

NCB

July - September 04
Issue 1

Global Market Outlook
ETFs - Innovative Product
Fund Recommendations
Retirement Planning

WEALTH MANAGEMENT

A QUARTERLY
PERSPECTIVE
FROM NCB

THE NCB WAY

Today's wealthy individuals have high expectations and demand a whole lot more than they used to. They have an ever-widening range of financial and investment needs and require a much more holistic and intelligent response from their service providers.

They need information. They need education. They need independent advice. They need specialist expertise. All of this places heavy demands on wealth managers and advisors, and only those who willingly embrace change, continue to skill up and move with the times, will attract the highest quality clients.

NCB's Wealth Management group has been set up specifically to service these needs. We have never been afraid of change, and from our origins as a small 'execution only' stockbroker in the early 1990's, we have evolved into a rounded investment boutique, which offers a wide range of investment services and products, aimed primarily at the higher end of the private client market.

Our key strength is undoubtedly the quality of our people, and the ability of those people to forge good commercial relationships with, and stay relevant to, customers in our chosen market niche.

Our Wealth Management team are not simply product sellers or order takers. They are well educated, multi skilled and trustworthy. They have the capacity to advise on numerous different asset classes, products and investment issues. We place a very strong emphasis on teamwork and believe that this - though often not visible to the client - plays an absolutely vital part in maintaining a consistently strong customer proposition.

Right across our service offering - from pension planning to portfolio management and private equity - we treat each client as an individual. We have a distinctive and energetic style and have a user friendly approach to providing solutions. We work closely with other specialist divisions in NCB, mainly corporate finance, fixed income and equities (and indeed with other external specialists) to ensure that our clients get a level of service and professionalism that's genuinely a cut above.

We hugely value our independence. We have absolutely no ties with any specific product providers and we believe strongly in the open architecture model where our goal is always to find the very best solutions and products for our clients, whoever the product provider and whatever the asset class.

NCB has, since its foundation, always been synonymous with quality, innovation and dependability. We hope that clients of our Wealth Management group will recognise these virtues in the way we go about our business. This publication, 'Wealth Management,' which will be published quarterly, will attempt to cover a range of interesting investment issues and topics that we think will be relevant to our clients. We hope you find it helpful.

Greg Dilger - Head of NCB Wealth Management.

GLOBAL MARKET OUTLOOK

Now that we are half way through 2004 it is time to take stock. The international economy has returned to growth. The US economy is firing on all cylinders and even Japan appears to have picked up. You might expect equity markets to be delighted with this, but all they have done is trade sideways, with low volatility.

Unfortunately, as better economic news has emerged, some serious risks have also gained prominence. Recently we saw oil prices hit 20 year highs, terrorism returned to the top of the agenda and interest rates are starting to rise. We would also call into question valuation levels in the broad US markets.

The very fact that economic recovery is in full swing means that interest rates have to start rising, and probably need to do so aggressively. With inflation returning we are likely to see the quickest sequence of interest rate increases in the US since 1994. An increase of 3% in the next 12 months is probable

This will put pressure on equity markets, particularly where valuations look stretched. Again the US will bear the brunt. In graph 1 below, we illustrate the valuation trend over the past 24 years for the leading US stocks. It is fairly obvious that while we are not at the over-

stretched valuations of 1999/2000 we are currently well above trend.

One point should be made however, the over-valuation evident at the market level, does not mean that every US stock is at risk. There are areas of lower valuation and indeed stocks that directly benefit from a weaker US dollar could provide positive surprises.

If US equities suffer there are likely to be problems for other regions. But this may not necessarily be the case. Our analysis would point out a large divergence between Europe and the US. The most obvious difference is in valuation. By and large European equity markets are trading at a large valuation discount to US markets. This is well illustrated in graph 2. There is obviously much less risk in buying a cheaper asset. The valuation gap has been slowly closing and should narrow further.

