

Welcome to our second 'Profile' newsletter

As you will all now be aware and possibly seen from 'Mainly About People' section in the Cumberland & Westmorland Herald, we have moved to our new premises at Skirsgill Business Park. This has proved to be well worth the upheaval and has generally been a hit with those clients who have visited us since we moved. At least no problems with parking!

Another milestone in the development of Profile is the appointment of an administrator. Rebecca Taylor joined us on 2nd June and as time goes on this appointment will allow both David and myself to develop the business. It is accepted fact that the every increasing amount of administration has deflected us from what we believe we are good at i.e. helping people with their financial plans. However we have been able to develop our processes and many of you have been seen to run through our revised proposition and the new retainer agreements. For those of you we haven't seen, don't worry, we will be in contact.

I hope you find the articles in this newsletter of interest and if there are any elements you wish to discuss further please do not hesitate to contact us.

Richard Utting (Director)

Stock market investment *Take a long term view*



Unless your paperboy has been shot, the newsagent burned down, your radio has gone on the blink and your TV has blown up you are probably aware that we are experiencing not only a credit crunch at the moment but a severe downturn in the stockmarket.

This is obviously worrying to those of us who have investments in equities and, to be frank, who hasn't. Whether you have a pension, an endowment, unit trust or direct investment in shares, we are all affected by the downturn. It is only natural to be concerned about how this affects the value of your investments.

So what should you do??

The stance we take is in line with many industry experts who believe that investors are usually better of resisting the temptation to make changes to their long term investments simply because, of what we would hope, are short term stockmarket movements. If your personal circumstances and investment goals are unaltered, and you are still able to take a medium to long term view, then it is probably appropriate to 'sit tight' through this period of uncertainty.

We would suggest that many people know and realise that, over the longer term, stock-market and property based investments have significantly outperformed the returns that have been from bank and buildings society deposit accounts.

However, the off putting element for many people is the fact that most people realise that there is usually short term volatility associated with stockmarket investments which may mean you "lose" money. This is why we recommend that investors should take a long term view – typically five to ten years or more – when investing some or all of their investments in the stockmarket.

This is born out by **research which shows that over any 10 year period chosen from a 25 year window (from 1.8.82 to 1.8.07) in both UK and International markets, all FTSE-A All Stock and MSCI World Indices investors made money 100% of the time.

Over 1 year United Kingdom based investors made money on 81.7% of occasions and 76.8% in the international market

Over 5 years UK investors made money 85.5% of the time and International investors made profits on 82.6% of occasions.

Further research also shows that by being "out of the market" when the best trading days are in force has a marked effect on returns, and these days are often to be had in the middle or at the end of a storm season.

From 1992 until 2007, a FTSE All Share investor who remained fully invested for those 15 years enjoyed an average return of 10.9% per annum. If the client was out of the market for the Best 10 days in that period would have received an average of 7.9%, a 3% per annum reduction, and over a 15 year period, the "compounding effect" of this is significant. If we look at being out of the market for the best 20, 30 & 40 days the



Changes to ISA Regulations and Pension Tax Relief

On 6th April some important changes took effect and these are as follows:

- All existing PEP's became ISA's.
- ISA allowances increased to £7,200 from £7,000 with the maximum cash element increasing from £3,000 to £3,600.
- For the first time Cash ISA's can be transferred into Stocks & Shares ISA's.
- Maxi & mini ISA's will not exist – there will now simply be Cash and Stocks & Shares ISA's.

Changes to Pension Tax Relief – Personal Pensions

The basis rate of tax changed from 22% to 20%. This will affect those of you with personal; pensions because the tax relief which the Government adds to your pension contributions will be reduced.

returns fall further to 5.6%, 3.7% and a mere 2% per annum! The International position is even worse with losses being experienced in Germany, France and Hong Kong.

This research has looked at 181 possible 10 year time slots and proves that by adopting a long term view, investors stood a very low chance of losing money at all during the period in question. We must also point out that this historical data should not be used as a indication of future returns as past performance is no indicator of future performance.

