



Your independent window on financial issues

### Market volatility – where do you stand?



During the past six months or so, we have seen stockmarkets swing significantly, with the FTSE100 soaring as high as 6,103.7 (3rd May 2011) and falling as low as 4,791 (9th August 2011).

This represents a range of 1,312.7 points, or 21.5% of the high point, during the period. It could lead some investors to wonder what is happening, and whether shares are a good basis for long-term investment.

The point is, of course, that investments should always be seen within the context of a pre-determined timeframe. If you are likely to require access to part of your capital within the space of a few months - or even a few years - then investing in assets that can be highly volatile or which have significant dealing costs is unlikely to make sense. Part of your assets should be kept in an easily accessible format, which usually means cash deposits. This part of your investment portfolio is unlikely to keep pace with inflation, but that is a price many are prepared to pay in order to have peace of mind.

#### Investing for the longer term

In general, volatility over a short to medium period is not something that should be of great concern; provided you do not need access to your money immediately, there is time for its value to recover. And, of course, the longer you hold investments, the less significant dealing costs associated with purchasing and selling assets become, compared with overall growth.

Assets such as shares (including collective investments like unit trusts) and property should be seen as longer-term investments. What matters is not how much values may fluctuate over the short term, but how they perform over the longer term. Looking at the FTSE100, the index is worth around twice as much (ignoring inflation), as it was twenty years ago; a not unrealistic timeframe for investments.

#### Low values can help

Over the shorter term, lower values can actually be of assistance to investors. For example, with the FTSE100 standing about one-quarter lower now than it did at the start of 2000, investors today can purchase many more shares for their money than was the case almost twelve years ago. This means that the potential for gain, should share values return to their long-term trend, is far greater simply by virtue of the current 'undervaluation'.

Of course there are other factors that need to be taken into account, including dividend growth and the relative strengths of various market sectors, when making investment decisions, but that is the strength of seeking independent financial advice - we are always pleased to offer you our professional and individual support.

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## What if grandparents were not there?

Grandparents are becoming one of the most important parts of the modern family, according to recent research.



Grandparents can be invaluable

One of the UK's leading insurance companies recently calculated that grandparents are providing £33 billion worth of free childcare each year. The research suggests that about half of all grandparents look after grandchildren and help around the home, while parents are out at work - 99.5% without pay.

### Helping the family economy

This allows parents to be economically active - which is valuable to many families, and also allows grandparents and grandchildren to benefit from greater interaction, especially as many older people have more time to spend with the young. But with 32% of grandparents saying that they feel guilty if they say 'no' to providing childcare and 30% having to cancel plans to do so, there is little doubt that the older generation is under pressure.

### Risking loss of support

The fact is that older people, while they may enjoy having greater contact with grandchildren, are not always going to be there, especially if they wear themselves out acting as cooks, cleaners, gardeners and chauffeurs.

This raises an important issue about childcare in the absence of free family support. The fact is that those with young children can find it very difficult to manage without help. Childcare is expensive and can make it unviable for a second parent to work, if the costs exceed a reasonable proportion of take-home pay. But if one parent stops working, income obviously drops.

Should one parent die or become ill, the position is even more difficult to cope with.

### Family protection insurance

Fortunately, it is possible to arrange family income insurance that provides a regular income, should either parent die, at relatively modest cost (depending on age and state of health). This can be used to pay for the cost of childcare.

Health insurance can provide an income to cover essential

expenses, including childcare, in the event of long-term illness. Most plans only cut in after four weeks of incapacity (longer if you want to keep premium costs down) and carry on until the individual gets better, or reaches an agreed age (or dies).

This so-called 'permanent health insurance' can replace up to 75% of income, but might be expensive in some cases. Gearing it to the cost of childcare may be an option, although you should discuss with your independent financial adviser what level of cover is most appropriate in your circumstances.

Premiums are related to occupation and age but from 21st December 2012 gender will no longer be a rating factor. Currently, cover is more expensive for women than men, due to statistical differences in the likelihood of becoming ill! Since premiums are fixed at the outset of the policy, starting sooner, rather than later, may be a good idea.

## Avoid expensive borrowing

Every so often, you may receive a letter from your bank offering you the opportunity to switch debt from 'expensive store cards' to your usual credit card with them. But is this always a good idea?



