Issue **101**

*"If there is no struggle, there is no progress."*
*Frederick Douglass*

To find out about the Lowes Client Competition 2017 turn to page 15

# Lowes 2016 Competition WINNER

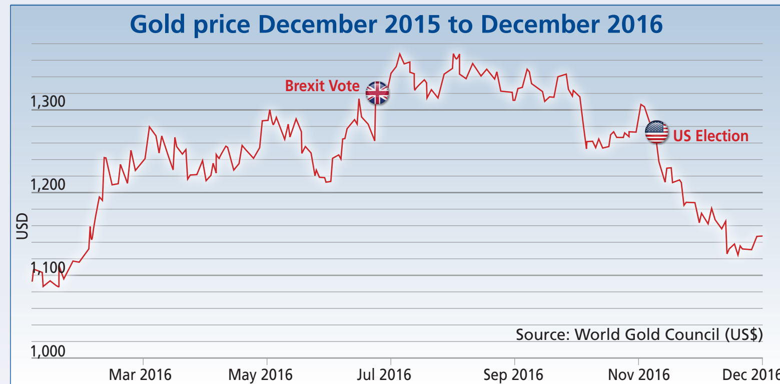
**OUR CONGRATULATIONS TO MR LINDSAY WADEY FROM Canterbury, winner of our 2016 client competition.**

Back in January 2016 we asked you to predict the price of a troy ounce of gold, in US dollars to two decimal places, at the end of December 2016.

The price of a troy ounce at 31 December 2016, as recorded by the World Gold Council, was US$ 1145.90.

Mr Wadey was the person who came closest to the right price and wins £250 of Marks and Spencer vouchers.

The chart shows how the price of gold progressed throughout 2016.




## We welcome Andrea as our latest Consultant

**OVER THE PAST 18 MONTHS, WE HAVE been gradually expanding the number of our Lowes Consultants, welcoming Nicola Wrightson and Jennifer Morris to the Lowes family (as well as Chris Large who is taking over from Gary Summers - see page 11).**

Our latest addition to the Consultant team is Andrea Leask.

Andrea joined Lowes in 2014 as a technician within the technical department and later moved into a paraplanning role within the company.

Prior to joining Lowes, Andrea had experience working as an account manager at a bank as well as paraplanning roles in other financial planning firms.

She follows in the footsteps of other Lowes colleagues, such as Daniel Waugh, who was also a paraplanner, in moving up through the ranks.

We are delighted to welcome Andrea as our newest Lowes Consultant.

## Charitable giving

**AS PART OF OUR ONGOING EFFORTS to support the community, we recently established a charity committee to more formally oversee the financial donations that Lowes makes to charities every year.**

Both locally and nationally, Lowes is proud to champion charities that go to extraordinary lengths to make a difference.

We have recently made a donation to the Dementia Care Respite Centre in Newcastle, which provides home care and a safe environment for people living with dementia. The daily cost to the centre for a person staying is £160, and while they charge £80 per day to individuals needing care, the 50% loss must be raised through Government funding or sponsorship. We are pleased that we are able to support this cause by funding a room at the Respite Centre for a month.

Follow us online for company articles, blog posts and updates.

Lowes Financial Management

@LowesFinancial

Lowes Financial Management

**Make your money work** Best bank & building society accounts

| Type | Amount | Provider | Account | Gross Rate | Contact |
|---|---|---|---|---|---|
| Unrestricted instant access accounts | | | | | |
| Branch, telephone, postal, online | £1+ | Coventry Building Society | Easy Access Saver (4) | 0.85% | coventrybuildingsociety.co.uk |
| Accounts with first year bonus | | | | | |
| Online | £1+ | Post Office | Online Saver | 1.01%* | www.postoffice.co.uk |
| Fixed rate bonds | | | | | |
| Online | £50+ | Atom Bank | 1 Year Fixed Saver | 1.40% | www.atombank.co.uk |
| Online | £50+ | Atom Bank | 2 Year Fixed Saver | 1.60% | www.atombank.co.uk |
| Online | £500+ | Atom Bank | 3 Year Fixed Saver | 1.70% | www.atombank.co.uk |

Notes
* Rate drops to 0.25% after 12 months.

**Measures of inflation** - The average change in prices of goods and services over a 12 month period to November 2016

| Retail Prices Index (RPI) | Consumer Prices Index (CPI) |
|---|---|
| 2.2% | 1.2% |

Sources: Providers' websites, Office for National Statistics, www.thisismoney.co.uk, www.moneysupermarket.com, www.moneyfacts.co.uk 16/01/2017. All accounts subject to terms and conditions.

# Deadline to breadline

**LEGAL AND GENERAL RECENTLY CONDUCTED research that looked at how long the average household could survive financially if the main breadwinner's income was lost through long-term sickness, critical illness or death, before they were totally reliant on benefits, family or friends. In a survey of nearly 5,000 people, the number of days people thought that they could survive was 77 days.**

In fact, the real average for the UK was 29 days and just 14 days for working families.

Those who owned their home outright could survive 14 months, homeowners with a mortgage 22 days and those in privately rented accommodation two days.

These statistics really do highlight just how important it is for us to consider this type of scenario and factor it in to our financial planning to ensure we can be prepared for as many circumstances as possible.

## Take action before 5 April 2017

**WITH THE END OF THE TAX YEAR RAPIDLY approaching don't forget to take advantage of any ISA allowance you have outstanding. Remember, the annual ISA allowance is 'use it or lose it'.**

The amount we can place in an ISA, free of income tax and capital gains tax (CGT), has been rising in past years and for the 2016-2017 tax year, you can deposit or invest up to £15,240. From April 2017, this amount will rise to £20,000. This can be deposited into a cash ISA, or invested in a stocks and shares ISA or a combination of both. Since 2015, it has been possible to switch between ISA types, which has made them much more flexible.

