

## Financial Planning in the current climate

Quarter 1  
2009

Now, more so than ever, is the time to be aware of your financial position and to ensure that you are well protected and that your money is working as efficiently and effectively as possible.

### Have an interest in your savings

Recent interest rate cuts have dramatically reduced the returns provided on money held in Cash ISAs and other bank and building society accounts. The Bank of England Base rate was cut to 1.5% in January 2009 (compared to 5.5% in January 2008) and many predict it may need to fall further still in the short-term. Whilst we always recommend maintaining a short-term emergency cash fund, the level of income produced from significant sums held on deposit will now have reduced greatly, and we recommend that you take advice as to how your money can work harder for you.

### In it for the long term

The downturn in stockmarkets began in the second half of 2007, however this accelerated through the end of 2008, as markets priced in fears of the global banking crisis and a worldwide recession.

We now believe that a lot of bad news is priced in to investment markets. Clients with money currently in markets should certainly be thinking of holding these positions to await recovery (as opposed to selling at low levels). Regular savers should continue to take advantage of the low levels of markets by continue to buy assets cheaply, and investors with cash could also look to take advantage of the long-term value currently on offer.

### Protect what you have

Protecting yourself and your family against the unforeseen is a key cornerstone of financial planning. This takes many forms including protecting against redundancy, illness, incapacity and death. Protection arrangements can be very cost effective and offer peace of mind to you and your family and are as important as ever in the current uncertain climate.

### A-Day Pension Protection ACT BEFORE IT'S TOO LATE

The Pensions Simplification regime that started in April 2006 introduced the concept of a lifetime pension allowance. At A-Day (6 April 2006), this stood at £1.5m and has risen to £1.65m in the current tax year. If when it comes to drawing your pensions, the total value of all of your company and personal pension arrangements exceeds this allowance, you may be subject to a charge of 55% of the excess.

Whilst this threshold may well be out of reach for many people, it is worth reviewing your affairs as if it is likely you may exceed this limit, you have until April this year to protect any excess penalties and save yourself a potentially very large bill when you reach retirement.

This is particularly the case for members of final salary schemes due to the way that the HMRC value pension benefits of this type. When it comes to drawing final salary pensions, they apply a factor of 20 times the annual pension, in order to ascertain the pension's "value".

Therefore a person with a final salary pension of £60,000 and a private pension fund of £750,000 would find themselves over the lifetime allowance limit (i.e.  $£60,000 \times 20 = £1,200,000 + £750,000 = £1,950,000$ ).

*This is a very complex area of pensions legislation and if you do believe you may be affected by this, we urge you to seek immediate advice as action is required prior to April this year.*

### Other end of tax year actions

The forthcoming end of tax year as ever sees certain other exemptions and allowances being lost, if not used beforehand. As a reminder, these include the annual:

- £9,600 capital gains tax exemption
- £7,200 ISA allowance
- £3,000 inheritance gifting allowance

Now may be a good time to take advantage of these tax breaks, with asset values at historically low levels.

# What's going on?

## Market Commentary – End Quarter 4 2008

The downward slide in stock markets around the world accelerated to a severe level at the beginning of the quarter. The end of the quarter brought some respite to investors, although the picture into 2009 remains very uncertain.

	3 Months	1 Year
FTSE 100 TR	-8.68	-28.33
FTSE 250 Mid TR	-18.63	-38.15
FTSE A British Govt All Stocks TR	10.24	12.81
FTSE All Share TR	-10.19	-29.93
FTSE All Small (X It) TR	-26.46	-48.04
FTSE Europe ex UK TR GBP	-2.46	-23.99
FTSE World TR GBP	-3.23	-18.18
IPD UK All Property Monthly TR	-13.51	-22.53
LIBOR GBP 1 Month	0.99	4.41
UK Retail Price Index	-2.52	0.95

Source: Lipper Hindsight, bid-bid, net income reinvested, to 31/012/08

The final quarter of 2008 started with a period of unprecedented fear of a systematic collapse in the UK and global banking system. In the US, the giant Lehman Brothers was allowed to go the wall, which sparked panic in investors worried of further exposure to “toxic assets” in other institutions. In hindsight, it is clear that the coordinated subsequent action from governments, to pump liquidity into the financial system, was required to simply keep the system afloat, as opposed to get the system moving forward again.

Economically we now undoubtedly find ourselves in a recessionary period by in the UK (likely to be confirmed in January), with global growth slowing sharply, and unemployment rising. With this background we expect markets to remain volatile as investors weigh up bad news on the economy against an unprecedented array of central bank and government stimulus packages. This is highlighted by the rally in markets shown at the end of the quarter, in December, when the FTSE World index returned over 10%. Such periods of positive and indeed negative volatility are likely to persist for some while as yet, which will lead to short term fluctuations in the value of portfolios.

Whilst 2008 is undoubtedly a year most investors will be glad to see the back of (as highlighted by the returns in major equity markets, left), the question for consideration is what will 2009 bring? Whilst the global economy is expected to slow through 2009, a good deal of bad news is already priced in to equity and corporate bond markets. It is wise to remember that the market is an excellent discounting mechanism and is likely to turn for the better sometime before the economic indicators do the same. With returns from deposit accounts being slashed, investors are best advised to maintain a diversified portfolio as by waiting for economic evidence to get better before returning to markets, it is likely that some of the best rises in markets will be missed. Please continue to raise any questions that you have with an adviser, particularly prior to making any investment or disinvestment decision.

## Standard Life Sterling Fund

Investors in Standard Life's Sterling fund (through a pension or investment bond) will have received correspondence recently from Standard Life informing them of a 5% reduction in price of the fund effective of 14 January 2009. This fund was designed to provide low levels of volatility risk and therefore it is disappointing to see this fall occur. However, this action has needed to be taken due to a severe lack of liquidity in certain areas of the money market in which the fund invests.

We had included this fund in a number of our investment portfolios up until relatively recently and therefore we will be writing to clients who have exposure to this fund to outline our thoughts and recommendations.

*If you are an investor in the fund you should soon receive correspondence from us outlining our thoughts (if you have not done so already). Please feel free to contact an adviser to discuss your options in more detail.*

## Famous last words:

“Be fearful when others are greedy, and be greedy when others are fearful” – Warren Buffett writing in the New York Times on 16<sup>th</sup> October 2008.