PORTFOLIO INTERIM SUMMARY 29/30th January 2008

It was my intention to wait until early February before raising this report. The FED meeting would have been over and some critical information comes available next week which is of some importance. In addition I had just finished my Annual report and review and felt that a little time would be needed for you to assimilate the information and data it contained, before addressing your specific capital programmes. However a week not only is a long time in politics, but in the Financial markets it can be a lifetime and as such I felt that I had better reassure you that I was not off sailing somewhere totally oblivious to the machinations of the investment world.

Firstly let me state that two week ago as the markets were falling I make the second buy of some of the investment positions we began last year. I had no idea of course what was about to unfold last Monday, but a sufficient dip in value had occurred to justify the buy. (I shall address later).

Even from the point of view of hindsight a clear view of what transpired last week is difficult to accurately assess. The FED informed the world that they had an emergency meeting and decided to slash the FED Rate by 0.75%. The markets tumbled. We now know that Societe Generale had a rogue trader and that in an endeavour to close the losing position he had created, they sold many $billionUSD worth of stocks and investments throughout the world. At the time the specifics were not totally available to us (It was Wednesday before the full picture was revealed). The initial news was that a French bank was in trouble and it was a little time before the $BillionsUSD, being sold in a dropping market was connected to Soc. Gen. and then the nervous investors followed. (We shall return to the topic).

Markets are extremely complicated individual entities. In our modern global world these markets are made even more complicated by modern communication and a virtual 24 hour trading platform. However, in the main, they are extremely good at pricing risk and value. Within my 2007/8 Annual review, which you will all have received last Monday, I summarised my thoughts regarding the year ahead. I stated that the first half would be very volatile with a strengthening in the latter quarters. This view was predicated on certain fundamentals.

The FED emergency cut and the sell off across the markets has, as previously stated, muddied the waters and probably will have extended the volatility period further out in the year. Volatility will cease when…

1. Markets have correctly priced the depth of the US slowdown/ recession and its impact on national and global earnings/growth.
2. Markets have priced the market to market value of outstanding sub prime, CDO's and other investment backed vehicles which banks still hold.
3. A sufficient volume of liquidity is available whereby markets can trade and loans can be made within normal lending parameters.

Of the above, number three I believe will cause the greatest difficulties to world markets going forward (6 to 12 months) and offer us the most opportunities. Here I must become a little technical and I don't have metaphor to help in its explanation. However, if you can understand the points being made, then your anxiety level should diminish and your confidence in our overall strategy should increase. If not then please arrange for meeting, either face to face or telephone and I shall explain in detail.

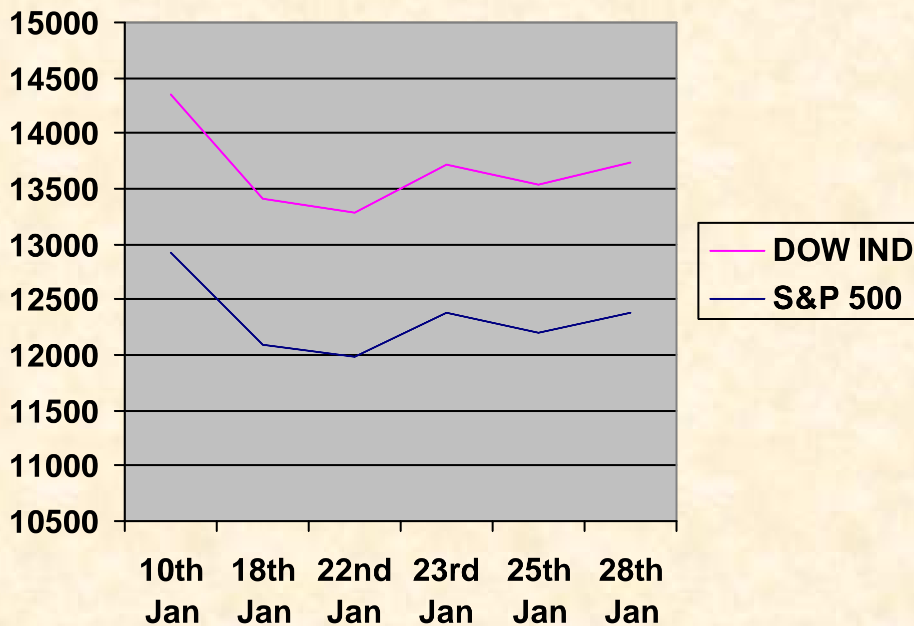
The first technical point is…..read the quarterly and Annual reviews and past Portfolio Interim Reports. I know that many of you do and equally I know that many of you don't. In these times, the latter; hamper the help I can give because I receive emotional reactions and it is obvious that these individuals are surprised when the market corrected. Whereas those that regularly read the reviews, are at least emotionally cushioned. This past year and more we have been writing about the problems, accurately assessing the markets, warning that a correction and volatility was imminent and that through this period we would make - multi purchases on dips- to strategically position your portfolios.