Another point to consider is that for some people investing in a pension is more tax efficient, particularly since Inheritance Tax (IHT) is payable on any savings and investments held in an ISA, whereas pension money sits outside of IHT. Again, pension contribution allowances which have not been used before the end of the tax year could be wasted, so talk to your Lowes Consultant to ensure you make the most of the allowances available to you.

## Sudoku

Welcome to our first Sudoku puzzle of 2017. We hope you enjoy working it out.

To complete the puzzle fill the grid so that each row, column and 3x3 block contains the number 1-9. The solution is on page 10.

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 8 | | | | 7 | | | | 4 |
| 5 | | 3 | | 2 | | 8 | 6 | |
| | | 2 | | 6 | | | | 9 |
| 2 | 4 | | | | | | | 3 |
| 9 | | 6 | | | | 5 | 2 | |
| | | 8 | | | | 6 | | |
| 3 | | | | | | 9 | | 2 |
| | | | | | | | | |
| | | | | | 4 | 7 | 3 | |

Source: www.printmysudoku.com



# Another year of uncertainty

**WHILE BOTH THE BREXIT VOTE AND THE US PRESIDENTIAL ELECTION took place in 2016, it will be this year that the full impact will start to be felt in both countries and abroad.**

At the time of writing Donald Trump will be shortly transitioning into the Presidency, while Prime Minister Theresa May has given assurances to the EU that the UK will invoke Article 50 and begin the Brexit process in March 2017.

There has been huge speculation as to what these events will mean for investors, particularly as, at time of writing, only small policy details have been revealed – hence there is uncertainty concerning not only what will happen over the next few months but the longer term implications as well.

Our job is to see our clients through the year and beyond using all the skills at our disposal.

One of our great strengths is our in-house experience and capabilities, present in our dedicated investment and technical teams, coupled with our management team and staff who have witnessed several tumultuous economic and market cycles and are not going to be influenced by popular sentiment. As always, we will be taking a properly measured account of economic and market pressures and where necessary we will take action. All our decisions are based on reasoned facts, not fear or speculation.

We will endeavour to keep you informed of the economic climate through Consultant contact, letters, blog posts and articles in this magazine.

### Unregulated investments

In 2011 I expressed my concerns about investments which were not regulated, and gave stamps as an example, which were being promoted by Stanley Gibbons. My comments appeared in national newspapers like The Telegraph. My concern was not that people bought and traded stamps, because this is a market with a long tradition (Stanley Gibbons dates back to 1856), but rather that the company was heavily promoting its investments using every trick in the book including, suggesting that investors, to quote, "could easily earn 698% or more" but with no attempt to explain the risk to investors' capital, which they claimed was 'guaranteed'.

In addition, Stanley Gibbons is the main market maker, so thereby influences the prices.

What would happen, I asked, if Stanley Gibbons got into trouble?

Well, sadly, my concerns have been realised. Stanley Gibbons' fortunes have plummeted as of late. In October 2016, Stanley Gibbons Group Plc posted a £29m pre-tax loss, its share price had tumbled 90% from its high of early 2014 and it had to shut its online trading marketplace.

A new board of directors is now in place and it is to be hoped they can turn the company around – there are no guarantees that they will.

This serves to emphasise that with unregulated investments like these, no matter how sound the company may seem, you have to be wary of putting your money in them. Certainly, before investing it is imperative to seek advice from your Lowes Consultant. We will probably have seen the investment before you do and will have a view on it or we can look into it and give you our advice.

Ian H Lowes,
Managing Director

Covershot: Lake Baikal, Siberia
Copyright: Serg Zastavkin

**This magazine is not personal advice. If you are unsure as to the suitability of any intended course of action, please contact your usual Lowes Consultant or this office.**

If you would like to receive further information on any of the subjects featured in this issue of **LOWES** please call:
**0191 281 8811**, fax: **0191 281 8365**, e-mail: **client@Lowes.co.uk**, or write to us at:
**Freepost LOWES FINANCIAL MANAGEMENT.**
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Authorised and Regulated by the Financial Conduct Authority.

# What is your State Pension Age?

**IF THE BEATLES WERE WRITING 'WHEN I'M 64' TODAY, they might instead have used 74 as people's life expectancy has increased so much. What many people do not realise as a result is that this also applies to the age at which they are likely to receive their State Pension.**

The State Pension Age remains a central point in many people's long-term financial planning, preparing to ensure that the money they have saved, plus the state benefit, will give them their required standard of living in retirement.

However, we often find that people are shocked to learn that the age at which they can draw a pension from the State is further into the future than they imagine.

> *"Did you know that people retiring in 20 years' time will not receive their state pension until they are 68?"*

In particular, women, who traditionally have had a lower State Pension Age (SPA) than men, may find that due to changes in legislation which have taken place over the past 10 years, they now have to work considerably longer than they expected.

Until 2010, men over 65 and women over 60 were entitled to claim state pension, but between 2010 and November 2018 the State Pension Age for women will have risen from 60 to 65, to bring it into line with that for men.

There are logical reasons for the ever increasing SPA, the main one being to reflect that, in general, people in the UK are living longer, a phenomenon brought about by better standards of living and healthcare. This means anyone retiring at age 65 today is likely to spend much longer in retirement than their parents and certainly their grandparents.

## Changing world

**Key points from an Age UK document entitled "Later Life in the United Kingdom" published in October 2016, serve to illustrate just how things have changed and are still changing.**

- 6 million people are aged 65 or over
- Over 1.5 million people are aged 85 or over
- The number of centenarians living in the UK has risen by 72% over the last decade to 14,450 in 2014
- UK life expectancies at age 65 are 85.9 years for women and 83.4 years for men
- By 2040, nearly 1 in 4 people will be aged 65 or over
- The proportion of the population aged over 75 is projected to double in the next 30 years
- Nearly 1 in 5 people will live to 100, including 29% of people born in 2011.

In addition, the state pension is a pay-as-you-go scheme, with taxpayers paying in and pensioners being paid out. But, the number of 'payers' is falling and the number of 'receivers' is increasing. In such circumstances there are few tools available to Government to address the balance – the State Pension Age being one of the most important.

