



The Selftrade guide to inflation busting investment strategies

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Inside this guide

We have brought together a diverse mix of investment experts to explore the options for investors in this inflationary economy. These analysts, product developers and leading financial journalists explore some of the options open to investors beyond traditional equity income.

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Inflation Report

This guide addresses one of the most significant economic features facing today's investors: inflation.

The sort of persistent price rises we have all been experiencing since the end of recession reduce the purchasing power of cash, they erode the value of assets and they put a strain on financial plans. With pressure put on longer term strategies, investors may need to re-visit their portfolio allocations. Such an environment can be particularly damaging for those living on, or largely invested in, fixed income instruments such as bonds. As such, you should find this a practical guide, driven by investment solutions appropriate to your portfolio objectives.

Life on Mars

Historically speaking, the rate of inflation in the UK is not especially high. It was higher in the 1980s and those with longer memories will recall the 25% peak during the economic strife of the 1970s where oil crisis, wage spiral and a failure of incomes and prices policies pushed prices higher and higher. By contrast, the 4.5% Consumer prices Index which we are experiencing today might not seem so bad (the Retail Prices Index which includes housing costs is a percentage point or so higher). And at least we have avoided the more pervasively damaging deflation which had seemed a threat. But compared to the decade or more before the financial crisis when inflation seemed beaten, such a persistent rate is damaging. And it comes with monetary policy notably loose. The disparity between inflation at double the Bank of England's target and interest rates which remain at 0.5% has caused tensions within the Monetary Policy Committee. To return to the historical comparison, rates have not been this low since Winston Churchill was Prime Minister.

There are a number of reasons why the Bank has not acted to tighten policy of course. First of all, as commodity investors are aware, inflation is described as 'imported'. That is it is being driven by the high price of oil and food in particular. Secondly, in Britain we are not experiencing the sort of wage rise spiral seen in the '70s where workers demand (and received) pay rises to offset cost of living increases. Indeed, recent figures have shown that real earnings have fallen in the UK. And thirdly, the Bank is worried that an increase in interest rates will stamp on what remains a very weak economic recovery. After all, while the first quarter recorded a sharp recovery in GDP growth, over the six months expansion is broadly flat. In this sense, whatever Mervyn King does, it will be wrong!

Persistent Trend

So, while inflation is not entirely of our making, it has been persistently high for long enough to be more than a short lived blip. That puts a strain on the value of public spending and the businesses which are supported by it. And it impacts upon investors managing balanced portfolios. It is becoming clear that, for many, strategies may need to be reassessed.

The natural 'hedge' against price rises has traditionally been equities. Returns from shares have historically outstripped the pace of inflation and the combination of income and potential capital growth has been especially appealing. Here, the likes of well run equity income funds offer investors a convenient method of gaining such exposure in a diversified fashion. The combination of dividend and potential capital growth is a welcome mix when either one is under pressure from price rises. But increasing equity exposure could also mean that investors need to accept a little more risk in portfolio construction in order to realise returns. This is easier said than done in current conditions which, for various reasons remain highly uncertain. And recent survey data shows that professional managers have tended to exercise more caution of late.

The latest official statistics and the woeful projections of the Bank Governor demonstrate that inflation is not going away in a hurry. Despite some volatility in global markets, there remain sound opportunities to prosper in this environment and it is clear that for portfolios to progress many will benefit from readjustment to this new context.

Looking at and beyond the equity markets, the experts contributing to this guide explore some of the instruments that investors might consider in structuring their portfolios to mitigate against the effects of inflation.

Use the [fund selector](#) to find the best performing equity income funds

Fund Selector

SEARCH

Fund Company: ISA:

Type: Tradable only:

Main Sector:

Local Sector:

Specialist Sector:

Geographical Sector:

Performance: %

Fees: %

Minimum Investment:

RESET SEARCH

For details about ISA sector definitions visit the [FPA website](#)

FUNDS

Please note: for purchases, the fund price shown on your contract note will be adjusted to reflect the impact of any net initial charge as shown below. The trade terms noted on the contract note may be incorrect and we are currently working to correct this.

