

# Best Advice

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Informed Choice Ltd

## Special Points of Interest:

- Corporate bonds, commodities and emerging markets are all predicted to do well in 2009
- Proposals to increase the level of National Insurance contributions could make salary sacrifice a more attractive way to boost pension contributions
- With 600,000 jobs expected to go in 2009, there are some important financial planning considerations ahead of redundancy

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

In this issue we look at some of the predicted best and worst investment sectors for 2009. This is also difficult to predict, but there are some good reasons for selecting (and avoiding!) certain investments this year.

With recent proposals to increase the level of National Insurance contributions, we look at an often under used form of pension planning—salary sacrifice.

We also take a closer look at the financial planning considerations ahead of redundancy. With around 600,000 jobs expected to be lost in 2009, this is likely to

become an important area of advice for Informed Choice over the next twelve months.

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

Regards,

**Nick**

Nick Bamford APFS AIFP  
Chartered Financial Planner  
Joint Managing Director



## BEST OF THE BLOGS

The Informed Choice Blog at [informedchoice.blogspot.com](http://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.

We have recently added a new feature which allows you to receive an email update when we post a new blog. Simply visit the Informed Choice Blog to find out more.

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



*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.*

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*Informed Choice Ltd are one of only five 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

### Investment—the best and worst in 2009

It is always difficult to make short-term accurate investment predictions, and even more difficult given the current economic conditions and general uncertainty that remains in the investment markets.

The following predictions for good and poor investment sectors will form some of the tactical adjustments we make to our various models at the start of 2009. They all assume inclusion within a well diversified portfolio and the ability to take a long term view of investments.

Investors looking for a quick gain in 2009 might be rewarded for the risks they take, but they could equally as well be very disappointed! We are not calling the bottom of any investment market just yet!

#### Predictions for best sectors in 2009

**Corporate bonds**, particularly at the higher quality end of the market, look attractive for reasonable returns in 2009. There is a low expectation for default rates in 2009 but a higher default rate has been priced into corporate bond spreads. They therefore look cheap compared to historic rates.

Although oil prices have fallen from their record highs in the summer as a result of lower global demand, they are expected to continue to fluctuate wildly in the future. The **commodities** sector remains a good long term investment and, with a savvy timing decision, could yield some good short term results. Investing in the oil price through a commodities fund is tough because they are also exposed to mining stocks linked to the price of precious metals.

Share prices in **emerging markets** have fallen by more than half in 2008, offering great value and some real bargains for future investment.

#### Predictions for worst sectors in 2009

**Cash** – with the average instant access savings account now paying 3.3% gross, after tax and inflation savers are likely to see little if any real returns and their cash is likely to be eroded in 2009. Holding investment money in cash also puts you in a difficult position when it comes to timing your entry back into the investment markets. That said, gradually dripping your cash back into equities over a period of time may well pay off in the long term.

**European equities** – the recent fall of the pound against the Euro makes investing now in European companies more expensive. Whilst some of our continental neighbours could be better positioned to ride out a recession in 2009, we generally don't see many short term investment opportunities in this region and will be recommending a reduction in our client exposure accordingly.

**Commercial property** – rent from retail units and offices will be hit by continued business closures in 2009. At best, we expect a flat return from the commercial property sector, but there is the likelihood of further price falls in 2009. Another concern for this asset class is liquidity, with the potential risk of fund managers been forced to sell property assets to meet investor demand for redemptions.

As always, beware the pundits who claim to know precisely what will happen in the investment markets during the next twelve months. Looking back at the various predictions made at the start of 2008, they are wildly inaccurate.

Investing in a diversified spread of different asset classes and regularly reviewing the content of your portfolio, with the assistance of a professional financial adviser, is the key to investment success in 2009 and beyond.

## Salary sacrifice to boost pension contributions

Following Alistair Darling's pre budget report in November, high earners will be looking forward (with unease) to the changes to both income tax and National Insurance contributions (NICs).

Class 1 and 4 NICs will increase by 0.5% for both the main and additional rates.