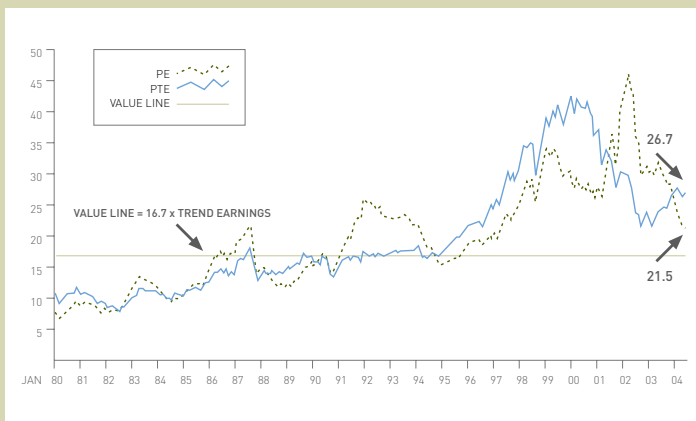
But there are other advantages for the European market. Firstly, the very fact that the European economy has been more sluggish, means that European companies have further to go in their earnings recovery. The direction of interest rates in Eurozone is also likely to be far more benign. While US interest rates hike aggressively, European rates should only see

modest changes. Smaller and medium sized companies with a domestic focus should benefit from this environment.

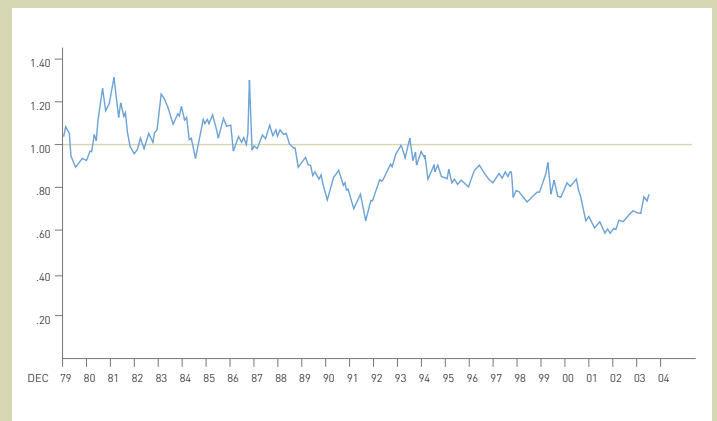
Retail banks illustrate the valuation gap between US and European equities. US retail banks trade on a P/E of over 14 whereas their European counterparts would trade closer to a P/E of 10. While there are differences in the markets they operate in, this does not explain the massive valuation gap. Indeed the early stage of the economic cycle in Europe, would indicate greater scope for earnings improvement.

Overall investors need to be relatively cautious over the next few months. Equity markets could become tricky as US interest rates start to rise. The answer for the risk averse investor is to keep an overweight position in cash. Bonds, the normal low risk alternative, should be avoided as higher interest rates are priced in. Within equities we would unashamedly favour the Eurozone area. Indeed this is not a bad time to keep a close eye on our own Irish market.

For more information please call Bobby on 01 611 5611 or email bobby.hassett@ncb.ie



Graph 1. S+P 500 Price/Earnings and Price/Trend Earnings (1980-2004)



Graph 2. Datastream Europe Market PE Rel to Datastream US Markets PE (1980-2004)

ETFs - INNOVATIVE PRODUCT FOR INNOVATIVE INVESTORS

Exchange Traded Funds (ETFs) are baskets of shares that are traded on recognised stock exchanges in exactly the same way as individual company shares. In effect, an ETF is a type of investment company whose objective is to achieve the same return as a particular market index.

Up to now, investors have only been able to access this form of pooled equity investment through a unit linked fund or mutual fund (US).

ETFs are simple, low cost and flexible products that combine the ready-made diversification of index tracking with the ease and liquidity features of quoted shares.

ETFs also offer far more choices than traditional index linked unit funds. Apart from tracking the major indices, ETFs have been created to track specific market sectors as well as baskets of top stocks.