Borrowing should be on the best terms available to you

According to Credit Action in early August, total UK personal debt at the end of the first half of this year was £1,451 billion - 0.8% more than the same time last year and almost as much as the UK's gross domestic product in 2010. So households in the UK owe, on average, £55,854, of which £8,121 is not a mortgage. The non-mortgage element increases to £15,618 if you only count those households that actually have unsecured borrowings.

### Should you move debt?

As a general rule, it is a good idea to try to borrow money as cheaply as possible. Banks claiming that their credit cards are cheaper than store cards may be correct in many cases, especially once any introductory offer period has expired. Even so, most bank credit cards will be more expensive than mortgages. Not all interest free offers are quite what they appear; they may apply on a limited basis or involve a one-off balance transfer fee of around 3%, so you should read the terms carefully.

### Is there a better option?

That mortgages are secured against your home may appear to be a difference, compared with so-called 'unsecured' borrowing.

But should you default on any loan at all, the lender can normally seek repayment from any of your assets, once secured borrowing (such as mortgage) is covered. So they can still seek to recover your debt from the value of your home unless you are in negative equity.

This means that moving your borrowing from credit cards and personal loans to your mortgage could make sense, if you have sufficient equity in your home.

### Other benefits

Securing personal loans against your property may mean you end up repaying more over the full term of the mortgage loan; but at least your immediate repayments could be lower.

Those using 'offset' mortgages can find that the arrangement enables them to repay borrowings faster, because the value of any savings and current accounts held with the lender is deducted from the outstanding mortgage, each month, when it comes to deciding how much of the mortgage payment is due as interest, and how much can be used to repay the capital. The faster an outstanding balance can be reduced, the less interest has to be paid overall.

In relation to some older mortgages, this may not immediately be so, because lenders used to credit 'over-payments' of capital only at the end of the year. If this is the case - we will be able to tell you - it may be better to consider an alternative strategy.

*Your home may be repossessed if you do not keep up the repayments on your mortgage. Think carefully before securing other debts against your home. A fee may apply for mortgage advice and you must ask your adviser for details before making any decision relating to a new mortgage as the actual amount will depend on your personal circumstances, but in most cases is unlikely to exceed 0.5% of the loan value (on a typical £100,000 mortgage, this would be £500).*

## Defer your state pension

**According to Money Management magazine (quoted in The Sunday Times 3/7/11) deferring the state pension by five years would increase annual income from £5,311 to £8,072.**

This, (according to Money Management) is equal to a return of 8.7% a year compound - highly attractive in today's low-interest-rate climate.

Of course, you have to live for at least nine and a half years after starting to take the pension in order to benefit, but with so many of us living longer than previous generations, this may not be unreasonable.

### Why might you wish to wait?

While some people wish to retire as soon as possible, others feel that they will be able to work well beyond even the increased state retirement age (which will reach 66 for both men and women by April 2020). Between April 2034 and April 2036, the state retirement age increases to 67, affecting anyone currently



An attractive potential return

up to their mid-40s. Then between April 2044 and April 2046 it rises further to age 68.

### What if you need the income?

Whenever you are due for your state pension, the potential rate of return available could make a decision to defer taking it by half a decade potentially attractive.

While this might not appear to be practical for everyone, the flexibility allowed under current legislation now makes it easier to effect a gradual transition into retirement by starting to draw a private pension while still in part-time employment (or even full-time, if you wish).

For those who do not wish to work longer, but are still attracted by the idea of delaying their basic state pension, making personal provision to 'fill the gap' is by no means impractical. One method could be by building up an additional pension plan intended to generate an income for the five years between starting their occupational or other personal pension plan (provided it generates at least £20,000 a year) using the new 'flexible drawdown' facility, which would enable them to utilise the entire fund.

Those whose guaranteed income is less than £20,000 a year could still put aside sufficient money into a personal pension to generate an additional 'basic drawdown' income between the ages of, say, 65 and 70, but this would require a larger fund as the income is limited to 100% of the level that could be purchased as an annuity at the time. However, after the basic state pension starts, the income drawn under basic drawdown could be reduced to zero, with the balance of the fund rolling up for future use.

