

MERCURY

—WEALTH MANAGEMENT—

Creating, Managing and Protecting your wealth

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Investing in a new decade

What opportunities could the future hold?

Boosting your pension

Act fast before the end of the tax year

Is it time you had a wealth check?

Start the new decade with a
new bill of wealth

Pre-Budget Report

The key points at a glance

Individual Savings Accounts

A popular and simple way to save

Critical illness cover

Protection for the unexpected

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Financial planning is our business.

**We're passionate about making sure
your finances are in good shape.**

Our range of personal financial planning services is extensive, covering areas from pensions to inheritance matters and tax-efficient investments.

Contact us to discuss your current situation, and we'll provide you with a complete financial wealth check.



Inside this issue

05 INDIVIDUAL SAVING ACCOUNTS

A popular and simple way to save

05 PENSION APATHY

Why you should review your retirement options

06 MIND THE PENSION GAP!

Are you too optimistic about the age at which you'll be able to retire?

06 INVESTMENT SOLUTIONS

Achieving the most efficient mix of risk and return

07 TAX FACTS

What you need to know

08 BOOSTING YOUR PENSION

Act fast before the end of the tax year

10 PRE-BUDGET REPORT

The key points at a glance

12 INVESTING AT A TIME OF LOW INTEREST RATES

Investment opportunities when interest rates are low

14 RETIREMENT PLANNING

Transferring pensions

15 MAKING A WILL

Don't leave your loved ones with additional costs and complications

16 INVESTING IN A NEW DECADE

What opportunities could the future hold?

18 INHERITANCE TAX ARTIFICIAL SCHEMES CLOSED

Wider solutions to the problem of trusts being examined

18 A PRE-BUDGET REPORT FOR BUSINESS?

Corporation tax increase deferred for SMEs

20 FURTHER PENSION CHANGES ON THE HORIZON FOR HIGHER EARNERS

Contributions restricted on a tapered basis from 2011

21 HIGHER RATE TAX PAYERS BEWARE

Don't be lured by the glister of fool's gold

21 NEW DISCLOSURE OPPORTUNITY

Tackling offshore evasion of taxes

22 PRE-BUDGET REPORT

Your questions answered

24 IS IT TIME YOU HAD A WEALTH CHECK?

Start the new decade with a new bill of wealth

26 CREATING AN EFFECTIVE PORTFOLIO

How to maximise your gains, while minimising the risks

28 CRITICAL ILLNESS COVER

Protection for the unexpected

Inside this issue

Welcome. The start of a New Year and new decade are typically times when many of us look at our personal finances and ask ourselves how we can start building wealth by creating an effective portfolio to achieve financial independence, or alternatively, how we can improve our existing portfolio to help ensure we achieve our future plans and goals successfully. Whether you are a new or experienced investor, on page 16 we consider what areas could be seen as opportunities for investors this decade.

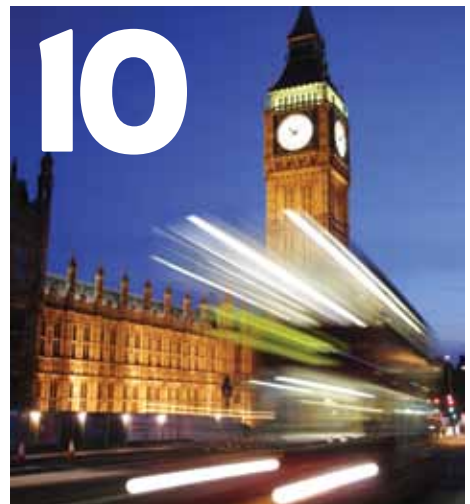
If you are an income-seeking saver in search of good returns from your savings in this low interest rate environment, we can provide you with the professional advice you need to enable you to weigh up your options. In addition, we can help you determine what levels of income you may need and work with you to review this as your requirements change. Read the full article on page 12.

The end of the 2009/10 tax year is rapidly approaching and now is the perfect time to consider your Individual Savings Account (ISA) options. On page 5 we look at these tax-efficient wrappers and explain why they are a popular and simple way to save.

Also inside this issue, find out at a glance the key points from Chancellor Alistair Darling's third Pre-Budget Report. In addition, we provide information about boosting your pension before the end of the tax year and ask whether it's time you had a wealth check. A full list of the articles featured appears on page 3.

To discuss your financial planning requirements or to obtain further information, please contact us.

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Pension apathy

Why you should review your retirement options

Apathy and a failing system is costing pension savers dear, with retirees set to lose £14m this year on not hunting out the best annuity. If this inertia continues, it will cost Britain's pensioners a total income of £3.3bn over the next 20 years, according to the study by Oxford Economics, carried out on behalf of trade body, the Pension Income Choice Association (PICA).

At retirement, savers typically cash in their pension pot for an annuity, which provides an income for life. But consumers need to shop around in order to ensure that they get the best deal available to them by using what is dubbed the 'open market option' (OMO).

However, only one in three people approaching retirement review their options, according to Oxford Economics. And the current system means that the majority stay with their existing pension savings providers. The study shows that in 2010 alone, failings in the review process means pensioners could miss out on £13.9m in pension income, equating to £169 per policy holder.

To discuss your financial planning requirements or to obtain further information, please contact us.

Individual Savings Accounts

A popular and simple way to save

The end of the 2009/10 tax year is rapidly approaching and now is the perfect time to consider your Individual Savings Account (ISA) options. These tax-efficient wrappers are a popular and simple way to save, as you don't pay any personal income tax or capital gains tax on any profit you may make.

ISAs were introduced by this government in April 1999 to replace Personal Equity Plans (PEPs) and Tax Exempt Special Savings Accounts (TESSAs) as a tax-efficient way to encourage people to save over the medium- to long-term.

WHAT CAN YOU SAVE OR INVEST IN AN ISA?

ISAs can be used to:

- save cash and the interest will be tax-free
- invest in shares or funds – any capital growth will be tax-free and there is no further tax to pay on any dividends you receive

Savers born on or before 5 April 1960 (that is, aged 50 or over during the current tax year) can save up to £10,200. The full £10,200 can be invested in a stocks and shares ISA with one provider or up to £5,100 can be saved in a cash ISA with one provider, with the remainder being saved in a stocks and shares ISA with either the same provider or another.

Savers who were born after 5 April 1960 can save up to £7,200. The full £7,200 can be invested in a stocks and shares ISA with one provider or up to £3,600 can be saved in a cash ISA with one provider, with the remainder being saved in a stocks and shares ISA with either the same or another provider. From 6 April this year, the ISA limit will increase to £10,200, up to

£5,100 of which can be saved in cash for all ISA investors.

According to the age 50 rule, someone who is currently under age 50 but who will reach age 50 between 6 October 2009 and 5 April 2010 will only be able to pay in more than £7,200 during the 2009/10 tax year (up to a maximum of £10,200) once they have attained their 50th birthday. So, for example, if an investor will not attain age 50 until 1 March 2010, they will not be able to pay in more than £7,200 until 1 March 2010.

TRANSFERRING MONEY FROM CASH ISAS TO STOCKS AND SHARES ISAS

If you have money saved from a previous tax year, you can transfer some or all of the money from a cash ISA to a stocks and shares ISA without this affecting your annual ISA investment allowance. However, please remember that once you have transferred your cash ISA to a stocks and shares ISA it is not possible to transfer it back into cash.

HOW MUCH TAX WILL YOU SAVE?

Interest and dividends from savings:

- if you pay tax at the basic rate, outside an ISA you would usually pay 20 per cent tax (2009/10) on your savings interest
- if you pay tax at the higher rate, outside an ISA you would usually

pay tax at 40 per cent on your savings interest

- if you pay the 'savings rate' of tax for savings, outside an ISA you would pay tax at 10 per cent on your savings interest
- if you're a basic rate taxpayer inside or outside an ISA you pay tax at 10 per cent on dividend income. This is taken as a 'tax credit' before you receive the dividend and cannot be refunded for ISA investments
- if you're a higher rate taxpayer you would normally pay tax on dividend income at 32.5 per cent. In an ISA you won't get back the 10 per cent dividend tax credit element of this, but you will save by not having to pay any additional tax

CAPITAL GAINS TAX (CGT) SAVINGS

If you make gains of more than £10,100 from the sale of shares and certain other assets in the tax year 2009/10, you would normally have to pay CGT. However, you do not have to pay any CGT on gains from an ISA.

