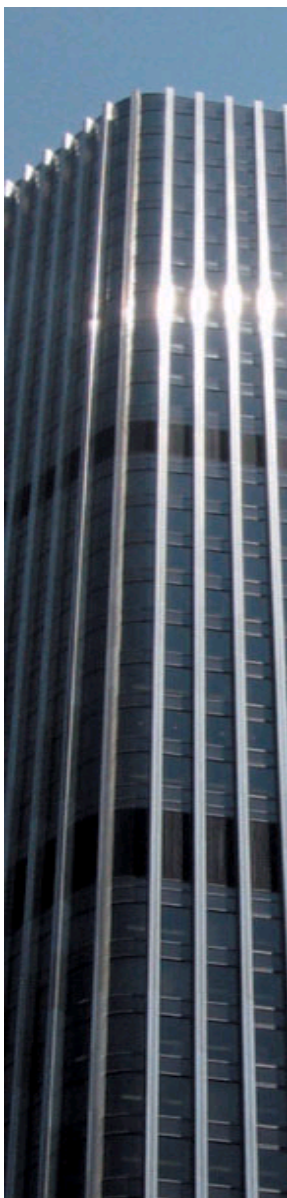


Investment Bulletin..



Welcome to the latest edition of Investment Bulletin, our update on developments in the world's stockmarkets.

We hope you find the contents of interest. If you have any questions, or would like to discuss any of the points raised, please give us a call.

Seeking an income stream

Securing a high, long-term income stream has become an investment Holy Grail. And, with interest rates remaining low - at least by historic standards - investors have had to work harder to generate additional income for their increasingly lengthy retirements.

Apart from buying an annuity (a guaranteed income stream), there are three main options for income-seekers – bonds, equity and property. Corporate bonds gilts (bonds issued by the UK government have traditionally been the most obvious choice for income. Here, you lend money to the Government or to a company in return for a pre-agreed fixed income stream. The level of income you then receive depends on the likelihood of the company defaulting – and the higher the risks, the higher the income. To help you assess the risk, companies are rated from AAA (the lowest-risk, known as 'investment grade') through BBB (still 'investment grade') and down from BB (higher-risk, called 'high yield') to C or even CCC (very high-risk, with a 50% chance of default).

Alternatively, you could consider equities with high and potentially growing dividends. Company dividends are not guaranteed and can go down as well as up - as can the value of your capital. Dividends will fluctuate with a company's profitability and they will also tend to provide a lower initial income than bonds. However, what they have traditionally provided is some protection against inflation and long-term holders could also see a rise in their initial capital investment.

Finally, property - particularly commercial property - is also a favourite among income investors. This can be direct - for example a buy-to-let - or via a collective investment fund. Due to the specialist nature of property investment and the need to know the market in depth in order to make the right decisions, many investors choose a fund run by a property investment expert, particularly when targeting commercial property.

This option provides some diversification for a relatively small outlay. Property funds can also choose to invest in the shares of property companies or directly into property - or even combine the two. However, in all cases, the income you will receive ultimately comes from rental income and this will therefore vary with the buoyancy of the rental market.

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Domination of the market

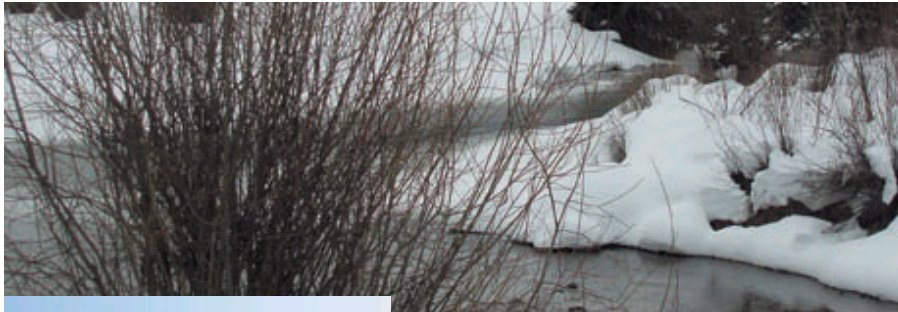
The FTSE 100 Index is made up of the 100 largest companies listed in the UK, comprising over 80% of the entire UK stockmarket by value.

Established in 1984, the index has evolved to reflect the changing nature of the UK economy and our increasingly global society. When it was founded the Index was primarily composed of British companies with operations that were focused within the UK.

However, today, those top 100 companies derive much of their profit from overseas activities, giving the index an international slant that has helped it to move away from its domestic roots.

The UK stockmarket has a reputation for being focused on defensive stocks (companies that tend to be less sensitive to the economic cycle). However, this is far from the whole story - the FTSE 100 index has exposure to most areas of the global economy to varying degrees.

Nevertheless, it is still relatively concentrated around a few dominant themes - for example, the top 10 companies in the FTSE 100 make up almost 50% of the index and the top 20 make up 65%. The index is also dominated by just three sectors - banks, oils and pharmaceuticals. The FTSE 100 Index does appear to be relatively diverse. However, investors looking for exposure to all areas of the market will have to look at smaller companies for opportunities as well.



What is a gilt?

Gilt-edged securities – or gilts – are loans issued by the UK government. As the government is considered to be unlikely to default on those loans, gilts are considered to be low-risk and are popular as part of a balanced investment portfolio. If you are tempted to invest in gilts, you'll receive a pre-agreed rate of interest (known as the coupon) twice each year. This might be fixed at a certain level - eg: 4% a year - or may start lower but be linked to inflation (index-linked) and therefore grow in line with prices. If you buy a gilt at issue and hold it until it is repaid – known as the redemption date – you will also be repaid your initial capital in full.

What is the...

...difference between a unit trust and an OEIC?

Both are collective investments that invest in a wide range of asset classes depending on their specific objective. However, a unit trust is unitised - that is, new units are created for new investors and cancelled when sold. An OEIC (open-ended investment company) is set up as a limited company and investors buy shares rather than units. Most OEICs operate as umbrella funds, allowing the creation of different sub-funds, each with different aims, charges and investment requirements within the one structure. When all are run by the same group, this can make switching between those funds easier.

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