Name	Manager	Rating	Latest price	5d% change	1m% change	3m% change	6m% change	1y% change	Annual charge
Equity Subington Shares 2012	LT	★★★★	1.25(0)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Investor Global Gold & Acc Net GBP	LT	★★★★	2.09(0)	4.50%	0.00%	4.50%	1.50%	5.51	0.50
QJ Japan Oils Trust A	LT	★★★★	1.97(0)	5.25%	0.00%	5.25%	1.75%	4.43	0.50
Igna Smaller Companies Inc	LT	★★★★	3.85(0)	5.25%	0.47%	4.78%	1.50%	4.29	0.50
Igna Greater Companies Acc	LT	★★★★	4.99(0)	5.25%	0.47%	4.78%	1.50%	4.29	0.50
Legg Mason Japan Equity A	OEIC	★★	1.41(0)	4.25%	0.00%	4.25%	1.50%	3.94	0.50
BlackRock Gold and General Acc	LT	★★★★	15.26(0)	5.00%	0.00%	5.00%	1.75%	2.58	0.50
BlackRock Gold and General A Inc	LT	★★★★	14.94(0)	5.00%	0.00%	5.00%	1.75%	2.56	0.50

Selftrade Research identifies inflation apathy

According to latest findings, over half of investors are not doing anything about price rises, three quarters are worried about the effect of inflation – rising to almost nine in ten over 50s – while one in five simply don't know how to safeguard their money.

With inflationary conditions continuing to erode the value of assets, new research from Selftrade shows that over half of people (52%) holding savings and investments suffer from inflation apathy – that is, they are not managing the effect of inflation on their savings. And this is despite three quarters of investors (77%) being worried about the effect of inflation on their savings, and 71% expecting inflation to rise even further over the rest of 2011. More concerning, a fifth of investors surveyed (21%) simply do not know what to do about the impact of inflation on their savings.

Approaching Retirement

The over 50s are most concerned about inflation, with 53% reporting that they were concerned and a further third (34%) even saying they were extremely concerned. This compares to just 15% of under 50s who were extremely concerned. Yet the over 50s are most likely not to inflation proof their money, even though 56% state that they have not done anything and are not planning on doing anything.

The research also shows that younger generations are less likely to know what to do to protect their portfolios from price rises, with 27% of under 40s not knowing what to do compared to 16% of the over 50s. However, 10% of all savers and investors, have decided to choose a stocks and shares Individual Savings Account over a cash ISA to help protect from taxation, and 9% were moving into fixed income products.

Inflation is changing our attitude to risk

Increasing inflation has also changed people's attitude to risk with 38% of people having adjusted their appetite given current conditions. The under 50s are much more likely to take risks with their savings and investments as a result of inflation, with 16% of under 50s saying they were slightly more, or more prepared to take risks, compared to only 8% of the over 50s.

Research carried out for Selftrade by Opinium Research, with an online survey of 2,048 UK adults from 13 to 16 May 2011.

Inflation at a glance

- Inflation is the general rise in prices. It is measured by the Consumer Prices Index (CPI) or the Retail prices Index (RPI). The latter includes housing costs
- Current CPI is around 4.5% with forecasts that this will continue into 2012 and perhaps rise further. This means that investment returns lower than this level equate to a real terms fall in value
- Inflation is being blamed on commodity prices including oil and food. Accordingly it is not being driven by wage rises or consumer spending
- Cash returns are currently low with interest rates remaining at just 0.5%. The Bank of England's MPC has an inflation target of 2.5% but fears that a raise in rates would upset recovery
- Selftrade research shows that many investors are not taking any action to combat the effects of inflation
- Options open to investors include shares, commodities, bonds and index-linked products

How to identify inflation-busting plays

A jump in UK inflation to 4.5%, as measured by the consumer price index (CPI), has increased the cost of living to the highest level for more than two years. *Shares Magazine* editor Russ Mould explores the options for investors.

Bank of England assurances that this is all a one-off spike due to food and commodity prices looks increasingly glib as inflation continues to streak ahead of governor Mervyn King's target. Yet interest rate rises from record lows are only likely to come slowly, given the still delicate nature of the economic recovery. It is therefore not surprising that a Selftrade survey reveals over three-quarters of savers are now concerned about the effects of upon the value of their savings and investments of inflation – known, after all, as the cruelest tax.

Options

The good news is there are options available to savers which can protect their hard-earned cash from the ravages of inflation. Equities have, historically, offered a good buffer against the debilitating effects, particularly for those willing and able to adopt a patient buy-and-hold strategy. A focus on specific stocks which offer good value, strong cash flow and, most importantly, healthy dividend yields should neatly buffer portfolios against inflation, while income-focused funds should do the same. Names such as British American Tobacco, Royal Dutch Shell and Aviva have been our preferred yield plays at Shares, while Neil Woodford's long-term record at Invesco Perpetual High Income speaks for itself. More aggressive investors focusing on capital appreciation to beat inflation might like to look at Katie Potts' Herald Investment Trust, which focuses particularly on the organic growth potential offered by technology stocks.

Rising costs

As inflation gallops away, the Bank of England's Monetary Policy Committee continues to vote against interest rate increases and British Airways and National Rail staff bag two-year pay deals worth 7.5% and 10% respectively, savers are understandably fretting. Selftrade's research shows 71% of savers think inflation will rise in the next six months and 28% expect to see CPI reach the 5% to 6% range. The over 50s appear especially concerned, with 53% expressing worries about increases in daily costs and 34% flagging they are extremely worried about what could happen to their savings and investment pots.

