

PORTFOLIO INTERIM REPORT

MARCH 2007

As I predicted, there was a short rally attempted and the first down and sideways testing of support levels is underway and it will be interesting to observe markets reaction over the next few days to see whether there is any "Steam in the boiler". My view, as stated before is that a rally is unlikely to gain traction.

NOTE: The USA changed its "Summer Saving time" system, last weekend which means that European Bourses/exchanges close an hour later than normal, this will add greater negative pressure to USA based securities as traders can sell off later if they don't see recovery in morning/ lunchtime trading in New York. The interesting aspect of this phenomena, will be to see if volatility continues next week, when markets revert to normal business hours.

I believe a further unwinding of values is more likely, before it stabilizes and then moves forward. My reasons are as follows:-

1. The end of the 1st quarter is generally quite volatile as margin and trading accounts are settled at the end of March. The "carry trade" and leverage positions in YEN must be settled and as we have seen recently, this sometimes require selling the good/quality positions, if the poor haven't made the targets.
2. Human nature being what it is, positive/Bull markets are relatively fast reacting, whereas negative/bear markets take time, often a few months to consolidate. Professionals will buy daily or weekly dips and sell the short rally. Traders can make money in all market conditions and are happy to make 1% daily... even weekly, can achieve a 50% gain per year.

Within these market conditions it is quite usual to see initial futures (Before markets open) rally, however it is what happens in late day trading (last hour) which gives us a more accurate understanding of real underlying sentiment.

3. Even although some valuations could be considered relatively inexpensive, in historical terms,



sentiment is that a correction down would be generally a good thing for the markets. This is a self perpetuating prophecy and more often than not, they tend to become fact.

4. I still believe that the FED is more likely to hold or raise rates, rather than reduce them in the short/medium term. Inflationary pressures will be seen to be increasing, any bad news from any source, IE Hurricane, Sub prime lending, volatility, geopolitical events etc., will add to negative sentiment and as stated above it take a longer time period to eradicate the negative. Mr Greenspan, the last FED Chairman has been quoted as believing that there is a 33% chance of a recession. NOTE: A recession is defined when two consecutive quarters experience negative growth. This is very unlikely and would need a combination of events to occur. The US economy will slow and indeed may have a bumpier road to travel than some expect, however cool heads would anticipate a slowing and reduced growth, perhaps 1-2% not an actual minus percentage result.

Quite a few of my Portfolio clients are quite experienced investors, The others, which are the large majority are pretty evenly divided, between those, wishing to understand how markets works and be involved in the Portfolio development and those who basically leave the decisions to me.

This being the case let me give a simple overview which merely deals with commonsense, which services all types and let me give you an overview of how my own portfolio will be constructed.

APPROXIMATE Percentages.

Value/High dividend/global (USA and Developed countries Large Caps)... USD, Euro etc 20%
Japan Large/mid Caps YEN.... 15%
Emerging Europe EURO.... 8%
Australia Large Cap....AUD 7%
Oil Equipment and maintenance....USD 10%
Emerging Markets ex Japan USD 13%
Commodities 12%...USD
USA Housing. 10%*

CASH. 5%

NOTE* I expect this sector to fall and will wait until I believe the bottom has been reached before entering and then probably on two to three buying opportunities.

RISK VOLATIVITY RATIOS.

◇.... LOW FLUCTUATION 27%.... \$44,000USD
◇.... MEDIUM FLUCTUATION 34%.... \$54,000USD
◇.... MEDIUM HIGH 35%.... \$56,000USD
CASH.. \$ 6,000USD

Firstly let me reiterate my philosophy as to buying opportunities. I SHALL NOT buy any position on one single purchase. I shall purchase wherever possible over three buying periods or two in lower investment amount areas, unless I believe a bottom has been reached. When my final position holdings will only be between \$8000-\$10,000USD then I shall patiently wait until I believe the time is propitious to buy.

GENERAL POINTS.

I believe that the general trend will continue to be reasonably volatile going forward, certainly until the end of May into June 07. Equally as I have mentioned before, I shall spread my buying orders over a number of purchases, as especially within these times, I wish to ensure that I can enter the market when I think appropriate and cover any real downswing should it occur. Remember it is virtually impossible to 100% accurately define the "bottom" and positive sentiment is often followed with a rapid movement, whereas negative sentiment is generally much slower in its decline. I have created the following table to demonstrate the practical realities whether the market is positive or negative and their impact regarding my investment positions.