However, for those who can control how they are remunerated, or have employers who are willing to offer assistance, there is a device available to mitigate the pending changes.

Salary Sacrifice is an agreement between an employee and their employer to give up salary in lieu of additional pension contributions. Due to the fact that they are paying a reduced gross income, the employer will pay less NICs and can claim tax relief on the increased pension contributions.

The employee pays less NICs and income tax for the lower gross pay, and will also ultimately benefit from a larger pension pot.

The option is then available for the employer to pass on their NIC savings to the employee through an additional pension contribution on top of the 'sacrificed' salary.

Over time, and with the benefit of compounded investment returns, these NIC savings can add up to a much large pension fund and, ultimately, a higher income in retirement.

There are a number of HMRC requirements to fulfil, including any salary sacrifice arrangement having to be carried out prior to the salary being paid and having to be agreed in writing, to constitute a change in the contract.

When we are recommending salary sacrifice to our clients as part of a pension funding recommendation, we are able to supply template letters for the employer and employee to exchange to satisfy these HMRC requirements.

It is also possible to establish an agreement to sacrifice any bonuses due and have them paid as a pension contribution instead. As with salary sacrifice, it is important to establish the bonus sacrifice agreement before the bonus is earned. This means taking a careful look at the terms of your employment contract to understand the contractual structure of any bonus payments.

Do speak to us to find out if you might benefit from a salary sacrifice arrangement when funding your pension, both now and when the tax changes are introduced in the future.

***"Over time, and with the benefit of compounded investment returns, these NIC savings can add up to a much large pension fund and, ultimately, a higher income in retirement."***

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## Best Advice

### Building our business in 2009

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](http://www.informedchoice.ltd.uk/refer.htm)**, email us at **[refer@icl-ifa.co.uk](mailto:refer@icl-ifa.co.uk)** or call us on 01483 274566.



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## New Financial Planning library goes live

Informed Choice joint managing directors Martin Bamford and Nick Bamford both write regularly for consumer and trade publications.

We have now created an online library of their recent financial planning articles:

**<http://www.informedchoice.ltd.uk/articles/>**

Sixteen of their articles are already available via this link to read, print or share. Each article contains a bookmark and share button, enabling you to email the article link to a friend or post a link on an online social networking website, such as Facebook or Digg.

We will continue to post new financial planning articles online as they are published.

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## How to Retire 10 Years Early—in Spanish!

*How to Retire 10 Years Early*, the third book from Informed Choice chartered financial planner Martin Bamford, has been published in Spanish.

*Cómo retirarse 10 años antes* is the first of six foreign language translations of Martin's books that are in the pipeline.

His second book, *Brilliant Investing*, is currently being translated in Arabic for publication in Saudi Arabia.

You can find out more about Martin's books, along with news on future publications, at **[www.informedchoice.ltd.uk/books.htm](http://www.informedchoice.ltd.uk/books.htm)**.



## Redundancy. The Financial Planning Considerations

With the Chartered Institute of Personnel and Development predicting 600,000 job losses in 2009, Informed Choice chartered financial planner Martin Bamford was recently asked to write an article for the Chartered Insurance Institute (CII) Journal on the subject of redundancy and the financial planning considerations.

You can read this quite lengthy article in full via the financial planning article library on our website—[www.informedchoice.ltd.uk/articles](http://www.informedchoice.ltd.uk/articles).

Here are some of the key financial planning considerations when facing redundancy.

Every redundancy is different because every person who experiences redundancy will have very different circumstances, goals and objectives. However, there are often some common areas of concern that need to be addressed.

Your immediate financial planning concern is likely to be how your redundancy package, and subsequent financial position, will relate to your financial needs post-redundancy. It is important to seek professional legal and financial advice at this early stage, as decisions made now can have a lasting impact on your long-term financial prosperity. Legal advice can ensure that you maximise the benefit of your redundancy package. Financial advice ensures you organise your finances in the most effective way.

