Business news from COCKBURN LUCAS INDEPENDENT FINANCIAL CONSULTING LIMITED
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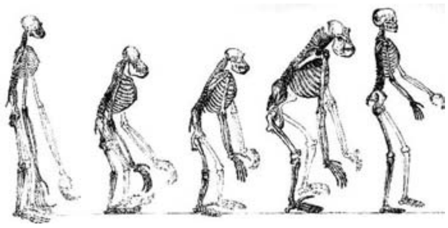
The Origin of the Species



Like many of us, you may have found this New Year a rather odd experience with conflicting emotions of both relief in seeing out from an investment perspective a truly annus horribilis and also uncertainty as to where the financial crisis and impending recession now takes us. Alternatively you may have responded with a live for the moment attitude having experienced other difficult periods of history and coming to the realisation that there is little we can do to instantly change the circumstances we are faced with apart from to adapt in order to survive the new financial environment.

Indeed, supporters of Darwin and all things evolutionary will be more than aware that those who do not adapt will eventually become extinct. Given the savage backdrop of hefty interest rate cuts to the lowest in over 300 years coupled together with the increasing risk of deflation, which can be defined as a sustained drop in prices pause for thought is recommended.

So what is deflation and why is it feared so much? Well to answer this point fully one would need to look back to the great depression or in recent times Japan's so called "lost decade". The word deflation has become synonymous with the word depression in economic terms. As mentioned earlier the mechanics of deflation end with the psychology of falling prices taking hold which then becomes a self feeding downward spiral which can be hard to stop.

Is deflation always bad news? Well let's face it horror stories sell newspapers. There are some that believe deflation is in fact a very important part of the self healing process as asset prices start to head towards more realistic and sustainable levels and normality returns. Just as bubbles inflate and then eventually burst they need to deflate in order to normalise the situation for the longer term. So why don't we just let it run its course? Well we think the answer is simple, those near term costs in the form of unemployment and bankruptcies make it impossible to bear politically. Nobody, including politicians and central bankers want to be accused of standing idly by whilst the economy and its voters undergo a very painful readjustment no matter how healthy that correction might be in the long term.

So, how do we position our portfolios and investments for 2009 and beyond? If you believe that defence is the best form of attack then investing into larger capitalised companies in a range of defensive stocks and other assets such as Gold, Government Securities and Corporate Bonds will, we believe provide investors with steady if not spectacular returns and certainly deliver an outperformance of cash which given the current base rate of 1.5% should not be hard to achieve. Additionally, as global yields on equities now pay over 4.5% the pricing of these assets are extremely attractive for those investors willing to accept price volatility in return for growing income in the years to come.
In this edition of Market Eye we will look at a variety of current investment themes and subjects which we hope you will find to be of interest. On a personal note, I would like to offer my sincere best wishes to David Shelton who will be moving onto pastures new. We all wish David much continued success for the future and also wish all our readers a happy and healthy 2009.

Welcome to Megan and Tim who will be joining the team, providing client assistance.

Congratulations to David Ryan and his partner Lizzy on the birth of their baby daughter born on 2-2-09 lots of happy days together.

The Editor

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Ruffer - Delivering positive returns in all financial weather

Steve Russell Fund Manager

At Ruffer our approach to investment aims to avoid losses in a twelve month period, and to produce a return net of fees above that which could be obtained from cash. It is this mandate that the CF Ruffer Total Return Fund seeks to fulfil and are pleased to advise have achieved despite the extremely challenging conditions of 2008

During December the fund rose by 11.9%.This compared with a gain of 3.7% in the FTSE All share share index and a rise of 5.2% in the FTSE All stocks index (both figures total returns in sterling).Overall in 2008 the fund delivered a 20.8% gain for the year ,against a decline of 29.9% in the FTSE All share index and a rise of 12.8% in the FT all stocks index.

The fund invests into most asset classes such as, equities, bonds, cash, commodities and currencies; the proviso is that they must be liquid and easily realisable. What we are trying to do is to avoid excessive drawdown's and volatility, and produce steady returns, capturing the magic of compound interest which Einstein called the 8th wonder of the world.

Such an approach often leads us to be early in making strategic shifts in our portfolios. By the middle of 2006 we were already extremely concerned amongst other things about the leverage mania, the private equity and hedge fund bonanza, and a number of other highly geared products and asset classes.. We thus missed out on the final throes of the bull market into 2007. However as we went through 2007 we saw more and more evidence supporting our view; the entry of "sub prime" into the risks as well as the investment lexicon, the evaporation of Bear Stearns hedge funds in July, and the money market spasms from August onwards, in real terms our patience paid off as our competitors were caught out in the events that have unfolded.

So much for the background and brief history; how have we navigated 2008 what might the future hold? We entered 2008 with a portfolio of around 35% equities, and 25% UK medium term gilts, amongst other things. Critically our portfolio shape was around two-thirds out of sterling. We had felt for a while that sterling was extremely vulnerable, and indeed this view has been key to the performance achieved this year. The great thing about currencies is that for one currency depreciating, there is always one appreciating; in other words if one is right, there is always a chance of making money. The other great thing about currency markets is that they stay open; they are the Windmill Theatre asset class. What we have seen this year is that in dislocations liquidity in other asset classes has a nasty habit of drying up; also that when asset prices have been inflated by gearing, they tend to fall together. For many asset classes this year the only thing that has been rising is correlation and volatility.

Another performance boost came from the fact that as equity markets collapsed in October we added to our positions. Most notably we did this in Japan, which remains our most favoured equity market, with a clutch of financial stocks. Equities, including gold equities, were 45% of the portfolio at the end of November, with a further 5% in credit-related equities at that time.

