Wise Words
the latest financial news from Aaron Tawny

A timely investment reminder

We were sent this article, which I hope you will find interesting reading!

With the dramatic falls in global stockmarkets in 2008, an accompanying 'credit crunch' that led to a lending problem for the Banks, which in turn helped cause a major slump in economic activity worldwide from September, you could be forgiven for thinking that investing in shares was more trouble than it's worth.

But while understandable, this view may be a dangerous one when considering long term financial planning – shares have tended to outperform other asset classes over the long term. And, typically, the best time to buy them is when few other people want to own them.

As James Caan, serial entrepreneur, panellist on BBC2's Dragons' Den and Chairman of INSYNERGY Investment Management says,

> *"The time to invest is when everyone else is leaving the room"*

It's fair to say that we are at such a point now – with world markets falling by around a third since their peak** and investor sentiment remaining extremely poor. There are, however, increasing signs that expert opinion can see past the current uncertainty. If you were to examine the recent views of four of the most respected and successful long term fund managers in the business: Warren Buffet, Crispin Odey, Neil Woodford and Anthony Bolton, you may reconsider that now could be a good time to invest in equity markets:

> *"A simple rule dictates my buying: Be fearful when others are greedy, and be greedy when others are fearful."*

Warren Buffet, arguably the world's best known investor, writing in the New York Times in October 2008, explains why he has moved a large part of his personal portfolio into US equities. He continues...

> *"And most certainly, fear is now widespread, gripping even seasoned investors. To be sure, investors are right to be wary of highly leveraged entities or businesses in weak competitive positions. But fears regarding the long-term prosperity of the nation's many sound companies make no sense. These businesses will indeed suffer earnings hiccups, as they always have. But most major companies will be setting new profit records 5, 10 and 20 years from now."*

> *"We are facing the worst recession in living memory but, as an investor, I am more optimistic today than at any time for 10 years."*

Crispin Odey, in a communication to investors on 31 January 2009. Odey established his own company, Odey Asset Management, in 1991. Seventeen years on, OAM is one of Europe's most respected investment houses. Crispin's expertise is now available to the UK adviser market on an exclusive basis via the INSYNERGY Odey Fund.

A timely investment reminder: continued

A turnaround in 2009?

In an article for FT Money on 2nd January 2009, Anthony Bolton, long time manager of Fidelity's hugely successful Special Situations Fund and one of the most respected commentators in the financial services industry, compares the historical pattern of bull and bear markets to the current situation, considers the indicators of investment sentiment and behaviour, and sets them against the long term (30-40 year) market valuations. Having done so he concludes...

> *"In my experience, when all three factors confirm each other, the odds are that you are near a turning point. It won' t predict the right day, the right week or even the right month, but it might give you the right quarter. All three factors were aligned in the last quarter of 2008, making me optimistic that 2009 will be a better year for equities."*

> *"Good grounds for thinking the stock market has bottomed"*

Neil Woodford: Writing in the Telegraph.co.uk 8 Jan 2009, Neil Woodford, one of Britain's leading fund managers who has run arguably the most popular funds in the UK fund industry for the past ten years, is quoted as suggesting that the stock market may have bottomed. He said:

> *"With the sharp falls in the UK and global stock markets in late 2008, the UK market seems to be discounting an outlook which is at least as bad as that which I foresee. Overall UK equity market indices are now lower than 10 years ago and I think there are now good grounds for thinking the overall market has bottomed."*

Those long term investors who are brave enough to invest when the outlook is gloomy can benefit.

On potential recovery

So called 'timing markets' where investors try to move large parts of a portfolio in or out of investments to take advantages of price falls or rises is notoriously difficult and very few can claim to do it consistently well.