To make an informed decision about your ISA options, please contact us for further information.

The value of your investment can go down as well as up and you may not get back the full amount invested.

Mind the pension gap!

Are you too optimistic about the age at which you'll be able to retire?

Just a third of people accept that they will have to work beyond 65, even though the state pension age is set to rise.

British workers remain overly optimistic about the age at which they will be able to retire, with just a third conceding they will work beyond 65, a survey shows. And just a tenth of people believe they will still be working into their 70s, according to the research by Croner, the workplace consultancy business.

The You Gov poll questioned almost 1,400 working adults and found that 22 per cent see themselves working until just 60 or younger and 44 per cent until age 65. That is despite the state pension being a likely target for all political parties as rising life expectancy increases the cost to the public purse. There are four working people for every pensioner today, and the figure is expected to drop to 2.5 per pensioner by 2030, according to the Department for Work and Pensions.

“British workers remain overly optimistic about the age at which they will be able to retire, with just a third conceding they will work beyond 65, a survey shows. And just a tenth of people believe they will still be working into their 70s.”

If you would like to discuss your retirement objectives or have a review of your current arrangements, please contact us.

Investment solutions

Achieving the most efficient mix of risk and return

Do you currently have the most suitable method of holding and structuring your investments to achieve an efficient mix of risk and return that is specific to your particular objectives? And are you fully utilising the income, capital gains and inheritance tax advantages of these investments, particularly as the taxation regime governing them may be subject to change in the future? We have provided a selection of tax-efficient solutions you may wish to discuss with us.

The over-50s were able to shelter more of their money from the taxman on 6 October last year when Individual Savings Account (ISA) limits rose by £3,000 to £10,200, or £20,400 for a couple. Everyone aged 18 and over will be given the new limit from 6 April 2010.

Venture Capital Trusts (VCTs) enable individuals to invest in unquoted and AIM-listed firms, and give tax-free capital gains as well as income (usually taxed at 32.5 per cent for 40 per cent taxpayers). They also attract initial tax relief at 30 per cent, which is an income tax relief that is given as a tax reducer, as long as they are held for five years. The maximum investment is £200,000 a year. This type of investment does come with a high degree of risk.

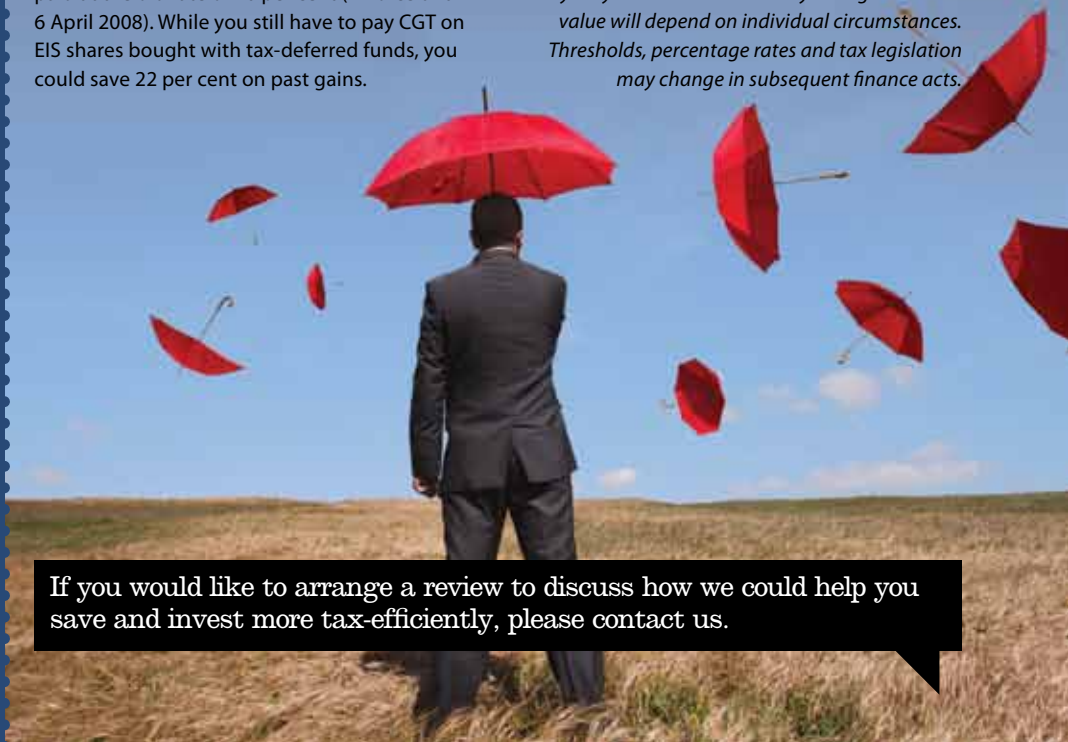
Enterprise Investment Schemes (EISs) invest in firms typically involved in a particular sector or project, and give income tax relief of 20 per cent on up to £500,000 a year, if held for three years. Gains are tax-free, but not income, and investments fall outside your estate for inheritance tax purposes after two years. This type of investment does come with a high degree of risk.

EISs also allow you to defer Capital Gains Tax (CGT) incurred in the previous three years or the subsequent 12 months, which is attractive if you paid at the old rate of 40 per cent (in force until 6 April 2008). While you still have to pay CGT on EIS shares bought with tax-deferred funds, you could save 22 per cent on past gains.

Onshore investment bonds are taxed internally at the 20 per cent basic rate. However, up to 5 per cent a year of the original investment (a minimum of £5,000, but no maximum) can be withdrawn for 20 years without any immediate tax liability. And you can 'roll up', taking 3 per cent income in one year and 7 per cent the next. If you become a basic rate or non-taxpayer when the bond matures, there is no further tax to pay.

Gifted income-producing assets to your spouse, where he or she is a lower rate or non-taxpayer, could save high earners a considerable sum. Say you had a portfolio of investment properties worth £500,000, which produced an income of 5 per cent or £25,000 a year. If you were a high earner and held the investments in your own name, you would be liable for tax on the income of £12,500 from the 2010/11 tax year. However, if you gifted the assets to a spouse who had no other income, the first £6,475 would be tax-free and the remainder taxed at 20 per cent, so just £3,705, which equates to a £8,795 tax saving. This example is based on the original owner having total taxable income above £150,000 (hence the liability on the £25,000 rental income would be 50 per cent rather than 40 per cent).

Venture Capital Trusts and Enterprise Investment Schemes are specialised, complex investments and are not suitable for everyone. They should only be considered as part of a balanced portfolio and advice should be sought prior to investing. These could be high risk investments. The value of investments and the income from them can go down as well as up and you may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent finance acts.



If you would like to arrange a review to discuss how we could help you save and invest more tax-efficiently, please contact us.

Tax facts

What you need to know

CHECK YOUR PAYE CODE

You should check that you are on the correct code. Don't just assume that if tax is being deducted at source it must be right. If you have been paying too much tax, you can claim back the excess for up to six previous years. If you have been paying too little, the Revenue can claim it back.

MAKE FULL USE OF YOUR PERSONAL ALLOWANCES

We all have a personal allowance, currently £6,475 (under 65) a year, which is the amount you are allowed to earn before you start paying tax. If appropriate, couples should consider maximising their personal allowances by channelling savings and investments towards the person who pays the least amount of tax.

CONSIDER CARRYING OUT A SALARY SACRIFICE

Salary sacrifice means giving up the right to part of your salary in exchange for a benefit, such as an employer pension contribution. Both you and your employer will save money on National Insurance and the employer also saves on Corporation Tax.

MAKE THE MOST OF TAX RELIEF AT YOUR HIGHEST MARGINAL RATE ON PENSION CONTRIBUTIONS

You should make the most of tax relief at your highest marginal rate on pension contributions. This tax break is particularly valuable if you are a higher rate taxpayer and so potentially receive relief at 40 per cent (2009/10) on your pension contributions that fall within the higher rate band.

