

## Welcome to Profile....

Welcome to our first quarterly newsletter 'Profile', in which we will bring you an update on developments in the world of financial services and hopefully a few other interesting snippets along the way and some not always to do with the financial services industry.

PfM itself continues to progress. Even though we were ahead of the game when it came to fee based advice some three years ago, the rest of the market now seems to be following suite with further changes being proposed by the Financial Services Authority over the next few years relative to the way financial advice is provided.

On the premises front, it would seem likely that we will be moving from Little Dockray during the early part of the New Year. Now Borderway Insurance Brokers have moved to Carlisle we seem to be rattling around in our current offices so we need somewhere smaller, not necessarily in Penrith town centre but with parking. We shall, of course, keep you informed once we know where we are going.

It is our normal practice to send out Christmas cards but this year we thought we would send the money we normally spend to charity. This will go to 'Children in Need'. We hope that you agree that this is a worth while cause and that you will not miss our card adorning your home.

Finally, may we send our seasonal wishes to you all. Let us hope that the New Year brings good health and happiness to all.

Richard Utting (Director)  
David Pealing (Director)

## Rollercoasters belong in theme parks



You have probably noticed that investment markets have been a bit of a rollercoaster recently. Whilst a rollercoaster can be fun to many, sudden ups and downs in the stock market can cause much worry and stress to investors. Over the last few weeks and months you can hardly turn on a TV or look in the papers without being bombarded with messages concerning the dire state of the worlds stockmarkets or the crisis in the sub-prime credit markets.

However it is at this time that we must not be diverted from our long term goals by all the short term hype.

As we see, bad news sells papers so there is a vested interest in scary market reports.

When news reports comment that 'Billions of Pounds have been wiped off investments as FTSE plummets 200 points' it certainly grabs ones attention but at that level it is only 3% of the market. It isn't quite as newsworthy, or frightening, to think that investments fell by 3%.

It should always be born in mind that both stockbrokers and sales based advisers generate commissions for buying and selling shares so therefore have a vested interest in creating stories to make people uneasy and ready to switch investments.

### So as an investor through Profile, what should you do?

The answer is simple – the same as you have been doing since you started investing with us. You must remain focussed on the three D's

- **Direction** – in order for any investment plan to work for you, you must have a clear understanding of what money means to you. This allows you to focus on specific goals. Remember – money is only a tool to facilitate your goals.
- **Determination** – when you have a clear set of goals it is much easier to maintain the discipline to stick with the program through the good times and the bad times. It's a bit like what your parents may have said to you when you were younger. 'Nothing good ever comes easy' or 'Good things come to those who wait'. Investing is a bit like that.
- **Diversification** – not all investments perform well at the same time. So the best way of smoothing out the excessive short term swings in the markets is to diversify your investment portfolio. Unfortunately this means that you sometimes miss out on some of the growth in the markets in the boom periods but, conversely, you also receive some protection when the bad times comes round.



As many of you will know, this is exactly what we do for our invested clients. Money is diversified across multiple asset classes – cash, fixed interest, property and equities. While this does not mean it will never fall in value, it does mean that performance of your investments has not been as scary as the media may lead us to believe.



## When did your personal finances last have a review?

Volatile markets, market forces and new legislation could mean your finances are out of kilter with your financial goals

Annual financial reviews may seem a little too frequent, but recent changes and uncertainties in the financial markets could have affected your financial planning. Market forces, combined with changes in your personal circumstances could mean that your finances could be seriously out of kilter with your financial goals. In the past 12 months alone we have seen:

- A new tax regime for pensions which affects virtually everyone saving for their retirement.
- Real Estate investment trusts (REITs) have come into play offering a new route into commercial property investment.
- Inflation has risen to its highest level since 1998.
- Wide ranging proposals from the government to reform state pensions have been announced.
- Tax laws on trusts have been revised, with relatively short deadlines set for valuable transitional relief's.

Taking your personal circumstances, new legislation and a volatile market into consideration, a review could give you a chance to step back and consider the impact of the past 12 months, both in terms of the past and the future.