In addition to the above, we also take the view that investors should consider a diversified portfolio i.e. they should invest across a range of four main asset classes, these being cash, fixed interest investments such as Government or Corporate Bonds, property and shares. In this way an investor does not have all his/her investments in one basket thereby spreading the risk. The percentage invested in each area is down to the individual's attitude to investment risk.

**Source...Fidelity research 1.8.82 to 1.8.07 Morningstar FTSE-A all Share and MSCI World Indices with all income reinvested. No account of initial fees is taken into account.

There is no doubt that the next few years will be difficult but REMEMBER:

- **Take the long term rather than the short term view AND**
- **Time, NOT timing is the key to successful investing**

PROTECTION

- if you think you can't afford this, you better think again!



Of all the reasons given to us for not taking out protection products, affordability usually comes out near the top of the list. Many believe that life cover is an expensive luxury. With the cost of living rising in other areas such as utility bills, food, drink and petrol, it is likely that most people will choose to ignore life cover or any other protection products as they tighten their belts. We would challenge this attitude.

Life assurance rates and critical illness rates have been coming down for years as insurers have become increasingly competitive and improved their IT systems. For example, a couple in their 30's taking out a mortgage could take life assurance cover out of £200,000 for around £20 per month – little more than a cost of a round of drinks or a couple of cinema tickets!

Those who don't take out any protection in effect self insure. They decide to take the risk that they will not become ill or die while they have financial responsibilities. But when it comes to mortgages and lifestyles, self insurance is about as useful as no insurance. Savings would be the first to be sacrificed to maintaining lifestyles and continuing to pay bills. Once savings have dried up cut backs would have to be made, fewer holidays, selling the car, selling furniture and perhaps, one day, there could be a knock on the door from the repossession company.

At a time when wages are not keeping pace with inflation and the cost of living and taxation is increasing, many are bound to consider ditching existing protection products or not taking them out in the first place.

But the fact remains that whether it costs £60,000 to maintain your lifestyle for a year or whether inflation has increased this to £70,000, the loss of the main earners income due to illness or death could cause financial devastation.

If you have to pull in the purse strings you should not do it at the expense of giving up on your protection cover.

ISAs V personal pensions

Traditionally, people who wish to make provision for their retirement have used a personal pension (PP). However, more and more people are now turning to other forms of tax-efficient investment to supplement their retirement benefits- either as an alternative to a traditional pension or as a supplement. One of the most popular of these alternative investments is an individual savings account (ISA).

In this article we compare the tax advantages, characteristic and flexibility of the personal pension and the ISA to establish how such an investment can make a difference to an investor. This whole issue has become more topical as a result of the changes that apply to tax rates and the ISA conditions with effect from 6th April 2008.

It is generally understood that the PP and ISA are two of the most tax-efficient investments (in their different ways) currently available to the general public. However, the tax advantages and the rules on access for each investor differ substantially.

Personal Pensions

The tax breaks on offer from a PP can be summarised as follows:

- Contributions qualify for tax relief at the contributor's marginal rate(s).
- Investment accumulate in a largely tax efficient fund.
- Benefits paid on death before age 75 are normally free of inheritance tax.
- Up to 25% of the fund can be taken as a tax free sum when benefits are vested, normally on retirement.

The drawback is, of course, that eventually the balance of the retirement benefits (over and above the tax free cash) will need to be taken in the form of an annuity. In addition, no access to the PP is available until the benefits are vested which is normally, at the earliest, age 50 (age 55 from 6 April 2010) and not later than age 75.

ISA

The tax break available under an ISA is that investment income and capital gains are free of tax except interest earned on cash awaiting investment (which is taxed at a flat rate of 20%). Compared to a PP, the major advantage of the ISA is that it can be wholly or partially accessed by the investor at any time without and tax penalty.

To summarise, in general terms, a PP can offer tax relief on input, largely tax free growth but restricted exit facilities with only some tax free cash on exit. In contrast, an ISA offers no tax relief on input, largely tax-free growth and normally a totally tax-free exit at any time.