BRING FORWARD DIVIDEND PAYOUTS TO THIS TAX YEAR

If you are a high earner and work for a family company or have your own company, you may wish to consider bringing forward income distribution from future years to this tax year. If you pay yourself a dividend this year, and assuming you are a higher rate taxpayer, you would currently be paying an effective rate of 25 per cent on dividends. But from the next tax year you would, as a top rate taxpayer, be paying an effective rate of 36.1 per cent on your dividends.

MAKE SURE YOU RECEIVE YOUR AGE ALLOWANCE IF YOU ARE OVER 65

Make sure you receive your age allowance if you are over 65. This allowance is currently worth £3,015 on top of the normal personal allowance for those aged 65 to 74 and £3,165 for those over 75, taking their total personal allowance to £9,490 and £9,640 respectively. Those entitled to it should make

sure they claim it, as it is sometimes not included automatically in an individual's tax coding.

BRING FORWARD INCOME

Shareholders in their own businesses who take money as dividends will be taxed at 32.5 per cent until 5 April, rising to 42.5 per cent the following day. On £10,000-worth of dividends, you could save £1,000 in tax by bringing the payment forward. Bear in mind, though, that you would also have to pay the tax via your self-assessment form a year earlier.

SHARE INCENTIVE SCHEMES

High earners could ask their employer to set up a share incentive scheme ahead of the changes so that, instead of taking cash bonuses, they would receive shares in the firm. This converts income taxed at up to 40 per cent today (or 50 per cent from 6 April 2010) into gains taxed at the flat rate of Capital Gains Tax (CGT) of 18 per cent.

REVIEW FAMILY TRUSTS

It may be worth drawing income arising in a family trust. This is currently taxed at 20 per cent on up to £1,000 and 40 per cent thereafter, rising to 50 per cent from 6 April 2010. However, this will depend on the type of income, as dividends would be taxed at either 10 per cent (if within the £1,000 band) or 32.5 per cent.

Alternatively, beneficiaries could draw the income if their other earnings are below £150,000 – beneficiaries of a discretionary trust have no entitlement to income. The trustees could choose to distribute the income but it would have to come with a 40 per cent (50 per cent from 6 April 2010) tax credit. The increase in tax rate will only affect 'non-Income In Possession' trusts which pay RAT ('Rate Applicable to Trusts').

CRYSTALLISE PENSION BENEFITS

People in their early fifties who want to retire early or release tax-free cash from their pensions may wish to consider doing so before 5 April, when the minimum retirement age goes up from 50 to 55. However, there are many instances where it is not advisable to take the cash. For example, if your pension has a

guaranteed annuity rate, you may be better off using your entire fund to buy an annuity. If you are in a final-salary scheme you could choose to take extra tax-free cash and a reduced pension, although take care as the income you would give up is guaranteed, is inflation-proofed and has a widow's or widower's benefit. However, in other cases it may be worth crystallising benefits. Equally, it may be worthwhile if you want to free up cash to make gifts for Inheritance Tax planning or make other tax-efficient investments.

REVIEW HOLIDAY LETS

If you let property short-term, this is the final tax year in which you can offset expenses against income, so get any work done on the property before 6 April 2010. It must be let for at least 70 days a year, excluding lets exceeding 31 days, and be available for rental for at least 140 days. If you are the owner of such a property you have until 5 April 2010 to take advantage of the current furnished holiday lettings tax reliefs. These include flexibility with using income losses, additional capital allowances, certain capital gains reliefs and relevant UK earnings treatment for pension purposes.

Levels and bases of and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor.

This article does not constitute advice and you should seek professional financial advice with regards to the most appropriate ways of structuring your affairs to maximise tax efficiency. For further information or to discuss your requirements, please contact us and we'll provide you with a complete financial wealth check.

“ You can take up to 25 per cent of your pension as an authorised lump sum payment, which will be tax-free as long as it does not exceed 25 per cent of your available standard lifetime allowance. ”



BOOSTING YOUR PENSION

Act fast before the end of the tax year

Here are some useful hints that may improve your pension prospects.

Some employers may allow selected staff aged 50 and over (rising to age 55 and over from 6 April 2010) to claim an income from their pension while they work full time. This option has been made possible by changes to pension rules in 2006, known at the time as A-Day. For members of defined benefit schemes, the size of the annual pension payment is cut by a certain percentage for each year the worker claims their pension early. However, members continue to accrue further pension rights under the plan, which is typically based on career-average pay, even when claiming a pension and salary in tandem.

You can take up to 25 per cent of your pension as an authorised lump sum payment, which will be tax-free as long as it does not exceed 25 per cent of your available standard lifetime allowance.

It is also possible to take up to 25 per cent as a tax-free lump sum and then vary the income taken from the pension by leaving the fund invested and going into an unsecured pension (formerly income drawdown). This can be done with a personal pension, such as a Self-Invested Personal Pension (SIPP), or an occupational scheme, although few of these allow it. It is possible to take between nil and 120 per cent of rates set by the Government Actuary's Department (GAD). This is reviewed every five years. Income levels can be changed within these boundaries or an annuity bought at any stage.

Funds can be passed on to beneficiaries when you die, subject to a 35 per cent tax charge before the age of 75. If paid as a lump sum, residual funds paid as a dependant's pension would not be subject to a 35 per cent tax charge.

GAD rates are tied to gilt yields, which are near all-time lows due to the Bank of England's programme of buying up gilts (yields fall as prices rise). However, with a 'scheme pension', available via a SIPP, it is possible to take more money out of a pension fund. Rates are calculated by an actuary rather than GAD, taking into account assumptions of how long you are likely to live, i.e. the poorer your health, the higher the rate.

If you have a Small Self-Administered Scheme (SSAS), your business (sole trader, partnership, limited company or limited liability partnership) can borrow money from your pension fund at very competitive rates, a minimum of 1 per cent over the rates offered by the six main clearing banks. This means your business could potentially borrow money which can be fixed for up to five years. In this way, directors and business owners can access vital funding they might not be able to get from their bank. Please note there are limitations on what this lending can be used for.

Although the government performed a U-turn on allowing savers to put single residential properties, such as their second homes, into their pension funds in 2006, you can tap into the residential property market if you have a SIPP or SSAS through a 'genuinely diversified commercial vehicle'.

You can also use existing investments to make a pension contribution by selling them and buying them back in your SIPP, in what is known as 'bed and SIPP'. There is also the option of making 'in-specie' contributions of assets that are currently owned by the individual (or an employer) into the SIPP.

From the start of the new tax year on 6 April 2010, the withdrawal of the personal allowance by £1 for each £2 earned over £100,000 means that those earning between this amount and £112,950 will effectively get 60 per cent tax relief on pension contributions. That is because they will not only get 40 per cent tax relief on contributions, but also some or all of their personal allowance back depending on how much they contribute.

If you die before taking any benefits from your personal or occupational pension scheme, the entire fund will pass tax-free to your chosen beneficiaries. These will, however, be added to your beneficiaries' estates for Inheritance Tax purposes. Any lump sum paid on death before crystallisation (an uncrystallised funds lump sum death benefit if it is a money purchase scheme or a defined benefits lump sum if it is a defined benefits scheme) will be tax-free as long as it is paid within two years of death and it is within the deceased's available lifetime allowance.

While the payment of a dependant's pension would not be a Benefit Crystallisation Event, it would be subject to Income Tax in the hands of the recipient (especially given that most defined benefits schemes – and contracted out rights whether held in a defined benefits or defined contributions scheme – must provide a pension if there is a spouse).

Inheritance Tax is levied at 40 per cent, so a £200,000 pension fund could potentially incur tax charges of £80,000 if this is over and above other assets worth over the current nil-rate band of £325,000. You could plan for this by setting up a 'bypass trust'. Your beneficiaries, usually a spouse or partner, would be a trustee and have full access to income and capital from the trust as required.

Retirement may seem a long way off, but are you saving enough now to live well in years to come? And if you're approaching retirement, do you have enough saved for a comfortable retirement? It may not be too late to boost your retirement savings if you take action now. Or if you are now retired, you'll need a strategy to enjoy your new lifestyle and make your savings last. If you would like to discuss the retirement options available to you, please contact us for further information.

The value of investments and the income from them can go down as well as up and you may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent finance acts.

PRE-BUDGET REPORT

The key points at a glance



The key points at a glance from Chancellor Alistair Darling's third Pre-Budget Report.