As we look to 2009 we feel that the themes of currency compromise and worries about incipient inflation will be key features; our move to increase Index-Linked securities might, in the best Ruffer traditions, be early, but we fully expect it to pay off handsomely in the months to come providing steady as opposed to spectacular returns from assets which are easy to explain and even easier to realise!.

For more information on how the Ruffer approach may be of a benefit to you contact us here at the Nottingham Office.

Investing for Income

The quest for sustainable income has never been more important. Following a global credit crunch and the melt down of some banks, inflation has receded very quickly enabling world interest rates to tumble to levels unseen for 300 years. Returns on many deposit accounts are close to zero.

Failing banks, gyrating stock markets and tumbling interest rates: at first glance it could be the 1930s all over again. Yet there is a real focus by world leaders this time around whilst central bankers are going the extra mile to avoid prolonged recession with a range of conventional and unconventional economic weapons being deployed.

Many financial advisers are switching investments into UK Equity Income Funds. As Sterling weakens still further under the burden of the latest twist to the banking crisis we wonder how sage this move is? Further, we are concerned about the concentration risk of dividends in UK. A significant percentage of overall dividend payments arise from just 2 sectors – Financials and House Builders. Both of these sectors are under considerable stress presently, especially in UK! We prefer a diversified global approach where already strong businesses with low gearing, solid dividend cover and positive cash flow can be found. The strong will get stronger in this environment.

Prices going up is a phenomenon we're far more used to. Therefore the ability for investors to receive a rising income will be an extremely appealing feature.

The Sarasin International Equity Income Fund delivers a gross income of 5% per annum paid quarterly, which is significantly ahead of cash and Gilts.

Sarasin International Equity Income Fund invests in a portfolio of high quality global equities with robust balance sheets, each one demonstrating the ability to withstand the present economic environment. As already stated, we believe the strong will get stronger in this market – International Equity Income Fund hunts for these investment opportunities across the world.

Sarasin International Equity Income Fund is designed for investors with a balanced attitude to risk who require a competitive starting income, a growing income stream coupled with good prospects for capital growth, all over the medium term.

	MSCI UK Yield Stocks	MSCI World (ex-UK) Yield Stocks	IEI
S&P Credit Rating	A-	A-	A+
Dividend Cover, x	2.05	2.85	2.38
Profit Margin, %	7.68	16.11	13.59
Debt/Equity, %	245	230	131
P/E	11.97	12.29	9.92
Free Cash Flow Yield, %	4.21	3.33	4.80

"Yield Stocks" are those which have a dividend yield of 3% or over.

Source: MSCI, Bloomberg, Sarasin & Partners LLP January 2009

With Diversification benefits over the UK due to its truly global allocation this fund should be considered in the current environment
And has been added to our approved list of funds for Cockburn Lucas clients. For more information of how this fund may be of benefit to your circumstances contact us here at the Nottingham Office.

Sarasin & Partners LLP is authorised and regulated by the Financial Services Authority

Cockburn Lucas Wealthmaster - An Update

We are pleased to announce that we are nearing commencement of the official launch of the Cockburn Lucas Wealthmaster Client Service.

In 2008, we initiated the research process with the aim of advancing and improving the service we deliver to you. The preliminary stage was to examine the latest technology available to determine which represented the 'best fit' and which could genuinely enhance what we already offer our clients. We did and do not wish to implement change for changes sake. From the start, our goal was not only to hone and polish our offering but to provide tangible benefits both now and in the future.

It quickly became apparent that the use of a dealing platform and the accompanying technology was the way forward and that the partner best suited to fulfil Cockburn Lucas's vision was, as we announced last year, Cofunds.

Since that announcement time has been spent merging the systems and processes of both companies. This has deliberately been a gradual process, transferring only a few clients at a time to ensure that any disruption was minimised and procedures were robust prior to the full launch. We are now at the start of the final stage of our journey. The initial processes have been completed and we are confident that the systems are now in place to manage the service offering that is Wealthmaster.

In February and March, we will mail out full details of the Cockburn Lucas Wealthmaster Service. It will explain the benefits to you and, assuming you are happy to adopt the new enhanced service, please return the registration forms, which when we receive back will allow us to enact the changes.

We would stress that the offering may not be suitable for every investment within your portfolio, and for a small minority may not be appropriate at all. However our belief is that by far the large majority of our clients will benefit and the improved levels of service, costs, reporting and research will influence positively on your investments, which will be reflected in your fund values as the recovery begins.

Your consultant will be available to answer any questions relating to Wealthmaster and provide full support.

Cockburn Lucas is extremely positive about the Wealthmaster service and believes it will be welcomed by all clients old and new.

A quick reminder!!!

The Benefits for all qualifying holdings	
• One single account for all investments no matter how many different fund managers.	• One source of income irrespective of differing company holdings.
• Real-time valuations through our website as often as you wish.	• A single consolidated tax voucher easing your tax reporting.
• Details single and consolidated portfolio analysis to enable you to understand where and how your funds are invested	• A single valuation statement as opposed to separate companies reporting individually.
• Low cost investment switching and portfolio rebalancing.	• Free re-registering of existing investment onto the platform.
• Tactical use of cash during uncertain market conditions	• Variable or fixed level of income depending on your needs

Finally, Wealthmaster is an evolving service. We expect to be introducing new benefits as time progresses but we firmly believe that we are now putting into place an offering comparable with the best our industry has to offer and we will continue to strive to give Cockburn Lucas clients the first class service they expect from us for many years to come.

Angus Shaw *Private Client Director*

Parry Leggett *Senior Investment Consultant*

COCKBURN LUCAS
WEALTH MASTER