



"Long ago, Sir Isaac Newton gave us three laws of motion, which were the work of genius. But Sir Isaac's talents didn't extend to investing: He lost a bundle in the South Sea Bubble, explaining later, 'I can calculate the movement of the stars, but not the madness of men.' If he had not been traumatized by this loss, Sir Isaac might well have gone on to discover the Fourth Law of Motion: *For investors as a whole, returns decrease as motion increases.*"

– Warren Buffett

The average Group Pension returned 0.9% during November, while the FTSE World index returned 2.4%. The economic road ahead may be 'bumpy', to quote Mr Trichet, but it still looks a lot better leaving 2009 than it did at the start of the year. We now know that global trade plunged in the wake of the Lehman collapse and that most economies recorded a substantial fall in national income in the six months from September 2008 to March 2009.

The global policy response to the downturn resulted in record low interest rates by the spring, and Asia led the recovery, having avoided the worst of the banking excesses. Most of the major western economies recorded positive growth again in the third quarter and the market turned to the likely timing of policy exit mechanisms amid substantial upward revisions to economic forecasts for 2010.



Ireland

The Irish recession differed from the norm in that it was dominated by a sharp fall in domestic demand, with exports holding up well relative to the experience elsewhere. In the recent Budget, the Government delivered on its promise to take austerity measures to stall the decline in public finances. The Government cut spending by over EUR4bn, or 2.5% of GDP. The largest saving on current spending came from public sector pay, with salaries reduced by between 5% and 15% depending on earnings, reducing outlays by EUR1bn. Some EUR800mn was cut from the Social Welfare bill, including a reduction in child benefit, with another EUR1.3bn in savings spread across Government departments. Capital spending was also reduced, by just under EUR1bn, though voted capital spending of EUR6.4bn is still equal to 4% of GDP, which is relatively high by EU standards. The Irish are seen by the market as taking our "medicine" to correct our problems but we will need to take a few more doses in the years to come if we are going to cure the disease.



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