

Markets and interest rates are in a state of flux. Our panel tell us how they will survive. By James Charles

INVESTORS and borrowers are struggling to navigate unprecedented uncertainty over the state of the economy after further evidence that the recovery has stalled.

The Markit/CIPS manufacturing index, a key indicator of the health of the sector, fell to 54.6 last month, from 56.7 in March. A number above 50 signals growth, but it remains considerably below the pace recorded in January when the index hit a record high of 61.7.

Figures from the Office for National Statistics showed that overall economic growth in the first quarter of the year was only 0.5%, or flat over the six months to March.

Last week, the Bank of England held interest rates at 0.5% as economists predicted the first rise would now be in November at the earliest. Only two months ago, they forecast that the rise could come this month.

Homeowners have been told that five-year fixed-rates could fall below 4% again in the next month as wholesale swap rates, which dictate the cost of fixes, have slumped 0.4% to 2.66% in the past month.

We asked a panel of experts how they are coping with this uncertainty.

THE MORTGAGE BROKERS



Simon Gammon, managing director, Knight Frank Finance

At the end of last year, Gammon, 37, took out a five-year fix at 3.99%, believing it to be the bottom of the fixed-rate market and expecting interest rates to rise this year. He had been paying 2.5% on the standard variable rate from C&G, part of Lloyds Banking Group.

"I'm paying a couple of hundred pounds more each month in repayments than I was, but I wanted the peace of mind when interest rates start rising later this year," he said.

The best-buy five-year deal is 4.39% with Yorkshire building society, but Gammon thinks rates could fall again and he would recommend borrowers take advantage if they drop below 4%.

"We can see mortgage lenders offering five-year fixed-rates below 4% next month, but these deals will not be around for long. Lenders are likely to be inundated, so borrowers should move quickly."

Gammon's goal is to clear the



PEACE OF MIND



Fixing for the future

JEFF OLIFFE, 58, a construction director for a large housebuilder, and his wife Lorraine Patricia, 54, a waitress, have just remortgaged on to a five-year, fixed-rate deal with Nationwide at a competitive 4.39%, with a £900 fee. They are taking a £147,000 loan with more than a 50% deposit.

The couple, from Newport Pagnell, Buckinghamshire, prefer a five-year fix because it gives them the security of knowing their mortgage payments will not rise. "We wanted peace of mind," Oliffe said.

They found the deal using a price comparison website and then went direct to the lender.

How the experts cope when times are tough

mortgage at the end of the five years by overpaying each month. His loan is about 15% of his property's value.

He also has four buy-to-let properties with tracker mortgages pegged between 2 and 3.5 points above Bank rate, so 2.5%-4%. "I'd like to find a good fix, but there are few options in the buy-to-let market at the moment. I am exposed if Bank rate starts to rise, so I have begun to save some of the monthly rental income as a hedge."

He is a cautious investor and holds the majority of his savings in cash. "There is too much uncertainty at the moment for me to consider investing more of my savings."



Paul Welch, managing director, largemortgageloans.com

Welch, 40, plans to take advantage of a glut of distressed properties on the market to pick up a holiday home on the Kent or Essex coast. He

aims to spend about £100,000 on a two-bedroom flat in a town such as Ramsgate or Margate, where repossessed properties are being sold by lenders for 10% less than equivalent owner-occupied properties.

He is likely to opt for a longer-term fixed rate. Welch already has a three-year fixed-rate deal from Halifax at 4.89% on a two-bedroom property in London's Docklands and a two-year tracker at 2.24 points above Bank rate, so 2.74%, from Santander on his main family home in Chafford Hundred, Essex.

"I have ensured I am protected from rising interest rates by fixing half my mortgage debt," he said.

THE FUND MANAGERS



Justin Urquhart Stewart, director, Seven Investment Management

Urquhart Stewart has been adapting his own portfolio in expectation of

lower economic growth in coming years, moving to lower-cost tracker funds and exchange-traded funds (ETFs), which are similar to trackers but can be traded like shares.

