

Newsletter

THE
HARVARD
GROUP



What's Been Happening?

2008 was a year in which we saw historic changes to markets and economies globally. We entered 2008 in a very cautious frame of mind and continued to become more cautious though out the remainder of the year.

2008 saw the FTSE 100 fall by 31.3% and the FTSE Allshare, the broad index of UK companies fell 32.8%. There may be a rising number of firms going into administration, as will the number of people out of work, however, for the equity and corporate bond investor, which are two asset classes that you are invested in within your portfolio, a great deal of pain has already been felt. There are now some signs that 2009 may prove to provide relative stability, though we are not expecting a fast recovery.

A Little Optimism

There are many reasons to look to the future with optimism. The survivors from the banking crisis are much stronger now than before and will eventually generate excess capital. The weaker Companies have folded or been acquired, meaning the worlds financial system is inherently much more stable than has been the case for many years.

The ideal environment for corporate bonds is one where economic growth is stable and interest rates and inflation are falling. This is clearly not currently the case with many economies having already slipped into recession. The outlook for bonds however has improved dramatically over the course of recent months. There is an outlook where inflation is expected to fall dramatically paving the way for large interest rate cuts, as we have seen throughout the last quarter and interest rates now sitting at a historical low at 1.5%. This will result in the interest payments on the bond will become more attractive an hence their value tends to rise. A fall in inflation improves the real return of that bond, again increasing it attraction and value.

We are hoping for a period of stability, upon which a we feel that a slow recovery will develop.

Moving Forward

One of the areas of investment, we feel may prove to be one of the big stories over the medium to long term is the Renewable energy industry.

Renewable energy can be particularly suitable for developing counties. In rural and remote areas transmission and distribution of energy generated from fossil fuels can be difficult and expensive producing renewable energy locally can offer a viable alternative.

With oil reaching record high prices and natural gas doubling the last two years to summer 2008, the rationale for alternative energy increased not just on environmental merits, but on price. The soaring cost of fossil fuels has been changing the economics of the energy market. Despite that fact that oil prices have dropped below \$50 per barrel, from \$147 last July, and therefore the rationale for investors to pump cash into alternative fuels has been removed, at least temporarily, investors should still see long-term opportunities to make money in renewable energy; governments in Europe and in the US are both working to reduce their dependence on foreign oil and greenhouse gas emissions.

The US financial rescue package for example included a provision to extend general tax breaks for wind energy by on year and solar by eight years. Likewise, in October last year the UK Government announced ambitious plans to reduce greenhouse gas emissions by 80% by 2050.

We now enter 2009 with a little optimism, however, we feel that for at least the next quarter, caution will be maintained.

North American Equities appear more favourable and we feel that within the Western economies, it will be the US that will begin to recover, with the UK and eventually Europe following.