



We are pleased to provide you with our latest Investment Market Review.

Post Election, the UK looks to be entering an age of austerity while concerns over the financial strength of some European countries continue to rock stock markets worldwide. In this environment pro-active management is essential and this has produced some robust performance from our models throughout the last quarter's instability.



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Sovereign debt concerns, political uncertainty and erratic markets, alongside some positive economic data and better-than-expected corporate results, have dominated the second quarter of 2010. While global debt concerns remain, some other external threats may be beginning to recede.

2009 / 2010	RPI (%)	CPI (%)	Unemployment (%)	GDP Growth (%)
January	3.7	3.5	7.8	
February	3.7	3	8	Q4 +0.4
March	4.4	3.4	7.8	
April	5.3	3.7	7.9	Q1 +0.3
May	5.1	3.4	7.8	
June	5	3.2	-	Q2 +1.2*

**Independent forecast data from HM Treasury Based on percentage change on previous year*

The newly-formed coalition government has delivered their emergency budget which took place six-weeks after they took office. This was dominated by the plans to increase VAT to 20% from January next year and to increase Capital Gains Tax for higher-rate taxpayers to 28% (there was no change in the annual exemption). This increase was actually a positive surprise as rates of 50% had been alluded to. Corporation tax was another notable issue, to be cut to 24% over the next 4 years. The total extent of the cuts and tightening remains to be seen, but commentators believe that increased unemployment is likely before improvements are seen. Overall, these measures look likely to slow down economic growth in the near term, however it is hoped that in later years the country will benefit from higher growth because these cuts were implemented swiftly.

The Bank of England decided to maintain interest rates at 0.5% for the 15th consecutive month and agreed that no further Quantitative Easing measures were required. Inflation figures also released in June were lower than expected at 3.4% and this trend is expected to continue over the next quarter toward the Bank of England's target of 2%. As such, we still expect that interest rates will remain on hold at least until late this year.

There were mixed economic growth figures in June as the US announced that its economy had grown by 3.2% in the first three months of this year, but the UK's figure for the same period disappointed at 0.3%. The Office for Budget Responsibility has estimated a more muted growth rate of 2.6% in 2011, significantly less than the Labour estimate of 3.25%. Gross Domestic Product (GDP) levels in some of the Emerging Markets were impressive; China posted an 11.9% increase on last year as it begins to initiate measures to slow growth. Recent data from the US has indicated that the economic growth also may be more difficult this year.

Unemployment figures provided some positive news; the UK unemployment claimant count (those claiming Jobseeker's Allowance) fell in June, by 20,800 to 1.46 million. The wider measure of unemployment (people 16+) showed that unemployment decreased by 34,000, the total now standing at 2.47 million. These figures at the very least show a temporary stabilisation in the UK labour market, but there are fears that this may be short-lived due to potentially significant public sector job cuts. Some commentators, including the Chartered Institute of Personnel and Development, predict that these could push unemployment back over 3 million (around 9.7%) by 2012.

Traditionally, the US Dollar is more attractive in an uncertain climate and this seems to have been in evidence at the expense of the Euro, which has suffered. Recently, Sterling has strengthened significantly against both the US Dollar and the Euro and there has been speculation that the Euro may continue to weaken, possibly to parity with the dollar.

The International Monetary Fund (IMF) and the European Union (EU) stepped in to attempt to pacify the markets that had responded to the news of large deficits in Europe with 720 billion in loan guarantees and credits. Over the last three months Greece, Portugal and Spain have all experienced damaging credit downgrades. Austerity measures have been introduced in all three of these nations, amongst others, including freezing public sector pensions, cutting bonuses and increasing VAT.

So, what does all this mean for your portfolio?

Fixed Interest

We believe that there is still good value in holding corporate bond funds as the yields on company debt remain attractive, especially from the financial sector. We prefer strategic bonds to more traditional bond funds as they can manoeuvre out of troubled spots more easily and effectively hedge out some specific market risks.

The issue of a potential UK Sovereign debt downgrade looks to have passed, but Government bonds (Gilts) still do not look attractive and we are therefore comfortable with the very low proportion held currently. We anticipate that an increase in the level of Index-Linked Gilts may be required towards the end of the year, or start of the next, as inflation bottoms out.

Equities

The markets in the US & UK have followed broadly similar patterns of volatility throughout this quarter. Both markets have responded to some reasonably strong economic and corporate data positively, as well as coping with external threats from events in Europe and the Gulf of Mexico, amongst others.

The European (excluding UK) sector fell over 15% from highs in March to lows in May due to the issues regarding sovereign debt in certain Eurozone states. We reduced our exposure to this area and moved the focus to larger, more internationally positioned European businesses that would be less affected by this downturn. We can especially see opportunities in Germany, where we believe equities are good value.

Major markets have been aided by companies announcing impressively positive results and organisations seem to be well capitalised, but serious issues remain for some. The problems facing BP have been severely damaging to the company and shareholders will no longer receive the anticipated dividend. Although many UK (and international) equity funds had large holdings in BP, our models are sufficiently well diversified that this was not a major drag on performance (we currently hold around half a percent in BP in our Balanced model).