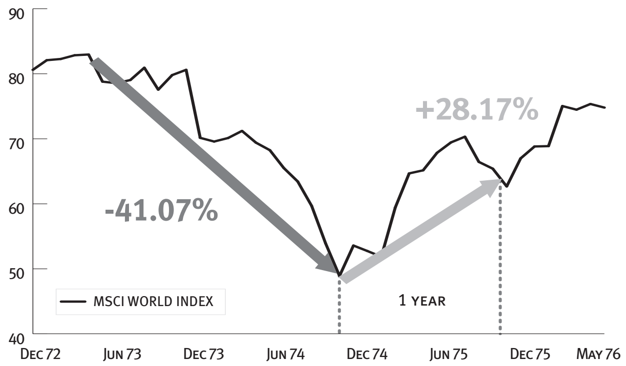
A natural tendency is to invest when all seems to be going well and news is good. This does, however, tend to be accompanied by rising share prices so share valuations will become relatively high. It's less appealing to buy when all the news is bad, even if prices are lower, but once any recovery arrives, the benefits are clear.

Although history is not a guide to future returns, it's interesting to look at how market falls in the past have typically been followed by relatively dramatic recoveries. Those long term investors who are brave enough to invest when the outlook is gloomy can benefit.

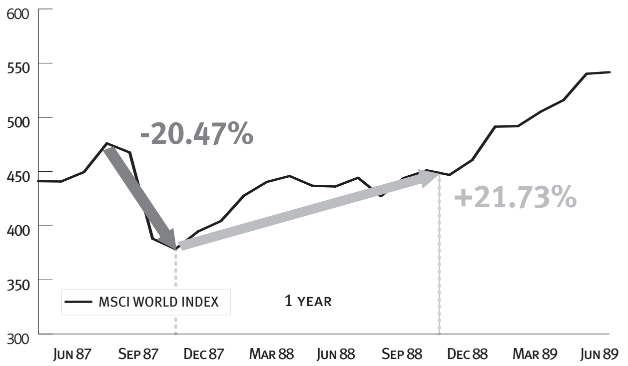
For example, overleaf we show four of the dramatic falls in global markets, with prices falling between 20% and 50%, and the performance over the first year after the 'trough'. As the charts indicate, once the recovery arrives, it can be significant:

A timely investment reminder: continued

1970s



1980s



1990s

2000s

**Chart source Financial Express, using the MSCI World Index, gross total return. When reviewing these charts please remember that the past performance is not a guide to future returns and investors may not get back the full amount invested.

'Credit crunch'

Source Financial Express, data shown taken from peak to trough and then measuring performance over the subsequent 12 months. Percentage change, total return, gross income reinvested.

Waiting until the news begins to improve can risk missing out on the early recovery. As Warren Buffet said in October 2008:

"Let me be clear on one point: I can't predict the short-term movements of the stock market. I haven't the faintest idea as to whether stocks will be higher or lower a month – or a year – from now. What is likely, however, is that the market will move higher, perhaps substantially so, well before either sentiment or the economy turns up...

...so if you wait for the robins, spring will be over."

Note: For further information please call us on 01536 512724.

End of Tax Year:

Tax Allowances - Use them or lose them

Now is the time to consider maximising your ISA (Individual Savings Account) & Pension Allowances, before the cut-off date of 5th April. There are further opportunities to take advantage of the fiscal year allowances involving Inheritance Tax, Capital Gains Allowances etc. and some of these items can be very beneficial to those who may be caught in the ‘’age allowance trap’s.

Individuals can invest up to £3,600 in a Cash ISA

£7,200 ISA Allowances

Each tax year, individuals are able to invest £7,200 into a stocks and shares ISA or alternatively up to £3,600 in a Cash ISA and up to £3,600 into a Stocks and Shares ISA, therefore fully utilising these allowances. These can be invested with separate providers and any cash ISA's can subsequently be transferred into Stocks and Shares, but not vice versa.

Capital Gains & Inheritance Tax

Opportunities exist to take advantage of the fiscal year allowances for these and some could prove beneficial for those who may be caught in the "Age Allowance Trap". The current individual exemption from Capital Gains is £9,600 per annum, before any liability to tax.

Contributions must be made before 5th April

Pension Contributions

Whilst most people won't be able to contribute the maximum annual allowance of 100% of their salary or £245,000, it should be remembered that if contributions, no matter what level, are not made before 5th April, 2009, then that tax year's allowance is lost!

