

Best Advice

BUDGET 2008
EDITION

APRIL 2008

Informed Choice Ltd

Special Points of Interest:

- A summary of the main points in the recent Budget
- Trouble in the Icelandic economy could spell danger for UK savers
- Our new client referral scheme is launched
- Fidelity Special Situations is downgraded from 'AAA' to 'A' by S&P



We are proud to be a Chartered firm of Independent Financial Advisers. This means we have satisfied rigorous criteria relating to professional qualifications and ethical good practice.

HAPPY NEW (TAX) YEAR!

Welcome to the third edition of our quarterly client newsletter—Best Advice.

Within this issue we look at some of the main announcements made in the Budget last month. It was a fairly dull Budget but some important personal finance related changes were confirmed.

We also take a closer look at what is happening to world stockmarkets and the continuing saga of the 'credit crunch'.

We finish the newsletter by sharing some news from Informed Choice.

Along with Nick, Philip and I recently completed a charity walk from our offices in

Cranleigh to the coast, raising over £500 for Facing the World.

We do hope that you enjoy reading this newsletter and we would welcome your feedback.

Regards,

Martin



Martin Bamford BA (Hons) CFP APFS
Chartered Financial Planner
Joint Managing Director

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BEST OF THE BLOGS

The Informed Choice Blog at informedchoice.blogspot.com contains personal finance news, debate and opinion. We also add news about Informed Choice and links to our media coverage in both the national and trade press.

The Blog allows readers to add their own comments to any entry so do take a look and join

in with the debate.

To date this year we posted 56 blog entries, on topics as diverse as tactics to beat the taxman and how the nationality of the model on the cover of Sports Illustrated correlates with investment performance.

Please do take a look and add your comments to the blogs.



Informed Choice Ltd are one of only three IFA firms in the UK to hold the Gold Standard for Independent Financial Advice—the toughest and most sought after award in financial services.

Best Advice

Budget 2008—Summary

The Budget statement was delivered to the House of Commons by Alastair Darling on 12th March 2008. It was a pretty dull Budget with many of the items simply confirming announcements that had already been made, but there was plenty of fine detail to sift through after the main speech.

Here is a brief summary of some of the highlights for the world of financial planning, along with our comments:

- The basic rate of income tax will fall from 22% to 20% from 6th April 2008. The 10% starting rate of income tax is being removed at the same time. This measure had already been announced but confirmation was a reminder that the basic rate tax relief on pension contributions will also be effected.

A net contribution of £100 under the old rate would have been grossed up to £128.21, but under the new rate this falls to £125. In order to maintain the same level of gross contribution you would need to increase your net contribution to £102.57.

- The good news is that charitable donations will receive a transitional 2% relief under the Gift Aid regime, so they will continue to benefit from basic rate tax relief at 22%. This will apply from 2008/09 until 2010/11.
- The new capital gains tax regime is also being introduced on 6th April 2008, with a flat rate of 18%. Taper relief and indexation allowance are both being abolished, which means that investors who held onto assets (particularly business assets) for a number of years will end up paying a higher effective rate of capital gains tax on their sale proceeds.

An entrepreneurs' relief is also being introduced to reduce the effective rate of capital gains tax to 10% for shareholders for up to £1m of lifetime business gains.

- The controversial rules for non-domicile individuals will go ahead, broadly as previously announced, on 6th April 2008.
- There was confirmation that the maximum limits for Individual Savings Accounts (ISAs) will increase from £7,000 to £7,200 from 6th April 2008. It will be possible to save up to £3,600 each year into a cash ISA and the balance into a stocks & shares ISA.

The distinction between a Maxi and Mini ISA is being removed and PEPs will automatically become ISAs under the new rules. It will be possible to move from a cash ISA to a stocks & shares ISA without loss of the tax benefits, but unfortunately it will not be possible to move funds in the other direction.

- New rules to counter what is being called 'income shifting' (which means using dividend payments within family businesses to reduce tax) are set to be introduced in the Finance Bill 2009 which means they will not take effect from 6th April 2008, as originally thought.
- The inheritance tax (IHT) nil rate band for 2008/09 is £312,000 and it will be possible to carry over up to 100% of a spouse or civil partner's nil rate band for use on the death of the survivor.

Do speak to us if you have any questions about the content of the Budget speech or the impact of these changes on your personal or business financial planning.