But there is no need to despair. A 7.3% annual compound return from the FTSE All-Share since its inception in 1962 (before tax) easily outstrips the 6.1% long run average in

inflation as measured by the retail price index (RPI) over the same period. And that is before the positive impact of an annual average dividend yield of 3.8% and the compound benefits of putting those payments back in to the equity market.

That is not to say lumps and bumps will not be felt along the way. The combination of galloping inflation and a stagnant economy in 1973-74, in the wake of the failed Heath-Barber boom, prompted a very unpleasant equity bear market, although when inflation peaked at north of 20% in 1975 the FTSE All-Share more than doubled as it finally rebounded. The Bank of England remains on high alert and such a confluence of events is unlikely this time around, especially as the Cameron-Clegg administration has a much firmer hand on Government spending.

Income

Nevertheless, savers are right to address the issue of how to protect themselves, especially as yields on national savings instruments and government bonds remain relatively modest, with the ten-year gilt offering just 3.41% at the time of writing.

Fixed-income offers valuable ballast to any properly balanced portfolio but is unlikely to offer inflation-busting returns. Equities can offer better yields in many cases. It may not be a coincidence that healthy-yielding names such as Imperial Tobacco, GlaxoSmithKline and British American Tobacco crept in to the list of top ten performers in the FTSE 100 in the second quarter of 2011. A shift toward more stable, defensive areas can also be seen in the sector performances of America's S&P 500 and Europe's EuroStoxx 300. Here, areas such as health care, consumer staples, telecoms and utilities have been showing better momentum than the racier, cyclical, areas.

Income funds will offer easy access and broad brush exposure to this theme. Woodford's fund may be the best-known in this area, although the top ten performers over the last three years, according to Lipper, include Unicorn UK Income, Newton Asian Income and Montanaro European Equity Income. All would be worthy of consideration from an investor seeking to protect their portfolio pot from the ravages of inflation, while those who do not wish to stray beyond the UK's shares could bear in mind include JO Hambro Equity Income and Schroder Income Maximiser.

Keeping pace with inflation – are bonds the answer?

The re-launch of the NS&I and index-linked savings certificates this year has brought the subject of inflation firmly back on the table for investors explains Mark Glowrey of Investors Intelligence.

The diminishing real value of money is one of the most insidious risks that savers face. Consider that the purchasing power of £100 at the time of the wedding of Prince Charles and Lady Diana Spencer in 1981 had diminished to £32 by the time of the 2011 royal wedding. Clearly, this is a risk of which all investors must be aware. The risk of inflation is particularly acute at the moment with base rates still stuck down at 0.5% and inflation (as measured by the RPI) running at +5.2%. Effectively, 'real' interest rates are negative and the value of money left on deposit will shrink.

The NS&I certificates are certainly an effective solution. These certificates (which are limited to a maximum of £15,000 per investor) offer a return of 0.5% per annum above the rate of inflation over a 5-year period. What's more, the roll-up is free of tax meaning that investors keep any benefits of indexation, rather than just hand it back to the government.

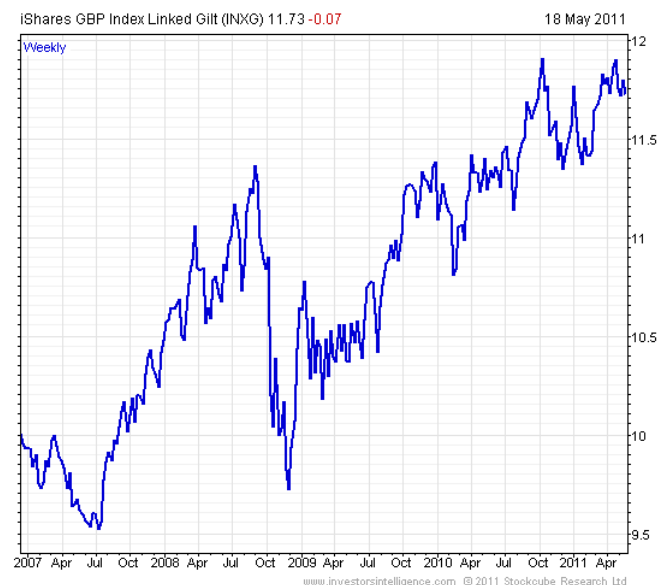
Index Linked Gilts

Are there other methods by which an investor can beat inflation? Certainly, a well-run equity portfolio provides the potential for growth in real terms, but bonds also have their merits. Index linked gilts are the classic tool for investors seeking to ensure that their money keeps pace with inflation. These bonds, which like NS&I certificates are issued by the government, have both the coupon and the final value linked to the RPI.

