

Best Advice

VOLUME I, ISSUE 1

OCTOBER 2007

Informed Choice Ltd

Special Points of Interest:

- We are witnessing a trend towards earlier retirement at a time when we are being told to work for longer
- New compensation limits for savers will come as a welcome relief following the recent Northern Rock debacle
- Emerging Markets offer a great investment 'story' but there are also many pitfalls to be aware of
- Advisers are turning their backs on Wall Street as the US equity markets fail to offer a positive outlook



Andrea, Lindie, Martin and Nick Bamford outside the Cranleigh Arts Centre for a magazine feature about Informed Choice

WELCOME TO BEST ADVICE

Welcome to our new quarterly client newsletter—Best Advice. This newsletter contains a range of articles and news from the world of personal financial planning and investment.

Within this edition of the newsletter we take a closer look at the trend we are witnessing towards earlier retirement and how you can bridge the gap between an earlier and traditional retirement date.

We also explore the new compensation limits for savers, introduced only a few days ago following the recent debacle at Northern Rock.

Investing in emerging markets is a conversation we are frequently having

with clients so we have included an article on some of the opportunities on offer from emerging markets along with some of the pitfalls to be aware of.

We also talk about the outlook for worldwide equity markets in light of the recent 'credit crunch' that started in the US.

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

Regards,

Martin

Martin Bamford
Joint Managing Director

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BEST OF THE BLOGS

The Informed Choice Blog at www.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.

During September we added 15 new blog entries ranging from news on the credit crisis at Northern Rock and several press mentions. We try to update the blog two or three times each week, so do visit often and find out what is going on.



Best Advice

ADAPTING TO THE EARLY RETIREMENT TREND

Pensions have historically been geared up to provide retirement benefits at the traditional retirement ages of 60 or 65. Those wishing to retire any earlier than this will need to bridge the gap with non-pension financial resources. In this article we consider the main issues associated with early retirement planning.

The Government is currently considering a series of changes to pension rules. These proposals will have serious consequences for anyone considering an early retirement. They include a rise in the State pension age from 65 to 67.

These proposals follow recent pension legislation changes that mean an increase in the minimum age at which you can access pension fund benefits. You can currently take benefits from a pension plan at age 50. From 6th April 2010 this is raised to age 55. There is also a phased increase of the State Pension age for women taking place – from 60 to 65 years old.

These factors, combined with a more general mistrust of conventional pension plans as retirement planning vehicles, have caused many people to seek and consider non-pension alternatives.

"The trend we are currently witnessing towards an earlier retirement comes as we are being told to work for longer and retire later."

Pension plans as a retirement planning tool come with some advantages as well as some drawbacks. Despite all of the modern features that have developed, a conventional personal pension plan still misses the mark for many people. The benefits you can take from a personal pension do not suit everybody and access to these benefits can still be restrictive. The new legislation introduced in April 2006 to simplify pensions did improve things, but there is still an inherent inflexibility when using personal pension plans for retirement planning.

The trend we are currently witnessing towards an earlier retirement comes as we are being told to work for longer and retire later. Early retirement is about personal choice and control. If we accept that a financially comfortable retirement at age 65 is becoming much more challenging to achieve than early retirement at, say, age 55 will require some quite sophisticated planning as well as potentially great cost. It will also require a good deal of determination to make this a reality.

The earlier this planning is done, the better. If the benefits of compounded investment returns (where investment returns are based on previous investment returns) are fully leveraged then plenty of time is required.

The specifics of early retirement planning will depend on your personal circumstances; namely your income, expenditure, assets and liabilities. The financial resources you plan to have available for an early retirement might come from a wide variety of sources; including non-pension investments, savings, a business sale or stake in a property – or possibly even inheritance.

Conventional retirement plans in the form of a personal pension are likely to be geared towards providing benefits at a much later stage than an acceptable early retirement age. In some cases this problem can be very easy to solve. Some of the more modern pension products allow you to bring your retirement age forward, in line with the minimum retirement ages explained earlier, without excessive penalties or charges.

Less modern pension arrangements and occupational pension schemes in general are generally harder to deal with. The result of taking early retirement benefits from these arrangements is, typically, a big financial penalty. If those plans contain a with profits investment fund then those penalties can be substantial.

There are lots of disadvantages to bringing forward your selected retirement age with a pension plan. One big drawback is the lower annuity rate available at a younger age. Annuity rates are partially based on life expectancy so they are better as you get older. You will receive a much lower annuity at 50 years old than you would at 65 years old.