ETF Highlights

Simplicity

ETFs are simply index funds whose shares are quoted on the stock market. Similar to traditional unit-linked funds, new shares are created and redeemed daily, but only by institutions or designated market makers in large blocks. Most retail investors will buy and sell ETF shares through the stock market.

Liquidity

Because ETF shares trade like stocks they offer intra-day liquidity. That means that they can be bought and sold at any time during exchange hours. Compare this to unit-linked funds, which are always bought and sold at a price equal to the closing Net

Asset Value (NAV). This can be a daily price, weekly price or monthly price, depending on the nature of the fund.

Given the increasingly volatile nature of equity markets over recent years, this intra-day trading capability is an important advantage. Investors can also apply limits to their orders, thereby providing further protection at times of market volatility.

Costs

ETFs offer a lower cost structure than traditional unit-linked funds. For example, a typical unit-linked fund would usually levy an annual management fee of approximately 1.50% per annum. ETFs, on the other hand usually charge an annual management fee of between 0.25%–0.50%. Like equities, commission is payable on the purchase and sale of ETFs.

Diversification

ETFs offer investors the scope to diversify their equity exposure through an instrument with all the features and advantages of a quoted stock but without the concentrated risks associated with individual stocks.

More Efficient Portfolio Management

ETFs allow individual investors more freedom in personalising their own portfolios. Instead of merely buying the S&P 500 as a means of gaining broad equity exposure, investors can use ETFs to, for example, overweight preferred sectors (Semiconductors Vs Financials), management styles (Growth Vs Value) or large/mid-cap stocks. As more ETFs come to market, the choices will expand.

Examples of Index-Based ETFs

DIAMONDS[®] based on the Dow Jones Industrial Average (DIA).

SPDRs[®] based on the S&P 500 Composite Stock Price Index[®] (SPY).

MidCap SPDRs[™] based on the S&P MidCap 400 Index[™] (MDY).

Nasdaq-100 Index Tracking StockSM based on the Nasdaq-100 Index[®] (QQQ).

Dow Jones Global Titans Index Fund based on the Dow Jones Global Titans Index[™] (DGT).

iFTSE 100 based on the UK's FTSE 100 index.

iFTSE Euro 100 based on the European & UK Linked FTSE Eurotop 100 index.

Euro Stoxx 50 LDRS based on the 50 largest companies in Europe (excl. UK).

There are also a number of sector specific funds available for individual investors.

Frequently Asked Questions on Exchange Traded Funds (ETFs)

Where can I buy or sell ETFs?

You can buy or sell ETFs through a stockbroker, such as NCB, in the same way as you buy and sell direct equities.

How easily can I buy or sell ETFs?

ETFs are listed and traded on all the major Stock Exchanges and can be purchased or sold during normal trading hours.

What is the minimum purchase?

You can purchase, as little as one share but most stockbrokers will operate minimum investment amounts as they do for direct equities.

Why invest in an index?

An index represents a large collection of stocks spread across many different sectors. By investing in an index, an investor is reducing the risk that would otherwise be associated with an investment in one or more of the individual underlying stocks. Index investing is a lower risk strategy to gaining equity exposure.

How does the performance of an ETF compare with the performance of its underlying portfolio of stocks?

ETFs are designed to provide investment results that generally correspond to the price and yield performance of their underlying portfolio of securities. One market mechanism that helps to keep an ETF trading at a price close to the value of its underlying portfolio is arbitrage. Because ETFs are both created from the stocks of an underlying portfolio and can be redeemed into the stocks of the

underlying portfolio on any day, arbitrage traders will move to profit from any price discrepancies between the ETFs and the underlying portfolio of stocks.

Do I get paid dividends?

ETF holders are eligible to receive their portion of dividends, if payable by the underlying companies, accumulated on the stocks held in the fund, less any fees and expenses.

Where can I get up-to-date price information?

Like other equities, ETF price movements are recorded on the relevant stock exchange and can generally be accessed daily in newspapers or designated web sites.