Currently, a gift of up to £3,000 per annum can be made, without any liability to Inheritance Tax and if no gifts have been made in the previous year, it is possible to bring the unused allowance forward for use in the current tax year, giving a total exemption of £6,000. The current year's allowance is offset against the gift initially, with the previous year's allowance used to mop-up any excess.

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Income Tax:
Allowances & Rates

Income Tax Allowances	2008-09	2009-10
Personal Allowance	£6,035	£6,475
Personal Allowance for people aged 65-74 (i)	£9,030	£9,490
Personal Allowance for people aged 75 & over (i)	£9,180	£9,640
Married Couple's Allowance (born before 6th April 1935 but aged under 75 (i) (ii) (iii)	£6,535	£N/A
Married Couple's Allowance aged 75 & over (i) (ii)	£6,625	£6,965
Income Limit for Age Related Allowances	£21,800	£22,900
Minimum amount of Married Couple's Allowance	£2,540	£2,670
Blind Person's Allowance	£1,800	£1,890

(i) These allowances reduce where income is above the income limit - by £1 for every £2 of income above the limit. However, they will never be less than the basic Personal Allowance, or minimum amount of Married Couple's Allowance.

(ii) Tax Relief for the Married Couple's Allowance is given at the rate of 10%.

(iii) In the 2009-2010 tax year, all Married Couple's allowance claimants in this category, will become 75 at some point during the year and will, therefore, be entitled to the higher amount of the allowance - for those aged 75 and over.

Note: Please contact us if you feel we might be able to help with regard to any of this information.

Tax relief for the Married Couple's Allowance is given at the rate of 10%

Contracting out of the State Second Pension (S2P):

In or out, that is the question!

You will recall that we previously showed features/comparisons of being Contracted-out or Contracted-into the State Second Pension and detail it again below for your information.

The choice will be taken away in 2012, therefore as this is a very individual decision, please feel free to call and discuss this.

Features/Comparisons

Contracted Out	Contracted Into S2P
The Government pays your rebate into a pension scheme and fund/s of your choice.	The amount you will get from your S2P will depend upon the amount of National Insurance contributions you pay.
Your level of pension will depend on a number of factors, including: 1. Amounts of rebates paid in 2. Value of fund at retirement 3. Annuity rates at retirement 4. Scheme charges	Government may change pension policy. If that happens, you may end up with more or less than the calculations, based on what your current policy would suggest.
Investments can fall as well as rise, so you may end with a smaller pension than with S2P.	
You can take your pension from age 50 years. (55 years from 2010).	The government will pay your S2P at the same time as your basic state pension.
A tax-free lump sum is available.	No tax-free lump sum is available.
If you die before retirement, your spouse/civil partner can use your fund to provide benefits for them.	If you die before taking your state pension your spouse/civil partner may be eligible for a portion the S2P pension income.
If you don't have a spouse or civil partner, your contracted-out fund can be left as part of your estate.	If you don't have a spouse/civil partner, your S2P benefits are not payable to your estate.
You have more control over your pension fund choices.	The above information is based on tax law at the time of writing and will be subject to change.

Changes to Pension legislation

After 2010 the youngest age people will be able to take the benefits from their pension will increase from 50 to 55 years of age. However, as long as you have reached your 50th birthday, it is still possible to take your tax-free lump sum, without taking an income from your pension. You can also continue to invest in a secondary pension - this may be of interest for anyone needing to get their hands on some cash, especially those who wish to pay off or reduce a debt.

For example, a 51 year old could take the tax-free cash, from their pension fund now, but after 2010 they would have to wait until their 55th birthday, before the tax-free cash were to become available.

As long as you have reached your 50th birthday, it is still possible to take your tax-free lump sum, without taking an income from your pension.

Currently, unless the benefits from a pension fund are taken on or before a person's 75th birthday, the option to take a tax-free lump sum is lost. Recent market turmoil may have had a seriously adverse effect on peoples pension fund values and thus reduced the level of any potential annuity (pension) that they might get. This is further exacerbated by the current low annuity rates offered.

