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Newsletter Contents

After the election – what impact for investors?

Our reaction 10th May 2010

As the UK sits against one of the most uncertain economic backdrops it has seen for decades, one must look a little closer to spot the potential opportunities for investors.

While experts claim most of the bad news has already been factored into equity and bond markets, the plain fact is that markets generally like certainty. If sterling falls weaker, it could be disastrous for gilt markets – at a time when the government needs to be enticing new sovereign investment.

A knock-on effect is the impact on corporate paper. If 10-year gilts are yielding around 4%*, quality corporate bonds may be yielding 1.5% or so higher, making them look attractive.

On Monday morning, 10 May, sharp corrections occurred of around 5% in both the German DAX and FTSE 100 – largely driven by financials**.

This may be the result of the emergency funding facility recently agreed that the European Union and International Monetary Fund would support the eurozone by as much as €720bn. The news means a Greek default and subsequent contagion of other European nations is unlikely. This should therefore reassure investors, previously nervous of the impact the problems in Greece would have on the base currency.

While UK equity and bond markets have seen what some have termed premature sell-offs, it is worth noting that around 70% of UK-listed companies derive their earnings from overseas, so we are actually less vulnerable than it might first seem.

That said, the extreme short-term volatility, uncertainty and white noise that is coming at investors from all sides means it is more vital than ever to seek trusted advice and once again demonstrates the importance of investing for the longer term. As always, if you are considering your investments and options at present make sure you contact us before taking any action that could jeopardise any longer term gains.

Sources:
*http://markets.ft.com/markets/bonds.asp
**FT.com

"Do you need a financial review?"

Call us today or complete your Reply Card on page 7 of this newsletter

Never too early

- 51% of teenagers said they would like to learn how to control their spending
- 23% of teenagers tend of think of overdrafts as an easy way to spend more than they earn
- Over 50% of teenagers have been in debt by the time they are 17

Source www.pfeg.org

Financial education for young people is becoming more and more relevant with each year that passes. With a growing and ageing population, there is not the same ability to rely on state benefits there once was.

In March 2010's Budget, the current state pension was increased marginally to £97.65 a week, which, given the growing cost of living, doesn't allow for much to play with.

In addition, as the grant system is tightened, people are coming out of university already in debt without any real knowledge of how to handle it.

While there is a level of personal responsibility that requires people to take control of their own spending levels, the earlier people are taught about the value of money, saving, spending and borrowing, the more natural these things are to deal with, hopefully resulting in a more sensible generation when it comes to money than we have witnessed since the late 1970s.

A combined effort was launched between the Secretary of State for Children, Schools and Families, Ed Balls; Martin Lewis of Moneysavingexpert.com; and the Personal Finance Education Group (pfeg) – an educational conference called *Pocket Money to Pensions: Helping young people become financially capable*, which ran in central London on Budget day last month.

The government also launched My Money Week 2010, which will run from June 28 to July 4, in a bid to see a greater emphasis in schools around the country on financial education.

Mr Balls said: "These young people are our future and will be making important financial decisions in years to come. It's really important that we teach our children to become savvy consumers and that they learn about money matters like pensions, responsible saving and effective money management."*

As the world reels from the effects of the subprime lending crisis and subsequent economic meltdown, a greater understanding of the effects of overborrowing and overspending needs to be at the forefront of people's minds – and educating children is essential.

*Source www.pfeg.org

Sticking with the long game

When it comes to investments, the common message that the industry gives out is that it is a long-term play.

You need to be prepared to lock your money away for a lot longer, in order for it to start performing as you might like it to – i.e. gaining rather than losing value.

While the instability of the last few years has left some people questioning their faith in stock markets, the March 2009 low, followed by the apparent recovery is indicating we may be over the worst of the recent past.

This renewed confidence, combined with a low interest rate environment is testament to the idea that over time, long-term investing in the markets will deliver positive returns compared to holding money in a bank account.

But how long is long-term?

Most advisers would recommend that a fund is only really worth looking at once it has built up at least three years of traction, to demonstrate that the fund manager really knows what he or she is doing and is not 'fluking' it.

But it is really after 10 years that you can see whether your investment is worth sticking with. This allows for different market conditions – affected by anything from a war, to swine flu to a new American president – as well as the normal peaks and troughs.

Markets move in cycles, however, and while there will be periods of decline, where your temptation might be to haul your money out and stick it under your mattress, this strips out any opportunity for further gain. If your assets have reached a low, it is more than likely they will eventually rise again, and that is the point at which investors ought to think about reaping their rewards.

So, while we know we should hold our money in the market for longer, what are the tangible benefits of doing so? Over time, the markets – both UK and US equities, and government bonds – have outperformed cash substantially. According to Morningstar, over five years, where the FTSE All-Share has delivered 43.47%, the S&P 500 Index has returned 42.38% and Gilts have gained 27.95%. Meanwhile cash (UK Savings, £2,500+ Index) has delivered 6.21%.