For more information on ETFs please call Nigel on 01 611 5611 or email nigel.poynton@ncb.ie

SIX OF THE BEST

In this first issue we have reviewed all the funds on the Irish market and highlight a number of attractive options ranging from geared property funds to specialist equity funds.

1 New Ireland Balanced Managed Fund

This fund maintains a balanced spread of assets with above average growth potential together with assets with an appropriate level of security. This fund maintains a level of equities generally ranging between 50% and 80% with the remainder in property, fixed interest and cash.

New Ireland's Balanced Managed Fund has been consistently ranked in the top quartile for fund performance within the 'conservatively managed' fund sub-sector. The fund managers 'style' (BIAM) would be that of a 'value-based' investment manager concentrating on companies with proven track records of delivering consistent returns who are usually trading at discounts to their peers.

Key Features

- Minimum Investment €5,000
- Award winning performance
- Access to over 20 different funds
- Over 20 year track record

2 Eagle Star 5 Star 5 Fund

The Eagle Star 5 Star 5 was launched on the 1st January 2001. The fund invests in 5 Global sectors with 5 stocks in each sector. This is an aggressively managed fund that will choose sectors and companies that have the potential to out perform over the medium term.

This fund will suit investors who want their investment to be actively traded but perhaps do not have the time or expertise to do it themselves. The 5 Star 5 offers a flexible 'top down' approach so it is not restricted to any single valuation style such as value or growth.

Key Features

- Minimum Investment €5,000
- Actively managed growth fund
- Excellent track record

3 New Ireland UK Geared Property Fund

This new fund gives investors an opportunity to access a professionally managed portfolio of UK properties. The portfolio will consist of 8 to 10 properties, three of which have already been acquired. The fund will primarily invest in retail, industrial and office properties throughout the UK. The main advantage of this fund is the use of gearing. Up to 66% of the purchase price of the properties will be financed through non-recourse borrowing, which offers the potential of stronger returns. It should be noted that the investment term is five to seven years and the fund will be open for a limited period only.

Key Features

- Minimum Investment €30,000
- 5 to 7 year term
- Potential for excellent returns through gearing
- Bricks & Mortar security with strong growth potential

4 Canada Life Dividend Bond

The Canada Life Dividend Bond invests in a portfolio of blue chip companies with a history of above average dividend yields and the financial strength to continue to pay such dividends. In addition to receiving an expected annual dividend of 4% there is also the possibility of capital appreciation on the portfolio which contains approximately 40 shares.

The Dividend Bond is ideal for investors who require income as you can receive your dividends on a half yearly basis. If you do not require income the dividends can be re-invested into the fund. The investment style is primarily 'Bottom up/Stock pickers' with an orientation towards Growth At a Reasonable Price (GARP).

Key Features

- Minimum Investment €10,000
- Up to 7.5% income
- Average dividend 4%
- Actively managed portfolio of high yielding shares

5 Fidelity European Growth Fund

The Fidelity European Growth Fund is a true stock picking fund. The portfolio is built solely on a stock-by-stock basis and has an unrestricted investment mandate. Fidelity invests wherever they find undervalued securities and this can mean that the fund differs significantly from the benchmark, the FTSE Europe index, in terms of geographic and sector weightings. Bottom-up research is carried out by Fidelity's team of equity analysts in Europe, organised on a pan European sector basis. The fund has a bias towards small medium sized companies because the manager believes these stocks have greater upside potential as they tend to be less intensively researched by the market.

Key Features

- Minimum investment €20,000
- Top quartile ranking since launch
- Award winning fund manager
- Has out-performed the index over the last 5 years

6 Standard Life UK Property Fund

The Standard Life UK Property Fund is a well-diversified portfolio of 23 UK commercial properties providing a balanced exposure to the office, retail and small industrial sector. This fund is also well diversified geographically and has approximately a 30% holding in Scotland. Standard Life has no leverage within the fund and 95% of the foreign exchange risk is hedged against the Euro.

