce the exposure of our clients' investments when we encounter periods of uncertainty. Many of the problems which came to a head last week have been emerging for some time, so we had been gradually reducing our exposure to certain markets and holding more of our clients' money in cash. Once we see more stability, this cash can be re-invested as appropriate. There is no reason to believe that current events are anything other than temporary and we believe stability will return.

WHAT SHOULD I DO?

Nothing. The strategy we have put in place for you has taken into account the potential for such events to occur. We are monitoring our clients' investments daily and, should the situation deteriorate further, we will act accordingly. At this stage, we do not believe there is any reason to think that longer term prospects have changed.

Should you wish to discuss the present situation or your financial arrangements, please do not hesitate to get in touch with your adviser or the Client Services team.

Richard Potts
Chief Executive

FOR MORE INFORMATION PLEASE CONTACT US ON:

0870 1500 900 visit imassetmanagement.com
or email clientservices@imassetmanagement.com

IM Asset Management

Registered office IM Asset Management, Riverside East, 2 Millsands, Sheffield, S3 8DT