Time to abandon the Icelandic economy?

Things are looking pretty dire in Iceland. The small state with a population of only 313,000 people has been punching above its weight in global markets for several years. But the recent 'credit crunch' is having a massive impact on this economy and in the next few weeks we could witness the fall-out.

Some commentators are now referring to Iceland as 'a Nordic hedge fund masquerading as a country'.

Their currency, the Icelandic Krona, has fallen in value by 22% against the Euro since the start of this year. Earlier this week their central bank put up interest rates by 1.25% to 15% in an effort to prevent the currency from plummeting in value. They also have big problems with inflation. The inflation target in Iceland is 2.5% but the rate measured in February was 6.8%.

Two of the largest Icelandic banks, Landsbanki and Kaupthing, are major players in the UK savings market. In fact, the Icesave account from Landsbanki frequently appears on 'best buy' comparison sites as offering a top interest rate.

Our main concern is that the Icelandic government does not have sufficient resources to bail out their banks, which now have an asset base of eight times GDP. I should point out that Iceland is not alone in facing these problems. Other nations are also living beyond their means in financial terms, but few of these offer the same potential risks to UK investors as the banks in Iceland.

If I had savings in Icesave at the moment then the Icelandic Deposit Guarantees and Investor Compensation Scheme would give me some comfort, particularly when taken in conjunction with the UK Financial Services Compensation Scheme, but I would be seriously considering a move another financial institution.

The hassle factor involved if things went belly-up could now exceed the slightly more competitive interest rates on offer, even if savings up to the £35,000 FSCS compensation limit were entirely secure.

Going for gold

The current commodity boom means that gold has become the top performing asset class over one, three and ten years.

Gold has returned, in dollar terms, 38.9% over the year to February 2008. This compares to a return of 5.8% from gilts or 3.1% from cash over the same period of time.

Over a five year period the FTSE 250 is the top performing asset class with a return of 11.7%. This narrowly beats commercial property at 11.3%.

Investors should keep in mind that the best performing asset class varies each year and it is only with the benefit of hindsight that we can accurately select the best performing investment. Putting all of your eggs into a single basket is a foolish investment strategy.

Investing based on past performance is also destined for failure because the variable nature of each asset class. What performs well one year is just as likely to fall in value the next. This is why investment asset class modelling involves taking a long term view of at least seven years.

"Putting all of your eggs into a single basket is a foolish investment strategy."

Best Advice

BEST ADVICE: DON'T PANIC

My investment portfolio seems to be worth less and less each time I look. £100,000 I invested a year ago has fallen to £90,000. The news is full of doom and gloom about the economy and house prices. Wouldn't I be better off in cash? Help!

Don't panic is the best advice I can give you. Cash is not a bad place to be at the present time but then again what if interest rates, as some commentators expect, fall during the next year? Perhaps now is a time to go back to basics and ask your self a few pertinent questions about your investment portfolio.

Why are you investing? Is it for growth or income or is for a combination of the two? Do you have a cash reserve so that in an emergency you can get hold of some money without having to encash your investments? What is your attitude to risk and volatility and are you investing in investment assets and funds that can go down as well as up because you need more income than you might get from a cash account?

There are all kinds of reasons for investing but let us take income as an example. If your £100,000 had been invested in cash a year ago and you managed to get interest of 6% gross and as long as you only spent the interest you received, you would still have the £100,000 of capital intact. Of course if you are a tax payer you would have to pay income tax on that interest. Assuming 6% gross and basic rate of tax that would mean your net interest was 4.8%. A higher rate tax payer would receive 3.6% net. So if you wanted say 5% net income you would actually have had to erode your capital to get it!

Some investment plans can provide you with your 5% net income by exploiting various tax "loopholes" Investment Bonds from insurance companies are an example but then I have just made a big technical error! Investment Bonds provide tax deferred withdrawals of capital (Ok they look like tax free income but it is capital and it may ultimately be taxed)

Other collective arrangements such as Unit Trusts and Open Ended Investment Companies can provide what looks like income but actually exploits capital gains tax rules. Your adviser will be able to explain how these work and their suitability for you or otherwise.

What ever products you use to generate income you may be exposing your capital to some risk. This is not by the way a bad thing. With risk comes reward and you need to ensure the right balance between the two. If you want long-term income you are probably going to have to look at least a little bit away from cash to get it.