According to Barclays Stockbrokers, over any consecutive 10-year period, a negative real return has only occurred twice since December 1899 – and while you should never judge investments on past performance – that's a pretty encouraging track record.

Concerned about the performance of a fund or want to invest for your future? **Contact us** and we'll help you decide on the best options to meet your desired outcome.

The value of staying invested

Market	Index	Amount invested	Annual % return stayed invested	Best 10 days missed	Best 40 days missed	Cumulative % return 15 years	Best 10 days missed	Best 40 days missed
UK	FTSE All Share	£1,000	7.64%	3.36%	-3.71%	201.66%	64.16%	-43.28%

Source: Datastream, total return in GBP
Annual 26/02/2009 to 26/02/2010. Cumulative 28/02/1995 to 26/02/2010

Budget highlights – the main tax and pension changes

Many measures in the Chancellor's speech had been announced in previous budgets and pre-Budget speeches but are coming into effect now.

The most controversial change in March 2010's Budget has proved to be that around National Insurance. This will mean that from April 6 2011, employer's NI contributions will increase by 1% to 13.8%. For employees, their NI contributions will increase by 1.0%. The measure has been criticised by the Conservatives who have said the tax rises will hurt jobs.

Many of the Budget measures could be reversed, of course, following the outcome of the election. It is expected that a new administration would hold an emergency budget fairly soon.

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Considering the best option

'Budget highlights' continued

There will be a new additional rate of income tax at 50% for those with an income of over £150,000. For those lucky enough to receive City bonuses there will be a one-off bank payroll tax of 50%.

The pension annual allowance increases to £255,000 and the lifetime allowance to £1.8m, which then remains at the same level until 2015/16.

Meanwhile income tax relief for pension contributions made by high earners (or employers) is to be reduced from April 6 2011 alongside the introduction of a benefit in kind charge. A special annual allowance charge is designed to stop people paying abnormal contributions before this date and could apply to people with incomes at a level of £130,000.

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People often spend a lot more time considering how they save and invest for a pension than how they then take an income from it. But that decision is equally as important. A lot of people simply accept the income on offer through an annuity provided by the firm that they saved for a pension with, when they reach retirement age.

However there is absolutely no obligation to do so. A lot of work has gone into encouraging people to take what is known as the Open Market Option (OMO), effectively shopping around for a better deal.

It is sometimes possible to get a better level of income by comparing what other providers would offer for your pension "pot", and there can be significant differences in the level of incomes which might be available.

One thing is compulsory at the moment. There is a requirement to buy an annuity at 75 unless you opt for an alternatively secured pension. However there are tight restrictions on the income you can take from this and the tax charges on death are very high – currently a whopping 82%.

However the income options before 75 are extensive. You may take a "level" annuity from a provider, but this will not go up (e.g. to keep pace with inflation). Some industry experts describe this as accepting you will never be able to give yourself a pay rise again.

Another strategy that avoids the risk of inflation eroding the real value of your annuity income is to buy an annuity that is inflation proofed. For example the income paid can be linked to the retail price index or you could buy an escalating annuity which rises by a fixed amount each year. These types of annuity do cost more at the start and therefore a lower initial income would be paid at outset.

You may qualify for an enhanced annuity if you are not in perfect health. This means the annuity provider calculates how long you may live depending on any medical conditions you have. That is the bad news. But the good news is that you could get more money from the annuity provider, because they tend to offer better rates to those with a reduced life expectancy.

In fact, reasonably healthy people who may not regard themselves as particularly ill may also qualify for an enhanced annuity. Some insurers (rather controversially) vary the level of the annuity they will pay you depending on where you live and the local life expectancy, a system known as postcode annuities.

If you are married you may also wish to consider a joint life annuity which will be paid to your partner if you die.

You could buy a fixed-term annuity that pays you a fixed income for a set number of years (e.g. from 5 years) extending up to age 75. If you survive until the end of the term you receive a maturity payment which can be reinvested. There are also death benefits. The range of providers of these products is growing and they offer different features and different conditions. They may offer a minimum income guarantee or a guaranteed payout at the end of the term.

Variable annuities or third-way products provide some of the flexibility of an income drawdown plan, whilst at the same time providing an element of secure income that is found with an annuity. Some regard it as a drawdown plan with a guarantee. However those guarantees have proved particularly expensive. Taking advice is therefore essential.

Fixed term and variable annuities are quite complex products that require a consideration of several factors about your life, your appetite for risk, what guarantees they offer, how much those guarantees cost, what funds they may potentially invest in, whether you think your health may deteriorate and what level of death benefit is paid. Again, advice on these products is essential.