Key Features

- Minimum Investment €10,000
- Non geared fund
- Currency is hedged
- Award winning property fund manager

For more information on these funds or any 'pooled funds' please call Killian on 01 611 5611 or email killian.nolan@ncb.ie

Advantages of Investing in 'Pooled Funds'

Tax

Since January 2001 investors in 'pooled funds' do not pay tax on gains made while they remain within the life companies' umbrella of funds. Investors can manage their portfolio for years by switching, for example, from equities to cash and cash to property, without paying tax.

However the life assurance company is obliged to deduct an exit tax on any gains or investment income generated during the life of the product at the standard rate of income tax (currently 20%) plus three percentage points.

Diversification

'Pooled funds' offer investors the advantage of investing in a diversified portfolio of equities, bonds, property and cash all within a single investment. This allows investors to reduce risk through diversifying their assets, with a relatively small amount to invest.

Investors can also diversify their portfolios by choosing professional fund managers with different management styles.

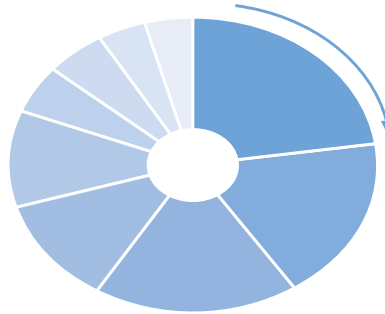
Income

'Pooled funds' can be an ideal way for investors to receive a regular income. Income received is net of tax so investors do not have to make any returns to the revenue.

FACTS & FIGURES

1 New Ireland Balanced Managed Fund

Sector	%
Irish Equities	21%
US Equities	18%
Fixed Interest	17%
Euro Equity	12%
UK Equities	10%
Property	5%
Japan	5%
Non Euro Equities	4%
Pacific Basin	4%

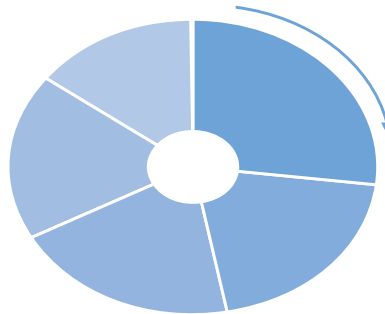


Top Ten Holdings

Allied Irish Bank
Altria
Anglo Irish Bank
Bank of Ireland
CRH
Gannett
Irish Life & Permanent
Johnson & Johnson
Nestle
Sysco

2 Eagle Star 5 Star 5 Fund

Sector	%
Finance	26.93%
Information Technology	20.11%
Consumer	20.00%
Resources & Infrastructure	18.22%
Healthcare	14.51%
Cash	0.22%

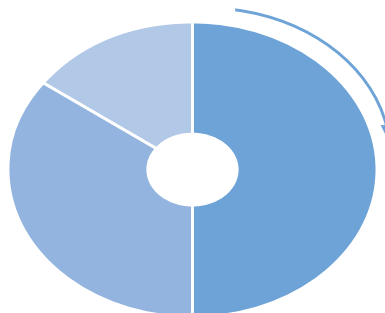


Sample Holdings

UBS AG
Prudential Financial
Skandia Forsakrings
Enterprise Inns Plc
Pepsico
Tandberg ASA
Samsung Elec
CRH Plc
Monsanto Co
Aetna Inc

3 New Ireland UK Geared Property Fund

Sector	%
Office	35%
Industrial	15%
Retail	50%



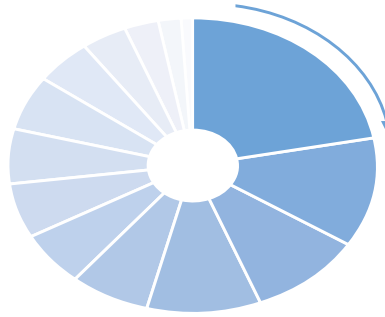
Tenants

Woolworths
PC World
Curry's
W H Smith

Note: This is a new fund and New Ireland have only purchased 3 of the proposed 10 buildings.