Do read the last eighteen months of reviews and all last years Portfolio interim report. They can be found in our library section in our website. www.angloig.com. With this information the following should be easy to understand and appreciate.

The remaining technical data regarding number three and its importance is that no matter how much money central banks provide to any system, or government's instigate stimulus packages, if the lenders cannot or will not lend then the problem isn't fixed. Hidden in Citigroup's fourth quarter report was the following statement…

"***In addition, the company is continuing to reduce its Consumer-based holdings of mortgage-backed securities, and other assets held in its Securities and Banking business".***

Overall, in the fourth quarter, the company reduced its GAAP assets by approximately $176 billion, representing approximately 7.4% of its balance sheet.
Citi and other major banks are de-leveraging. Banks are the biggest creators of liquidity. Simply put as banks reduce their balance sheets, liquidity goes down. There are those who believe that liquidity will be created because the Fed is cutting rates…they misunderstand who creates liquidity. It is not the Fed - it is the banks. The asset backed commercial paper market has shrunk from $1.2 trillion in August 07 to between $800 billion or $600 Billion USD or less now…. Depending on the despondency of the observer which is de-leveraging and shrinking the available pool of liquidity… or at least the liquidity being put to use… is between, 60% to 50% compared to six months ago.
Markets and traders need liquidity, without it, rallies cannot be sustained, buying positions falter. Indeed we see some evidence in the past week and I have no doubt we shall see much more in the next six months. When developed markets are in corrections mode… IE falling, they tend to rally quickly; if believed to be over sold. If you will, they test the market creating a small (V), rebounding and hovering around 50% of the day's losses then they either rise or fall depending on sentiment. If we look at the "Movement Chart" of the Dow and the S&P500 below we see across the eighteen days period a similar shape. During the next six months of volatility, we are likely to see this shape many times. Whether we are looking at a day, week or even a month, should a "Short V" rally occur, we can expect it to form this shape.



The chart only shows the daily closing prices and as such does not reflect the volatility within the day. However if we were to select either the 23rd or 24th January we find that the Dow opened and then within two hours had fallen 250. By lunch it had regained 50% of the losses IE 125 loss and it hovered at that level testing whether sufficient interest existed to either push it up or whether it would slowly fall. At the end of the trading day it had fallen back.

There are many technical reasons why markets are tested in this way. However as we look forward into 2008 it is sufficient that you accept that this model format will be experienced… Maybe even many times. If I may give an example; tomorrow the FED is likely/expected to cut rates by a further fifty basis points. The markets expect it and more than 0.5% would spook the markets, whereby many would wonder what problem the FED knows, to make a 1.5% cut in one week necessary whereby 0.25% would disappoint. If we add the bi-partisan initiatives which unusually, seem to be quickly implemented, then the general view will be positive for markets and they will rise.

If you look at tomorrows trading after the anticipated announcement of 0.5% I expect you will see the rise of valuation. This positive sentiment will last a period of time. It could be hours, days or weeks, but within one of the stated periods it will begin to fall.