One recent UK government issued index-linked bond is the Index Linked Treasury 0.75% March 2034. This bond pays a coupon of 0.75% per annum (in two semi-annual instalments) and will be redeemed in 23 years. Over the period, both the coupon and the redemption amount are directly linked to the RPI, thus if in ten years time the RPI has risen by 50%, the value of the coupon will rise accordingly. So too will the redemption amount, and an investor holding the bond to maturity will be paid back an inflation-adjusted amount. This adjustment can be substantial and many holders of the early index linked bonds have received final payments that were double or more than the initial investment.

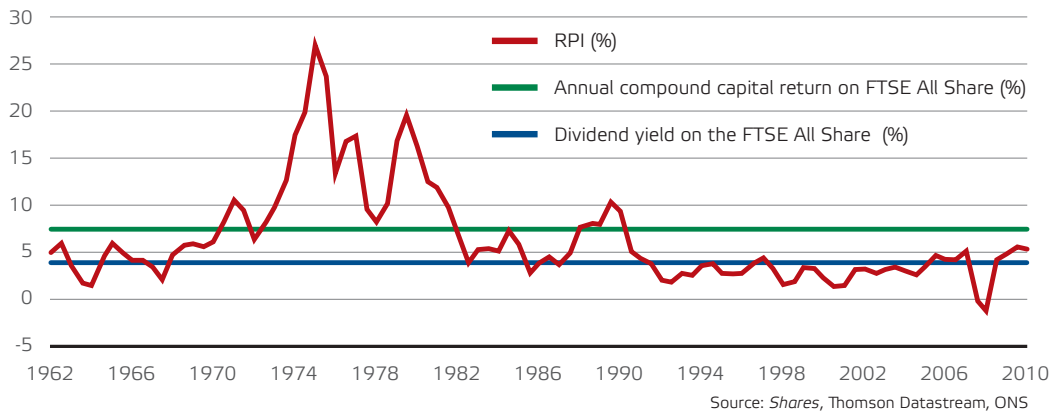
Index-linked ETFs

Another method of investing in index-linked gilts is via an exchange-traded fund (ETF). Here, one's money is spread across index linked gilts of all maturities. This policy will make the fund rather less volatile than the long-dated 'linker' highlighted above. ETFs typically offer good liquidity and low charges and the iShares Barclays Capital £ Index-Linked Gilts is an example of an ETF which fits this bill. This £591 million fund offers access to index linked gilts with an annual charge of 0.25%, a bid-offer spreads of just a fraction of one percent, and no stamp duty to pay. However, investors should be aware that the capital gains tax exemption granted to index linked gilts does not apply to funds. Thus, a tax efficient wrapper such as an ISA or a SIPP should be considered.



Past performance is not a guide to future performance.

Equities have historically been a good hedge against inflation



Other index-linked bonds

In addition to index-linked gilts, there are a number of index-linked bonds that are issued by various banks, institutions and companies. Such bonds are generally targeted towards institutional investors and are difficult for the private investor to access. However, one possibility is the RBS RPBI inflation linked 2022 bond issued by the Royal Bank of Scotland last year. This bond pays a coupon equivalent to annual change in the RPI – thus, if inflation holds at the current level of 5.2%, investors will receive 5.2% for the year. The bond is also underpinned by a 3.9% minimum coupon, which adds a degree of comfort for investors should the rate of inflation fall away. Redemption is at par in November 2022 and the current market price can be found on the Selftrade website.

Another example would be the RBS RPBX Inflation Multiplier bond. This bond is slightly shorter with a December 2020 maturity and pays a coupon of 1.3 x the rate of inflation (although without the minimum coupon guarantee offered by the RPBI). The bond will be redeemed at 100p in 2020- check the Selftrade site for the current market price.

As with index linked ETFs, investors should be aware that the capital gains tax exception granted to gilts does not extend to the two bonds featured above. Again, an ISA or SIPP structure should be considered to help shelter gains from the unwanted attentions of the tax man. If unsure, you should seek independent advice.

The truth about index-linked bonds

The relationship between inflation, inflation expectations and the pricing of bonds (and by default, their yields) is one of the most puzzling and intimate in the world of investment. Financial journalist David Stevenson explores.

At a very simple level, an increasing rate of prices – the quantum of price moves – is bad news for most bonds. The vast majority of bonds are issued at a nominal par price and will only ever pay back that nominal on redemption, even if inflation has roared ahead over the intervening years, destroying the real purchasing power.

What really matters in the slightly perplexing world of index linked bonds are a series of inter linked concepts including the real rate of return, the internal dynamics of linker markets, the perceptions of future inflation risk by market participants, and perhaps most importantly, the intentions of government and their allies in the central banking community.