ECONOMY

- UK economy expected to contract by 4.75 per cent this year, with a return to growth in the fourth quarter.
- Forecasts UK will grow 1-1.5 per cent next year and by 3.5 per cent in 2011/12.
- Inflation to rise from 1.5 per cent to around 3 per cent early next year before falling back.

PUBLIC FINANCES

- Provisions for potential impact from bank bail-outs on taxpayer revised down from £50bn to around £10bn.
- Borrowing to hit £178bn this year and £176bn next year, higher than Budget forecasts.
- As share of GDP, borrowing to be 12.6 per cent this year, 12 per cent next year, then 9.1 per cent, 7.1 per cent, 5.5 per cent in 2013/14 and 4.4 per cent in 2014/15.
- Net debt forecast to reach 56 per cent of GDP this year, 65 per cent next year and 78 per cent by 2014/15.
- UK deficit to be halved over four years.

TAX

- VAT will return to 17.5 per cent on 1 January as planned, with no other changes in VAT.
- Bingo Duty to be cut from 22 per cent to 20 per cent for next year's Budget.
- In April 2012, point at which people start paying 40 per cent income tax to be frozen for one year, hitting those earning more than £43,875.

NATIONAL INSURANCE CONTRIBUTIONS

- All employer, employee and self-employed rates of National Insurance to rise by a further 0.5 per cent from April 2011. This is in addition to the 0.5 per cent increase already announced in March 2009, so the actual increase will be 1 per cent.

- Starting point from which National Insurance is payable to be raised, so that no-one earning less than £20,000 will pay any more in contributions.

PENSIONS

- Basic state pension will rise by 2.5 per cent in April, a real-terms increase of nearly 4 per cent – with effect from 2010/11.
- Employer pension contributions to be included in definition of tax income relating to pensions tax relief for those earning over £130,000 – with effect from 2011/12.

PUBLIC SECTOR

- Senior civil service pay bill to be cut by up to £100m over three years.
- Any new government appointment over £150,000 and all bonuses over £50,000 to require Treasury approval.
- All public sector pay settlements capped at 1 per cent for two years from 2011, while recognising the special circumstances of the armed forces.
- State contributions to public service pensions for teachers, councils, NHS and the civil service to be capped by 2012, saving £1bn a year.

INHERITANCE TAX

- Individual Inheritance Tax allowance to be frozen at £325,000 for the next year.

BANKS

- No windfall tax on banks.
- Bonuses above £25,000 will be subject to a 50 per cent one-off tax. This tax will be payable by the bank and (a) it only applies to the amount of any bonus that exceeds £25,000, and (b), in addition to being subject to National Insurance Contributions, as a higher rate taxpayer the individual receiving the bonus will be taxed on the whole bonus at 40 per cent/50 per cent.

BUSINESS

- Enterprise Finance Guarantee scheme for bank loans to small businesses to be extended for a further 12 months, guaranteeing a further £500m of loans.
- 10 per cent Corporation Tax rate to be introduced on income that arises from patents in the UK.
- Strategic Investment Fund to support hi-tech projects given £200m boost.
- The Time To Pay scheme, allowing firms to spread tax payments, will be extended for as long as needed.
- Empty property relief threshold to be extended so that 70 per cent of all empty properties will be exempt.
- Increase in Corporation Tax for smaller companies to be deferred, leaving the 2010 tax rate unchanged.

BENEFITS

- Benefits linked to inflation, such as Child Benefit, will rise by 1.5 per cent in April.
- Support for Mortgage Interest Scheme will be extended for further six months.

To discuss your financial planning requirements or to obtain further information, please contact us.

INVESTING AT A TIME OF LOW INTEREST RATES

Investment opportunities when interest rates are low

If you are an income-seeking saver in search of good returns from your savings in this low interest rate environment, we can provide you with the professional advice you need to enable you to consider all the options available. In addition, we can help you determine what levels of income you may need and work with you to review this as your requirements change. Another major consideration is your attitude towards risk for return and availability. This will help to determine which asset classes you are comfortable investing in.

Cash, especially in the current climate, is an important element for any income investor. One option you may wish to discuss with us is cash funds, dubbed 'money market' portfolios. These use the pooled savings of many investors to benefit from higher rates not available to individuals. They can invest in the most liquid, high-quality cash deposits and 'near-cash' instruments such as bonds. But, unlike a normal deposit account, the value of a cash fund can fall as well as rise, although in theory, at least, it should not experience volatile swings.

Bonds are a form of debt, an 'IOU' issued by either governments or firms looking to raise capital. As an investor, when you purchase a bond you are essentially lending the money to the government or company for a set period of time, which varies according to the issuer. In return you will receive interest, typically paid twice a year, and when the bond reaches maturity you usually get back your initial investment. But you don't have to keep a bond until maturity. You can, if you wish, sell it on.

Much of the government's debt, including the additional money being used to aid the economy

and refinance the banks, is in the form of bonds it issues. Gilts are bonds issued by the British government. The advantage of gilts is that the government is unlikely to fail to pay interest or repay its debt, so they are generally the safest investments. Government bonds pay a known and regular income (called the coupon) and a lump sum at maturity (called the par). They typically perform well as the economy slows and inflation falls.

Corporate bonds operate under the same principle as gilts, in other words companies issue debt (bonds) to fund their activities. High-quality, well-established companies that generate lots of cash are the safest corporate bond issuers and their bonds are known as 'investment grade'.

High-yield bonds are issued by companies that are judged more likely to default. To attract investors, higher interest is offered. These are known as 'sub-investment grade' bonds.

The risks related to investing in bonds can be reduced if you invest through a bond fund. The fund manager selects a range of bonds, so you are less reliant on the performance of one company or government. The 'distribution yield' gives a simple indication of what returns are likely to be over the next 12 months. The 'underlying yield' gives an indication of returns after expenses if all bonds in the fund are held to maturity.

An alternative route to generating income is by investing in stocks that pay a dividend. If a firm is making good profits it can decide to share this with investors rather than reinvest it in the business, so essentially dividends are the investors' share of company profits. Share prices of companies that

regularly pay dividends tend to be less volatile than other companies, but remember that company shares can fall in value. In addition, dividends can be cut if a company finds itself in need of extra cash.

Another way to invest in equities for the purpose of obtaining a better income is via an equity income fund. The fund manager running the portfolio selects a wide range of equities, so you are less reliant on the performance of any one particular company, and will try to select companies that pay regular dividends.

There are many different ways to generate more income. We can help you make informed decisions about the investment choices that are right for you. Any number of changing circumstances could cause your income to diminish, some inevitable and some unpredictable – new taxes and legislation, volatile markets, inflation and changes in your personal life. To discuss structuring your income requirements in a way that minimises the impact of these changes, please contact us.

These investments do not include the same security of capital which is afforded with a deposit account. The value of investments and the income from them can go down as well as up and you may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent finance acts.

Achieving a comfortable retirement.

Do you need a professional assessment of your situation to make this a reality?

If you are unsure whether your pension is performing in line with your expectations, and that you've made the right pension choices – don't leave it to chance.

Contact us to discuss these and other important questions, and we'll help guide you to a comfortable retirement.

Retirement planning

Transferring pensions

There are a number of different reasons why you may wish to consider transferring your pension schemes, whether this is the result of a change of employment, poor investment performance, high charges and issues over the security of the pension scheme, or a need to improve flexibility.

You might well have several different types of pension. The gold standard is the final-salary scheme, which pays a pension based on your salary when you leave your job and on years of service. Your past employer might try to encourage you to move your pension away by boosting your fund with an 'enhanced' transfer value and even a cash lump sum.

However, this still may not compensate for the benefits you are giving up, and you may need an exceptionally high rate of investment return on the funds you are given to match what you would get if you stayed in the final-salary scheme.

Alternatively, you may have a money purchase occupational scheme or a personal pension. These pensions rely on contributions and investment growth to build up a fund.

If appropriate to your particular situation, it may make sense to bring these pensions under one roof to benefit from lower charges, make fund monitoring easier and aim to improve fund performance. Transferring your pension will not guarantee greater benefits in retirement.

The value of investments and the income from them can go down as well as up and you may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent finance acts.

“ **There are a number of different reasons why you may wish to consider transferring your pension schemes, whether this is the result of a change of employment, poor investment performance, high charges and issues over the security of the pension scheme, or a need to improve flexibility.** ”

Effective retirement planning requires an expert knowledge of the detail of pension legislation and an ability clearly to understand your individual long-term objectives and expectations. We offer both. For more information about the services we offer, please contact us.