Research from the Pension Policy Institute showed that in 1981 individuals received the state pension for 25% of their adult lives but as life expectancy increased this rose to 30% by 2000 and to 33% by 2010.

The Institute calculated that, to keep the proportion of adult life in receipt of the state pension at the 1981 level of 25%, the SPA would need to rise to 72 by 2030.

No wonder there have been headlines suggesting we will all be working to age 70 or even 80!

## Change in retirement thinking

An alternative scenario suggested is that our view of retirement will change, with a future model including periods of employment and non-employment, where we fund the former with what we earn and the latter with what we save. This could see people working well into their eighties, depending on a person's health, the type of job they do and the availability of jobs in the market.

This is a complex and changing landscape, where future longevity may well shift the goal posts yet again. The triple lock pension, which guarantees that pensions rise by the same as average earnings, the consumer price index, or 2.5%, whichever is the highest, is considered one area where reform will quickly be brought to bear.

**Pensions contributions by age per £10,000 per annum of retirement income**

| Current Age | State Pension Age | Approximate monthly contributions required per £10,000 of income* |
|---|---|---|
| 20 | 68 | £110 |
| 30 | 68 | £165 |
| 40 | 67 | £275 |
| 50 | 67 | £510 |

***Contribution assumptions:**
Level net contributions before 20% basic tax relief.
***Growth assumptions:**
Capital growth of 6% net of charges.
***Income assumptions:**
At-retirement gross income before tax: adjusted for 2% inflation; 6% annuity rate; no tax free lump sum taken.

Source: Lowes

Which is why the Pensions Act 2014 requires the State Pension Age to be reviewed during each Parliament, with each review considering changes in life expectancy and wider changes in society. The idea here is that this will help to ensure that the State Pension remains sustainable for generations to come. The first of these reviews is being conducted by John Cridland CBE and will conclude by May 2017.

For anyone depending upon the State Pension for any part of their later life income, it will mean that there cannot be a definite answer on the question of when they will retire – unless they save for that event outside of any reliance on the State.

This is something that as Independent Financial Advisers we have to factor in to the expectations and future planning for our clients.

***If you would like to discuss your retirement income plans to make sure they are on track, or you know someone else who would benefit from Independent Financial Advice, please contact your Lowes Consultant or contact our office on 0191 281 8811.***

## Key points

- Women's State Pension Age will have risen to 65 by November 2018.
- Men and women currently with 20 years or more until their retirement, will now have to wait until they are 68 to receive their State Pension.
- Increasing life expectancy means the State Pension Age goalposts could move even further away in the future, with people working into their 70s and 80s to make ends meet.

# Beware pension stripping

**THE PENSIONS FREEDOMS LEGISLATION OF APRIL 2015 introduced new opportunities in the way that people can access and use their pensions cash. But how are people using those freedoms?**

A recent survey by Retirement Advantage showed that nearly a quarter of people over 50 say they plan to cash in some or all of their pension beyond the 25% tax-free lump sum.

Reasons for doing so included generating an income (28%), saving the money for a rainy day (28%), paying off debts (17%), paying off the mortgage (12%), investing in shares (14%) and buy-to-let investing (8%).

Other plans included making improvements to the home (17%), gifting money to family (8%), going on the holiday of a lifetime (15%) and buying a new car (11%).

The conclusion of the survey was that while the pension changes have given people the opportunity to take more control of their pensions, left to their own devices it is clear that many "are at risk of making poor decisions".

### Lowes Consultant Dan Waugh says:

**It is important to remember that the reason we pay into our pensions, often over a lengthy period of time, is to provide an income in retirement. Life expectancy in the UK is increasing meaning our pension money will need to stretch further than for previous generations.**

Any decision regarding pensions cash has to be taken in context of a person's overall wealth and long-term needs. In addition, taking large sums out of a pension in addition to the 25% allowance will incur a tax charge at your marginal rate of tax. Taking out too large a sum could push you into a higher rate tax bracket for that year, which will see more of your pension go to the taxman.

Remember also that with the ability to pass on pensions to beneficiaries outside of inheritance tax, it can pay to use up other IHT-taxable assets before accessing your pension.

Perhaps the strangest reason cited in the survey for accessing a pension was to save the cash for a rainy day. This suggests people do not have access to sound advice as the tax to be paid on the withdrawal, compared to the interest to be earned on any savings at the moment, would likely result in it being a loss-making exercise.

The more we can retain the value of our hard-earned pensions savings the better.

# Pension reviews

**ONE RESULT OF PEOPLE HAVING GREATER FLEXIBILITY as to when they can access and what they may do with their retirement saving has been a proliferation of highly convincing scammers cold calling people and promising high rates of return for their pension money in 'guaranteed' investments. Sadly, the upshot for many has been loss of some or all of their pension pot.**

We were pleased that the new Chancellor of the Exchequer announced that cold calling individuals with regard to their pension would be banned. However, there will be a delay before a ban is implemented and scammers no doubt will be increasing their attempts to draw in people before they are shut down, so we advise you to remain extra vigilant.

Pensions are now far more complex a subject than before, and people do need sound advice – but from regulated Independent Financial Advisers.

***If you or anyone you know is in need of pensions advice then please contact your usual Lowes Consultant or call 0191 281 8811.***



# "The Best Plan of the Year to Date"

**IN THE AUTUMN 2004 EDITION OF THIS MAGAZINE I DREW readers' attention to what I described as**

### "The Best Plan of the Year to Date".

The investment in question matured in 2010 when I suggested that clients might wish to reinvest the proceeds into a similar investment, which matured at the beginning of this year. The result for those clients that followed this path is that they have more than tripled that element of their investment portfolio.

Normally such returns might be commensurate with high risk investment strategies however, what makes this result even more impressive is that these returns were achieved despite very challenging investment conditions, whilst not exposing the investment capital to the risk of loss at maturity unless a major UK high street bank collapsed or, the FTSE 100 fell to levels not seen since the early 1990's.

