Best Advice

SUMMER 2008 EDITION

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Informed Choice Ltd

Special Points of Interest:

- A growing number of people are leaving no assets behind for their children when they die
- Investing in a single fund can be a higher risk strategy than diversifying your investments
- High interest rates might look attractive but still fail to deliver a 'real' return
- Self Invested Personal Pensions (SIPPs) can accept Protected Rights funds from October

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.

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

Within this issue we look at a new approach to financial planning which involves planning to leave nothing behind when you die.

We also take a closer look at the 'ultra safe' money market fund which lost millions for investors, how high rates of interest on savings accounts might be misleading, whether it is time to replace your current financial adviser and news of the ability to hold protected rights in Self Invested Personal Pensions from this October.

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

Inside this issue:

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 owns comments to any entry so do take a look and join in with the debate.

To date this year we posted 89 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.

HOW TO DIE BROKE

Received financial wisdom suggests that you should aim to leave an inheritance to your children. Many of the parents we work with aspire to this goal, with the hope of helping their children with a substantial lump sum inheritance when they die.

As a result, demand for advice to reduce or completely mitigate inheritance tax liabilities has steadily increased in recent years, with the aim of minimising proceeds for the taxman and maximising cash for beneficiaries. Children, who are often involved in discussions about their parent's inheritance tax planning at an early stage, then factor the expectation of this cash into their own plans for the future.

It appears that many of our financial plans are, in fact, largely reliant on this event taking place. Some recent research from a financial website suggests that nearly half of us have factored an inheritance into our long-term financial plans. That is nearly one in two people that could be in for a nasty surprise, assuming an emerging trend continues to develop.

The potential for danger arises because the research found that only one in four people (23%) think they will be able to leave most of their assets to their children when they die. However, one in 25 of us (4%) do not expect to be able to leave any inheritance to our kids. This means that a large number of people are going to see the partial or total collapse of their financial plans when an expected inheritance windfall fails to materialise.

Maybe the 'die broke' financial plan will gain popularity as the general cost of living through retirement continues to increase.

We already know that the cost of living increases faster during retirement than it does pre-retirement. Price inflation for the elderly is double the rate of inflation experienced by the rest of the population. Being retired these days in the UK is an expensive business. If our income does not keep pace with inflation then we have to erode any capital assets simply to maintain a lifestyle.

The cost of care can then have a devastating impact on the availability of any potential inheritance we can leave behind.

The 'die broke' financial plan does have some attractions. It means that we can base our income requirements on a combination of real income and capital withdrawals from existing assets. Rather than aiming to finish life leaving behind a substantial cash legacy, we can instead aim to finish on zero.

Of course to successfully implement this particular form of financial planning you will need to make several important assumptions - about your life expectancy, future investment returns, expenditure patterns in retirement and price inflation. When making assumptions like these it is essential to review them on a regular (at least annual) basis to make sure they were correct, or alternatively to be able to make minor ongoing adjustments to your plans if they proved incorrect.

It is also important to involve your children and other potential beneficiaries in your plans at an early stage. By keeping them aware of your plans, you reduce the risk that they will rely on an inheritance from you in the future. In fact, this is a good opportunity to help them take control over their own financial planning at the same time. Forming your financial plans as a family is not for everyone, but it can often work very well when considering the implications of passing wealth between generations.

'ULTRA SAFE' MONEY MARKET FUND LOSES MILLIONS

"it should reinforce the common sense message that no single investment fund is without risk"

The Guardian newspaper ran an interesting article recently - 'Ultra safe' money market fund loses millions. They were referring to the Threadneedle UK Money Securities fund which has been losing money recently, in contrast to the performance of other money market funds during the same period of time.

What makes this fund performance disappointing is that every other money market fund (there are a total of 33 in that sector) has delivered returns of between 2.7% and 5.1% over the past twelve months. The Threadneedle fund actually lost 4% for investors.

As one of the biggest funds in the money market sector, and also a popular fund for IFAs to recommend, this is bad news for a lot of investors. However, it should reinforce the common sense message that no single investment fund is without risk.

In fact, selecting a single investment sector (such as the money market sector) is a higher risk choice than diversifying your investments and selecting a variety of asset classes.

With many cautious investors looking for a 'safe' home for their money, in light of volatile stockmarkets and global economic uncertainty, it will be easier for fund managers to promote their 'safer' investment options. Just because it looks like a cash fund you should still take care to fully understand the mechanics of the investment before diving in.

HIGH SAVINGS RATES BUT STILL NO REAL RETURN

With a new high fixed interest rate of 7.15% now available from Principality Building Society (2 and 3 year fixed-rate bonds, only available to over 50's and minimum deposit of £10,000) you would be forgiven for thinking that cash was the only sensible investment option. However, these savings accounts are still failing to provide a real return, over and above price inflation, particularly for higher rate taxpayers.

"A better chance of obtaining 'real' returns comes from cash Individual Savings Accounts (ISAs)"

The Retail Prices Index (RPI) is now running at 4.3% which means that a higher rate taxpayer would need a gross interest rate of at least 7.17% to beat inflation. A basic rate taxpayer would need a gross interest rate of 5.38% before beating inflation. The majority of savings accounts still fail to offer rates in excess of these amounts.

A better chance of obtaining 'real' returns comes from cash Individual Savings Accounts (ISAs) where the interest is paid free of income tax.