Making a will

Don't leave your loved ones with additional costs and complications

People who die without a valid will, or intestate, leave costs and complications to their loved ones and often gift thousands of pounds to the State in what may be avoidable Inheritance Tax (IHT).

The Law Society says that anyone with assets and family or friends should make a will, regardless of their age. It is especially important if you are not married to your partner, because the law does not accord partners the same automatic rights of inheritance as spouses.

Assets which are jointly owned by unmarried partners on a joint tenancy basis would still pass automatically to the surviving partner under the rules of survivorship. Under the current intestacy rules, an unmarried partner has no rights to any assets that were not jointly owned (although the Law Commission has recently proposed to change this).

Making a will is also vital if you have children, as you can nominate guardians to care for them.

It is important to create a list of assets and debts and their approximate values. Include your property, investments, savings, insurance policies and pension.

In addition, consider details of individual bequests. Simply telling a relative that an item will be his or hers one day could cause trouble later.

You should receive professional advice on IHT planning as part of writing your will. Simple measures could save the beneficiaries of wealthier homeowners thousands of pounds in tax.

A key element of making a will is the naming of executors to ensure that your will instructions are carried out.

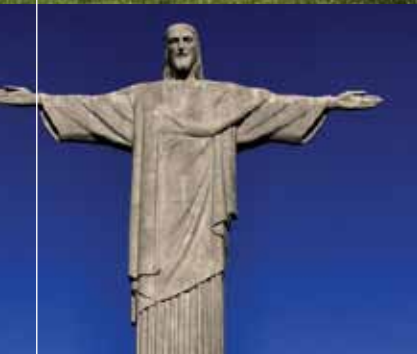
You should also update your will every five years or so and whenever your circumstances are changed by a significant life event, such as marriage, divorce or a birth or death in the immediate family. Another example would be after a house purchase or move.

Whoever draws up your will, make sure one copy is kept secure or deposit one with a probate registry.

“ People who die without a valid will, or intestate, leave costs and complications to their loved ones and often gift thousands of pounds to the State in what may be avoidable Inheritance Tax (IHT). ”

To discuss your financial planning requirements or to obtain further information, please contact us.





Investing in a new decade

What opportunities could the future hold?

Looking ahead to this new decade, what areas could be seen as opportunities for investors?

EMERGING MARKETS

It is estimated that the world's population is set to increase by 50 per cent in the next 40 years, mostly from emerging markets, which include the 'BRIC' countries of Brazil, Russia, India and China.

While the proportion of people of retirement age will increase in Western economies, India should enjoy a demographic boost as a large group of the populace enters the most economically active part of their lives.

Although investing in a single country is a high-risk strategy, diversification that includes holdings within the BRIC countries and other areas such as Mexico, Hong Kong, South Korea, South Africa and Thailand could become an increasing attraction to many investors.

HEALTHCARE

An increase in an aging population, particularly in Western economies and Japan, will be seen as positive for the healthcare sector over the next ten years. Investors may be attracted by the potential for higher returns driven by a need to spend significantly more money by governments and the private sector in the area of geriatrics.

AGRICULTURE

It is forecast that, by the middle of this century, there will be an additional 2.5 billion people in the world to feed, leading to an increase in land and food prices. With China's shift to urbanisation and the emergence

of a powerful middle class in the developing world, investors may be attracted to investment in soft commodities such as cocoa, sugar, corn and wheat.

China's evolutionary demographic shift, when combined with the acute water shortages that China and others may suffer during this decade, could make for a highly rewarding investment opportunity.

ENERGY

Global urbanisation will also feed through to growing demand for construction and infrastructure and these projects should drive demand for energy. The demand for uranium is also set to continue this decade as a result of a global resurgence of interest in nuclear power.

This is positive news for investors, with the UK and other countries planning an aggressive expansion programme for nuclear energy as it is seen as one of the cleanest forms of producing energy during this decade.

TECHNOLOGY

A greater exposure to the semiconductor, software, media and internet, communications and computing industries means that investors are also likely to be attracted to these areas this decade.

CURRENCY

Although currency is the most actively traded asset class in the world, it still remains one that is largely ignored by retail investors. Will this decade see a change in investor sentiment?

ETHICAL

Climate change and water shortages could also drive future investment returns for investors, turning their attention to themes that include water, energy, agriculture and forestry.

The value of investments and the income from them can go down as well as up and you may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent finance acts.

These are specialised investments and may not be suitable for everyone. They should only be considered as part of a balanced portfolio and professional financial advice should be sought prior to investing. These could be high-risk investments. If you would like to discuss how we could help you with your investment requirements, please contact us for further information.

You've protected your most valuable assets.

**But how financially secure are
your dependents?**

Timely decisions on how jointly owned assets are held, the mitigation of inheritance tax, the preparation of a will and the creation of trusts, can all help ensure your dependents are financially secure.

Contact us to discuss how to safeguard your dependents, wealth and assets, don't leave it until it's too late.

Inheritance tax artificial schemes closed

Wider solutions to the problem of trusts being examined

The government announced on 9 December that, with immediate effect, it was closing two artificial schemes designed to avoid inheritance tax charges on relevant property trusts. First, where a person transfers property into a trust in which they retain a future interest they will be charged inheritance tax if they become entitled to an actual interest under the trust.

Second, where a person purchases an interest in a trust, that interest will be treated as part of their estate for inheritance tax purposes.

The government is also to examine wider solutions to the problem of trusts being used to avoid inheritance tax charges.

During the Pre-Budget Report the Chancellor Alistair Darling announced that the inheritance tax (IHT) nil rate band would be held at £325,000 in 2010.

A Pre-Budget Report for business?

Corporation tax increase deferred for SMEs

Chancellor Alistair Darling announced in his third Pre-Budget Report that he would defer the 1p rise in Corporation Tax for small and medium-sized businesses.

Mr Darling said that the Corporation Tax rate for companies with profits of less than £1.5m would be frozen at 21 per cent until April 2011, postponing the planned 1p increase.

The Chancellor told MPs that he decided to defer an increase in Corporation Tax for small and medium-sized companies to support their growth and investment early in the recovery.

Mr Darling also announced that the Enterprise Finance Guarantee, aimed at helping small businesses with turnover of less than £25m a year access money, will be extended for 12 months.

Under the scheme, the government guarantees 75 per cent of a loan and the other 25 per cent is guaranteed by one of 35 participating banks. Since its launch in January, it is estimated that over 6,000 businesses have received nearly £700m in loans.

Mr Darling also said that VAT will rise to 17.5 per cent from 15 per cent from 1 January 2010, but there would be no further changes. It was also announced that all National Insurance rates will rise by a further 0.5 per cent from April 2011.

PRE-BUDGET REPORT BUSINESS HIGHLIGHTS

- Enterprise Finance Guarantee scheme for bank loans to small businesses to be extended for a further 12 months.
- 10 per cent Corporation Tax rate to be introduced on income that arises from patents in the UK.
- Strategic Investment Fund to support hi-tech projects given £200m boost.
- The Time To Pay scheme allowing firms to spread tax payments will be extended for as long as needed.
- Empty property relief threshold to be extended, so that 70 per cent of all empty properties will be exempt.
- Increase in Corporation Tax for smaller companies to be deferred, leaving the 2010 tax rate unchanged.

To discuss your corporate financial planning requirements or to obtain further information, please contact us.



“Chancellor Alistair Darling announced in his third Pre-Budget Report that he would defer the 1p rise in Corporation Tax for small and medium-sized businesses. Mr Darling said that the Corporation Tax rate for companies with profits of less than £1.5m would be frozen at 21 per cent until April 2011, postponing the planned 1p increase.”

Further pension changes on the horizon for high earners

Contributions restricted on a tapered basis from 2011

From 6 April 2011, tax relief on all pension contributions, including employers' contributions, will be restricted on a tapered basis for those with annual total incomes of £150,000 and over with full loss of higher rate relief for those with income of £180,000 or more.

Alistair Darling, the Chancellor, announced during his Pre-Budget Report that a further restriction on pension contributions for high earners will apply. It is now proposed that 'income' will include the value of employer contributions - i.e. pension benefits funded by, or eventually funded by, the individual's employer.