He has moved out of the Cazenove European fund, which is actively managed and has a 1% management charge, and into the Source Dow Jones Euro Stoxx 50 ETF, with a 0.15% annual charge. "Passive funds cut out extra costs, which may well be a key issue in an era of lower growth," said Urquhart Stewart, 56.

He is more cautious about commodities, fearing that the market may be overheating. "The sector has been fuelled by considerable global demand, speculation and stockpiling by certain countries."

He does, though, have a small holding in the Source Physical Gold ETF and some exposure to food and agriculture, such as through Sarasin Agrisar.

He has bought a two-bedroom flat in Chiswick, west London, that he

hopes to let from next month at a yield of 3.5% and believes there are good opportunities in the property market.



Tom Becket, chief investment officer, Psigma Investment Management

Becket, 32, is expecting a correction in the stock markets over the next couple of years and is holding cash to invest when further opportunities present themselves.

For example, he recently invested in the Neptune Japan Opportunities fund when prices dipped following the tsunami in March. He has also put some money into the Artemis Global Energy fund, which he thinks will perform well long-term.

He said: "In the past two years, global markets have been boosted by ultra-loose monetary policy and a move by companies to increase profits by restructuring their businesses and cut costs. There are

growing question marks over how long these trends can continue.

"The Japanese market is attractive because it is considerably undervalued, especially companies that export globally."

Becket is "particularly concerned" about inflation over the longer term, expecting it to reach 10% within five years. "The economic recovery in the UK could start to slow next year and the Bank of England will throw as much firepower as they have at boosting growth — likely to be in the form of more quantitative easing," he said. This would fuel a sharp rise in prices.

To protect against that risk, he is investing in floating-rate bonds through Neuberger Berman's investment trust, which launched two weeks ago. These offer payouts pegged to a money market interest rate. "Floating-rate notes are not well-known in the UK, but the market is growing," he said.

Becket's concerns about inflation

are reflected in his choice of mortgage. Last July, he and his wife bought a house near Sevenoaks, Kent, and they are locked into a five-year fix from the Post Office, paying 4.79%.

THE ACCOUNTANTS



George Bull, partner, Baker Tilly

Bull, 56, is cautiously optimistic about growth in the UK economy. Next month he plans to invest in tax-efficient enterprise investment schemes (EISs), which are designed to boost funding for small unlisted companies, after the government increased the tax relief from 20% to 30% in March's budget. "It is an important counterbalance to conventional pension planning," he said.

Bull is interested in the environmental sector but would avoid renewable energy. He may look at other EISs, such as Heartstone Inns 2, which is buying freehold pubs in southeast and southwest England.

He is also thinking of investing in law firms when new rules in the Legal Services Act allow them to list on the stock market from October. A number of firms, including Irwin Mitchell, one of Britain's 25 biggest, are considering such a move.

"It will be a very interesting asset class. There's a huge demand for a wider choice of better-value legal services," he said.



Mike Warburton, director, Grant Thornton

Warburton turns 64 next month but is in no mood to reduce the level of risk he is taking. "Last week, I had a letter from Scottish Widows saying I should move my pension savings into nice safe cash and I thought 'No thanks'," he said.

He is continuing to invest in emerging markets, Europe and the UK via the money purchase scheme provided by his employer.

"I'd rather be in global markets with interest rates this low," he said. "Only a very small amount is in cash."

He pays all his spare cash into his pension and transfers savings into his wife's name for tax reasons, who decides on their investments. "The pension is the most efficient way to save and I'm not up to my lifetime allowance yet. I'm working hard to fill up my pension fund."

The couple have begun to grow their own vegetables and started buying their weekly groceries from Sainsbury's rather than Waitrose after the former opened a new store close to their home. Warburton estimates he saves about £5 in diesel a week driving by to the closer store.

"I spend less at Sainsbury's, but I don't know whether that's because the prices are lower or whether it's because I'm more conscious of trying to spend less now," he said.