

Recession, technically nearly at an end?

We switch on the news, and hear that Germany and France have technically ceased to be in recession, and that the UK is not far away from coming to the end of the recession.



Have we cause for celebration? Well, I suppose, technically, yes. However, the technical end to the recession does not necessarily mean the end of pain for the general public.

If you have traveled recently you will undoubtedly see that many restaurants are very quiet, that hotels have had to slash their prices to keep occupancy rates high and that the number of houses and apartments for sale is truly frightening. The notion that prices have only fallen some 15% (official statistics) is simply not a reflection of reality. There are many cases where there are simply no buyers.

The widely accepted definition of a recession is two consecutive quarters of negative GDP growth. Logically, therefore, a recession is over once you have just one quarter of growth, regardless of how small or unsustainable that may be. I am sure you will agree that this is rather simplistic, but this is what is happening now and what is being reported in the press. GDP, helped by government spending, will probably grow in the third quarter, leading to the end of the recession.

Unemployment

This should not be confused with a return to normality or to the situation before the recession began. The end of a recession simply means GDP is starting to increase again. A recession can end, and unemployment can continue to get worse. So, for

many people, it will still feel like we are still in recession.

Unemployment in some areas is fast approaching 20%. Remember, the definition of unemployment is that you need to be actively seeking work to be considered unemployed. If you give up looking for a job, go back to university or take part-time work, you are not considered to be unemployed. If you don't have a job or fear losing the one you have, you are not likely to spend your money.

Some Worries

Time will tell whether this recovery continues. But on a simple note, many of the excesses that caused this crisis (over-leveraged consumers, over-leveraged banks and an asset bubble in property) have not been fully unwound. Indeed, they have now been joined by over indebted governments and a rush towards populist politics.

The Bank of England has purchased more than £100 billion in gilts, which is about 15% of the market. The Federal Reserve, in comparison, has bought 3% of the U.S. Treasuries stock, and the Bank of Japan has purchased 0.3% of stock. Despite its aggressive actions, the Bank of England is facing increasing pressure to bolster its quantitative-easing program. One should clearly be worried about this.

A point to note regarding investments is that interest rates will probably remain low for longer than we expect. The example of Japan is telling, given that rates have remained extremely low for almost 20 years following the bursting of their asset bubble in the early 1990s. This adds to the burden of pension funds, which use a lower discount rate to value future liabilities. It also raises the question of what to do with cash. Or, maybe read the article regarding the action of The Swedish Central Bank. Perhaps we will see negative interest rates.

Markets

Compared to extremely low interest rates, many stocks actually look appealing. Even commercial property, which after costs can yield 5%, is starting to look attractive. Year to date the S&P 500 has increased by almost 12% in USD. As a UK-based investor with Sterling as your base currency, you would, however, have lost money. This just illustrates how difficult it is to make money in the current market.

The old adage of 'sell in May and go away' would have resulted in you losing out on a return of almost 16% on the FTSE. The numbers are similar for a EUR-based investor investing in the European stock markets for the period of May through August.

As for the future, perhaps the markets will continue in their upward trend; perhaps we are seeing a V recession. Alternatively, perhaps we will slip back again, and we will be looking at a W recession. Most certainly, even with very thin trading, some profits have been made by equity investors. Plus, and finally, regardless as to how this recession plays out, remember, there is always some money to be made somewhere.

Pointing Us Out of Recession!

- US new home sales increased by 9.6% to a seasonally adjusted annual rate of 433,000 vs consensus 384,000.
- US manufacturers' orders for durable goods jumped 4.9% last month to a seasonally adjusted \$168.43 billion vs consensus up 3%.
- US July building permits revised to minus 1.1% from minus 1.8%
- German index sees business brighter.
- World trade is showing signs of recovery as imports and exports start to pick up in Asia and manufacturing rebounds; but the longer-term trend remains negative, according to Dutch CPB Research Institute.
- British Airways' business class only service draws interest.
- City watchdog backs tax on 'socially useless' banks.
- Plan for 200 mph UK rail link unveiled.
- Hopes rise for new Middle East peace talks.
- Sainsbury to create up to 20,000 jobs over festive period.
- Australia gives go-ahead to \$42 billion Gorgon LNG project.
- UK Mortgage approvals hit 17-month high.

**Gurrbir
Chatwal**

Gurrbir Chatwal

**PO Box 1378
Salmiya; Kuwait**

**Tel: +965 (978) 9500
Fax: +965 (564) 6398**

**www.gurrbirchatwal.com
gurbeer@gmail.com
gurbeer@hotmail.com**





Switzerland Agrees to Pass on Names of American Tax Evaders to US

Switzerland has agreed to hand over the names of wealthy Americans holding offshore accounts at UBS to the US authorities, in a blow to the country's bank secrecy rules.



