TALK OF A 'DOUBLE DIP'

The idea that the economy and investment markets, having fallen sharply in 2008, may well do so again is termed "a double-dip" by investment commentators. The thinking is that further bad news about domestic and world economies, or the wearing off of our Government's policy of quantative easing (which can be crudely explained as 'printing money') will trigger another severe downturn.

Whilst we think that a double dip is a possibility, it is unclear whether or not this dip will be in the markets as well as the economy. You will no doubt have gathered from our past newsletters and conversations that we feel that speculation as to what economies and markets will do is really hard to get right, so we prefer not to do it. At times major "random" events (wars, 9/11, natural disasters etc,) can create shock waves to economies and shape how things work out. Indeed, even in 'normal' times expert predictions rarely work out.

This is of course why economists are in a job and why they often don't always agree with one another. It is sometimes said of their profession that 'if you laid out all of the economists in the world end to end they would never reach a conclusion'.

How to prepare

We prefer to take the view that 'economic uncertainty is certain' and to help our clients to plan accordingly. Here are four suggestions for how you can prepare which reflect our philosophy and advice:

1. Maintain sufficient short-term liquidity and savings – cash may be returning poor rates of interest at the moment but if you know that you have any major expenses coming up in the near future then it is important to have sufficient cash to cover this;

2. A core investment principle is the *diversification* of your investments. This is because we consider it impossible to consistently predict the way markets are going to move. You may like to think of it as blending whisky (or orange cordial if you are teetotal). Blending UK and overseas shares offers some diversity but is a bit like mixing two types of whisky in one glass. The potency is broadly the same as if you had just one type. On the other hand blending shares and fixed income securities is a bit like adding water to whisky in that it reduces the potency (or waters down the cordial). A well balanced portfolio will have some risk assets (UK and Overseas shares and commercial property) plus some low risk assets (bonds and cash) to reduce the risk and should be regularly rebalanced to ensure that the desired risk profile is maintained;

3. Take a long-term view – Where many investors lose out is because they buy and sell assets rather than buying and holding them. Historically the stock market has grown in value in 2 out of 3 years and over the long term it has outperformed cash savings, which tend to be eroded by inflation.

4. Increase the efficiency of your savings and investments – by seeking lower cost alternatives and using tax allowances, tax efficient investments and tax relief where available.

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