Some providers also offer with-profits annuities. As the name suggests, this is invested into the insurer's with-profits fund rather than say into gilts. Your income may fall below that of a conventional annuity if the fund does not perform and returns a certain agreed rate, but obviously if things go well, your overall benefits may rise. Once again advice is essential.

For those who have a substantial sum saved in their pension and/or in other investments, you may choose to use an income drawdown plan where your money is invested in a range of funds in a bid to keep your money working, while also paying you an income. It does carry a risk that your income could fall if stock markets do not perform, and if you do not reduce your income your capital could then erode swiftly.

Of course you may decide to invest in a combination of these products, say a fixed annuity and an enhanced annuity in part of a drawdown plan. It is a personal choice and in this complex area we can provide the necessary specialist advice. So **contact us** to ensure you consider the open market options that best meet your requirements.

The changing face of advice

Financial watchdog, the Financial Services Authority has confirmed plans to require financial advisers to increase the level of qualifications and change the way advice is paid for on investments and pensions.

The changes will come in at the end of 2012. Advisers will have to agree all charges with clients under a system known as 'adviser charging'. Currently clients and their advisers agree whether the client will pay a fee for advice or if the adviser will be paid by a product provider through commission.

From the end of December 2012 all commission payments on investment and pension products using an adviser will be banned. Clients will have to agree an 'adviser charge' to pay for the advice. The move is designed to remove any suspicion the adviser may bias a sale to earn a higher commission.

If an adviser recommends only protection insurance i.e. income protection, critical illness cover or life insurance, adviser charging may not apply, though there will be more disclosure of costs. These products will still pay commission. However some form of adviser charging may apply when you are receiving advice across a range of products that includes not just protection insurance but also an investment or pension recommendation. The FSA is still consulting on this part of the proposals.

A similar system to adviser charging will apply to group personal pensions, known as consultancy charges, which are agreed by the employer and the adviser. However pension schemes already set up on a commission system will continue to pay commission, for example where an adviser signs up new members to the scheme.

Advisers must also increase their qualifications by passing more exams or through workplace assessments to a level known as QCA level 4. This effectively doubles the current level of qualifications advisers must attain before they are allowed to act as advisers. The requirement covers all existing advisers too.

'Budget highlights' continued

Membership of a company pension arrangement becomes taxable like a benefit-in-kind from 6 April 2011 affecting those with relevant income of £130,000 per annum or more and gross income of £150,000. The charge operates between 0 and 30% with a taper for gross income between £150,000 and £180,000. The details are still being consulted on.

However there is some good news on Isa limits with the annual limit increasing to £10,200. The Chancellor also said the limit would increase by inflation from now on.

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We'd all like to know we can grow old gracefully

'Budget highlights' continued

The Budget also introduced stamp duty relief for first-time buyers on properties under £250,000 for the next two years but will hit homes over £1m with a 5% stamp duty tax from April next year.

If any of the changes in the budget give you cause for concern e.g. tax planning or pension planning, please **contact us** – we will be happy to advise you.

The last thing anyone should do is rely on central and local Government to pay for their care needs, because they will make most people with savings and property pay a considerable proportion of the costs. If you do need care in later life, how you are treated and charged varies massively across the country. Many areas impose means testing, sometimes forcing people in care to sell their houses to pay for it.

The system varies in the different parts of the UK but by and large, if you have assets of around £22,500 or above including your house you may have to contribute substantially to your care costs.

A council should not be able to make you sell your home if your partner lives there as their primary residence, but people who pass their home to their children may still be liable. Different councils apply different interpretations.

At one point, Labour considered plans to introduce a compulsory 10% levy on death – dubbed a 'death tax' by the Conservatives. Labour dropped the plan. But in one of the few big ideas to feature in the election, it has proposed a National Care Service similar to the NHS. It pledged that if re-elected no pensioner will have to pay the charges for more than 2 years in a care home. This change would come into force in 2014. After 2 years, the Government will meet the full nursing costs of care – though not accommodation costs.

The average length of stay in a care home is 2 years – but a 2-year cap could save families thousands with a year in a care home costing around £30,000.

Labour also wants a special, all-party commission to decide the ideal way of funding the changes and will seek to stop different councils applying different standards.

It is thought Labour might fund this by freezing inheritance tax for one Parliament, increasing the statutory retirement age from 65 and improving efficiency. It is offering £4.7bn worth of measures, including the transfer of £1.8bn from the NHS budget into social care from 2014-15, and £2.2bn in savings from helping people to stay in their own homes instead of going into residential care. The freeze in inheritance tax thresholds for four years, announced in the budget raises up to £500m a year.

The Tories have announced their own proposal for a voluntary insurance scheme. Their plans cost £8,000 per person. The money would be paid at age 65 or later, but not at death.

