



The past few days have been bad days for the value of company shares around the world, with the FTSE 100 index of leading UK company shares yesterday closing 178.04 points lower at 5,068.95 – a fall of 9.24% since the markets opened last Thursday 4th August.

The Eurozone debt crisis and fears of a double-dip recession in the US are driving investor sentiment. Investors are worried that Italy and Spain will be the next European economies to default, with the viability of a bailout for these much larger economies more challenging than it was for Greece.

What matters now to investors?

The first thing to remember when stock markets are falling sharply is that most investors - certainly the vast majority of Pembroke clients - do not have portfolios invested **wholly** in UK or global stockmarkets. An essential part of our investment philosophy reflects how *diversification* using mainstream asset classes like this can reduce risk without destroying returns.

Most investment portfolios are invested in a mix of cash, fixed interest securities, equities and property. Modern Portfolio Theory explains how blending together different asset classes can result in risk reduction for investors.

This means that dramatic falls in stock market levels are rarely replicated in the fall in the value of diversified investment portfolios.

They are still likely to be travelling in a downwards direction, but to nowhere near the same extent.

As a perfect example of this, the FTSE 100 index has fallen by 15.05% over the period 8th July to 8th August 2011.

Many of you will know that in October 2009 we launched a Wealth Management proposition (we call it our Wrap). We believe that Wrap is the future of Wealth Management and provides the investment engine for our financial planning process. Our investment philosophy is centred on producing above benchmark returns with lower volatility from risk rated portfolios based on sensible, conservative allocations of the main asset classes (cash, fixed interest, property and equities).

Over that self-same period the Pembroke 'Balanced' portfolio has fallen by only 8.68% and the 'Moderately Cautious' portfolio by 6.96% - this is because the 'diversifiers' in the portfolio of Fixed Interest, Cash and Commercial Property have largely held their value whilst the equity content fell.

Clearly we would also reaffirm that investment is an activity for the long-term. What we have witnessed these last few days amounts to very short-term activity. Most investors are aiming to fulfil their financial objectives in five, ten or twenty years' time (or even longer than this); hence the short-term volatility experienced by global stock markets has very little impact on long-term results.



When investment markets are behaving irrationally, as they are currently, it is worth remembering the wise words spoken by investment guru Warren Buffett. When referring to the wisdom (or more accurately lack of wisdom) associated with trying to 'time' investment markets, Buffett said:

"Investors should remember that excitement and expenses are their enemies. And if they insist on trying to time their participation in equities, they should try to be fearful when others are greedy and greedy when others are fearful."

The decision to be 'greedy' when markets have fallen sharply must always relate to financial goals, capacity for loss and attitude towards investment risk.

If over the next few days you are in any way worried about how investment markets are behaving or the impact of these events on your own portfolio, please do pick up the phone to your Independent Financial Adviser.

When the global financial crisis hit stock markets in 2008, one of the things that differentiated us from many of our peers was our willingness to continue reviewing portfolios, meeting with our clients and answering the sometimes difficult questions.

At this time, it is impossible to say whether the events of the past few days will turn out to be anywhere near as bad as the global financial crisis of the late 2000's. If it is or if it isn't, our approach will remain the same. We will remain accessible, willing to answer questions and provide reassurance when it is needed.

Pembroke Financial Services Ltd

5 The Drive

Hove

East Sussex

BN3 3JE

Telephone 01273 774855

Fax 01273 737848

Email advice@pembrokefinancial.co.uk

www.pembrokefinancial.co.uk