



Lexington Times –Autumn edition no. 4

## Introduction

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With so many worthy news items to write about it's difficult to know where to start with this newsletter!

I am sure some of you are concerned with the stock market turbulence and financial strength of some of our financial institutions. Therefore in this quarters newsletter I will review where we are so far this year and put that in relation to the bigger picture.

We look at how stock markets have behaved during past recessions.

I will also cover the Financial Services Compensation Scheme for all contracts, not just the popularised bank account protection.

This issue also marks the 4<sup>th</sup> issue of our newsletter and from the feedback from some of you, it has been well received.

My outcome in writing these newsletters is to provide a better service to you, my clients, by means of additional, relevant usable information.

Is this being achieved? I would like to know how many of you read the newsletter. On this note would you please email, just with 'newsletter' in the subject line, to confirm that you read the newsletter – this can be at anytime, as I appreciate you may not read it immediately.

If you want to provide feedback, please do so. From the feedback I can make plans for the 2009 issues.

Emails to [enquiries@Lexingtonuk.com](mailto:enquiries@Lexingtonuk.com)

Many I also take this opportunity to wish you all a very happy Christmas and a prosperous 2009.

The office will be closed on Tuesday 23<sup>rd</sup> December and reopening on Monday 5<sup>th</sup> January 2009.

Thank you.

**WARREN SHUTE CFP**  
Chartered Financial Planner  
Lexington Wealth Management Ltd.

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*'This issue also marks the  
4th issue of our  
newsletter...'*

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## Market update

We started 2008 with the knowledge that it was going to be a volatile year based on some of the stories which were emerging from the events of 2007.

The outlook for the remainder of 2008 and 2009 looks to be much of the same.

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*'In the business world, the rearview mirror is always clearer than the windshield.'*

**Warren Buffett**

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Questions I am asked when discussing this topic is 'how far can the market fall?', 'surely now is a buying opportunity?' and 'it fell to these levels before, so surely it can't fall much further?'

Well, it's difficult to answer these questions directly in one line. In theory the stock markets can fall until they feel certain or optimistic of the future events, the stock markets do not like uncertainty.

### Recessions and Markets

Let us take a look at some of the past recessions to see how the markets fared. Below is a table taken from Wikipedia of a list of recessions in the United Kingdom since 1919.

Although current and future recessions do not have to follow any set rules, the past recessions all lasted approximately 2 years, this could imply an economic recovery going into 2009/10?

How do you think the stock markets reacted to these recessions? The most popular stock market indicator FTSE 100 started on the 3<sup>rd</sup> January 1984, so that indicator cannot tell us too much about the past. However, its bigger brother, the FTSE-All-Share started on the 10<sup>th</sup> April 1962, so by using the FTSE All-Share index we can include all recessions since 1974.

Name	Dates	Duration	GDP reduction	Causes
1919-21 depression	1919-1921	~3 years	10.9% 1919 6.0% 1920 8.1% 1921	The First World War
Great Depression	1930-1931	~2years	0.7% 1930 5.1% 1931	US Depression. Reducing demand for UK exports, also high interest rate defending the gold standard. <sup>[2]</sup> UK came off gold standard Sept 1931.
Mid 1970s recession	1974-75	~2 years	3.5%	1973 oil crisis
Early 1980s recession	1980-81	~2 years	6.1%	?
Early 1990s recession	1990-92	~2 years	2.5%	US savings and loan crisis leading to the Early 1990s recession
Late 2000s recession	2008-?	? years	>0.5%	Credit crunch or Financial crisis of 2007-2008

**FTSE All-Share January 1974-December 1975 – ‘1973 Oil Crisis’ – gain of 20%+**

**Growth of Wealth**

Monthly: 01/1974 - 12/1975; Default Currency: GBP



**FTSE All-Share January 1980-December 1981 – gain of 50%+**

**Growth of Wealth**

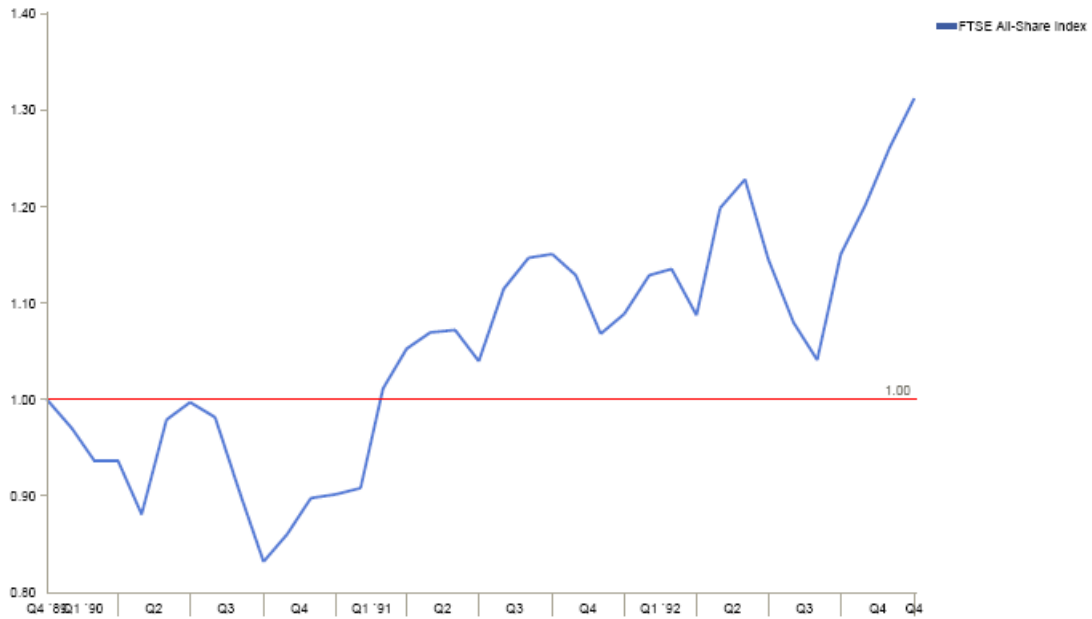
Monthly: 01/1980 - 12/1981; Default Currency: GBP



