



# Financial Affairs

**A Personal Financial View from Kidd and Co. (IFA) Limited**

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**November 2008**

## Editorial

The “credit crunch” has been with us for just over a year now and shows little signs yet of abating, despite the extraordinary reduction in bank rate and the loans by the government to support the banking system. The banks have tightened up all their lending, including their own inter bank lending. Mortgage providers have reacted similarly and imposed high fees for the loans they do make. The housing market has slowed to a trickle and prices have fallen substantially. The government has leaned on the lenders to bring down their rates with utmost urgency, and the larger ones have done so, reluctantly I feel. Coupled with this has been the soaring price of oil, though it has come down about 50% from its peak price. The knock on effect has unfortunately pushed up the real level of inflation to around 8% on average, though the government chooses to ignore it, as it is an embarrassment. The ways they measure inflation suggest it is only a bit over 5% but we all know when we travel or visit the supermarket the true position. Home repossessions are running at a much higher rate than 12 months ago and are likely to continue to rise this year, as people come out of very low mortgage rates and find themselves facing a large leap in their monthly payments

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## Inside This Issue

-  Investment Review
-  Mortgage Outlook
-  Income Protection
-  Pensions
-  Welcome to new staff

## Investment Overview

This year so far has been a roller coaster year for equity investments. It began promisingly then the market dipped in March. However, it pulled back up well in June and the outlook seemed modestly positive. The American housing crisis worsened and some major financial institutions began to look shaky. As America represents about 40% of the world's economy, doom and gloom spread around the world. The FTSE 100 fell and has stayed low ever since, as have most of the stock markets around the world. China and India's growth rates have fallen though this is perhaps less surprising given the double digit growth they had been experiencing.

In American election years their stock markets have traditionally risen on average 7%, but the way this year has panned out so far, it does not

seem likely. There is much uncertainty around still but there are two ways of looking at it. If you are very risk averse, then deposit accounts are where you should place your money. Savings rates are anywhere between 5% to 7% gross and net down to 3% to 5%. However, if you are looking at a 5% plus inflation rate then your funds will be eroding. Also with the dramatic reduction in bank rate, further decreases in savings rates are likely. If you are not risk averse the equity markets are perhaps the place for you. Prices are low and many good companies are undervalued as a result of the overall downturn in the economy. It could be argued this is a good time to buy, but only as long as you are prepared to take a five-year view. Historically equity markets have outperformed fixed interest and even property in the long term, but at current levels people may feel it is too much of a gamble. If you did want to dabble a little in the market America might be the place to be. The world's largest economy will almost certainly start to rise again. If you are a contrary investor i.e. going against the trend, then the future may look a little brighter.

**The value of investments can fall as well as rise.**

### Mortgage Outlook

The housing market has slowed down to the degree that prices have been falling rapidly. It is very much a buyers market though lenders are looking for much bigger deposits before they offer the better rates. The problem is that the best rates are also usually accompanied by very high arrangement fees, so beware. Many people will be looking to re-mortgage this year, as the low fixed rates of two years ago begin to end. Interestingly enough it may be worthwhile, when you come to the end of your present deal, to just allow your mortgage to switch to your lender's standard variable rate. With the reduction in bank rate SVR's have come down significantly too, so why switch and pay a large arrangement fee if you are saving money anyway. Switching to a new deal may be more of a problem if the property has fallen in value. Certainly people may find that because of the much reduced values, lenders will not allow them to re-mortgage on a like for like basis. They may be asked to put in some additional capital.

The government's new initiatives i.e. increasing the Stamp Duty allowance for 12 months and a deposit assistance scheme do not seem likely to get the housing market moving again. If you are coming to the end of a deal

please give us a call, as we may be able to find you a competitive new one.

In the course of our mortgage work we use a number of solicitors. They all offer high quality solutions and a personal touch when dealing with their clients, something sadly lacking in our modern world

They all offer a comprehensive range of services to both business and private clients alike. If you would need some legal advice please speak to your financial adviser who will direct you to the right contact for your needs.

**NB Your home is at risk if you do not keep up repayments on a mortgage or other loan secured on it.**

## INCOME PROTECTION

Income protection is an area often neglected by individuals, but the consequences of losing the income of the main breadwinner in the family could be calamitous. It could happen through an accident or serious illness that causes long-term health problems. The person it happens to may need a long period off work to recover, but who pays the mortgage and running costs of the family? Unlike accident, sickness and redundancy cover, income protection will pay an income roughly equivalent to the claimant's net income for as long as the policy is in force, up to a maximum age 65. State benefits can be claimed on top of the income paid out by the plan, and all the payments are tax-free. Accident, sickness and redundancy cover is usually for no more than 12 months. Proposals are fully underwritten before the policy is put in force, so there will be no arguments later about non-disclosure of any past health history.

## Pensions – The Open Market Option

I have mentioned this topic before but many people still look to their existing insurer to provide their lifetime pension. **YOU DON'T HAVE TO TAKE A PENSION FROM YOUR EXISTING INSURANCE COMPANY.**

If you have a pension with one provider, please be aware, if you are buying a lifetime pension (an annuity) with your fund, you do not have to buy the annuity from your provider. All personal pension plan providers should offer their clients the option to buy their pension from another company. Many other companies may offer a better annuity rate than your existing company. You must check around to

see if you can achieve a higher pension. We can do it for you if you require.

## Wills

I have mentioned this subject many times in the past but many people have still not got round to making a Will. It is essential for married or single people to make a Will as soon as possible. Without one your wishes on death may not be carried out. The Intestacy Laws may be actioned and your wishes for the disposal of your estate may be ignored. No adult is too young to make a Will.

## NEW FACES

Since our last newsletter we had added two new members to our team. They are Miss Zena Finch who is a mortgage specialist with over 10 years experience working with a leading building society.

Last but not least Roger Jones joined us in the middle of the year as a financial adviser. Roger has been in the industry for 10 years plus and has a varied level of experience from working with a large insurance company through to becoming an IFA.

We wish them both well and every success in their careers with Kidd & Co

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*NB: Through Kevin we can offer British Sign Language (BSL) translation facilities for deaf or clients with hearing difficulties.*