In a higher inflation environment it makes real sense to consider a well diversified portfolio of investments across all of the major asset classes, invested in line with your attitude towards investment risk, reward and volatility.

Best Advice

TIME TO REPLACE YOUR FINANCIAL ADVISER?

A lot of the new client enquiries we have been receiving recently have been people who are seeking to replace their current financial adviser. The reasons always vary, but here are some of the most common we have heard.

You know it might be time to replace your financial adviser when...

...you never hear from them.

Some advisers run a business model whereby they sell a financial product, earn their commission and then move on to the next prospect. If you never hear from your adviser then you need to think carefully about why you continue to have a relationship with this individual or firm. At the very least they should be keeping you up to date with news from the world of personal finance. When was the last time you received their client newsletter or ezine?

...they claim to be able to always pick the 'best' investment funds.

Unless they have a crystal ball, nobody can consistently pick the 'best' investment funds. If the ability to pick investment funds is their sole investment advice methodology then you need to question where your financial adviser actually adds value to your financial planning. Various academic studies have demonstrated the importance of asset allocation for investment portfolio construction. Fund picking can add value, but only to a tiny degree compared to more important factors.

...they don't review your policies at least once a year.

Circumstances and objectives change over time. That investment or financial policy you started five years ago is unlikely to remain suitable for you unless your adviser has taken the time to conduct a review on at least an annual basis. If your financial adviser is receiving ongoing remuneration from the product provider in the form of commission that you are paying for out of product charges, they should definitely be providing you with some form of ongoing review service.

...nobody at their offices knows who you are when you call them.

Very often small financial adviser firms are consumed by larger regional or national organisations. There is a lot of consolidation within the financial advice sector and it is often the client that suffers. Small is best when it comes to the sort of personal relationships which are required to deliver suitable financial advice. If you call your financial adviser and their staff do not know who you are, you need to question the quality of your relationship with this firm.

...they used to be independent but now that isn't so clear.

Many independent financial advisers change direction at some point during their career to become a tied or multi-tied adviser. You might have become their client when they were fully independent and acting on your behalf, but the lure of better commercial deals (more commission) or a smaller product range often attracts good quality independent financial advisers to an environment where they can no longer offer you such a comprehensive service.

...you don't know how much you are paying them for their services.

Disclosure of commission and other remuneration is a regulatory and legal requirement for all financial advisers. Even so, it can sometimes become unclear how much you are actually paying for financial advice, implementation and review services. Your adviser should be ready and willing to produce a summary of the amount you have paid them for these services over the past twelve months. Any remuneration they receive from your investments or financial products (in the form of commission) is being funded by the charges you are paying, so you have every right to expect a decent level of service in return.

Is it time to replace your existing financial adviser? Do give us a call on 01483 274566 or email us at hello@icl-ifa.co.uk if you would like to find out more about our professional advisory and review services.

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.

PROTECTED RIGHTS IN SIPPS FROM OCTOBER

A recently announcement from the Department of Work and Pensions (DWP) has confirmed that it will be possible to transfer protected rights funds into Self Invested Personal Pensions (SIPPs) from October.

The announcement, made by Minister for Pensions Reform Mike O'Brien, was issued in response to the DWP draft regulations.

Here at Informed Choice we welcome this news as it will allow investors to have greater control and flexibility over their plans for retirement. It will also make it easier to hold all pension funds in one location.

"we welcome this news as it will allow investors to have greater control and flexibility over their plans for retirement"

We have recently witnessed a growth in demand for advice on the consolidation of pension funds, enabling our clients to take a holistic view of the way their retirement plans are invested. By consolidating funds into a single pension plan, it is possible to fully understand the level of risk being taken with investments and make more suitable investment decisions.

Self Invested Personal Pensions (SIPPs) continue to become more popular as investors are trying to gain greater control over their plans for retirement. They can invest in a wide range of investment options, including individual company shares and commercial property.

SIPPs are particularly appropriate to consider when reaching retirement as they enable investors to have a greater degree of control over investment strategies and income levels.

INFORMED CHOICE—NEWS IN BRIEF

New addition to the Informed Choice team

We are very pleased to introduce Andrew Neligan who is joining Informed Choice later this month as an Associate.

Andrew joins us from Standard Life, where he has obtained a great deal of experience working in the financial advice sector. He already holds the Diploma in Financial Planning and is one small step away from becoming a Chartered Financial Planner.

Andrew will initially be working closely with Nick, before taking responsibility for the provision of advisory and review services to some of our private and corporate clients. Outside of work Andrew enjoys golf and marathon running.

Cover Stars

Nick and Martin appeared as cover stars in leading retail financial services magazine New Model Adviser in June.

This is the second time we have featured as cover stars in this publication, with our first appearance taking place back in December 2005. The latest feature revisits the progress made at Informed Choice over the past three years.

You can read the feature in full on our website at www.informedchoice.ltd.uk.

A 21st century phone system at Sundial House

Our head office, Sundial House in Cranleigh, now benefits from a modern digital telephone system. This means improved call quality and a better facility to transfer call between different desks.

It will also mean that we can install a radio 'contribution studio' within our office, using the new ISDN lines, so we can make guest appearances on radio shows without having to travel to a separate studio.

Our phone numbers remain unchanged and you can continue to contact us using our existing details.

Informed Choice

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