As predicted, stock market volatility has been much higher than in normal circumstances over the last 3 months and movements are likely to remain swift in both directions in the short-term. Political decisions worldwide, especially relating to debt, may well spark some market corrections, which are normal during times of recovery, but are often fast and intense.

Despite the imminent prospects of higher unemployment & taxes, we still see good opportunities in the UK, especially from those companies that derive earnings from a diverse array of sources. As the prospect of sinking back into recession still hangs in the balance, we feel that our models should be able to weather the periods of uncertainty.

Property

The UK Commercial Property sector has seen continued steady growth this quarter. The leading property benchmark, the Investment Property Databank (IPD) index rose around 5% over the last three months. Office & Retail space outperformed Industrial property sectors over this period, which reflects how these industries are faring in the wider economy.

The average income from property funds is still around 5%, which is higher than yields from Gilts and Equities at the moment. As corporate cash-flows continue to improve, Commercial Property should benefit from further investment and increasing rates, longer term.

All of the UK property holdings that are currently utilised within our investment models managed to outperform their benchmark over the last quarter.

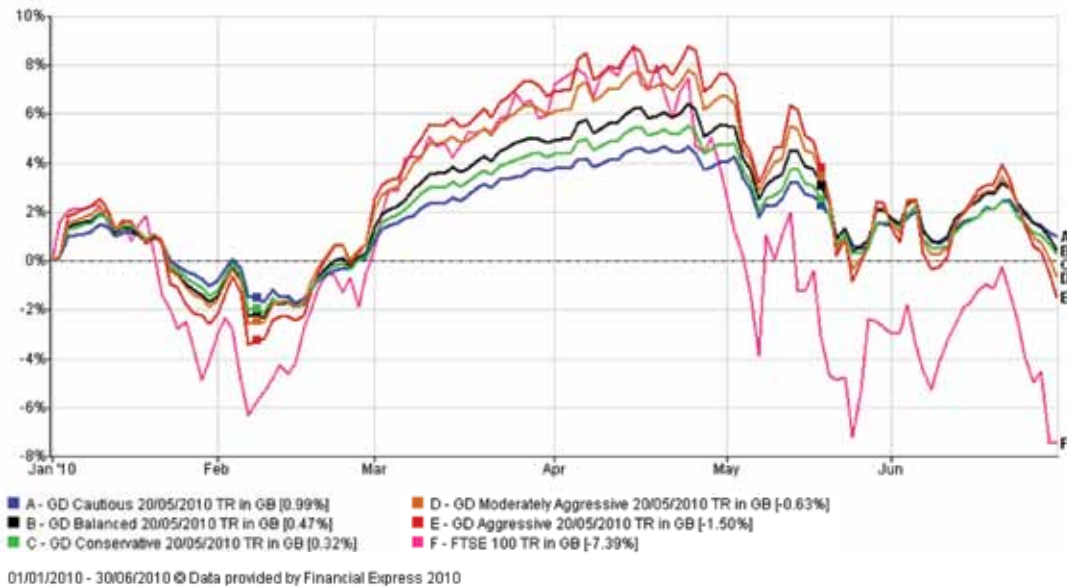
Commodities/Specialist

Gold has risen to record highs as investment demand has exceeded jewellery demand this year, for the first time in around 30 years. It is not certain what the prospects are for the precious metal as there are conflicting forces affecting the price. There is still limited supply and rising demand (especially from the emerging markets) as well as worries over global inflation and sovereign debt, which traditionally would boost the price. Conversely, the rising dollar and growing stock market confidence should push the price lower from a historically very high position.

The Oil price recently declined from longstanding highs as surprise increases in US unemployment figures and crude oil inventory concerns re-ignited worries about the strength of the economy recovery.

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Gibbs Denley Investment Models - Performance Year-to-Date



Conclusion

As the graph shows, the performance of our investment models has been robust and outperformed the FTSE 100 over the last three months. During an unusually volatile second quarter our more defensively positioned portfolio models have negotiated the erratic environment well.

As a result of the perceived increase in market sensitivity, we decided to bring forward the latest rebalance and this early action has helped to protect the models from the sharp falls experienced at the end of May. The result has been that our Balanced portfolio has experienced around half the volatility of the FTSE 100 index and our Conservative and Cautious even less. There will therefore not be a recommended rebalance at this point.

There are early signs of market stability as resolutions draw near in Europe and the Gulf of Mexico and the fears over Chinese policy-tightening do not seem to have been borne out so far. A solution to the European debt crisis may not be imminent but, as long as the risks can be contained, a meaningful improvement can start to occur. Whist we remain guarded against a potential

return to recession, the overall outlook continues to suggest hard fought but positive returns are achievable over the next year or two.

As ever, it remains very important that your portfolio continues to reflect your attitude to investment risk, your current circumstances and should be regularly reviewed. If you are taking income, then we would recommend further regular reviews as to the ability of your portfolio to sustain the required level of income to meet needs and requirements.

It is important to note that returns from investment funds are not guaranteed and the value of your capital and any income taken can fall as well as rise. Past performance should not be seen as a guide to future returns. The views expressed in this Market Review are based on our current understanding of market conditions.

**Gibbs Denley Investment Committee
July 2010**

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