Bern agreed to pass on the names of 4,450 American investors as Washington hailed a

victory on tax evasion and said it would now pursue other foreign banks.

Douglas Shulman, commissioner of the Internal Revenue Service, said: "This agreement sends an unmistakable message to people hiding income and assets offshore. The IRS will vigorously pursue tax cheats around the world, no matter how remote or secret the location."

The move will put pressure on UBS's 52,000 US offshore customers to come forward, and a deadline for self-declaration has been extended.

Three Americans with offshore UBS accounts have already pleaded guilty to tax evasion charges.

The End of the USD (Again)?

A large number of leading managers have warned of a potential dollar crisis and have slashed exposure to US equities and T-bills in light of mounting debt concerns and inflationary fears.

Many believe that the Federal Reserve's loose monetary policy is playing its part in laying the conditions for the crisis. There is a belief that a dollar crisis could occur, which would see yields shift between 6.25% and 7% over the next 12 to 18 months.

An analyst stated: "One of the risks if the Fed gets really behind the yield curve is that we could see a dollar crisis. I am concerned that the long-end could sell-off quite dramatically. This is one scenario which passes the probability threshold. If the Fed does tighten policy, the curve could drift up and there could be a parallel shift."

In this scenario, it would be expected that yield curve to flatten and for yields to hover around 5.5% and 6% over the next 12 months.

There is huge concern about the dramatic rise in US national debt, as the White House recently projected the budget deficit would be \$2.0 trillion higher over the next 10 years than it had previously predicted.

Given the gains in the US markets and publication of the recent national debt figures, which were far worse than everyone anticipated, markets will get more worried and this could contribute to a weaker dollar. As a sterling investor, unless you hedge currency out, there is grave

danger that any rise in the US equity market will be equally matched by falls in the dollar.



A number of managers appear relatively bullish on US treasuries, and believe that there is opportunity, particularly within the longer end of the yield curve. Others argue that the rush for gold we have seen in recent months is influenced greatly by the fact that there are concerns about the previously regarded safe haven currency USD.

Treasury Increases IHT Interest Rate to 3%

The government is increasing the interest rates on inheritance tax (IHT) bills to 3% in a move that will raise £10 million for the Treasury.

Relatives of a deceased person are required to pay 40% IHT on estates worth over £325,000 within six months of a death, after which, interest is levied.

However, since the interest rate was introduced 30 years ago, the rate of tax is low – standing at either base rate or 0%. From next month the rate will rise to 3%, but any HMRC repayments will be paid with a lower rate of interest.

The increase is estimated to bring £10 million to Treasury coffers.

Families who are forced to sell properties to cover IHT bills will be hardest hit by the market conditions. The interest rate rise will force relatives to sell properties in a struggling housing market instead of waiting for the market to improve.

HMRC Warning

HM Revenue & Customs is warning taxpayers to beware of fraudulent emails offering tax rebates.

HMRC says it would not inform customers of a tax rebate via email, or invite them to complete an online form to receive a rebate of tax.

An example email asks individuals for personal details, including name, address, contact number and mother's maiden name.

Financial-related questions include the recipient's bank card number and the three-digit security number on the back of the card.

Email addresses used to distribute the tax rebate emails include:
tax-inform@hmrc-information.co.uk
online.paper@hmrcpaper.co.uk
office.tax@hmrc.taxreturn.co.uk
 and others.

The HMRC says: "Do not visit the website contained within the email or disclose any personal information."





Protected and Lower Risk Funds Available in September

NOMURA

High Income Natural Resources Notes

The High Income Natural Resources Notes provide investors the benefit of regular income over the life of the investment. Issued by Nomura Bank International plc; rated by S&P as A- at the time of publication. The High Natural Resources Income Notes ("the Notes") are available in a choice of three currencies: GBP, USD & EUR. The Notes pay quarterly coupons (12 payments) regardless of the performance of the Natural Resources Stock Basket. Conditional capital protection - which is contingent upon the performance of a basket of leading Natural Resources companies. Due to current historically depressed stock market levels, this investment offers a good entry point for equity exposure, offering strong returns for investors willing to take a defined risk to capital.