It is also important to think about your investment risk profile. If your pension fund was originally invested with a twenty year time horizon in mind then you were probably tolerant of a higher level of investment risk. Shortening this time horizon by ten years or more will have an impact on how suitable those investment funds are.

If you do conclude that it is not appropriate to bring your pension fund retirement age forward then you could consider bridging the gap. This would involve building sufficient assets to provide an income between the early retirement age and previously selected retirement age.

This approach to early retirement planning actually requires less money than traditional retirement planning because you are trying to build up a capital sum that will be gradually eroded over a predetermined length of time. There are no concerns about building a capital sum and converting it to income.

"There are a lot of disadvantages to bringing forward your selected retirement age with a pension plan."

NEW COMPENSATION LIMITS FOR SAVERS

"...these changes will come as welcome relief to savers with all banks and building societies."

The recent debacle at Northern Rock has prompted the Government to review the compensation limits of the Financial Services Compensation Scheme (FSCS). This is the UK's statutory fund of last resort for the customers of authorised financial services firms. The service is free to consumers and funded through fees paid by authorised firms—like Informed Choice!

On 1st October 2007 the compensation limits for cash deposits was increased to 100% of the first £35,000 in savings with a bank or building society. Prior to this, the first £2,000 of savings were protected by the FSCS and then 90% of the next £33,000 was also covered. This meant that a maximum compensation of £31,700 was payable to deposit holders under the scheme.

Judging by television news images of worried savers queuing outside Northern Rock branches last month, these changes to compensation limits will come as welcome relief to savers with all banks and building societies.

The Association of British Insurers (ABI) commented on the new compensation limits saying that around 98% of savers will now be covered. They believe there is a risk of distorting the market if the compensation limit is raised any higher because it could encourage some financial institutions to start taking unacceptable risks with their business models as they know that a safety-net is in place.

Best Advice

EMERGING MARKETS: GREAT INVESTMENT OPPORTUNITY OR RECIPE FOR DISASTER?

We all like a good investment story and emerging markets, including the economies of China and Russia, has offered one of the best investment stories of recent years. In this article, we take a look at the opportunities on offer from emerging markets along with some of the pitfalls to be aware of.

It's difficult to talk to a client about investments at the moment without the conversation turning to China. Along with other emerging markets, the Chinese economy has grown by almost 10% a year (on average) for almost thirty years. And this economic growth shows little sign of slowing down. With the Beijing Olympics taking place in 2008 there has been a massive investment in the infrastructure of this nation.

At the same time we have witnessed rapidly growing demand for consumer goods and services. This is combined with a large population movement away from rural farming areas into new towns and cities. The prospects for continued growth in the future look pretty sound - or do they?

An important part of my role as an independent financial adviser is to consider the risks associated with any investment option. A recent article in *The Economist* ("How fit is the panda?", 27th September 2007) went into a lot of detail about the potential pitfalls faced by investors in China. Let's start by taking a look at some of these that are specific to China and then look at the wider prospects for other emerging markets.

A 'hard landing'?

"The prospects for continued growth in the future look pretty sound—or do they?"

In a growing economy, like the one currently experienced by China, there is always a danger that things will grow out of control. This can lead to overheated price inflation that starts to put the cost of goods and services out of the reach of consumers. Governments do have ways of controlling consumer price inflation, but this can cause a 'hard landing' for the economy, making high levels of price inflation best avoided in the first place.

Another risk specific to China is the danger of a stockmarket bubble bursting. Because of the massive increase in share prices over the past two years - growth of around 400% - there is speculation that this market could crash and have a detrimental impact on the Chinese economy.

The article in *The Economist* suggests there is anecdotal evidence that Chinese investors have been borrowing money to buy company shares. Whilst this practice is officially forbidden in China, it could mean wider problems in a stockmarket crash was to occur.

The other risk faced by the Chinese economy seems, strangely, to come from overseas. The recent sub-prime mortgage lending fiasco in America could lead to an economic slowdown in the US which would have a knock-on effect on the demand for exports from China. These exports are estimated to represent around 40% of China's GDP, so a big reduction would make continued economic growth in China quite tough to achieve.

What about other emerging markets?

Moving on from China to look at other emerging markets, I will focus on the so called 'BRIC' nations. BRIC stands for Brazil, Russia, India and China. These four countries are considered to be the four leading emerging market economies. In fact, a number of BRIC funds have been launched to offer investors exposure to equities based in these countries. These BRIC funds do represent a higher risk to your capital, but with the prospect for big returns as well.

Investing money in Russia carries the additional risk that their share registration services are not subject to the same level of more stringent controls found in other, more developed, countries. This has not posed a problem to date but it is something all investors with money exposed to Russia companies should be aware of.