### FTSE All-Share January 1990-December 1992 – gain of 30%+

Growth of Wealth

Monthly: 01/1990 - 12/1992; Default Currency: GBP



### FTSE All-Share January 2008 ..... 'the Credit Crunch? Are we at the bottom?' ?%

Growth of Wealth

Monthly: 01/2008 - 10/2008; Default Currency: GBP



Finally, the chart below shows the extent of the Bull (growth) & Bear (down turn) markets we have seen over the years.

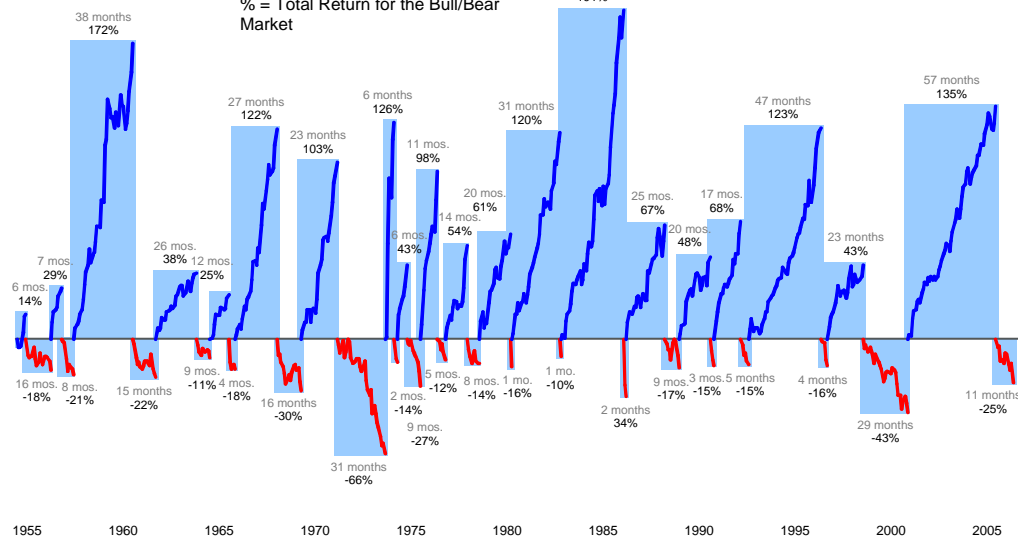
**Bull and Bear Markets**

FTSE All-Share Index (GBP)  
 Monthly Returns: February 1955-September 2008

Average Duration:

Bull Market: 23 Months  
 Bear Market: 9 Months

Months = Duration of Bull/Bear Market  
 % = Total Return for the Bull/Bear Market



**Conclusions**

I found the charts of the FTSE All-Share during recessionary periods very interesting and not what I expected. Although times were tough during some of these periods, for many people, the FTSE graph did not reflect this.

The markets performed well during these periods, better than I thought they would. The 1974/75 recession was a tough time, far worse than we are experiencing today and I think many investors would be happy with the returns the FTSE All-Share returned.

Can we expect a stock market recovery anytime soon? Only history will tell. The Bull & Bear market graph shows we have seen this before, many times.

Is now a buying opportunity? It depends on your investment horizon and your ‘sleep well at night factor’. If you require the funds you intend to invest in the next 5 years or you feel uncomfortable with the possibility of falls which we have experienced so far this year, then no—you shouldn't invest fully in the stock-market and a more cautious investment approach is required.

But, if you want to invest for the longer term, we may not see prices as low as they are today for many, many years.

If you would like to discuss any investments in more detail then please contact me.

## Financial Service Compensation Scheme

The Financial Services Compensation Scheme (FSCS) is the UK's statutory fund of last resort for customers of authorised financial services firms. This means that FSCS can pay compensation if a firm is unable, or likely to be unable, to pay claims against it. FSCS is an independent body, set up under the Financial Services and Markets Act 2000 (FSMA).

This information has been copied from the FSCS website which is found at <http://www.fscs.org.uk/consumer>

Financial protection for banks is in the news everyday - but all regulated institutions have protection.

