

## Financial Affairs

### A personal view of the financial services industry from Kidd & Co

#### Editorial

During 2011 we have probably had the most volatile stock market for as long as can be remembered. The year started off on a reasonably bright note with one fund manager forecasting a 25% growth in the FTSE100. He has now taken a quite different view and has vastly modified his bullish statement, which he had to as events unfolded during the year. Unfortunately he still has a major holding in UK banks, which might suggest he has missed the boat again!

It has been a very rough ride on the FTSE with some extreme highs and lows, e.g. a low of around 4800 and a high of about 5700. Most of the problems have been caused by Europe and the uncertainty caused by the credit problems of Greece particularly, followed by Italy and possibly Spain. On a smaller scale Ireland and Portugal have been limping along too. Greece has reached the stage where the old adage of "owe the bank £100 and it's your problem, owe the bank £1m pounds and it's their problem". The politicians basically don't know what to do. Germany and France specifically want to defend the Euro but at what cost? Germany has a unique problem in that it is the second largest exporter on the planet, but if the Euro fails it will become hugely uncompetitive, as a switch to Deutschmarks would price their goods out of the market. The UK is suffering from weak leadership that is unfortunately Euro friendly and will not extricate the UK from the mess that is Europe. I suspect that David Cameron will be a one hit wonder. All this uncertainty is reflected in the stock market, hence the volatility. It may be the right time to consider parking a proportion of your investments in cash in the short term. With inflation running at 5% cash is not the place to stay for very long.

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## Investment Overview

Most of the large fund managers have found it is very difficult to grow their funds in the present difficult environment. They would like our politicians to sort out their problems and they could plan ahead. Whilst the politicians stumble around the market will tread water or fall back a bit.

People tend to look for safer areas to invest in, but with high inflation these areas are producing very low returns. Thus gilts are below 3% and fixed interest not a lot better. However, they are not subject to the high volatility of equities, and a portfolio should be weighted in this direction, at least for the short term. Speak to your adviser about perhaps re-balancing your portfolio while times are difficult.

One thing that does not seem to change much when the performances of fund managers are poor, is their charges. Whether you need a high powered fund manager is debateable, when he/she might struggle to beat a simple tracker fund. Though beware as the leader of cheap fund prices with no advice, Hargreaves Lansdowne, has recently been exposed for taking kick backs from fund managers to feature their funds on it's platform. Not all was as it seemed! The message is clear, speak to your adviser before you venture into unfamiliar territory, and never invest outside your comfort zone.

The latest National Savings Index Linked Certificates were a great investment with no risk, but the government was overwhelmed with the volume of investor money and closed the offering.

There are a number of deposit account types of investments on offer paying 6% or 6.25%, with capital protection, but they are linked to the FTSE100. As long as the FTSE100 is higher on your 1st, 2<sup>nd</sup>, 3<sup>rd</sup>, 4th or 5<sup>th</sup> anniversary, you will be paid 6%- 30%, depending on when you're starting level was set. Although the plan might be for 5 years, if the FTSE100 exceeded your starting point on an anniversary date, the plan will be matured and the 5 year term may not be reached. It might be described as a safe gamble, but given the uncertainty of the market it might be a home for part of your portfolio. Unless you are a non-taxpayer or investing pension funds or ISA's, you could have to pay tax on the proceeds. Ask your adviser for details.

**Please remember that the value of investments can fall as well as rise.**

## Mortgage Outlook

The mortgage market has been shrinking for the past two years, despite the fall in house prices. The major reason for this is that lenders are not lending, particularly to first time buyers, hence the government's recent announcement to offer guarantees so that first time buyers can get on the home ownership ladder.

Lenders have become like the banks in that they are very reluctant to lend money to any except the safest cases. They will now forensically look at every application and it looks as though they are looking for a reason to reject rather than support an application. There are plenty of attractive deals around but difficulties emerge when an application is submitted. Clients must ensure they have full knowledge of their commitments when an application is submitted. They should also have realistic view of the value of the property they are re-mortgaging or purchasing. Previous selling prices can be checked on [www.nethouseprices.com](http://www.nethouseprices.com) for guidance.

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

## Protection Plans

In statistical terms most people carry less life insurance than they ideally need. They tend to use it just to cover their mortgage. But if the breadwinner of the family dies, just paying off the mortgage leaves nothing extra for the family. They could be forced to sell their homes to enable them to raise sufficient money to fund their lifestyle, and most people would not choose this path, unless they had no other option. In a way it is strange that people will happily insure their cars or their property, even their pets, yet underinsure the source of the income that pays for the other insurances. Speak to your adviser to check if you have sufficient cover and don't run the risk of being underinsured.

## Annuities

If you have reached retirement age and have decided to buy an annuity, check with your adviser to find out who will offer you the best deal. **The companies you are saving your pension through do not usually offer the best deals.**

## N.E.S.T.

### National Employees Savings Trust

For companies who do not have a qualifying pension scheme, the above new government backed scheme will be imposed by a system of auto enrolment, starting with larger companies in October 2012. Smaller companies will be opted in to the new scheme between 2014 and 2017. All companies who do not have a scheme will have to begin one then, even for a single employee organisation. The company contribution will be 3%, employees 4% and the government 1%, though these charges will be staged over a few years. There will be some opting out possibilities, but 3 years down the line people will have to be auto enrolled again. Rules will be produced shortly that will enable businesses to prepare their internal systems to handle the change. Companies who do have schemes in place will need to check them to see if they can be adapted to include all staff and that auto enrolment into that scheme will be allowable. If not it may mean two schemes need to be administered, which could prove expensive.

## INCOME DRAWDOWN

When anyone in a current drawdown plan comes to the end of their 5-year review period, under new rules introduced last April, they will have to change to a Capped or Flexible plan that will be reviewed every 3 years in future. If they have been drawing 120% of the rate set by the Government Actuarial Department (the G.A.D rate), this will be reduced to 100% for Capped Drawdown plans. It could mean a 20% reduction in pension income. It might be an even greater reduction because when the new calculation is done both existing fund values and gilt rates will be taken into consideration. Gilt rates have fallen and fund values are probably lower because of the market falls, so please be aware of the possibility.

## WILLS

### Don't delay, make a Will today

In the absence of a Will the surviving spouse may not be entitled, in law, to the total assets or estate left by the deceased. A simple "Mirror Will" could avoid unwanted complications. We are able to put you in touch with qualified people who will draw up your Will for you. Your adviser can pass your details on if you wish.