The sheer complexity of these forces has one major immediate impact – investors should not assume that any future increase in inflation will be faithfully replicated in an increasing price for index linked bonds issued by the government or any other organisation.

The reality

To understand the range of possible outcomes, investors need to understand two concepts:

- The real rate of return. This is simply the rate of return from a bond after deducting the rate of inflation. This can change very quickly over time – as we'll see below when we look at historical real rates
- The break even rate – also called the yield differential. This is the difference between the rate on offer from 10-year conventional gilts versus the rate from an index-linked gilts. Traditional investment logic suggests that if you believe that the average inflation rate will be higher than the break-even rate (based on projections between now and the maturity date of that bond), then index-linked gilts look attractive whereas if you think the break even rate is too high, you should probably switch back into conventional gilts and bonds.

The table below from the middle of February tells a sordid truth recognized by the markets – the UK has an inflation problem! The break even rate for 2035 government linker paper is currently assuming a break even rate of 3.72%, which compares unfavorably with the US 2028 rate of 2.42%.

These heady expectations for future price rises are not uncontested – a large body of analysts reckons that we're simply moving through a turbulent phase after which the quantum of price rises will start to decline.

Inflation worries

If these inflation worriers are right, we'd expect to find both market demand and prices for these index linked bonds to be very high – and thus real yields low. The chart below tracks the real yield of government linkers between 1996 and February 2011 and does indeed tell a story of increasing prices and thus declining yields. But the absolute yield percentage levels on the left hand side of the table tell a remarkable story – these show real yields for gilts and they suggest that those returns collapsed below 0% in 2008 and are currently only a smidgeon above 0.5%. Many analysts less worried about the prospects for inflation think that this graphic tells a completely different story – that the market is over-reacting to inflation perceptions and is pricing ridiculously low yields. One word sums it all up – index linkers are a classic asset bubble in the making and that should supply of these bonds ever increase, we should expect to see a sudden fall in values and consequent increase in real yields.

Index Linker	Feb 10th Yield (Feb 9th yield)		Break Even inflation	Number of stocks
UK 2.5% 2016	0.05	(0.03)	2.99%	16
UK 2.5% 2024	1	(0.92)	3.29%	16
UK 2% 2035	0.86	(0.85)	3.72%	16
US 3% 2012	-1.31	(-1.37)	1.90%	30
US 3.625% 2028	2.08	(2)	2.42%	30

Source on linkers: RBS

Monthly average of yield from British government securities, 20 year real implied forward



Past performance is not a guide to future performance.

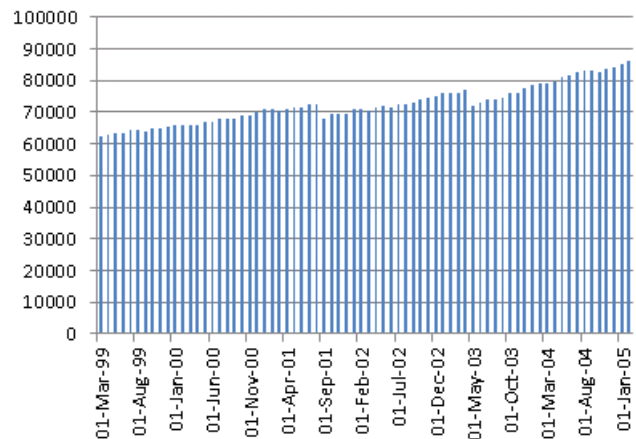
Demand

As institutional investors and especially pension funds fret about the future impact of inflation, they find themselves snapping up the limited supply of index linked stock. Put simply, if lots of pension funds collectively fear that future inflation will destroy their pensioners' long term savings, they'll bid up index linked bond prices almost regardless of the quantum of actual price moves.

And governments are clearly no angels in this game – they have a huge amount of debt to sell yet they also know that demand for their product is immense. The UK government has reacted by increasing the issuance of index linked bonds but not by anything near the rate some buyers had hoped for – the chart below shows UK linker issuance since 1999 and although it shows a steady increase in supply, it doesn't bear much relationship to the sheer quantum increase in indebtedness since 2008.

A cynic might presume that the government is deliberately gaming the markets, encouraging investors to buy its safest stock at the lowest conceivable yield by keeping supply of linkers artificially low. If real yields are negative for instance, that means the expected return on an investment will be less than inflation – forcing investors to allocate their capital to more productive purposes. This none-too-subtle process of returns manipulation even has a formal title – Quantitative Easing 2.