The investments in question were, of course, Structured Products – an investment sector that few know as well as Lowes Financial Management – and these are not isolated examples. We have been evaluating and monitoring the structured products sector for over twenty years and have proven that carefully selected products can add real value to portfolios. Take a look at the maturity results on Page 14 to appreciate how the sector, and perhaps more pertinently, our selected Structured Products fared in 2016. Admittedly, as with any investment, sector or, investment manager, past performance is not a guide to the future but the very nature of Structured Products is such that they are designed to perform in line with defined criteria and that is exactly what they have done.

Being at the forefront of the Structured Product sector, we are often asked to judge annual awards and whilst it's far too early to say what might be the best Plan of 2017, I am sure the 10:10 Plan from Mariana Capital described will be a contender. Of course, I would be expected to say that given that we helped conceive and design the Plan almost two years ago. It is now in its eleventh issue and has been used by over 150 other investment advisers throughout the UK.

> *"Whilst it's far too early to say what might be the best Plan of 2017, I am sure the 10:10 Plan from Mariana Capital described will be a contender."*

Whilst I cannot predict the future I certainly have a firm belief that those for whom The 10:10 Plan is suitable, will not be disappointed over the medium to long-term. That's not to say that positive returns are in any way guaranteed, as this is a capital-at-risk investment but other than in extremely unfavourable UK stock market conditions or, one of the named banks getting into serious financial difficulty, the 10:10 Plan is designed to return attractive maturity results – for example, a pre-defined gain of more than 37% at the end of three years on the back of a moderate rise in the FTSE 100 Index or, 21.9% even if the FTSE falls by up to 10%.

Pages 8 and 9 provide an overview of the investment but only the product literature should be relied upon to gain a full understanding of the Plan and the terms and conditions – please call us on **0191 281 8811**, return the enquiry slip opposite or visit **www.Lowes.co.uk/ten** to request the literature and application forms.

Lowes played a significant part in the conception and design of the 10:10 Plan and in acknowledgement of this, for any investments made through us, Mariana have agreed to donate half of their net fees to charity.

**Ian Lowes**
**Managing Director**

# The 10:10 Plan explained

**THE 10:10 PLAN IS A FTSE 100 INDEX LINKED INVESTMENT.**

The simple rationale of the Plan is that whilst it can mature after as few as three years, the extended maximum potential investment term means that unlike shorter term Plans, that normally run for a maximum term of only 5 or 6 years, the product will continue past this point if stockmarket conditions have not successfully triggered kickout and early maturity, with the aim of running until the first anniversary at which a positive return is triggered, or until the Plan is encashed, or until the 10 year maturity point is reached.

## OPTION 1

**7.30% per year potential**

Matures on the first anniversary from the 3rd year onwards that the FTSE 100 Index is

**not more than 10% below**

the 3rd March 2017 closing level

## OPTION 2

**9.7% per year potential**

Matures on the first anniversary from the 3rd year onwards that the FTSE 100 Index is

**at or above**

the 3rd March 2017 closing level

## OPTION 3

**12.4% per year potential**

Matures on the first anniversary from the 3rd year onwards that the FTSE 100 Index is

**10% or more above**

the 3rd March 2017 closing level

## All OPTIONS

If the FTSE 100 Index is below the trigger levels required at each relevant anniversary and at the end of the ten-year term, the Plan will mature without generating a gain.

The plan is designed to return original capital at this juncture unless the FTSE is more than 30% lower at the end of the ten-years, in which case capital will be lost in line with the fall in the Index.

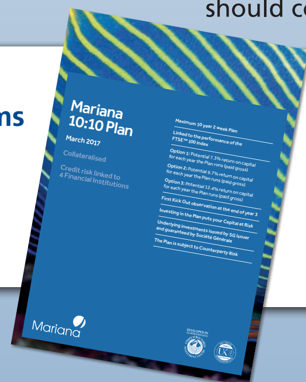
## Counterparty Risk

The counterparty bank to the 10:10 Plan is Société Générale, France's third biggest bank. The risk of a catastrophic loss arising from the failure of Société Générale has been reduced through a collateralisation programme that then serves to diversify the counterparty risk across four alternative major international banks, exposing up to one quarter of the investment to each.

## Capital-at-risk

The 10:10 Plan puts capital at risk of loss from the FTSE 100 not performing or, one of the named banks (including Société Générale) getting into serious financial difficulty or, in the event of an early surrender (as opposed to a triggered maturity), particularly in the early years. If you have any doubts about the suitability of this investment for you, you should contact us for advice.

To order the literature and application forms for the Plan including the full terms and conditions, please call us on **0191 281 8811**, return the enquiry slip on the previous page or visit **www.Lowes.co.uk/ten**




Closing Date: **1st March 2017**
ISA Transfers: **10th February 2017**
Direct Investment by Cheque: **22nd February 2017**
SIPP/Pension Investments: **Contact us ASAP**

On 3rd March 2017
The closing level of the FTSE 100 Index is recorded to give the Initial Index Level

On each anniversary date from the third anniversary onwards:

**Option 1** Is the closing level of the Index at or above 90% of the Initial Index Level?

**Option 2** Is the closing level of the Index at or above 100% of the Initial Index Level?

**Option 3** Is the closing level of the Index at or above 110% of the Initial Index Level?

**YES** → The Plan matures returning original capital plus a gain of:

- **Option 1**: 7.3% for each year the Plan has run
- **Option 2**: 9.7% for each year the Plan has run
- **Option 3**: 12.4% for each year the Plan has run

Returns subject to continued solvency of the named banks

**NO** → Is this the 10th anniversary

- **NO** → Plan continues to the next anniversary
- **YES** → Is the closing level of the Index at or above 70% of the Initial Index Level?
  - **YES** → Original capital will be returned in full but with no gain
  - **NO** → Capital will be lost at a rate of 1% for every 1% the closing level is below the Initial Index Level

Only the Plan literature, which contains full details of the investment, including all its features, risks, terms and conditions, should be relied upon when deciding whether the investment is right for you.