A review need not take long as it will concentrate on the changes not the status quo. The early part of the new year is an ideal time to start the process as it can be combined with your year end and tax planning.

## Don't pay more tax than necessary

**Simple tax planning strategies can help you claim all the tax relief's you are due.**

Tax rules can and do change every year and you need to plan in light of your own individual circumstances. Here are some simple tips on things you should consider before the end of the next tax year.

### Pensions

Pensions offer potentially valuable tax saving opportunities.

- You can now personally contribute up to 100% of your earnings to pension arrangements with full tax relief provided the total contributions do not exceed £215,000 in this tax year.
- You are now allowed to contribute to a personal pension if you already contribute to an employer's pension scheme. This means you can use other types of personal pension to top up your retirement benefits.
- Whatever pension arrangement you choose, the mix between pension income and tax free cash will be the same unless you are subject to special rules. So normally 25% of your pension fund will be available as a tax-free lump sum when you draw your benefits.

### Inheritance tax

Inheritance tax (IHT) has been in the headlines recently because of the last budget's reforms to the treatment of trusts.

- Consider how you use your annual exemptions is important – you can now only carry your £3000 annual exemption forward to the following tax year and it can only be used once that year's exemption has been exhausted. So if you and your partner have made no gifts since 5 April 2005, you can now give away £12,000 free of IHT.
- The last budget reduced the opportunity to make lifetime gifts with no immediate charge to IHT. The chance to avoid IHT on large gifts could disappear completely in the next Budget.

### Capital Gains Tax

- You are now allowed to make up to £9200 of capital gains without having to pay any capital gains tax. You could use this exemption to take some tax-free profits. If you do not use your exemption, it cannot be carried forward.

*If you would like more advice on tax planning, call us to talk through ways in which your tax position could be improved.*





# If you're planning to invest – don't! *Invest in planning*

This is the advice of leading financial expert Justin Urquart Stewart who was the guest speaker one of our regular financial planning seminars.

Justin Urquart Stewart is a regular contributor to BBC 2's Working Lunch and TV-AM. He also writes financial advice articles for the national press and specialist financial titles.

Justin gave us an overview of the financial markets and outlined the trends for coming 2 years. He cited a number of key themes that will influence financial markets, these being ongoing asset allocation, US and Chinese economies, deflationary issues, global trade and terrorism.

He said "the financial world is suffering from scandal after scandal of mis-sold products and bad advice given by Financial Advisers driven and motivated by commissions. The only way forward for the industry is to switch to a fee-based system where planning is the basis of the advice.

Good planning considers your attitude to risk, in other words do you need to stay safe to plan for your retirement, or can you afford to play with some higher risk investments? You then need to consider ongoing asset allocation – this is evolving constantly, but you need to look at the long-term picture. And only then do you start looking at investment fund selection."

**PFM Comment** – *As many of you will know, at the heart of our service is a highly respected financial planning method using cashflow modelling. This approach allows us to create an integrated financial plan from which informed decisions can be made. Once created, the plan can then be reviewed and updated annually to ensure that it continues to meet the aims and objectives of the client. In this way PFM can provide financial planning to people who require long term proactive advice about their finances.*





# An Introduction to Capital Gains Tax



Every time you sell something, the taxman (God bless him) takes a look to see if you have made a profit or not. Under normal circumstances this is not an issue – as anyone who has sold their own car will tell you, losing money is easy. However, with investments the whole idea, of course, is to make a profit – and this is where the taxman gets interested.

Whenever you profit from the sale of an asset, the taxman deems you to have made a capital gain. This is calculated on the difference in value between the price at which the

asset (or its value if you were given it) and the price at which it was sold less any expenses incurred in the transactions. Capital Gains (CGT) is something many can be liable for but very few pay in full. This is because with just a little bit of planning, you can minimise your liability. And this is where we come in.

By using various allowances and relief's you can reduce or even eliminate CGT altogether. In our next issue of 'Profile' which will be in the Spring, we shall explore these and the changes the Government are proposing to make from April of next year.

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.



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