Any changes to care proposals won't come into force for several years and some of the policies remain hazy. The advice would seem to be that if you wish to avoid the lottery of what your council does or what the national politicians decide to do, you need to consider how you plan for any future care needs carefully.

Those with the means may well wish to stay out of reliance on the council system altogether and make their own plans. Those who rely on the council and try and avoid a forced house sale must also be very careful how they plan for things too. For help on these issues and to talk to a professional about measures available to plan for Long Term Care please **contact us** - we'll be happy to help.

Let's play footsie!

The FTSE 100 index, often referred to informally as the 'Footsie', is a share index of the top 100 companies publicly listed on the London Stock Exchange. The company is a joint venture between the Financial Times and the London Stock Exchange – hence the name.

The public listing means that all the companies are legally required (with one or two exceptions) to have "plc" at the end of their name. It is these 'listed' companies which are able to sell their shares and therefore pay out a dividend to shareholders.

The index was opened on January 3, 1984, with a base level of 1,000. When people refer to the FTSE reaching certain levels, it is in relation to this base point – for example, the highest value reached to date is 6,950.6, seen on December 30, 1999.

The FTSE 100 measures the top 100 companies, known as 'blue chips', because the highest valued chips in poker are usually blue in colour. This could be seen to serve as a reminder that investing is a gamble, and you must be prepared that performance levels are never guaranteed.

FTSE 100 companies currently represent roughly 80% of the market capitalisation of the whole of the London Stock Exchange. This market 'cap' will define the size of the company – common phrases you will hear include mega, large, mid or small caps.

The FTSE All-Share aggregates the FTSE 100, the FTSE 250 and FTSE 350 indices. The six largest constituents of the FTSE 100, said to represent over half of UK dividend payouts, are HSBC, Unilever, Shell, BP, GlaxoSmithKline and AstraZeneca.

The main market (outside of Aim, the Alternative Investment Market) is made up of companies from 42 sectors, covering fledging growth stocks to huge multinationals. Its combined capitalisation is currently £4.3 trillion.

The market is updated every 15 minutes and trading opens at 0800 and closes at 1629, with closing values taken at 16.35. It is often used by the industry, consultants, stock brokers, fund managers and financial advisers to determine the ranking of companies on a like-for-like basis.

If you are considering investing in equities contact us, we can help you determine the best performers and products to meet your requirements.

- The FTSE 250 Index comprises mid-capitalised companies not covered by the FTSE 100, representing roughly 15% of UK market cap
- The FTSE SmallCap Index includes those outside the FTSE 350 Index (the combined FTSE 100 and FTSE 250), making up around 2% of UK market cap

Your Reply Card

Our aim is to provide clear, unbiased and well-informed advice. We also want you to have as much information and assistance as possible in helping to plan your financial future.

This Reply Card helps you to get in touch and tells us how we can help you. All you have to do is indicate your area(s) of interest and return this card to us – postage paid – or give us a call.

I would like to discuss the following with an adviser:

- ☐ A review of my existing investments
- ☐ New investments – ISA / Equities / Other
- ☐ Annuities / Pension options
- ☐ Long Term Care planning
- ☐ Mortgage advice
- ☐ Tax planning
- ☐ Pension planning

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Now we'll remember the first time

Stamp duty got a pretty radical overhaul in the last Budget. The charge has been temporarily axed on homes worth less than £250,000 for first-time buyers (FTBs) from 25 March for 2 years. This is a tax 'holiday' rather than a permanent change so this may not be retained in 2 years' time.

To be regarded as a first-time buyer, you must not have owned a property before, anywhere in the world. The completion date on any property sale must be on or after the 25 March 2010 and before the 25 March 2012. The Council of Mortgage Lenders estimates the holiday could help 136,000 FTBs.

To pay for this, the Chancellor has introduced a higher rate of stamp duty, at 5% on those with homes worth over £1m, although this does not come into force until April 2011.

Outside of the holiday period, properties under £125,000 pay no stamp duty; between £125,000 and £250,000 it is 1%; above £250,000 up to £500,000 it is 3% and 4% above £500,000.

Zero carbon homes, below £500,000, do not pay stamp duty though the qualifying criteria are very strict. Above £500,000 they get a reduction.

In many years, the Government has not increased stamp duty thresholds in line with house price inflation. Had they done so, since the bands were introduced, the 3% band would start at £694,000 and the 4% band would start at £1.39m, according to Nationwide.

This fact has proven a major assault weapon on the duty by the opposition parties. This tax holiday pre-empts the Conservative plans to do the same. They have been promising to exempt stamp duty on properties worth up to £250,000 since 2007, funded by a levy on non-domiciles, rather than a higher charge on houses worth over £1m.

No doubt the stamp duty holiday will help to stimulate the housing market and mortgage demand. If you need advice on any mortgage requirement – either to help a FTB get a foot on the ladder or for your own needs we can help – just **contact us**.

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