Individuals with pre-tax incomes of less than £130,000 (including their own pension contributions and charitable donations but excluding employer contributions), will be excluded from the restriction and will not need to value their employer-funded benefits (reducing uncertainty and administration costs).

The government has already introduced complex "anti-forestalling" measures to prevent

earners above £150,000 from making top-ups of more than £30,000 a year to their pensions before 2011. These rules now also apply to those earning more than £150,000 under the new "gross earnings" calculation.

“ Alistair Darling, the Chancellor, announced during his Pre-Budget Report that a further restriction on pension contributions for high earners will apply. ”

To discuss your pension requirements or to obtain further information, please contact us.



Higher rate tax payers beware

Don't be lured by the glister of fool's gold

High earners considering getting round the new 50p tax rate by converting income into more lightly taxed capital gains are being lured by the 'glister of fool's gold', according to a top HM Revenue & Customs (HMRC) official.

Dave Hartnett, HMRC permanent secretary for tax, pledged action against avoidance schemes, which is one reason the Treasury expects to collect only 30 per cent of the potential yield from the 50p rates.

'For HMRC, a 70 per cent attrition rate or tax gap in respect of the 50 per cent rate would not be acceptable. We are keeping such schemes under very close scrutiny and where such schemes are seen to work technically, we will not hesitate to go to our ministers to ask for a change to the legislation', said Mr Hartnett.

Some planning approaches maybe acceptable, as long as they are genuinely commercial arrangements that involved a transfer of risk to the employee. One acceptable approach might be to issue nil-cost share options. An employee could choose when to exercise

the option and trigger the income tax bill over a period of between three and 10 years, which might coincide with a reduction in the tax rate.

“ High earners considering getting round the new 50p tax rate by converting income into more lightly taxed capital gains are being lured by the 'glister of fool's gold', according to a top HM Revenue & Customs (HMRC) official. ”

To discuss your financial planning requirements or to obtain further information, please contact us.

New Disclosure Opportunities

Tackling offshore evasion of taxes

The Chancellor, Alistair Darling reiterated the government's commitment to in the Pre-Budget Report by announcing a new tougher penalty for anyone not taking advantage of the recent amnesties.

Referring to the New Disclosure Opportunity (NDO) and the Liechtenstein disclosure facility, Mr Darling announced that legislation would be brought forward to ensure that those failing to declare offshore tax liabilities will face the tough penalties attracted by deliberate tax evasion.

There will also be a new requirement to notify HM Revenue & Customs when opening offshore bank accounts in certain jurisdictions, supported by a separate penalty regime. Evading tax offshore could therefore result in combined penalties of up to 200 per cent of the unpaid tax.

The total package of measures to protect tax revenues raises £165m by 2011/12 and protects around £5bn of tax receipts a year from erosion by tax evasion and avoidance.

Pre-Budget Report

Your questions answered



Q: FOLLOWING THE PRE-BUDGET REPORT WILL I HAVE TO PAY MORE TAX?

A: The Chancellor announced a further 0.5 per cent increase in National Insurance contributions from April 2011 although those who earn less than £20,000 a year will pay marginally less because of a higher starting threshold. If you earn more than £20,000 per annum you will be subject to a 1 per cent increase in your National Insurance contributions from April 2011. This applies to both employers and employees. A cap on public sector pay rises of 1 per cent for two years from 2011 was also announced.

Q: WILL I RECEIVE LESS TAX RELIEF ON MY PENSION CONTRIBUTIONS?

A: Mr Darling had already announced in his 2009 Budget that pension tax relief would be tapered from 40 per cent to 20 per cent for people with incomes over £150,000. During his Pre-Budget Report he clarified that employer pension contributions would be included in the definition of 'income' for this tax measure. However, irrespective of the size of employer pension contributions, no one with an income below £130,000 will be affected.

Q: HAVE ANY CHANGES BEEN MADE TO THE PERSONAL ALLOWANCES?

A: Personal allowances will be frozen in 2010/11. This is because the Retail Prices Index, the measure of inflation, is currently negative. Your personal allowance for 2010/11 will remain at £6,475 if you are under 65; £9,490 for people aged between 65 and 74; and £9,640 for those aged 75 and over. The basic and higher rates of income tax will remain at 20 per cent and 40 per cent respectively.

Q: WHAT PROVISION HAS BEEN MADE TO TAX BANK EMPLOYEE BONUSES?

A: Following the Pre-Budget Report banks will have to pay a 50 per cent tax on any bonus that it pays to employees worth more than £25,000. The Chancellor, Mr Darling reiterated that bank

employees would still have to pay income tax on bonuses as normal.

Q: HOW DID THE PRE-BUDGET REPORT IMPACT ON THE PROPERTY SECTOR?

A: The Chancellor confirmed that stamp duty holiday on properties purchased for less than £175,000 will end in January 2010, when the threshold at which buyers would have to pay the tax returns to £125,000. To help some people who might be in danger of having their home repossessed, the Support for Mortgage Interest scheme, which is available to those who have lost their jobs and are on means tested benefits, will be extended for another six months.

Q: WHAT IS HAPPENING TO VAT?

A: VAT reverts from 15 per cent back to 17.5 per cent from 1 January 2010.

Q: I RUN A SMALL BUSINESS, WHAT IMPACT WILL THE PRE-BUDGET REPORT HAVE ON ME?

A: The Chancellor announced that the banks will have to develop a £500 million "growth fund" to fund lending to small businesses, although the details have still to be clarified. The government's Enterprise Finance Guarantee Scheme, which provides government-guaranteed loans for small and medium enterprises in the recession, has been extended for another 12 months.

The increase in corporation tax for small businesses will be deferred, meaning the rate will still be 21 per cent next year. From 2011, it will increase to 22 per cent. There will also be a new 10 per cent tax on income from patents to boost science development.

The government's popular Business Payment Support Service, which allows small businesses to defer their tax payments, will be extended for "as long as needed."

Q: WILL I HAVE TO PAY MORE GREEN TAXES?

A: There were no increases in fuel duty or air passenger tax but both were already increasing during 2010. On January 1 petrol goes up by about

3p a litre when VAT returns to 17.5 per cent and in April fuel duty will rise by 1p a litre. Air passenger duty will also increase in April, taking the tax on a long-haul flight to a maximum of £170.

Q: WILL MY CHILDREN PAY MORE INHERITANCE TAX FOLLOWING THE PRE-BUDGET REPORT?

A: The rate at which people pay inheritance tax has been frozen at £325,000 until 2011, meaning more estates are likely to be liable for the tax. Middle class households would have been hoping for an increase in the rate.

The government announced on 9 December that, with immediate effect, it was closing two artificial schemes designed to avoid inheritance tax charges on relevant property trusts. First, where a person transfers property into a trust in which they retain a future interest they will be charged inheritance tax if they become entitled to an actual interest under the trust. Second, where a person purchases an interest in a trust, that interest will be treated as part of their estate for inheritance tax purposes.

Q: HOW DID PENSIONERS FARE FROM THE PRE-BUDGET REPORT?

A: The state pension is set to increase by 2.5 per cent, to £97.63 per week. However, the winter fuel allowance has been frozen at £250 for the under 80s and £400 for the over 80s.

Warm Front, the government's energy efficiency scheme aimed at pensioners and low income households, will also receive an extra £200 million in funding. Energy suppliers will have to spend an extra £1 million on social tariffs, which offer vulnerable households the cheapest deal.

To discuss your financial planning requirements or to obtain further information, please contact us.

“ We have highlighted some of the important stages in life and the circumstances you might find applicable to your particular situation. ”

IS IT TIME YOU HAD A WEALTH CHECK?

Start the new decade with a new bill of wealth

At every stage in our lives, there are certain circumstances that stand out as important, but it is all too easy to put off planning in our earlier years. We have highlighted some of the important stages in life and the circumstances you might find applicable to your particular situation.

20 TO 30 SOMETHINGS

Delaying the start of your retirement savings could have a significant impact on the level of retirement fund you eventually accumulate. When you're in your 20s to 30s, retirement may seem a long way off. However, the reality is that if you hope to save a fund large enough to provide you with an income equivalent to two-thirds of your final salary, you would have to save nearly half your income from your 20s until you retire.