Indeed if instead of market values you merely look at the "daily volume trading totals" going forward, you will see the same profile being repeated. Over a certain term/ time period the market will reach a certain point and the trading volume will fall away. Then over a period of between three to five days it will lose steam and in a slow attractive curve will fall back and test a low. It will then rally to fifty percent of that period's loss or if bad news occurs fall further to a low intra-day level and whatever bottom it reaches on that low, it will rally to the 50% point and the process will begin again.

If a technical recession occurs, then we may experience many of these periods. Sometimes lasting a day, a week a month depending on prevailing, news and conditions. However if you watch the trading amount slowing, then you can be assured that a downward curve will occur. It is possible that the Dow will test 11200 occasionally, maybe even a little bit lower, if further bad news becomes available, although I expect lows to general test and bottom around 11800. As investors begin to realize that we shall be experiencing a slowing but positive growth going forward and a few quarters have passed, then we shall begin to form the next platform for the next "Bull Market". Technically we shall be entering a "Bear Market" period.

The extent of the "bear" market will be predicated on those areas of problems which are the underlying causes of the present difficulties. Additionally, we are likely to see the mortgage insurer companies become the next "shoe to drop" in the financial saga. Coupled to this, as stated before is the fundamental fact that no amount of stimulus packages or FED rate reductions will fix the underlying problem that banks do not have the money to lend and even if they do, there is a disinvestment incentive to lend in so far as they will gain more on the overnight bank rate than they can through lending long through mortgages.

The point is; that even although some short term exuberance may enter the marketplace, there exist a sufficient number of downside problems to keep the markets nervous for some time to come.

This being anticipated, we began two strategies last year. One was to position ourselves whereby within a "Bear market" we were best place to be within the sectors which generally outperform. Consumer staples in near/recession period traditionally out perform 3-6-9 months and one year statistically. Large Cap with international exposure, Health sector, Top industrial companies, Infrastructure, Oil servicing companies are considered as generally relatively stable options of diversity and less vulnerable to volatility.

Long position investments (Bought over time and multiple dips) become more readily available during volatile periods. Last year I suggested that a number of countries were interesting… if the price was right such as Taiwan, Singapore, South Korea, Switzerland, France , Sweden. The Pacific Rim countries have fallen in recent weeks by an average of 25% some nearer 40%. Japan holds a medium to long opportunity via Yen investments.

Some very interesting times are before us. Nearly all of you also hold capital accumulation programmes such as "Vision" and others. Use this period to add an extra single payment of a few thousand USD when you can…spread across your complete holdings and reduce your "Average unit costs" In years to come you will be glad you did.

For those of you with cash in your Portfolios, then you will have the opportunity to buy on the inevitable dips. Those of you, who have a sufficient sized Portfolio to buy their position over two or three tranches and whom I added US Homebuilders and Regional banks will see (If you access your Portfolio's online) that both are in positive territory. Your average unit cost is such that today you are showing a profit. Those of smaller Portfolios must wait for further improvement. However all of you are likely to see reversals as we pass through the first half of the year…. Ignore them.

If you are aware of the prevailing, positive or negative sentiments of the marketplace, then the formula as shown above regarding market testing matrixes should enable you to understand the underlying manoeuvres. In addition there are sophisticated, computer trading programmes/models, which initiate buy and sell orders without any human input. They are programmed to buy when values drop to certain levels, which tends to support a minimum commonsense level to values. Therefore unless some exceptional news/event occurs, should give some level of comfort to any subconscious negative fears which may lurk in some dark recess of your psyche.

Today's rate decrease by the FED will soon be forgotten and a greater reduction demanded by one side of the markets. The other side will begin to bring the fear of inflation into markets assessment. The FED acknowledges that their rate cuts are an attempt to cure the short term worries of a slowing economy and they freely admit that they shall view inflation as a problem to address later. Various news items and events will unfold in the months ahead adding to the mix of uncertainty, sending the markets higher and then plunging. If you recognize these facts and understand the testing principles and if your Portfolio has sufficient cash to buy on dips then an opportunity exists to substantially increase your growth potential, while keeping your stress levels within healthy parameters.

I shall raise my next Portfolio interim report when sufficient time has passed to identify likely prospective opportunities.

Regards

Alan Lamb
Managing Director