### An alternative approach

Another way of funding for the 'five-year gap' might be to use Individual Savings Accounts (ISAs) which can generate an income. Unlike pensions, there is no tax relief on the money you put in, but ISAs do grow largely free of UK taxes on income and capital gains and there is no tax on the money you take out.

It is important to take professional advice before making any decision relating to your personal finances.

## News in brief (data compiled by The Insurance Marketing Department Ltd. except where otherwise stated)

During the third quarter of 2011 the FTSE100 fell back by 13.74% due to the ongoing failure of Greece to resolve its budget deficit; an issue compounded during August by the inability of the US to agree an increased budget until the eleventh hour.

The mid-cap FTSE250 fared even worse, losing 17.72% of its value over the third quarter. It now stands almost 7% lower than a year ago and 15% lower than at the start of 2011, affected by similar influences to the FTSE100 and other markets.

Sterling lost 3.07% of its value against the US dollar during the third quarter, making export there less expensive, but gained 5.21% against the euro, which will not help exporters. Since the EU represents more than half our exports - compared with about 16% for the US - this is not good.

House prices have remained fairly level throughout the third quarter, with the Nationwide house price index showing a modest 0.24% fall during the period. With no prospect of interest rate rises any time soon, growth in prices might be possible, but economic uncertainty may make this unlikely.

## Do you have money abroad?

For many decades, the wealthy have kept money in overseas banks - most popularly in Switzerland - that offered a high degree of discretion over the details.

The result of this has been to make it difficult for the UK tax authorities to obtain their 'pound of flesh' on any interest generated. While it may appear a good idea for all of us to minimise the amount of tax we pay, this must be tax avoidance - e.g. using pension contributions to obtain tax relief - rather than tax evasion - not declaring income at all.

### The end of an era

It is not that Swiss banks are suddenly going to start telling UK authorities about individuals who hold accounts with them, but that it will soon be possible for HM Revenue and Customs to ask them for information about specific UK taxpayers where this is targeted. In other words, the UK tax authorities will not be able to go on 'fishing expeditions' to see who they can catch in a general trawl.

### What is the new arrangement?

With the exception of those UK-based Swiss banking customers who already co-operate fully with HMRC, who are exempt from the scheme, the accounts that UK customers hold with Swiss banks will be subject to a new withholding tax on future investment income and capital gains.

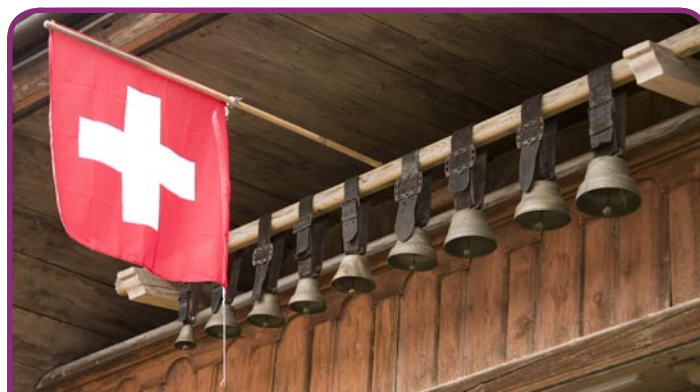
The tax will be 48% on interest and 40% on dividends, while capital gains will be subject to tax at 27%.

It is hoped that the deal will bring in as much as £6 billion to the Treasury, which should go some way towards making good the money lost to the country through tax evasion (estimated at £14 billion in 2008).

### What about past income and gains?

The deal struck with the Swiss banks is that the tax will only apply with effect from May 2013. A non-specific payment will be made by the banks to HMRC of £384 million to cover past liabilities and all historic liabilities prior to that date will thereby be considered as having effectively been paid.

In order to avoid 'hot' money being moved to alternative banking tax havens, the Swiss banks have agreed to tell HMRC should their customers try to move money to avoid being caught.



**No longer possible to forget to declare overseas income?**

It is important to take professional advice before making any decision relating to your personal finances. This publication represents our understanding of law and HM Revenue and Customs practice as at the date of publication. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK, please ask for details. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from taxation are those currently applying or proposed and are subject to change; their value depends on the individual circumstances of the investor.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated. If you withdraw from an investment in the early years, you may not get back the full amount you invested. Changes in the rates of exchange may have an adverse effect on the value or price of an investment in sterling terms if it is denominated in a foreign currency.