Understandably, you may be reluctant to tie up your money in a fund that may not be touched until the age of 55. So while pensions offer the benefit of tax relief, which will help your savings grow even more over the long-term, other investment vehicles such as Individual Savings Accounts (ISAs) can provide more flexibility, as you have access to your money should you need it urgently in the future.

You may also be happier to take more risk with your investments at this stage, as you have more time to make up losses on the way.

40 SOMETHINGS

During this decade, you should plan to put as much as possible into your pension. You may find that you can lock up more of your assets now, so it is worth discussing with us the option of switching your ISA holdings to your pension provision to benefit from your higher rate of tax relief. It may also be appropriate to consider using

a wider range of assets, but the difficulty will be trying not to be too cautious with your savings at this stage.

50 SOMETHINGS

Many people may be coming to the end of a mortgage, with children leaving home. The final decade before retirement is often the most important from an investment perspective. At this point we can advise you how you could build even greater levels of diversification into your retirement funds, including money held in non-equity assets.

These might be cash deposits, bonds or other fixed-interest securities such as government gilts. This is also a good time to request a state pension forecast, so that you can get a reasonable idea of what this form of income could be in retirement.

60 SOMETHINGS

Now may be the time that you are considering significantly reducing your risk. You may be deciding whether you need to secure a fixed income, or if you can withstand any investment volatility after you have retired.

If you need certainty now, you could buy an annuity with your pension savings, although you do have the option to take 25 per cent of your pension fund as a tax-free lump sum, perhaps to reinvest elsewhere.

Another option is to consider an unsecured pension (formerly income drawdown). You leave your pension invested, but receive an income from the fund. However, you must be absolutely certain that you are happy with the additional risk. This stage of life is not a time to take risks with your retirement fund.

70 SOMETHINGS

Most people will be required to use their pension savings to buy an annuity by the age of 75. When it comes to buying an annuity, there is a vast array of options. You can choose to inflation-proof your annuity, or buy a guarantee so that it continues to pay out for at least five years. You might also want an income to continue for your spouse after your death.

All these options will reduce the amount of income you receive initially. Generally, the older you are, the higher the income you will receive.

We can help you search for the best annuity rate on the open market – you should never just take the rate offered by your pension provider. In your 70s, you are more likely than not to qualify for an enhanced annuity rate or 'impaired life' annuity if you are unwell or have a poor lifestyle. There are also some alternative means of getting the most out of your pension at this age, so why not contact us to find out how?

This article does not constitute advice and you should seek professional financial advice. If you would like to discuss how we could help you with your investment requirements, please contact us for further information.



CREATING AN EFFECTIVE PORTFOLIO

How to maximise your gains while minimising the risks

The start of a New Year is a time when many people look at their personal finances and consider how they can start building wealth by creating an effective portfolio to achieve financial independence, or alternatively, how they can improve their existing portfolio to help ensure they achieve their future plans and goals successfully.

Whether you are a new or experienced investor, we can help you through this process. As the old saying goes, 'People don't plan to fail, but they do fail to plan.' Your age and attitude towards risk for return will also determine your asset allocation and diversification, which are the main principles for building a portfolio.

Younger people may consider that investing in assets with a higher potential for growth, but greater risk, provides them with the time to benefit from long-term growth. This may not be appropriate for people closer to retirement who may want to choose more conservative investments that are steadier in both risk and return.

We can help you to identify your investment goals and select the type of investments and the level of risk that suits you, enabling you to develop a diversified portfolio. The process of deciding what proportion of your investment portfolio is invested in different types of investment is known

as 'asset allocation'. We can discuss with you how to provide the spread required to maximise gains while minimising the risks.

ASSET CLASSES

EQUITIES

The risks related to investing in equities can be reduced if you invest through an equity fund. A fund manager selects a range of equities so you are less reliant on the performance of any one company.

It also means that you don't have to choose the right companies to invest in yourself, but can rely on the knowledge and experience of the fund manager to choose companies that they feel will perform the best.

Most equity funds come into one of the following categories:

Growth funds - these aim to achieve long-term capital growth. The fund manager selects companies that show the best potential for increasing their share price.

Income funds - these aim to generate an attractive income for investors. The fund manager will try to select companies that pay regular

dividends. Their share prices tend to be less volatile than those of other companies.

BONDS

Bonds are loans issued by companies (corporate bonds) or by governments (gilts in the UK and treasury bonds in the US) in order to raise money. In effect, they are IOUs that promise to pay your money back on a specified date and pay a fixed rate of interest along the way.

On the whole, investing in bonds is seen as lower-risk than investing in equities. Gilts are very low-risk. To date, no UK government has ever failed to pay back money owed to investors. But with corporate bonds there is a risk that the company may not be able to repay its loan or that it may default on its interest payments.

CASH

Cash accounts are considered the safest form of investment. Bank and building society accounts pay regular interest and give fairly easy access to your money. They're a good place for money you may need in the short term, but over the longer term they offer lower potential for growth than equities, bonds or property.

Cash funds use the pooled savings of many investors in order to benefit from higher

interest rates that are not usually available to individual investors.

Unlike a deposit account, the value of the fund can go down as well as up. The value of tax savings and eligibility to invest in an Individual Savings Account (ISA) will depend on your individual circumstances, and tax rules may change in the future.

PROPERTY

Most people who have bought their own home will realise that property historically has been a good investment, with prices increasing significantly over the past decade – even though the past few years have experienced price corrections.

The past decade was also a period when many people become landlords, choosing to invest in other properties, such as buy-to-let flats and holiday homes.

An alternative to direct property investment is to invest in a property fund, enabling you to invest smaller amounts and spread your money over a large number and different types of properties.

DIVERSIFICATION

As we have experienced recently, different markets perform differently at different times, so one of the most effective ways to achieve consistent returns is to spread your money among several different types of assets or markets. This is known as 'diversification'.

Diversification gives you greater potential for growth because your portfolio is not dependent on any one company, fund or sector doing well. So if one of your investments is performing less well, others should be performing better to compensate. This means you reduce your potential risk.

Diversification can be achieved in a number of ways:

- By asset class - the simplest form of diversification is spreading your money across equities, bonds, cash and property
- By country - investing in the UK and internationally means you are not limiting your investment to the fortunes of only one market
- By industry sectors - consider investing across a variety of sectors such as energy, financial services, industrial and health care
- By investment style - creating a balance between funds that concentrate on growth opportunities and others that focus on value stocks, i.e. those whose potential has not yet been recognised by the market

You need to consider that, when investing internationally, changes in currency exchange rates may affect the value of an investment. Investing in funds provides an effective method of diversification. Because your money is pooled together with that of other investors, each fund is large enough to diversify across hundreds, and even thousands, of individual companies and assets.

LONG-TERM VIEW

If you have the luxury of time, it's important to take a long-term view – typically ten years or more. As we have seen in recent years, stock markets can be unpredictable. They move frequently, and sometimes sharply, in both directions. By giving your money as much time as possible to grow, you'll also benefit from 'compounding', which is when the interest or income on your original capital begins to earn and grow too.

There will be times of market volatility, which is why it is important to keep focused on your investment objectives and long-term goals. Market falls are a natural feature of stock market investing and during these times it is possible that emotions overcome sound investment decisions. You also need to resist the temptation to change your portfolio in response to short-term market movements. 'Timing' the markets seldom works in practice and can make it too easy to miss out on any gains.

No matter how small your investment, committing to regular saving over the long-term can build to a sizeable sum. The key is giving your investment time to grow. We can help you decide the appropriate amount and an affordability level for you to invest and you'll be surprised at how much even small amounts can grow over a number of years.

Investing regularly can also smooth out market highs and lows over time. In a fluctuating market, a strategy known as 'pound cost averaging' can help smooth out the effect of market changes on the value of your investment. When the market falls, your regular payment will buy more shares. Of course, when the market rises, you will buy fewer shares but the shares you bought in previous months will be worth more. As the years go by, it is likely that you will be able to increase the amount you invest each month, which would give your savings a valuable boost.

Investment in shares, bonds or cash carry different levels of risk that need to be considered against potential returns. A higher level of risk normally means that the potential for growth

is greater, but there is also a greater possibility that your investment might go down. What is important is deciding the level of risk that you are comfortable with. If you want to achieve significant levels of growth, you need to tolerate some investment risk. You may find that you can manage this risk through diversification, spreading your money across funds that invest in a variety of markets and types of investment.