Annualised Quarterly Income equivalent to USD 9.10%, GBP 9.00%, & EUR 9.00%

High Income Global Retail Notes II

The High Income Global Retail Notes provide investors the benefit of regular income over the life of the investment. Issued by Nomura Bank International plc; rated by S&P as A- at the time of publication. The High Income Global Retail Notes ("the Notes") are issued in GBP, and linked to the performance of five Global Retail companies. The notes have an investment term of five years, and are intended to be held for the entire period. The notes pay annual coupons (five payments) regardless of the performance of a Global Retail Stock Basket. Conditional capital protection - which is contingent upon the performance of a basket of leading retail companies.

Global Recovery Notes – 5-Year Term

The Nomura Global Recovery Notes ("the Notes") provide investors the opportunity to benefit from enhanced participation in the recovery of global indices. The notes are issued by Nomura Bank International plc ("the Issuer"), which is rated by S&P as A- at the time of publication. The notes are issued in GBP, USD & EUR, have an investment term of five years, and are intended to be held for the entire period. These notes provide exposure to the three major indices: FTSE 100 index, S&P 500 index & Hang Sheng China index. The diversification across three geographical areas has the objective of delivering robust performance with reduced levels of volatility. The notes provide 135% participation in the growth of an equally weighted basket of three indices. The maximum return is uncapped and final basket performance is subject to final year averaging. The notes offer conditional capital protection: A fall of 50% or more is required in any index before capital may be at risk.

Global Emerging Markets III – 80% Protected Fund

The Global Emerging Markets III 80% Protected Fund (GEMSIII) offers access to the exciting growth potential available from the emerging markets sector, combined with a valuable protection mechanism that locks in 80% of the highest net asset value. The new GEMSIII fund will track the performance of the Nomura Global Emerging Market (NGEM) Index, with 100% initial exposure (after deduction of initial charge). This fund provides a valuable minimum 80% protection feature (subject to fees and expenses) against the highest value of the NAV at any time (daily lock-in).

Available in GBP, EUR & USD

GEMSIII is an open-ended product, with no expected maturity date; shares will trade on a daily basis.

Morgan Stanley

Morgan Stanley Auto Call Notes

Available in GBP USD and Euro, these notes offer investors the opportunity to enjoy returns of 6% per annum compounded. At any anniversary date, provided the FTSE and S&P are just one point higher than at outset of the plan, the investment will mature paying a bonus of 8% for each year it has been held, up to five years. Thus if the plan "calls" in year one, the investor will receive back all of the invested capital and 8% coupon. If this occurs in year two, all of the invested capital and 16% coupon. If the plan is not "called" by the end of the fifth year, the investor will receive back 110% of the original investment. There is a 100% capital protection, provided neither of the two indices falls in excess of 50% through the term of the plan.

Deutsche Bank



Deutsche Bank Resources Alpha Note Series 2

The DB Resources Alpha Note provides investors with the opportunity to participate in a market neutral commodity investment story, generating proven investment returns in markets where commodities both rise and fall in value. This strategy has proven to operate with extremely low levels of volatility, even in extreme market conditions.

100% Capital Protection

5-year investment term

Minimum full return of capital including initial charge at maturity.

Back tested performance of 16.4% for the last 12 months and 91.0% total return for last five years.

Available in: GBP & USD

Deutsche Bank Managed Alpha Growth Diversified

The MAG Diversified has been developed by Deutsche Bank in response to the volatile and changeable market conditions faced across region and asset class. Designed to protect your investment from excessive volatility while delivering above average returns. Provides exposure to 15 of the world's top investment Funds, with the benefit of an 80% high water mark protection feature.

Available in: GBP and USD

Open ended product

ARMAJARO
SECURITIES LIMITED

Emerging Markets Leveraged Equity Note

This note gives investors 160% participation to any increase in the MSCI Emerging Markets Index over the next five years (subject to quarterly averaging throughout the products life); 100% of initial capital is returned at maturity if the Index has not fallen by 60% or more.

Issued by Commerzbank (S&P A rated)

Maturity: 5 years

Available in GBP



Prestige Asset Management - Why We Like Equities!



Global Equity Markets - Analysis

Research into market timing indicates that equity market returns tend to be concentrated in a relatively small number of strong trading days. Moreover, some of the strongest rises tend to come immediately after sharp market declines, a time when many 'market timers' may still be out of the market. As a result, it is easy to miss some of the strongest rises in the market. In the example below, missing the 40 best days in 12 years (just three to four days per year) has dramatically reduced returns.

This is demonstrated recently when the Dow Jones Industrial Average Index gained a massive +936.42 / +11% on Monday 13th October 2008. Clearly, being out of the market on a very small number of key days dramatically reduces returns - we believe that the risk of missing these days should be a significant factor a long-term investor takes into consideration when making investment decisions. *SOURCE: Fidelity Investments**

The "Inherent Flaws" in Equities!