Monthly amounts outstanding of non-public sector (market) sterling holdings of index linked gilts issued by Central Government (in sterling millions), not seasonally adjusted



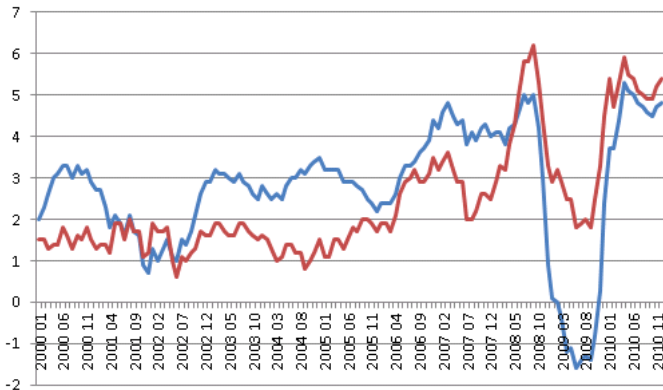
Markets overly panic about the threat of future inflation. Precisely because bond pricing and yields are so dependent on CPI and RPI data, they're obsessed over by analysts, with perhaps too much emphasis placed on past data estimates and too little emphasis placed on working out the quantum of future price rises.

Inflation sceptics prefer to peer under the bonnet of these 'catch-all' definitions of pricing and look at other measures – such as producer output prices. Clearly the UK is suffering from high energy prices, and rising commodity prices but manufacturers are struggling to increase the prices of their manufactured goods.

The inflation cynics are currently losing the battle and the rising breakeven rate – and lower real yields – is a reflection that sentiment is increasingly biased towards a world of rising prices. The chart on the next page nicely sums up the very real fears of the inflationists – it shows RPI trends since 2000 with the red line for RPI excluding housing and the blue line all prices. After a very sudden and brutal downturn in 2008 and 2009, inflation has come roaring back to life and RPI excluding housing costs is already starting to charge towards 5.5%.

Inflation : Near term trend is upwards

RPI between 2000 and 2011



David Stevenson is a well known financial journalist and can be seen on The Wise Monkeys investment programme available on the Selftrade website.

*A longer article was originally published in March 2011 and can be found under the title 'Real rates of return: A veritable multiverse of realities, perceptions and drivers' in News & Views on www.rbs.co.uk/markets. David Stevenson is an acclaimed financial journalist and is independent of The Royal Bank of Scotland plc. The views are solely the opinion of David Stevenson and neither The Royal Bank of Scotland plc nor any member of The Royal Bank of Scotland Group plc take any responsibility for the contents of this report. These views are based on technical analysis including but not limited to price action, volume and market breadth studies.

Home truths about index linked bond investing

Remember that it's the underlying principal that changes with RPI which in turn results in a higher interest rate payment when multiplied by the bond's coupon rate. Also remember that a linker's return doesn't always equate to RPI plus its coupon – that would only be true if the bond was bought at par and held to maturity. You absolutely need to focus on the real yield – in many cases an index linked bond is priced much higher than the par value, implying a low real yield. Currently

the market is assuming that inflation over the next 14 years will annualise at around 3.7% – if you believe that actual inflation rates will be much higher then index linked bonds might still be a good investment. By contrast if you think inflation rates will be lower, a conventional bond might be a better bet. Ultimately Index-linked gilts and bonds are best treated as a "file and forget asset" in a well diversified long-term portfolio.

Beware the invisible thief and look to hard assets

Inflation is an invisible thief, eroding the value of assets indiscriminately. Consequently, in periods of rising prices, the real returns accruing to an investment portfolio have the potential to turn negative says Martin Arnold, a Senior Analyst at ETF Securities

In the current environment, inflationary expectations are being stoked on two broad fronts: from central bank stimulus measures and global commodity markets. With inflationary pressure coming from many sources, investors need to be aware of the risks and the possible ways to counter the threat of inflation. Commodities are one such asset class.

Ongoing cheap liquidity and bond-buying activities by global central banks have been fuelling expectations about future inflationary pressures and currency debasement. By flooding financial markets with liquidity, currency debasement has a direct negative effect on real asset values. Unlimited liquidity and bond buying boosts the balance sheet of central banks and raises the money supply, thereby indirectly devaluing the currency of a particular country. The US and the UK stand out as prominent countries following such monetary policies. Investors appear to be gradually losing faith in fiat currencies as a store of value as they watch the paper value portfolio holdings fall in the face of loose monetary policy.