The most powerful financial planning for redundancy takes place long before the subject is even raised by your employer. In times of economic uncertainty, when companies might well start to downsize or restructure, it is even more important to be proactive with your financial planning.

The two most valuable things you can do in anticipation of redundancy are to cut down on your committed expenditure and create an emergency savings fund.

Expensive unsecured debts, including credit cards and personal loans, are more than just a drag on your ability to meet your financial objectives. Combined with a temporary or sustained loss of income, unsecured debts might well be a contributing factor leading to bankruptcy. A robust emergency cash savings fund will give you sufficient breathing space to assess all of your options and, if necessary, find new employment.

Most financial planners recommend an emergency fund equivalent to three to six months' typical expenditure. This money needs to remain accessible in the event of a real financial emergency but not too easy to access, in case you are tempted to dip into the fund during a non-emergency situation.

Another proactive step you can take is to put in place unemployment cover, but this needs to be done before impending redundancy or you will not be able to make a successful claim. The terms of unemployment cover (which can be included within an accident, sickness and unemployment plan) will vary depending on the insurer. These plans typically cover between 50% and 65% of your income up to a maximum benefit of £2,000 a month. Benefits received after a successful claim will only normally last for 12 months. These policies only cover involuntary redundancy.

It makes real sense to seek professional independent financial advice at an early stage in the process. We often deal with clients facing redundancy and in a panic to make urgent decisions ahead of deadlines that have been imposed. It can take time to request detailed information and conduct analysis ahead of providing advice to a client who is being made redundant.

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## INFORMED CHOICE—NEWS IN BRIEF

- **Fingers crossed for more awards in 2009**—just before the office closed for Christmas we were told that we have reached the shortlist for two major industry awards. The first will be announced in January and the second in March. We will post more news on our blog as soon as we get the results and also write about the outcome here in our next quarterly client newsletter.
- **The art of pensions**—Martin has won the 'most thought provoking' category in the Art of Pensions 2008 competition. This is an annual competition run by Pendragon. Blank postcards were sent to a large number of pensions professionals who were then invited to submit an illustration or comment on the subject of pensions. Martin's winning entry was a comment on the growing divide between retirement benefits for employees in the public and private sectors.
- **Free e-book**—In November we published the first of a series of e-books looking in depth at different financial planning subjects. The first guide, written by Nick, is called *How to Review Your Pension: Give Your Pension the Power to Fuel Your Retirement*. It is available to download, for free, from our website. Within the next few months we aim to publish further guides on Redundancy Financial Planning and Retirement Options.
- **The Gold Standard of Independent Financial Advice**—We are pleased to announce that Informed Choice has been awarded the Gold Standard for Independent Financial Advice at the Gold Standard Awards 2008. As you can imagine we are delighted to have won this award for three years in succession and can assure you that we will maintain and seek to improve these standards into the future. The award was presented at a ceremony in the Members' Dining Room at the House of Commons on 25th November.
- **Sandy becomes a Chartered Financial Planner**—Sandy Lowth became a Chartered Financial Planner in October. There are only around 1,500 Chartered Financial Planners in the UK. Sandy joins Nick and Martin at Informed Choice as Chartered Financial Planners, with Andrew currently one exam away from reaching this status as well.
- **Nick live on CNN**—Nick has an early start one morning in October, with a car collecting him from home at 5am to take him to central London for a live broadcast on CNN to over 200 million viewers worldwide. Nick was interviewed by two presenters, talking about the impact of the global financial crisis on pension funds.

### Important Note:

This newsletter is provided for general consideration only and the information contained herein is not to be acted upon without professional independent financial advice.

Neither Informed Choice Ltd nor any author can accept responsibility for any loss occasioned to any person no matter howsoever caused or arising as a result of or in consequence of action taken or refrained from in reliance of the contents hereof.

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### Informed Choice Ltd

Sundial House  
20 High Street  
Cranleigh  
Surrey  
GU6 8AE

T: 01483 274566

F: 01483 274640

[www.informedchoice.ltd.uk](http://www.informedchoice.ltd.uk)