To obtain a copy of the Plan literature and application forms for this investment please complete the request slip included with this magazine and return it using **Freepost Lowes Financial Management**, or call us on **0191 281 8811**.

If you have any doubts about the suitability of this investment for you or, if you require advice or, would like to explore alternative investment opportunities currently available, please do not hesitate to contact your usual Lowes Consultant.

Regardless of whether you are interested in the 10:10 Plan, do you know someone else who could also benefit from our investment management or other financial planning services? We would of course welcome any such referrals so please don't hesitate to send people our way.

Please contact your usual Lowes Consultant or our marketing team on **0191 281 8811** and advise them that it is a new client referral.

**In acknowledgement of the part Lowes played in the conception and design of the 10:10 Plan, for any investments made through us, Mariana have agreed to donate half of their net fees to charity.**

# 5 things we would put into room 101

**TO MARK ISSUE 101 OF THE LOWES MAGAZINE WE'VE PUT together our own Room 101, to consign all of our pet hates to oblivion, just as they did on the TV show.**

We asked five of our Consultants to put forward an item each that they would like to see disappear from the financial services sphere.

## 1 Scammers

The Government may be taking action to ban cold calling around pensions but unfortunately, that will not deter the scammers from using other methods to trick people into parting with their money – recent research from Aviva revealed that more than a million over-45s have fallen victim to email scams. These are highly sophisticated and convincing salespeople and we are not surprised that many people believe they are being offered a genuine opportunity, only to find they have been conned, or have been sold an unregulated product that either doesn't exist or is very high risk and subsequently fails.

## 2 Unregulated investment promotions

We often flag unregulated investments as ones to avoid. The UK has a highly regulated financial services industry, which is often seen as a benchmark by regulators overseas. However, some investments fall outside the regulatory sphere, typically sold into the UK from abroad. They will offer higher potential rates of returns and also often hype these investments as 'guaranteed' to try to attract investors. No investment is guaranteed and what the promotions often don't make clear is the significant risk that people are taking when investing into them. We consign promotions for unregulated investments to Room 101.

## 3 Tinkering with pensions legislation

In April 2006 there was an event in financial services called 'A-Day', which was supposed to simplify the rules around pension for the foreseeable future. Almost every year since then, government has tinkered with pensions in one way or another, culminating in the Pensions Freedoms introduced by then Chancellor of the Exchequer George Osborne in April 2015. Now, we think the Pension Freedoms have made pension saving far more appealing – albeit far more complex. It is likely that pensions will be changed again – the Lifetime ISA is seen as a thinly disguised precursor to changing the shape of retirement planning and doing away with income-related pension tax relief. Having only recently introduced Pensions Freedoms it would be preferable to have a period where everyone was able to get used to the new rules before the metaphorical goal posts are potentially shifted yet again.

## 4 Those who say you can time the market

There is a very simple premise to successful investing – invest for the long term and do not try to call the market. It's true that there have been people who have invested at the right time and made money off the back of it but it is also true that they and many others will have timed it wrong as well. Research shows that investors' decisions can be hugely influenced by sentiment, reacting to market movements, which often sees people invest at the top of the market and pull out at the bottom – securing their losses both ways. So, anyone trying to persuade you to time the markets we would definitely send to Room 101.

## 5 Pundits claiming market prediction wins

We've said before that pundits who claim they can predict the markets are in a win-win situation. If they get it right they can talk up their abilities and if they get it wrong there is always something that has happened in the year to explain it. You don't really lose by predicting where the stock market will be in 12 months. You lose if you believe the person who claims they can consistently do so and you invest on the back of those predictions. Prediction pundits – in you go!

### Sudoku solution

Here is the solution to the Sudoku grid on page 3 of this issue of the Lowes magazine.

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 8 | 6 | 9 | 3 | 7 | 1 | 2 | 5 | 4 |
| 5 | 7 | 3 | 4 | 2 | 9 | 8 | 6 | 1 |
| 4 | 1 | 2 | 5 | 6 | 8 | 3 | 7 | 9 |
| 2 | 4 | 7 | 6 | 8 | 5 | 1 | 9 | 3 |
| 9 | 3 | 6 | 1 | 4 | 7 | 5 | 2 | 8 |
| 1 | 5 | 8 | 9 | 3 | 2 | 6 | 4 | 7 |
| 3 | 8 | 4 | 7 | 5 | 6 | 9 | 1 | 2 |
| 7 | 9 | 5 | 2 | 1 | 3 | 4 | 8 | 6 |
| 6 | 2 | 1 | 8 | 9 | 4 | 7 | 3 | 5 |





# A warm welcome and a fond farewell

*As Lowes Consultant Gary Summers retires and Chris Large steps into his role, we talk to both about being Independent Financial Advisers*

**AFTER 20 YEARS SERVING CLIENTS, CONSULTANT Gary Summers has decided to take well-earned retirement. "A decision I've been helping Lowes clients to make for many years," Gary says with a smile.**

Taking his place on the Lowes team is Chris Large, who entered the financial services industry in the early 1990s, a decision, he says, on which he has never looked back.

When Gary joined Lowes in August 1996, he had been in the profession for 13 years already, working for different providers. It was his desire to become an Independent Financial Adviser, rather than an agent tied to one company, that saw him begin his career with Lowes.

"One of the things that struck me most when I joined from a large insurer was how like a family Lowes was – as many of the people had been with the firm for many years, which says a lot.

"It had a really good feel to it. Being independent made a big difference as well, as I was able to offer clients so much more."

Gary Summers (left) welcomes Chris Large to Lowes

This resonates with Chris Large too. He began working in financial services straight from A-Levels in 1990, preferring, he says, to gain degree-level qualifications as part of his career progression – and he has been adding to his qualifications ever since. He too spent his first years working for providers before becoming a financial adviser in a private bank and then for a financial network, where he became Head of Client Services. Eventually Chris became a self-employed financial adviser, before a good friend down from Newcastle suggested a catch-up and that he bring two industry colleagues along with him. They turned out to be Lowes' directors Ian Lowes and Neil Mclachlan.