In this environment investors are looking for 'hard assets' to buffer portfolios against the rising risks of pipeline inflation, the erosion of currency values and as a counter to possible government defaults. Investors have historically used physical holdings of precious metals, particularly gold to offset the adverse inflationary effects on a portfolio and increase diversification with an asset that exhibits relatively low rates of volatility. George Bernhard Shaw summarises the issue quite succinctly,

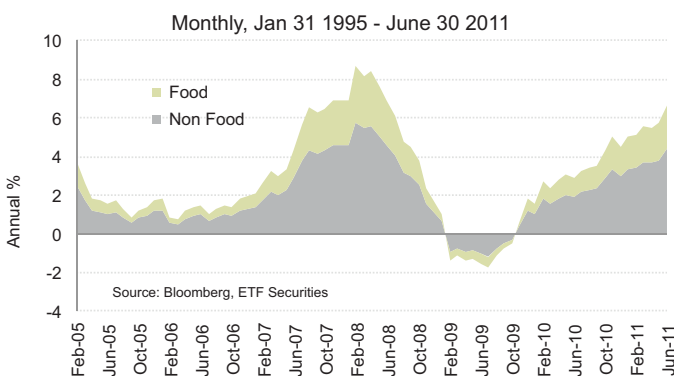
You have to choose between trusting to the natural stability of gold and the natural stability of the honesty and intelligence of the members of the government. And, with due respect to these gentlemen, I advise you, as long as the capitalist system lasts, to vote for gold.¹

Meanwhile, the surge in agricultural and oil prices is significantly affecting the cost of living by eroding purchasing power of investment returns. Rising grain and soft commodity prices not only affects the prices of items like bread and sugar but also meat prices as feedstock prices rise. With oil prices being supported by the ongoing conflict in the Middle East and North Africa, rising costs are being felt for a range of services like transport and utilities prices. In this way, inflation constrains household budgets and reduces the real value of investment assets.

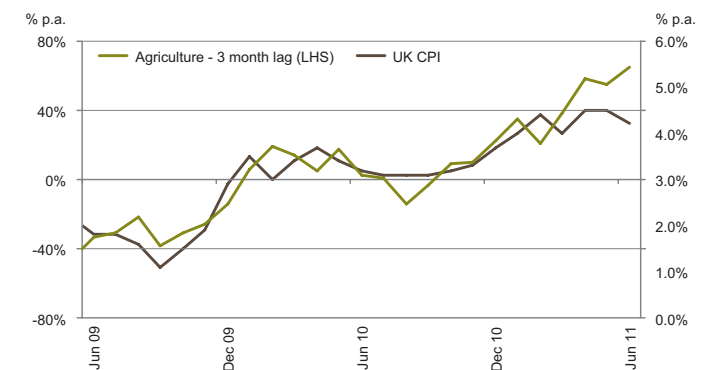
While rising prices are a global phenomenon, some commodities have a more pronounced affect on particular regions in the world. In emerging markets, the cost of food is a much bigger issue than in the developed world because a larger proportion of the average wage is spent on food and it thus accounts for a bigger weight in the Consumer Price Index (CPI) basket.

In comparison, while agriculture is the biggest weight in the UK CPI basket, both energy and agriculture have similar correlations with rising prices in the UK. The same is broadly true for the US, and Federal Reserve Chairman Bernanke articulated the problem in a recent speech²,

China inflation contributions



Agriculture vs. UK CPI



¹ Source: The intelligent woman's guide to socialism and capitalism, 1928.

² Speech by Federal Reserve Chairman Ben S. Bernanke, June 7, 2011: The U.S. Economic Outlook. Refer to www.federalreserve.gov

³ World Bank Press Release No: 2011/559/EXT. Refer to www.worldbank.org

'...over the past year, prices for many commodities have risen sharply, resulting in significantly higher consumer prices for gasoline and other energy products and, to a somewhat lesser extent, for food.'

The World Bank recently announced³ its intention to provide funds to emerging market countries to hedge their trading activities in agricultural produce in order to offset the rising cost of food provision. In a similar way investors are able to offset rising agricultural commodity prices by investing within the agricultural space. Gaining exposure to agricultural investments is becoming increasingly accepted as a means of offsetting the deleterious effects of inflation on emerging market investment returns. Agricultural markets tend to have low correlations to other major asset classes like equities as they tend to be driven by the specific supply and demand factors for different crops. By having a weighting of agriculture within a portfolio, not only can investors gain a partial offset to rising prices, but can also benefit from diversification.

Exchange Traded Commodities (ETCs) as well as their Exchange Traded Funds (ETFs) cousins, offer a way for investors to access these hard assets and build them into portfolios. Commodities tend to be more volatile than equity markets, however, and you should ensure they are appropriate for your investment objectives.

Inflation beating returns don't have to be complex!

As any investor knows, markets can rise or fall with little notice or explanation, and correctly predicting which way they might go next can be a hard task for even the most experienced investor.

Even more tricky perhaps is when markets aren't really moving, and even the most diligent Technical or Fundamental analyst struggles to find a valuable trade to beat inflation. Ben Thompson, Director of Marketing for Exchange Traded Products at SG introduces a product which might help.

