

## LLOYDS ACTIVE MANAGER UPDATE

### Place your sights where the markets do...look forward

The first seven months of the year have not been easy on the markets. Credit concerns and a global economic slowdown have continued to hit investors. The stock market in the U.S., as measured by the S&P 500, ended July down 13.69% while the MSCI World Index declined 13.98% during the same period. It has been a time of high volatility, rising inflation fears and loss of confidence from global investors. This scenario has made investors think that reducing market exposure, or even cutting exposure completely, is the best alternative to sail through the current storm. However, we cannot forget that markets move according to a forward looking view. In other words, prices today are discounting market expectations for the future. Therefore, being in a recession or weak economic environment does not translate into a negative stock market.

Since 1950, U.S. recessions have lasted on average 10 months, while the S&P 500 index has bottomed 5.2 months on average during each recession. That means that investors that did not take away the noise and decided to move out of positions, missed some opportunities for gains. During what appear to be the worst of times, investors should focus on the long term scope of the strategy enforcing a disciplined approach so as to allow the asset allocation to pay off.

*"We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful."*

Warren Buffett

#### U.S. Recessions: 1950 - 2001

Start	End	Months	S&P 500 Low	
			Date	Months into Recession
31-Jul-53	31-May-54	10	14-Sep-53	1.5
31-Aug-57	30-Apr-58	8	22-Oct-57	1.7
30-Apr-60	28-Feb-61	10	25-Oct-60	5.9
31-Dec-69	30-Nov-70	11	26-May-70	4.9
30-Nov-73	31-Mar-75	16	3-Oct-74	10.2
31-Jan-80	31-Jul-80	6	27-Mar-80	1.9
31-Jul-81	30-Nov-82	16	12-Aug-82	12.6
31-Jul-90	31-Mar-91	8	11-Oct-90	2.4
31-Mar-01	30-Nov-01	8	21-Sep-01	5.8
<b>Average</b>		<b>10</b>		<b>5.2</b>

Source: Bespoke Investment Group

## Do not listen to the static... keep focused

Successful investors are those that do what others don't. This is exactly what has made Warren Buffett one of the greatest investors in the world. His secret is as simple as buying when the market is depressed and selling when it is happy. A crisis is to be viewed as a good investment opportunity so long as investors do not let emotions influence portfolio positions. The fear of further declines in prices tend to stop investors from doing what they should do – **buy more**.

It is time to re-emphasize the need to focus on time tested successful investment strategies. As mentioned in previous Updates, investors must chart out a financial plan based on well thought-out goals and risk preferences within the context of defined time horizons providing little sway on short term market moves. Lloyds Active Manager takes away the short term noise and makes disciplined investment decisions promoting long term growth. The systematic rebalancing that LAM undergoes further positions the portfolios for growth as it creates a buy "low" sell "high" discipline. This practice, together with a dynamic strategy, has allowed the portfolios to deliver excellent numbers over the long term. Ensuring clients are aware of LAM's disciplined investment management approach and long term time horizon is of the utmost importance for understanding the success of the strategies.

Below are the performance results for the LAM portfolios as of July 31, 2008. Actual portfolios are customized according to each client's needs; thus, individual results may vary due to specific start dates and client directed restrictions imposed on the asset allocation.

### LAM Performance as of July 31<sup>st</sup>, 2008

LAM PROFILES	Year to Date	Last 12 months	Since Inception *	Annualized Since Inception*	Calendar Year					
					2002	2003	2004	2005	2006	2007
Very Conservative	-1.98%	0.18%	29.88%	4.05%	9.28%	8.02%	3.91%	-0.91%	5.32%	3.51%
Conservative	-5.33%	-2.44%	31.69%	4.27%	3.30%	12.80%	5.33%	0.40%	7.25%	5.25%
Balanced	-7.89%	-4.65%	50.29%	6.38%	-6.75%	24.33%	11.27%	5.24%	12.68%	5.65%
Dynamic	-11.11%	-8.78%	47.59%	6.09%	-11.17%	26.02%	12.64%	8.40%	13.28%	7.22%
Very Dynamic	-13.18%	-10.16%	55.47%	6.93%	-20.08%	31.21%	16.37%	13.05%	18.46%	3.58%

\* All profiles were launched on January 1st, 2002.

INDEXES	Year to Date	Last 12 months	Since Inception *	Annualized Since Inception*	Calendar Year					
					2002	2003	2004	2005	2006	2007
US Government 3 to 5 Year Bond Index	3.05%	9.63%	37.09%	4.91%	11.09%	2.39%	2.09%	0.71%	3.53%	9.87%
Dow Jones Industrial Average	-14.22%	-13.88%	13.54%	1.95%	-16.76%	25.32%	3.15%	-0.61%	16.29%	5.43%
S & P 500	-13.69%	-12.91%	10.39%	1.51%	-23.37%	26.38%	8.99%	3.00%	13.62%	3.53%
Nasdaq Composite	-12.32%	-8.64%	19.24%	2.71%	-31.53%	50.01%	3.59%	1.37%	9.52%	9.81%
MSCI World Index	-13.98%	-12.72%	36.19%	4.80%	-21.06%	30.81%	12.84%	7.56%	17.95%	7.09%

Source: Bloomberg

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"Look at market fluctuations as your friend rather than your enemy; profit from folly rather than participate in it."

Warren Buffett