"We got talking and immediately hit it off," Chris says, "Shortly thereafter I received a phone call asking if I would be interested in a more formal interview for the role of Consultant.

"Lowes has the outlook and ethos that are important to me as an Independent Financial Adviser so for me it was too good an opportunity to miss."

Chris joined on 1st November 2016 and spent the first two months shadowing Gary, meeting with clients and learning how Lowes works.

> *"Gary has built up a great rapport with his clients and it is a privilege to be taking over from him."*

"We're working hard to make it as smooth a handover for clients as possible and I'm pleased that Alex, Gary's son, will be my assistant as he was Gary's, providing continuity and consistency and that first point of contact for clients.

"My 2017 year planner is already almost full and I am looking forward to meeting all my clients and building on the relationship they have had with Gary, helping them and their families with their financial planning in the years ahead."

The question for Gary, of course, is what is he going to do with his retirement?

"I'd like to travel to some of the places that I've not been to as yet – Australia, China and South America," he says. "Also, having spent my 20s as part of a rock band, I've continued playing in a band – the Loudshirts – on Friday and Saturday nights, so I'd like to step that up. Other than that I have five grandchildren who I'm sure will keep me very busy.

"I will miss my clients and it will be strange not seeing them, but what's great is that I know Lowes will continue to look after them and I'm leaving them in very capable hands."

# CGT - an encroaching tax

**CAPITAL GAINS TAX (CGT) IS ONE OF THOSE TAXES THAT tends to cause people little concern until they dispose of assets of a value above their annual exemption, currently £11,100 a year.**

However, it is worth noting that over recent years the amount of revenue HMRC has raised through CGT has been rising. In addition, the number of people who have found they are liable to pay this tax has increased also. This is similar to Inheritance Tax (IHT) receipts and the number of people falling into the IHT bracket.

Figures for the 2014-15 tax year show that capital gains liabilities of UK taxpayers increased by 25% to £6.9bn from the previous year's figure of £5.5bn. The total number of capital gains taxpayers also increased by 13 per cent over this period, up to 242,000 from 214,000. That is expected to have increased when the 2015-16 figures are published.

## What is Capital Gains Tax?

A capital gain occurs when you sell something for more than it was worth when you acquired it.

Capital Gains Tax (CGT) was first introduced in 1965 and is charged on gains realised on the disposal of assets. This includes any occasion when the beneficial ownership of part or all of an asset is transferred from one person to another (usually excluding transfers between married partners and registered civil partners). Examples include sales, gifts, and exchanges but the death of an individual is not treated as a disposal for CGT purposing. Typical assets are investments, land and other tangible items of wealth like works of art, but also include intangible items of wealth like the goodwill of a business.

The capital gain is broadly the difference between the disposal proceeds and the cost of acquiring the asset. In some circumstances, the market value of the asset at the time of acquisition/disposal is used.

HMRC stated that rises are likely to be related to increases in house prices, the number of house transactions and the prices of equities since the previous year, which will have led to an increase in the value of chargeable gains – as capital gains tax is charged on the profits made when certain assets are sold or transferred.

In April 2016, the capital gains tax rates were cut by 8 per cent for shares within funds, and now stand at 20 per cent for the higher rate band and 10 per cent for the basic rate, excluding gains on buy to let property or second homes.

## Jackie Lowes, our Financial Controller and Tax Consultant, says:

CGT is clearly affecting more and more people and anyone planning to sell second homes, shares and other investments in the years ahead, should bear this in mind.

There are various reliefs and exemptions which may reduce the amount of CGT to be paid – alongside the annual exemption amount, normally there is no CGT liability on the disposal of a person's main or only home, for example.

Through selected investments and structured disposal of assets, it is possible to reduce the potential liability but it requires careful financial planning to maximise exemptions and tax wrappers such as ISAs.

Ideally, investors should be aspiring to pay CGT over income tax, because of the lower rate of tax payable.

***If you have assets which, on sale, are likely to breach the annual exemption, or you want to know more about use of CGT allowances in investment planning, then talk to your Lowes Consultant or call us on 0191 281 8811.***





# Rising popularity of pensions transfers

**THERE HAS BEEN A LOT OF MEDIA ATTENTION RECENTLY on Final Salary Pension schemes (also known as Defined Benefit or 'DB' schemes). This is mainly concerned with the level of underfunding of these schemes when their assets are measured against their liabilities, but more recently, it has been on people considering transferring their money out of the schemes.**

A final salary pension scheme provides a guaranteed income from the date of your retirement for the rest of your lifetime, normally along with the option for a tax-free lump sum (which, if taken, will result in a lower level of pension income), and some specified death benefits.

Largely these pensions do not allow people to take advantage of the new rules under the Pensions Freedoms Act. This has seen a growing demand from people with deferred pensions, i.e. they are no longer active members of the pension scheme (usually because they are no longer at the company), to switch their pension benefits to a personal pension plan that is under their own control and will give them access to pension flexibilities, such as accessing the pensions cash or leaving the pension fund to loved ones and other beneficiaries.

Many DB pensions come with guaranteed benefits and transferring this type of arrangement will mean swapping those benefits for a cash sum that can then be transferred to a personal pension arrangement.

This cash sum is effectively the pension lump sum, plus the income that is expected in future, and is called the 'cash equivalent transfer value' (CETV). It is calculated by the scheme's actuary, in accordance with specific guidelines, which include standard assumptions about how long you will live, the scheme's funding position, the size as well as type of benefits you have built up in the scheme, when you left service and any increases to benefits in the meantime, as well as when payments are due to start.

Recently, due to a fall in 10-year bond yields by which Pension Schemes value their liabilities, the value of these transfers has increased quite dramatically, to their highest ever levels.

At Lowes we have noticed increases this year of over 10% for CETVs calculated just months apart for the same member from the same scheme.