I think it is widely known now, but still worthy of repeating, if your deposit monies are held in *two places* which have *the same* FSA registration number, you *only have one* £50,000 protection per individual.

The FSA regulation and number can be found at [www.fsa.gov.uk/register/home.do](http://www.fsa.gov.uk/register/home.do)

Any questions or concerns on this please let me know.

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*'..FSCS can pay compensation if a firm is unable, or likely to be unable to pay a claim against it.'*

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## FSCS Compensation Limits

### The maximum levels of compensation are:

**Deposits: £50,000** per person (for claims against firms declared in default from 7 October 2008).

100% of the first £50,000.\*

**Investments: £48,000** per person.

100% of the first £30,000 and 90% of the next £20,000.

**Mortgage advice and arranging: £48,000** per person (for business conducted on or after 31 October 2004).

100% of the first £30,000 and 90% of the next £20,000.

**Long-term insurance (e.g. pensions and life assurance): unlimited.**

100% of the first £2,000 plus 90% of the remainder of the claim.

**General insurance: unlimited.**

Compulsory insurance (e.g. third party motor): 100% of the claim.

Non-compulsory insurance (e.g. home and general): 100% of the first £2,000 plus 90% of the remainder of the claim.

**General insurance advice and arranging: unlimited** (for business conducted on or after 14 January 2005).

100% of the first £2,000 plus 90% of the remainder of the claim.

Compulsory insurance is protected in full.

*\* The FSA changed the rules that govern compensation payments on 3 October 2008 to increase the total limit to £50,000. The limit comes into effect on 7 October 2008. For deposit claims against firms declared in default between 1 October 2007 and 6 October 2008, the maximum level of compensation is £35,000 (100% of £35,000). For deposit claims against firms declared in default before 1 October 2007, the maximum level of compensation is £31,700 (100% of the first £2,000 and 90% of the next £33,000).*

*Depositors may still receive a share of their savings above £50,000 back following any distribution of assets as part of the insolvency process for a failed bank. This would be a matter for the insolvency practitioner to determine and any recovery would, by necessity, vary according to the circumstances of the specific failure.*

*The actual level of compensation you receive will depend on the basis of your claim. FSCS only pays compensation for financial loss.*

*Compensation limits are per person (per firm and type of claim).*

*Slightly different limits and rules apply if you have a claim against an insurer or a bank that was insolvent before FSCS became operational (1 December 2001), or if your claim is against an investment firm that was declared in default before FSCS became operational.*

## Recommendations:

I have been asked recently about Web-Sites and IT by a number of clients, so I thought I would mention the two people who help me in this area.

### **Web-Site Design**

I have been working with David Foster who owns HoneyStone Design for about 3 years now. HoneyStone are in simple terms a Web-Site design and hosting company, but they go a step further.

David is a skilled Telecoms executive who decided to get out of the corporate 'rate race' and set up a 'people focused' web-site design company.

Because of David's knowledge and experience, he can explain matters in simple terms and is always looking at the commercial effect for the client.

Once the site is set up, he's able to arrange software for you to make updates and amendments as you feel fit, so you're not reliant on paying every time you want to change something.

He designed our [www.StrategicInvestor.co.uk](http://www.StrategicInvestor.co.uk) site and our email broadcasting software used to send you this newsletter. He can be contacted on the following details:

### **David Foster**

HoneyStone Web Design  
[www.HoneyStone.com](http://www.HoneyStone.com)  
Email: [David@honeystone.com](mailto:David@honeystone.com)  
Mobile: 07884 006 210

### **IT & Computer Support**

Mani Aira is very skilled, probably far more skilled than what I use him for. He's able to explain to me, sometimes more than I want to know! How things work and how I could improve my IT, but here's the great part, he's always concerned about the cost! That to me is unique in the IT business, the previous company I used always told me that I need the absolute best/fastest newest piece of software or hardware and at a cost!

I cannot recommend him enough and I know that you will be looked after should you need his services.

He can be contacted on the following:

### **Mani Aira**

IT Support  
[Mani@cotswoldwireless.co.uk](mailto:Mani@cotswoldwireless.co.uk)  
Mobile: 07880 738 888

## Finally ... experience the beyond partnership

Paul & Marie have been clients for some years now and a few months ago Damien and I booked ourselves onto an introductory 'personal development' evening.

We had a great time, met some very interesting people and came away with some great ideas and had some of those 'ah ha' moments!

As with all new experiences, I had a little apprehension – is this for me? Well I was willing to give it a go – and Damien and I both had a great time. No jumping up and down 'American style' very interesting and great fun – try it and give it a go.

Paul & Marie can be contacted at:

(w) 01380 859106

Paul@thebeyondpartnership.co.uk

www.thebeyondpartnership.co.uk

### Please note

Notes: Levels, bases of, and reliefs from taxation are subject to change. Past performance is not a guide to future performance and the value of investments can go down as well as up. Tax Planning is not regulated by the FSA. We have taken great care to ensure the accuracy of this newsletter. However, it is written in general terms and you are strongly recommended to seek specific advice before taking any action on the information it contains. No responsibility can be taken for any loss arising from action taken or refrained from on the basis of this publication.