The Indian economy, like China, has good growth expectations. Our main concern when it comes to India is that their economic growth is not necessarily being supported to significant investment in infrastructure. This could seriously hamper the prospects for robust economic growth in India for the future.

It's all about risk

In summary, emerging markets can be extremely volatile. This means they carry a higher risk in terms of both market volatility and currency volatility. Investors in these markets are likely to experience dramatic fluctuations in the value of their portfolios from time to time.

Making the decision to invest in emerging markets will always come down to a question of risk. If you take a particularly speculative attitude towards investment risk - someone we might categorise as an 'acquisitive' investor - then allocating part of your investment portfolio to emerging markets might be quite acceptable.

A more cautious investor is unlikely to enjoy the roller coaster performance of these markets that may occur in the not too distant future.

Always take care when investing money and make sure that you seek the advice of a professional independent financial adviser who is authorised and regulated by the Financial Services Authority (FSA).

TURNING YOUR BACK ON WALL STREET

On 26th September, Informed Choice joint managing director Martin Bamford was extensively quoted in a trade press article about confidence in various worldwide equity markets.

This article was written as a result of a poll of advisers. Almost four in ten believe that the UK market will be the best performing global equity market, followed by Asia with 34%. However, only 9% of advisers expect the US equity market to be the best performing global equity market when it recovers from the recent 'credit crunch'.

Martin said:

"There was nervousness in the US long before the crisis, which I would mostly say surrounds the currency exchange rate,"

"Outside of America as well, there are a lot of people who just don't trust an economy run by President George Bush."

Bamford also says the argument the US is better equipped than the UK to deal with the recent crunch because of the size of its market is wide of the mark.

"The US has a high level of exposure to the credit crisis and there are still many issues and a lot of negative sentiment," he says.

On the flipside, Bamford says investors feel confident in the long-term UK economy, aided by no currency risk, and the Far East.

"As for Asia, sure it is perceived as more risky, but we are aware of the long term growth potential."

When we are constructing investment models for our clients we pay a great deal of attention to strategic asset allocation. This is because various academic studies have proven that the majority of variance in investment returns come from your exposure to different asset classes rather than the selection of individual stocks or investment funds.

The short term outlook for US equities remains uncertain. However, recent comments from Alan Greenspan, the former head of the US Federal Reserve, suggests that the UK economy may also face some tough times over the next few years, particularly in the housing market.

It seems a little unfair to us that he is prophesising doom in the UK markets when the main problems appear to rest in the US. Unlike the US, mortgage lenders in the UK were not lending to people who had no means to meet their mortgage repayments. The 'credit crunch' started with irresponsible lending practices in the US but it is likely to have some level of impact over here as well.

THREE GREAT BOOKS FROM INFORMED CHOICE

It's been a very busy twelve months for Informed Choice joint managing director Martin Bamford.

His first book, *The Money Tree*, was published last September and was immediately chosen by WHSmith as their business book of the month. In October we celebrated the birth of his baby daughter, Megan.

At the start of 2007 he started work on his second and third personal finance books.

The second book, *Brilliant Investing: What the Best Investors Know, Say and Do*, is due for publication on 22nd November 2007. This book joins an existing stable of *Brilliant* titles from Prentice Hall.

For many people, investing money is a risky business. There are always tough decisions to

make, which are often perceived to be too complex or too uncertain. *Brilliant Investing* offers a clear route to investment success.

Reading this book will leave you in control of your investments and on the path to becoming brilliant with money.

Martin's second book is called *How to Retire Ten Years Early: Your Guide to Less Work and More Life*. It is due for publication on 14th December 2007.

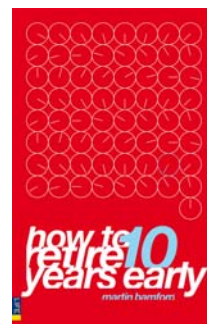
Retirement has traditionally been held as something beyond our control something that is arranged for us and at a specific time in our life. But these days are long gone. Retirement has become a gradual phasing out of work and phasing in with leisure and we can define the terms.

How to Retire Ten Years Early helps you take control, define your terms and put them into action.

From budgeting and debt destruction, through to risk taking and tax, Martin has developed a unique programme that shows you how it is possible and realistic to take control of your financial future and reap the benefits of making more money earlier on.

The Money Tree is available to buy now from Amazon and at all leading book shops.

You can pre-order *Brilliant Investing* and *How to Retire Ten Years Early* a head of publication within the next few months.



Informed Choice

Professional Financial Planners

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