Although "We like Equities" due to their liquidity, transparency and because they are so widely accepted among financial professionals around the world as a substantial and legitimate part of almost every portfolio, they are inherently flawed for most investors. From January 2008 to March 2009 the MSCI World Index fell - 70%. Anyone who invested in simple "Long Only" Mutual Funds and "Index Trackers" would have almost certainly experienced a massive destruction of wealth in little over a year. And given the fact that the majority of "Long Only" Mutual Funds tend to underperform the wider index the above figures may be on the conservative side. And one should also not forget the record levels of volatility seen recently.

What could help global equity markets rise?

- Global Equity markets have consistently outperformed cash over the past 100 years

Market	Index	Fully Invested	Missed best 10	Missed best 20	Missed best 30	Missed best 40
USA	S&P 500	19.1%	15.4%	12.7%	10.4%	8.3%
UK	FTSE 100	16.2%	12.8%	10.5%	8.5%	6.7%
France	CAC40	19.4%	14.8%	11.4%	8.5%	6.1%
Germany	DAX 30	17.5%	11.9%	8.2%	5.3%	2.7%

- Global Equity markets are the cheapest in over 10 years
- Global Dividend Yields (which form part of an Index return) remain high
- Bank deposit rates in the USA, Europe and Asia are the lowest in 50 years
- Leading commentators predict that over US\$22 trillion will be spent by various governments worldwide on infrastructure over the next 5 years*
- China is expected to account for 43% of those expenditures, spending an estimated US\$9.3 trillion
- The Chinese government is spending about 12% of its GDP on infrastructure*
- India will invest US\$2.8 trillion in vital improvements over the next 5 years*
- Russia will use rising oil revenues to invest US\$2.2 trillion in fixed assets*
- Brazil will invest \$1.1 trillion, with \$300 billion over the next four years going to roads, power plants, ports*

*SOURCE: Morgan Stanley**

How can You take advantage of these markets?

Clearly, to take advantage of these markets and their massive movements up and down over the medium- and long-term, we need to find the right Investment Advisors and the right investment strategies. Prestige favours Investment Advisors who tend to have decades of proactive real market experience, in-depth knowledge and strong analytical abilities. We call these "skill-based" investment strategies. Prestige currently operates two "skill-based" equity investment strategies, both of which have significantly outperformed global equity markets over the past decade, both in terms of absolute returns and on a risk adjusted basis. Both, however, use distinctly different approaches.

Prestige Managed Index uses a strong research-driven, "top down", rules-based, macro approach, investing in major global equity indices. In general, 50% of its portfolio is constantly "passive short" while 50% of its portfolio is actively managed in a basket of equity indices that, in the view of the Investment Advisor, will out perform MSCI World Index over a given period of time.

Prestige Global Growth & Income uses a strong research-driven, "bottom up", stock-picking, micro view, selecting individual large cap, mid cap and small cap equities globally

that tend to be viewed as undervalued, have strong growth prospects or have strong income characteristics. All of these firms tend to have strong balance sheets, management and a clear focus on where their business is heading. All three Investment Advisors use a combination of short-term tactical trading and long-term strategic investing.

Prestige Managed Index

Global Equity Indices / Market Neutral

Focusing on a diversified systematic long/short portfolio consisting of up to 25 global equity indices.

Highlights

- Invests globally in a diversified portfolio of equity indices
- Attempts to reduce downside risk but maintains upside potential
- Attempts to monitor global money cash flows of major central banks
- Only operates transparent, liquid, exchange-traded and regulated equity markets
- Annualised returns have consistently outperformed cash
- Target capital appreciation (10% - 12% p.a.)
- Annual withdrawal facility of up to 5% on initial investment - penalty free
- Target capital appreciation (8% - 12% p.a.)
- Target annualised volatility (4% - 6% p.a.)

Prestige Global Growth & Income

Global Equities / Income / Value / Growth

Focusing on diversified discretionary portfolio of global equities with three highly experienced stock picking advisors.

Highlights

- Target annualised volatility (4% - 6% p.a.)
- Invests globally, focusing on global income, global value and global growth
- Invests in liquid markets - portfolio can usually be liquidated in days
- Diversified, multi-advisor portfolio - both geographically and industry sectors
- Proactive asset allocation, sensitive to changing market risks
- No exotic financial engineering or leverage
- Annual withdrawal facility of up to 5% on initial investment - penalty free
- Potential capital appreciation (10% - 12% p.a.*)
- Potential dividend income (4% - 6% p.a.*)
- No exotic financial engineering!