Unit Value	Share \$10USD	Share \$9USD	Share 8USD
Units Bought	800	888	1000
Invest Value	\$8000	\$15192	\$21504
Avg. Unit Cost		\$9.47USD	\$8.92USD

Unit Value	Share \$10USD	Share \$11USD	Share \$12USD
Unit Bought	800	727	666
Invest Value	8000	16797	26316
Avg Unit Cost		10.47USD	10.94USD

If I could select the day of the bottom or the exact day of the rally then of course that would be perfect. What the tables above indicate is that in investment purchased assuming either a 20% fall or increase over my purchasing period my average buying within the negative scenario (Which is somewhat excessive) means that over a mid to long term period IE 2-3 years, my selection gains 20% on its original first investment value IE reaches \$12USD then my 2688 units would achieve a \$32256USD valuation. Therefore reaching a 34.4% total gain.

The positive scenario is once again excessive, as I would look to buy on dips, but even here I experience a near 10% gain, which is a reasonable reward for being cautious. Actually history and experience tells me that I shall have a number of dips. Therefore a more realistic assessment would be a 13-14% gain.

Unit Value	Share \$10USD	Share \$9.50USD	Share 9USD
Units Bought	800	842	888
Invest Value	\$8000	\$15600	\$22770
Avg. Unit Cost		\$9.47USD	\$9.48USD

Unit Value	Share \$10USD	Share \$10.50USD	Share \$11USD
Unit Bought	800	762	727
Invest Value	8000	\$16410	\$25179
Avg Unit Cost		10.47USD	\$10.48USD

This more realistic analysis would enable me to achieve \$30,360 if my investment reaches \$12USD in value IE a respectable 26.5% growth or 14.46% if my cautious play was penalized. However if it was penalized, then it would be on a much shorter period (IE maximum of 18 months) and as such I have an acceptable return.

It is also important to understand that this cautious approach is within times of uncertainty and volatility therefore I wish to be in Large Cap/US and international companies which pay dividends as they are assumed to be the place where those looking for stability eventually seek a safer location and tend to bring their money when times are difficult. Therefore in all of the above sectors and areas I shall be looking for quality companies.

Equally it is important to note that Global, area, type and sector indexes can often have quite a spread of foreign companies, Therefore I can achieve my desired geographic, sector and type spread by using a diverse yet relatively few investment vehicles, which can minimize risk and offer depth of protection, should one or two of my overall selections, be more sluggish than others.

SELECTION OVERVIEW.

I am always conditioned by two important factors regarding my investment strategies. Firstly I have a responsibility to service my clients within their risk parameters, who generally fall within two definitive sectors...Conservative and slightly aggressive. In addition performances over the past three or four years have been quite robust and consistent and as such client expectations are generally quite high. Equally within this time frame I too have a new portfolio to create and service to meet my specific needs. I have been waiting for the new Vanguard World ETF which was finally launched a few days ago...Its ticker is **VEU**.

When, as at present, most developed economies are expected to see reduced growth levels going forward, it is important that investors reduce their expense base. Even although Portfolio clients normally enjoy a discount on managed Funds initial cost, from 5% to around 2.5%, the initial costs and indeed the Funds ongoing average annual management fees of 1.5% naturally affect net growth performances of an investors overall portfolio valuation. For this reason I suggest using ETF's which have up to 0.5% set up costs and a similar annual fee applied by the ETF managers. This can make a considerable difference over the years.

Therefore, I present below two general Portfolio possibilities. They both have a longer view, the first more conservative, the second more geared to risk rewards. The latter while balanced never the less will more likely experience volatility from time to time. Notwithstanding that, over a three to five year period I would expect that I, through my new Portfolio and my clients will be pleased when we look back in 2012 that we were there.

I am keeping the initial format very simple, however I expect from time to time to move some of my investments into specific new investments when I perceive those specific opportunities are compelling.

I believe that the following will become the core holdings of my Portfolio and would be useful for all my clients. It is the percentage allocated which determines the risk attitude of the investment.

Vanguard FTSE World ex USA ETF. **VEU**
Vanguard Growth **VUG**
SPDR S&P Oil and Gas Equipment & Services ETF **XES**
Ishare FTSEurofirst 100 **IE0030974079**
Nikko Exchange Traded Index 225 **JP3027660004**
iShares U.S. Dow Jones Home Construction **ITB***

Please note that Emerging Markets, Australia, Eastern European, commodities ETF's etc. will also play a role going forward. However during the next few weeks markets will rally and fall and some of the above are more likely to come closer to my entry level valuation for buying than other areas of interest.

I inserted iShares U.S. Dow Jones Home Construction **ITB** within the selection as at this moment it is for me a certainty to grow over the next few years and I shall be happy to look back and see it in my Portfolio then. There is a possibility that the Sub Prime loan debacle fallout could accelerate within the next few weeks and further lower my entry costs. Basically the companies within this index are quality entities and next year should recover a lot of their lost values.

Best Regards

Alan Lamb