4 Canada Life Dividend Bond

Sector	%
Banks	22%
Consumer Staples	12%
Construction/Basic Materials	10%
Energy	10%
Capital Goods	7%
Healthcare	6%
Utilities	6%
Telecom Services	6%
Consumer Cyclical	6%
Insurance	5%
Cash	4%
Autos	3%
Media	2%
Other Financials	1%

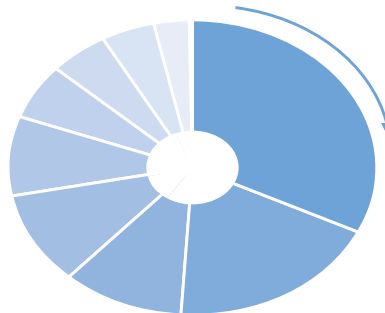


Sample Holdings

	Yield
Royal Dutch Petroleum	4.34%
Allied Irish Bank	4.26%
Peugeot SA	7.38%
Merck	3.25%
Verizons Communication	4.19%
GlaxoSmithKline PLC	4.05%
HBOS	4.20%
Total Fina Elf SA	2.89%
Vinci SA	2.85%
Diageo PLC	3.78%

5 Fidelity European Growth Fund

Sector	%
UK	32.20%
Other	18.80%
Germany	10.70%
Switzerland	10.20%
France	8.70%
Italy	6.10%
Spain	5.20%
Netherlands	4.70%
Greece	3.10%
Cash	0.30%

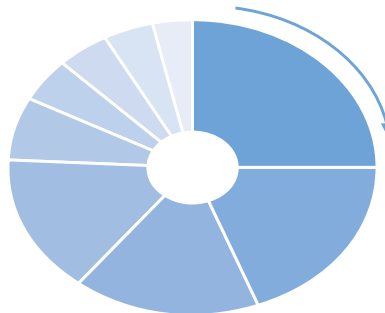


Top 10 Holdings

Vodafone Group
Roche Holdings
Vivendi Iniversal
Morrison Supermarkets
ITV
Allianz
Philips Electronics
MMO2
Repsol
Nokia

6 Standard Life UK Property Fund

Sector	%
Offices (rest of UK)	25.00%
Retail Warehouse	19.20%
Standard Retail (rest of UK)	16.40%
Industrial (South East)	15.20%
Shopping Centres	6.90%
Industrial (rest of UK)	4.80%
Offices (rest of South East)	4.60%
Leisure	4.40%
Offices (West End)	3.50%



Key Tenants

Mothercare
Argos
Lloyds UDT Ltd
Waterstones
William M Mercer Ltd

RETIREMENT PLANNING

FINDING GOLD AT THE END OF THE RAINBOW

Ask many clients about their ultimate financial objectives and they are likely to tell you that they aspire to be independent, debt free and in control of the wealth they have accumulated.

Ask many of them what plan they have in place to achieve financial independence and in a high percentage of cases, the responses will be vague and their plans, if any actually exist, are uncoordinated.

And yet, every day we read about the vast sums being invested in property by Irish investors, we have witnessed the enormous take up of the Government sponsored SSIA's and we know that as a nation, Irish people have always had the good sense to think about the 'rainy day' and to provide for it!

However, ask them about pensions or a more correct term, in our view, Retirement Planning and the shutters come down!

So why do clients, at least, initially respond in this way when this important topic is raised?

Our feedback from clients indicates serious cynicism and dissatisfaction with the pensions industry and with the methods used to attract customers. A classic case of the very relevant and highly important message being lost in transmission.

Very often too, in their haste to sell a 'pension', some advisers have failed to highlight the enormous opportunities that this area now presents. Another classic case of selling the features and not the benefits.

So what are these benefits and why should this whole area now enjoy a far higher profile in everyone's personal financial planning.