The answer may very well be to take the tax-free cash at 75 then opt for an Alternatively Secured Pension (ASP), which has only recently become available, since this allows a person to take their tax-free lump sum, with the residual fund remaining invested, waiting for markets to recover and/or annuity rates to increase.

So here goes the good, the bad and the ugly of an ASP

THE GOOD:

- The flexibility of varying income to meet the investor's requirements (although legislation demands a minimum amount to be paid!)
- The potential to benefit from a higher annuity rate when and if a lifetime annuity is eventually purchased
- The potential to benefit from investment growth of the underlying fund.

THE BAD:

- Continued investment risk and annuity rate risks
- The need to monitor investment choices and/or pay for advice on a on-going basis
- Paying pension provider fees
- Annual reviews of income limits and plan variations
- The requirement to take a minimum level of income when fund levels are low may accelerate a reduction in the value of the fund.

& THE UGLY:

When taking into account the good and the bad, the ugly truth is that, on death, if there is no spouse, registered civil partner or other dependent, tax charges, under extreme circumstances, could reach 82% of the residual fund.

Under the same circumstances, if taking a lifetime annuity, then on death there is no residual fund. However, if an investor in an ASP wishes to leave their fund to a charity, or has a significantly younger spouse, or registered civil partner, who can take advantage of an Unsecured Income on the investor's death, then this is less of an issue.

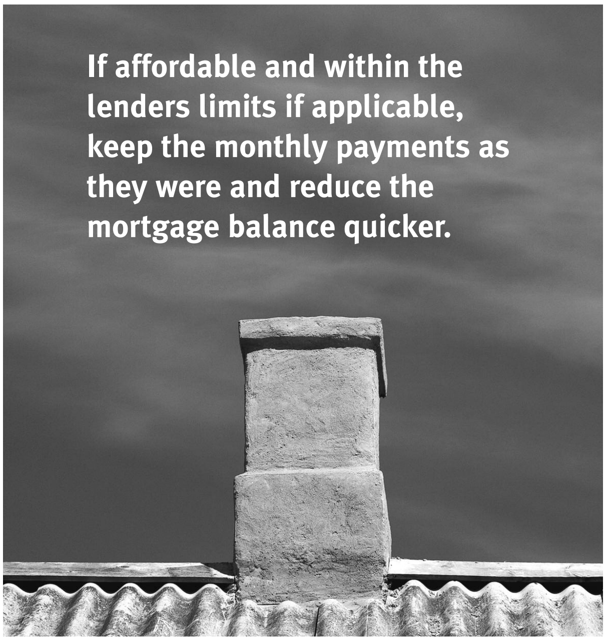
Our View:

It is clear that an ASP will not be suitable for every investor at age 75. However, the current depressed and volatile market may influence the recommendations, making an ASP a suitable option for some. The case for on-going trusted and capable financial advice has never been greater.

Mortgage comment:

Best time ever to reduce mortgage debt

With Bank Base rates and Variable rates currently being at an all time low, now is a great opportunity to reduce mortgage debt if your current mortgage allows, without excessive redemption costs. Clients either coming off fixed rates or, with discount or tracker schemes are seeing lower monthly payments and our advice has been, if affordable and within the lenders limits if applicable, keep the monthly payments as they were and reduce the mortgage balance quicker. We are sure in the future interest rates will rise, therefore as and when they do with mortgage balances having been reduced the starting point will be lower.



Your financial needs: How we can help

All of our advisers are trained to offer unbiased, jargon-free advice on any of these areas:

- Business Protection
- Commercial Mortgages
- Equity Release
- Inheritance Planning
- Investments
- Life Assurance
- Mortgages
- Pensions

Simply call us on 01536 512724 or email us your enquiry at: enquiries@atawny.co.uk

Need to know more?

For any further information regarding any topics covered in Wise Words please contact us, and we will be happy to discuss.

You can call us on: 01536 512724
or email us at: enquiries@atawny.co.uk

We hope you find this a useful and informative read. With our constant strive for excellence in customer service we always appreciate to hear your feedback, whether good or bad.

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