For example, a client of Lowes was provided with a transfer value from his old employer's pension scheme of £358,869 in June 2016. In November 2016, they received an updated value of £401,027, which reflects an increase of £42,158 or nearly 12% for the same benefits from the same scheme. The client is divorced, in relatively poor health, and has other assets but would now like to draw some pension benefits tax efficiently to facilitate partial retirement, plus being able to pass pension funds on to children and grandchildren as a legacy. In contrast, he wasn't able to do any of this by staying in the Final Salary Pension scheme.

For this reason, it is not surprising that more and more people are examining whether it is of benefit for them to transfer out of their DB pension.

## Keith Hanna, Retirement Planning Manager, says:

**We are certainly not suggesting that every deferred member of final salary/DB schemes transfer benefits to a plan under their own control. But if they are interested in considering their options they should talk to us.**

Any advice process should at the least consider your goals, your health and that of your spouse/partner, your financial needs, attitude to investment risk and any assets or liabilities that you have, in addition to carrying out a comparison of your final salary/DB pension scheme benefits with that of transferring to a plan under your own control.

There are risks, of course, to transferring benefits away from a final salary/DB pension scheme, which is why the starting point for transfer advice is that it is better for someone to remain a member of a final salary/DB pension scheme. For example the pension income you receive may be lower than that you could have received under the original pension scheme; the value of the pension fund on transfer away from a final salary/DB pension scheme will fluctuate and can fall as well as rise; and many final salary/DB pension schemes also benefit from increases in pension benefits when they come into payment, which will be lost on transferring out.

Which is why the decision needs careful consideration and advice bearing fully in mind your own personal circumstances.

# Structured Product Maturities in 2016

> *"Around 70% of products that matured in 2016 had the FTSE 100 as their benchmark index. Of these a very healthy 98% made gain for investors, 2% returned capital only and not one product made a loss for investors."*

**LOWES HAS A LONG HISTORY OF ANALYSING AND advising on structured products, to the extent that we are recognised as experts in the field and are regularly called upon to comment in the press on these investments.**

For more than fifteen years we have maintained a database of every product launched in the Independent Financial Advice (IFA) arena and have monitored each product through to their eventual maturity. We believe we are the only source of such data and we periodically publish the results to show how the sector as a whole has been performing for investors.

In 2016 a total of 427 IFA distributed products matured with 89% producing a gain, 8.9% returned capital only and just 9 products (2%) produced a loss for investors.

The average gain across all products – that is those where capital was at risk, capital was protected and deposit-based products – was 24.26% over a period of 4.31 years, equating to an average annual return of 5.5%. The top quartile produced 9.65% per annum compared to 0.41% per annum for the bottom quartile. The average return of the 280 maturing capital-at-risk products in isolation was 6.66% per annum.

## Lowes 'Preferred'

Of the 427 maturing products, only 76, from 12 providers, had been selected by Lowes at the time of launch for use in our client portfolios. These were predominantly capital-at-risk products and the average return of these was 32.21% over a period of 3.83 years, equating to an average annualised return of 7.86%. The top quartile produced 10.67% per annum compared to 4.15% per annum for the bottom quartile.

## FTSE 100 products

Around 70% of all of the products that matured in 2016 had the FTSE 100 as their benchmark index. Of these a very healthy 98% made gain for investors, 2% (6 products) returned capital only and not one product made a loss for investors.

The average gain across all those FTSE 100 linked products – again for capital at risk, capital protected and deposit-based products – was 28.39% over a 4.44 year period. For the Lowes selected products those figures were 36.27% over 4.13 years.

As is to be expected, products where capital was at risk from market movements, produced higher returns than the capital protected and deposit-based products, i.e. they took more risk with the money for which they had the potential for being better compensated and the acceptance of this risk paid off.

When we talk about capital-at-risk products, in general these can still protect capital and usually only produce a loss if the index falls below a set amount, typically 30%-50% from the starting level of the investment – or the counterparty bank fails.

Of course, past performance is not a guide to future performance, but the high level of positive returns seen in the 2016 maturities, particularly for the FTSE 100 products, which often are the most popular with UK investors, plus the built-in capital protection afforded, even for so-called capital-at-risk products, reflects the opportunities structured products offer to investors for use in diversified investment portfolios. We typically recommend that investments be spread across a range of options, including structured products, to better facilitate a smoother long-term investment journey.

***If you would like to know more about structured products and how they may be used in your financial planning, please contact to your Lowes Consultant or call this office on 0191 281 8811 and we will arrange for one of our team to talk to you.***

## 2016 Structured Product Maturities

[Products utilised by Lowes in brackets]

| | All Products | All Capital-at-risk Products Only | All FTSE 100 Only Linked Products | All Non FTSE 100 Linked Products |
|---|---|---|---|---|
| No. of maturities | 427 | 280 | 305 | 122 |
| | [76] | [75] | [60] | [16] |
| No. that produced a gain | 380 | 264 | 299 | 81 |
| | [73] | [73] | [60] | [13] |
| No. that returned capital only | 38 | 7 | 6 | 32 |
| | [0] | [0] | [0] | [0] |
| No. that returned a loss* | 9 | 9 | 0 | 9 |
| | [3] | [3] | [0] | [3] |
| Avg. annualised return | 5.5% | 6.66% | 5.89% | 4.54% |
| | [7.86%] | [7.9%] | [7.88%] | [7.78%] |
| Average term (years) | 4.31 | 3.82 | 4.44 | 4 |
| | [3.83] | [3.8] | [4.13] | [2.69] |
| Top 25% Avg. annualised return | 9.65% | 10.5 | 8.98% | 11.12% |
| | [10.67%] | [10.67%] | [10.28%] | [11.75%] |
| Worst 25% Avg. annualised return | 0.41% | 2.01% | 2.66% | -2.98% |
| | [4.15%] | [4.28%] | [5%] | [1.16%] |

*The three products utilised by Lowes that returned a loss, were linked to baskets of agricultural commodities and protected 95% of the original capital.