Many investors turn to leveraged products such as CFDs or Spreadbets with the hope of turning small market movements into profit but this is not for everyone. You need to be confident about which way the market will go, and you need to time your entry and exit points to perfection. But most importantly, if the market goes against you, you can lose more than you invested.

So do flat markets mean stale profits? Not necessarily. With Societe Generale's new Super10s you could make an attractive inflation-beating return without putting more than your initial capital at risk. And the only thing you need to decide is whether the FTSE 100 is going to Stay High, Stay Low or stay within a Range for the next 3 to 6 months.

Fixed term, fixed risk, fixed payout

Super10s have a fixed Investment Term of between 3 and 6 months which makes them suitable for a relatively short-term strategy. At the end of the Investment Term (the "Expiry") when the Super10 expires, it will generate a fixed payout of £10 per unit, just as long as the FTSE 100 Index has never touched a pre-defined Barrier Level. If the Barrier Level is touched at any point, the Super10 simply terminates worthless and you will lose your initial investment. If Société Générale were to default you would also lose some or all of your investment.

A Super10 for all types of strategy

There are currently 35 FTSE 100 Super10s to choose from so it should be easy to find one to suit your market view. To select a product, you first need to decide whether you think the FTSE will Stay High, Stay Low or stay within a range. The basis of your strategy will define which type of Super10 you need to buy;

Stay High Super10s: the FTSE 100 Index must stay above a Lower Barrier Level throughout the Investment Term.

Stay Low Super10s: the FTSE 100 Index must stay below an Upper Barrier Level throughout the Investment Term.

Range Super10s: the FTSE 100 Index must stay above a Lower Barrier Level and below an Upper Barrier Level throughout the Investment Term.

To really beat inflation and go for the bigger returns, you have to take more risk, typically there is more risk with a longer Investment Term, or where the Barrier level is close to the prevailing FTSE 100 level. Cautious investors can still beat inflation, but you need to look at shorter Investment Terms and a more conservative Barrier Level where there is more room for the FTSE 100 to move without hitting the Barrier Level.

Some example Super10s on the FTSE 100 Index

EPIC	Product type	Barrier Level		Expiry date	Cost per unit	Payout at Expiry	Potential return	Maximum loss per unit
		Lower	Upper					
SU01	Range	5,600	6,400	16-Sep-11	£5.16	£10.00	93.80%	£5.16
SU03	Range	5,400	6,200	16-Sep-11	£6.34	£10.00	57.73%	£6.34
SU10	Range	5,400	6,400	16-Dec-11	£4.09	£10.00	144.50%	£4.09
SU14	Stay High	5,500	--	16-Sep-11	£7.43	£10.00	34.59%	£7.43
SU15	Stay High	5,600	--	16-Sep-11	£5.73	£10.00	74.52%	£5.73
SU17	Stay High	5,600	--	16-Dec-11	£4.23	£10.00	136.41%	£4.23
SU21	Stay Low	--	6,050	16-Sep-11	£6.75	£10.00	48.15%	£6.75
SU33	Stay Low	--	5,950	16-Sep-11	£4.28	£10.00	133.64%	£4.28
SU37	Stay Low	--	5,950	16-Dec-11	£2.92	£10.00	242.47%	£2.92

Source: SG Exchange Traded Products, 29th June 2011. Prices are based on a FTSE 100 index level of 5,832.50.

Past performance is not a reliable indicator of future returns.

Investing with Super10s

Super10s are listed on the London Stock Exchange and trade like a share through a standard trading account, where they are subject to Capital Gains Tax but not stamp duty, or within a Self Invested Pension Plan*. Bid/Ask prices are published during trading hours under normal market conditions, and Super10s can be bought and sold at any time during market hours.

Important information

The products described within this article are not suitable for everyone. Your capital is at risk. You should not deal in this product unless you understand its nature and the extent of your exposure to risk. The value of the product can go down as well as up and can be subject to fluctuation due to factors such as price changes in the underlying instrument and interest rates.

Super10s are issued by Société Générale Acceptance N.V., a member of the SOCIÉTÉ GÉNÉRALE group of companies. Any failure by Société Générale Acceptance N.V. as Issuer, or by Société Générale as Guarantor, to make payments due under the Super10 may result in the loss of all or part of your investment. You will have no claim for compensation from the Financial Services Compensation Scheme or any other scheme. Société Générale is the only market maker and therefore the only party providing prices for these Products.

*The tax statement is only a general guide. The tax treatment of investments will depend on an individual's circumstances. If investors are in any doubt as to their tax position, they must consult with an appropriate professional tax adviser. This statement of the UK tax treatment of the product is based on our understanding of the laws and practice in force as of the date of this document and is subject to any changes in law and the interpretation and application thereof, which changes could be made with retroactive effect.

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