ISA	PENSION
No upper age limit. Minimum age for investment 18 (16 for cash).	Upper age limit 75. No minimum age limit -contributions may be paid by third party.
Contribution limit of £7,000 pa (rising to £7,200 pa).	Maximum contribution (with tax relief) is £3,600 or total relevant UK earnings.
Largely tax free investment fund-no tax on income or capital gains but no reclaim of dividend tax credit.	Largely tax free investment fund- no tax on income or capitals gains but no reclaim of dividends tax credit.
Whole investment treated as part of investor's taxable estate on death for inheritance tax purposes.	Death benefits can normally be paid out before age 75 without inheritance tax.
Full access to investment by investor at any time.	Can take 25% of fund free of tax age 50 (age 55 from 2010). Balance must be used to buy annuity (or go into income drawdown).
Permitted investments prescribed by law.	Investments not prescribed but investment in "taxable property", such as residential property and works of art, will lead to substantial unauthorised payment charges.



Investor protection

Question:

'In view of recent events in the banking sector, what are my legal rights if my bank or other provider cannot meet its obligations?'

Answer:

Investor protection is mainly provided by the government's Financial Services Compensation Scheme. How much you get depends on the type of investment.

*UK bank and building society deposits, following the run on Northern Rock are now covered up to £35,000. Until the recent change in the rules, the maximum pay-out was £31,700 for deposits of £35,000 or more. The Chancellor, Alistair Darling, has suggested that these limits will almost certainly rise considerably higher.**

UK investment products, such as unit trusts or OEICs that were sold after 27th August 1988 are 100% covered for the first £30,000 and 90% covered for the next £20,000, making the maximum pay-out of £48,000 on £50,000 of investments.

UK life assurance policies are covered for 100% of the first £2,000 and 90% thereafter, with no cash ceiling, although the 90% figure could be cut back if an independent actuary considered the original benefits were excessive.

** Speech by the Chancellor of the Exchequer, the Rt. Hon. Alistair Darling MP, 1st October 2007.*

How to help reduce student debt



Despite a small percentage fall in graduate debt this year the average student now owes £11,123 on graduation, compared with only £5,096 ten years ago, according to research by uSwitch.com.* With higher tuition fee for 2007/08 and inflation that still nudges an annual 4% - as measured by the Retail Prices Index (RPI) – it seems all too likely that the long term trend of growing student debt will continue.

Parents and families should bear in mind that the days of free higher education for most students are almost certainly over. The annual tuition fees are currently up to £3,070 and are normally financed through special

student loans. Indeed, costs may well rise a lot further in the future. The actual cost of the courses is often many times this figure especially in medicine, the sciences and practical degrees. There is already pressure from a number of universities to increase the fees ceiling.

So if you expect that your child or grandchild could go to university or college, you should think about creating a special fund to help them through these years. Students who are not forced to work during the term time to finance themselves can find it much easier to study effectively and get a good deal more out of their course. There are several excellent options for building up a tax-efficient fund for a student-to-be. The right one for you and your family will depend on circumstances. For the long term, ISAs, child trust funds and even offshore bonds could play a part, while fixed rate deposit accounts and guaranteed growth bonds may be more appropriate if college days begin soon.

Students with good parental support are often those with the lowest debts. But they can also help themselves by:

- Investigating the chance to obtain a student loan via the student loan company (www.slc.co.uk) It is generally the best value long term borrowing.
- Working during the vacation and possibly taking a part time job (of no more than 15 hours per week) during the term time, as long as it doesn't affect their studies.
- Drawing up a detailed budgeting plan at the start of each term and sticking to it.
- Making sure they have a student bank account with an interest-free overdraft.
- Finding out about university help with student fees, as well as the Students Union hardship fund.

* uSwitch.com, August 2007. λ. National Statistics, August 2007.

All views and information expressed within this newsletter are generic and should not be taken as any form of recommendation or advice specific to you. We strongly advise that you take professional advice before making any decisions based on this newsletter. The information is based on our understanding of current HMRC rules and practices (as at 3rd December 2007) which are always subject to change.

profile
financial management Ltd

For further information, or to discuss any matters concerning these articles please contact either

Richard Utting or David Pealing
Profile Financial Management Ltd
Unit E Skirsgill Business Park
Penrith, Cumbria CA11 0DP
Telephone – 01768 840000.