Your adviser will help to design a portfolio for you that will match your attitude towards investment risk and reward. This will probably consist of cash, fixed interest, property and shares. Don't be too "heavy" in any one of those classes and over the long term (say 5 to 10 years) your plan will support your income need and give you some prospect of capital growth.

There will be times along the way, like now, when capital values go down. Last year UK equities were very volatile, commercial property saw a "correction" in values of some 10% and fixed interest securities produced small positive or small negative returns. I freely admit that cash looks quite attractive in this environment!

So your 10% loss in the last twelve months looks quite good. It looks even better if you were taking income from your portfolio. If the investment was made in the last twelve months and we take any initial charges into account then relatively speaking it looks very good!

Finally beware the adviser who takes you out of one or more asset classes in the short term because they are underperforming. Chances are they will not know the right time to return you to that investment asset class. Time in is so much more important than timing- if you see what I mean.

Don't keep us a secret

Referrals from existing clients and advocates are our most important sources of new client enquiries. We are always delighted to talk to your friends, family or colleagues to discover if our professional services could be of benefit to them.

If your recommendation subsequently results in us appointing a new client we would like to say 'thank you' by sending you one of the following gifts:

- A bottle of vintage Champagne
- A box of the finest hand-made French chocolates
- Gourmet food and wine hamper

You can choose from this selection of gifts to suit your own tastes.

To make your recommendation please visit www.informedchoice.ltd.uk/refer.htm, email us at refer@icl-ifa.co.uk or call us on 01483 274566.

Have the 'Bolton Blues' arrived at Fidelity Special Situations?

The independent fund rating company Standard & Poors has downgraded Fidelity's £2.8bn UK Special Situations fund from 'AAA' to 'A'.

The fund has long held the 'AAA' rating but was placed under review by S&P when the star fund manager Anthony Bolton decided to retire from his role in direct fund management at the end of 2007. Since then, the fund has been managed by Sanjeev Shah.

The reason for the downgrade appears to be less to do with performance since Bolton left and more about the profile of Shah himself. In fact, the fund has produced top-quartile performance since Shah took over at the start of this year.

However, S&P has a strong qualitative process in place for establishing these fund ratings and Shah simply does not have the same level of experience that Anthony Bolton could bring to the party.

Investors who stayed with this fund after Bolton's departure was announced will probably be considering their options given this recent downgrade. Of course what is more important than fund ratings, when it comes to making investment decisions, is that your overall portfolio is invested in line with your attitude towards investment risk, reward and volatility.

It's the asset allocation decisions that count over the long term, rather than the selection of 'star fund managers' or the 'best' investment funds.

"...Shah simply does not have the same level of experience that Anthony Bolton could bring to the party."

INFORMED CHOICE—NEWS IN BRIEF

- On 1st March 2008, Nick Bamford, Martin Bamford and Philip Sullivan successfully completed a long distance walk from our head office (Sundial House in Cranleigh) to the coast at Shoreham-by-Sea in West Sussex. The walk took nine hours to complete and we raised over £500 for our nominated charity, Facing the World.
- Our new and improved website has been launched at www.informedchoice.ltd.uk. This has been professionally designed with an enhanced navigation structure and contents. Please do take a look and let us know what you think.
- We are pleased to tell you that Informed Choice consultant Sandy Lowth has passed another financial planning exam on her road to achieving Chartered Financial Planner status. Sandy passed the new Equity Release (ER1) examination from the Chartered Insurance Institute (CII).
- This year to date we have appeared in 16 national newspaper articles as financial experts. In the first three months of 2008 our expert opinion has been quoted in *The Independent*, *The Sunday Times*, *This is Money*, *The Guardian*, *The Times*, *The Telegraph*, *The Observer* and *The Sunday Mirror*. You can find links to all of our press coverage on our website at www.informedchoice.ltd.uk/press.htm.
- January saw the publication of two new books from our joint managing director Martin Bamford. His second book, *Brilliant Investing*, was named as WHSmith Business Book of the Month for January 2008 and his third book, *How to Retire 10 Years Early*, featured in *The Independent on Sunday*.

Book number four is in the pipeline and Martin has recently appointed a literary agent to assist him with all aspects of the publishing process.

Important Note:

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