You also need to consider that an investment, or a portfolio, that is right for you at one stage of your life may not be quite as suitable a few years later. You may find your investment goals change if you get married, have children or start a business, so it could be an idea to switch your investment into different funds. And as you approach retirement, you may want to move your money gradually into investments that offer more security.

We can help ensure that you are taking full advantage of the opportunities currently on the market. New types of funds appear from time to time and you may find there are new products available that could be a better match for your goals. If you would like to discuss how to plan successfully to achieve your future goals, please contact us.

The value of investments and the income from them can go down as well as up and you may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent finance acts. Fluctuations in exchange rates can affect the sterling value of any income received.

Critical illness cover

Protection for the unexpected

Critical illness policies are the type of policy nobody wishes to have to claim against, yet evidence shows that these are vitally important policies that can support families and secure their financial wellbeing during the worst of times.

Most people buy critical illness cover when they take on a major financial commitment, but it's important to receive professional advice. It also pays to start young when premiums are relatively cheap, rather than leaving it until later in your life when the price of cover can rise substantially or you may not be able to obtain the level of cover you need.

Critical illness cover is a long-term insurance policy designed to pay you a tax-free lump sum on the diagnosis of certain life-threatening or debilitating (but not necessarily fatal) conditions such as a heart attack, stroke, certain types/stages of cancer and multiple sclerosis. A more comprehensive policy will cover many more serious conditions including loss of sight, permanent loss of hearing and a total and permanent disability that stops you from working. Some policies also provide cover against the loss of limbs.

But not all conditions are necessarily covered. In May 2003, insurers adopted new rules set by the Association of British Insurers that tightened the conditions under which you could claim on critical illness insurance policies.

If you are single with no dependants, critical illness cover can be used to pay off your mortgage, which means that you would have fewer bills or a lump sum to use if you became very unwell. And if you are part of a couple, it can provide much-needed financial support at a time of emotional stress.

The illnesses covered are specified in the policy along with any exclusions and limitations, which may differ between insurers. Critical illness policies usually pay out only once, so are not a replacement for income. Some policies offer combined life and critical illness cover. These pay out if you are diagnosed with a critical illness, or you die, whichever happens first.

If you already have an existing critical illness policy you might find that, by replacing the policy, you would lose some of the benefits if you have developed any illnesses since you first took the policy out. It is important to seek professional advice before replacing or switching your policy, as pre-existing conditions may not be covered under a new policy.

Some policies allow you to increase your cover, particularly after lifestyle changes such as marriage, moving home or having children. If you cannot increase the cover under your existing policy, you could consider taking out a new policy just to 'top up' your existing cover.

A policy will provide cover only for conditions defined in the policy document. For a condition to be covered, your condition must meet the policy definition exactly. This can mean that some conditions, such as some forms of cancer, won't be covered if deemed insufficiently severe.

Similarly, some conditions will not be covered if you suffer from them after reaching a certain age. For example, many policies will not cover Alzheimer's disease if diagnosed after the age of 60.

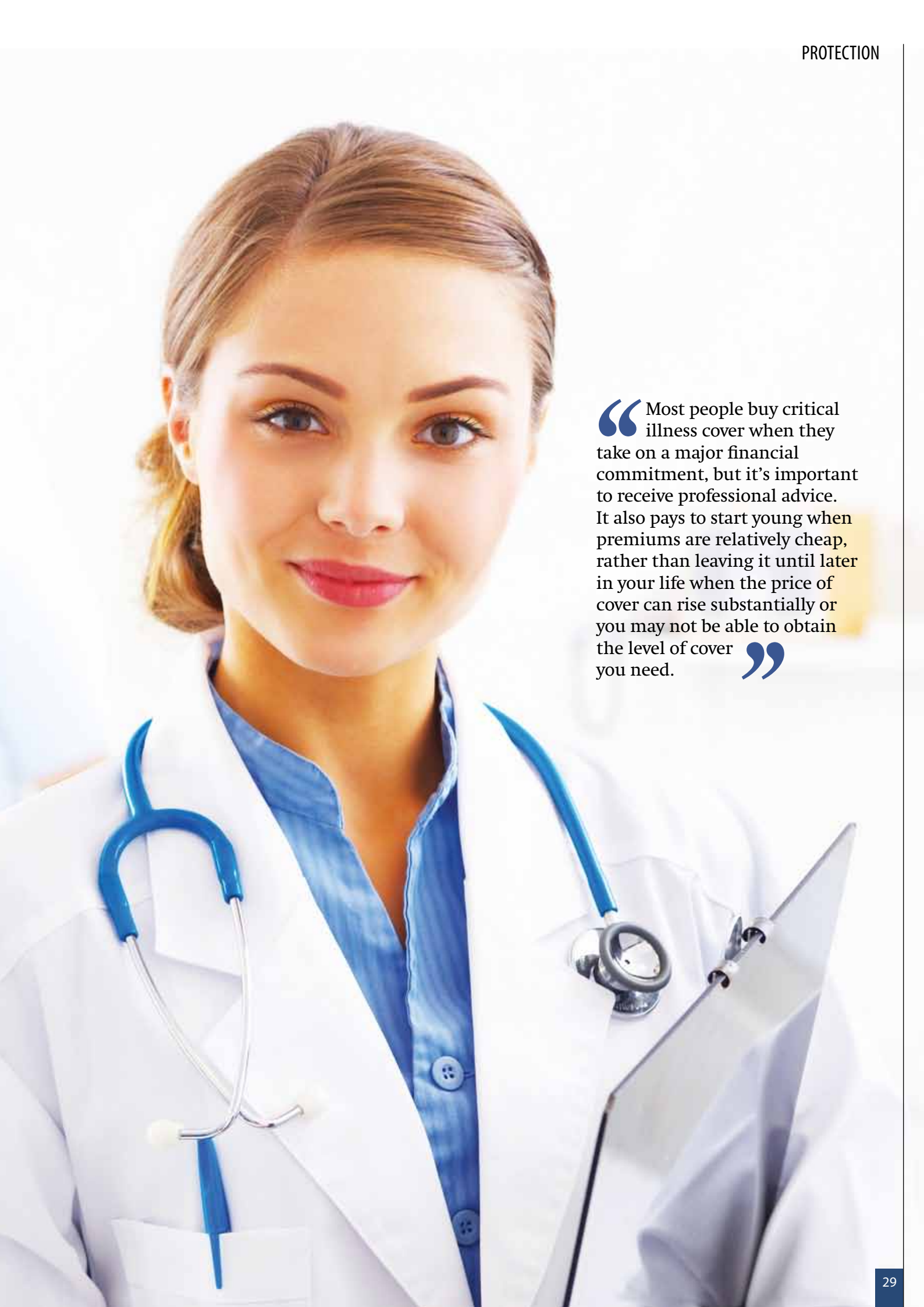
Very few policies will pay out as soon as you receive diagnosis of any of the conditions listed in the policy. Most pay out only after a 'survival period', which is typically 28 days. This means that if you die within 28 days of meeting the definition of the critical illness given in the policy, the cover would not pay out.

How much you pay for critical illness cover will depend on a range of factors, including what sort of policy you have chosen, your age, the amount you want the policy to pay out and whether or not you smoke.

Permanent, total disability is usually included in the policy. Some insurers define permanent total disability as being unable to work as you normally would as a result of sickness while others see it as being unable to independently perform three or more 'Activities of Daily Living' as a result of sickness or accident.

ACTIVITIES OF DAILY LIVING INCLUDE:

- Bathing
- Dressing and undressing
- Eating
- Transferring from bed to chair, and back again



“ Most people buy critical illness cover when they take on a major financial commitment, but it’s important to receive professional advice. It also pays to start young when premiums are relatively cheap, rather than leaving it until later in your life when the price of cover can rise substantially or you may not be able to obtain the level of cover you need. ”

Isn't it time you had a financial review?

**We'll make sure you get the right
advice for your individual needs.**

We provide professional financial advice covering most areas of financial planning, including, tax-efficient savings, investment advice, retirement planning, estate & inheritance tax planning, life protection, critical illness cover and income protection.

To discuss your options, please contact us.