Indeed, why should anyone plan for retirement?

Conventional wisdom suggests that our own homes will ultimately become our greatest financial asset. This notion is now under serious threat as a result of a series of legislative changes in the pensions area.

The traditional 'pension' was sold on the basis that it provided you with 'income' in retirement and allowed you to see out your dotage without the necessity to work.

But the rules have changed significantly.

Love him or loathe him, our incumbent Finance Minister has introduced very innovative and radical legislation in this area since 1999.

So, if you happen to be self employed, a proprietary director of a company (over 5% equity), or if you are topping up your company pension scheme through AVC's (Additional Voluntary Contributions), retirement planning affords you the potential to keep your accumulated fund (and part of this is tax free too!)

At a time of unprecedented growth in our personal wealth, many clients who may be nearing retirement now have the choice of taking 'capital' instead of 'income'. This capital can be retained, invested, used and, crucially, if required, passed on to the next generation tax efficiently.

Marry this opportunity with the tax reliefs which are available for contributions and the tax free status of the funds in to which those contributions are invested, and it begins to defy logic that those investors looking for financial independence don't give this topic serious consideration.

We recently came across a company director who was about to retire. His pension fund was worth €5 million. When he was told that he could keep 25% of this tax free and buy an Approved Retirement Fund (ARF) with the balance, he almost collapsed!

Or the senior manager in a company where he didn't own 5% of the equity of the company, we converted his €100,000 a year pension (only guaranteed for 5 years in the event of death) in to a fund worth €1.5 million, capable of being invested and passed on to spouse and children. This client didn't need a pension having already accumulated other substantial wealth.

And it doesn't end there. Proper use of the reliefs / benefits available for company directors in this area, allow for significant extraction of funds from their companies to provide for retirement benefits.

For example in the case of a 45 year old earning €150,000 p.a. where his company is looking to provide a maximum pension for him at 60, the company could contribute 180% of current salary every year to age 60 (the amount of funding can change if salary changes or if additional provisions are included).

That's over €4 million for which the company enjoys corporation tax relief, the employee (in many cases the owner of the company) sets up a retirement fund of which up to 25% can be retained tax free with the balance used to buy an Approved Retirement Fund (ARF).

For a nation that has a huge aversion to paying tax, it again beggar's belief that legitimate and revenue approved tax efficient schemes don't feature at the top of anyone's list of available avenues for investment.

Consider this:

You're a self employed professional aged 50 earning €200,000 in net relevant earnings each year. You can invest €60,000 p.a. in a personal pension (or a new PRSA pension) up to age 75. Relief is available at your marginal tax rate (generally 42%). When you retire, up to 25% of your fund is tax free and the balance can, if required, be kept.

Or:

You are an employee in a company with a defined contribution scheme (this means that your fund value at retirement will define your pension). In addition to employer's contributions, personal contributions up to 30% of your gross salary can be made for which relief at 42% is available - and the AVC proceeds can be kept at retirement through the purchase of an approved retirement fund.

Significantly, much of the evidence suggests that these reliefs are often ignored. Of equal significance in this age, where the capital value of the pension fund can be kept, is the 'investment management' of the fund. Clearly, this element should interest investors, as the size of the fund, is ultimately determined by how well the contributions are invested and managed. This is equally important in Retirement, where ARF's require ongoing management to achieve prescribed objectives.

So, whether you are miles from retirement or have opted to keep your pension in the form of an ARF, you're going to need a 'bespoke' strategy which best suits your own objectives and circumstances.

NCB has developed a very strong franchise in this area. We can offer you advice on both a suitable 'structure' and on the best investment strategy for your fund.

For more information on retirement planning please call Joe on 01 611 5611 or email joe.hanrahan@ncb.ie



Wealth Management Services

- Independent Investment Advice
- Portfolio Management
- Stockbroking
- Retirement Planning
- Private Equity
- Cash Management
- Investment Funds
- Structured Products
- Alternative Investments

For more information on our wide range of services please contact us at:
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