# Spotlight on Len Gatoff

**THIS ISSUE'S SPOTLIGHT FALLS ON LEN GATOFF, Non-Executive Director and Chairman of the Board, who after many years' association with Lowes has decided to stand down and enjoy retired life.**

Len is a retired Chartered Accountant who has been associated with Lowes for over four decades. He took his seat on the Board following his retirement as Senior Local Partner with Deloitte in 1996.

It was in 1971 that Len first met Ken Lowes, founder of Lowes Financial Management, when they had adjacent offices at 10 Market Street, Newcastle.

Having graduated from King's College, Durham with a degree in economics and then trained as a Chartered Accountant, Len had set up his own independent accountancy practice. This was unheard of at the time, he says. "I was the first accountant in Newcastle to go out on his own in that way. It was called Leonard Gatoff and Co and my first desk was literally two card tables tied together with string," Len recalls.

Ken Lowes became his first client and the trust between them that each would do their best for their clients meant that where a financial advice client needed accountancy help, Ken would refer them to Len, and vice versa.

Eventually, Len merged his firm with a company called Spicer and Peglar, which in turn, was merged with Touche and Ross, eventually becoming part of Deloitte, where Len was a Senior Local Partner until retiring in 1996.

"When I retired Ken approached me to become a non-executive director and I later became Chairman of the Board. I'm pleased to say that when Ian took over as Managing Director he asked me to stay on."

The role as non-executive director, Len says, is to provide "an independent view and advice to help the executive directors, the people running the business on a daily basis, do the best job they can".

"I like the way that Ian is taking the company forward, he has made huge progress in the time he has been running the business and I think it's fair to say that Lowes is one of the leading Independent Financial Advice firms in the UK. I can only see Lowes growing in strength as it moves forward."

One of the greatest surprises of Len's time at Lowes, he says, was when the company moved into Fernwood House in the summer of 2016 and researched some of the building's history. He discovered that he had been born there when it was a maternity hospital. "I didn't know that before," he says. "It was Lowes Senior Consultant Peter Collins who revealed it to me as he had been born there too."

In 2014 an illness caused Len to take some months off as non-executive director but he returned in 2015. However, this year, at age 77, he decided it was time to step down "and let someone younger take over".

> *"The shape of Lowes as a business has changed enormously over the years and I have enjoyed being part of that journey and helping the business to grow. It's been a very happy relationship."*

Now he is looking forward to taking it easy and listening to more music – "particularly jazz, which is a major part of my life."

Len has such a long association with Lowes and it will feel strange not having him sitting at the Board table. We thank him for his many years of keen advice as non-executive director and wish him all the very best for a healthy and happy retirement.

## Lowes Client Competition 2017

**The new president of the United States has come to power via what has been viewed as a controversial election campaign.**

With all eyes on the US, it seems pertinent to base this year's competition on the performance of the US stock market.

This year, we are asking you to guess to two decimal places the level of the S&P 500 at close of business on Friday 29 December.

Opposite is a chart of the daily level of the S&P 500 over the past 5 years. On 30 December 2016 the index stood at 2,238.83.

Where do you think it will stand at the end of December 2017?

**You can enter our 2017 Client Competition using the insert card with this issue of the magazine.**

# Another Year Over...

**LOOKING BACK OVER 2016, ONE WORD SEEMS TO SUM UP the year well – unpredictable! From an investment point of view, the year started badly as worries appeared about the potential for rising interest rates in the US and weakening of the Chinese economy. The UK investment markets, as measured by the FTSE All-Share Index, fell 11.5% from the start of the year to the middle of February, before quickly recovering to its starting level by mid-April.**

Markets saw further volatility in both the run up to, and immediately following the Brexit vote in June, but the subsequent sharp fall in the value of Sterling led to a boost for the larger companies in the UK in the expectation of a boost to the Sterling value of overseas earnings.

Further falls occurred in the run up to the US Presidential election, but whilst the result surprised many, the markets took it in their stride and finished the year strongly, with the FTSE All-Share Index ending the year up 16.75% on a total return basis (including the reinvestment of dividends).

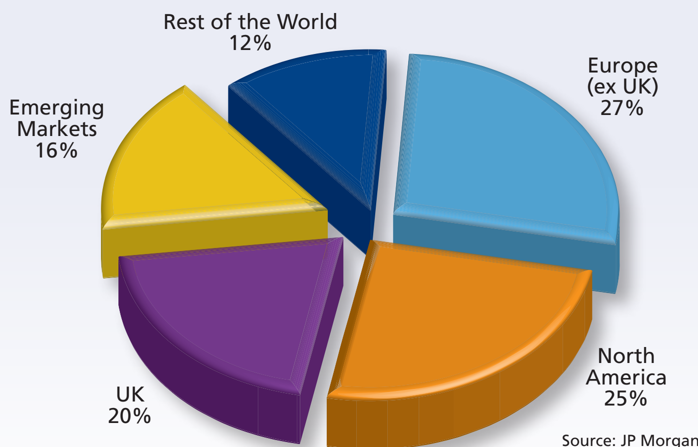
Looking ahead in 2017, further political turmoil lies in wait. Donald Trump assuming presidency in the US is followed by parliamentary elections in the Netherlands in March, where their own membership of the EU is a key issue. April has the Presidential election in France, where the populist Front National candidate is providing a challenge to the traditional mainstream candidates. June sees further elections in France, this time for the National Assembly, and finally September brings the Federal elections in Germany, where Angela Merkel is facing a real challenge due to her benign policy on immigration. In addition, there is further political uncertainty in Italy as a result of the resignation of Prime Minister Matteo Renzi in December last year.

Any of these events could lead to disturbance in the European Union, and of course from the UK perspective there is also the matter of finally invoking Article 50, which Theresa May has said she will do before the end of March. So, certainly from a political point of view, 2017 is shaping up to be another year of unpredictability. But that doesn't mean it has to be a bad thing, at least from an investment viewpoint.

Donald Trump's election promises for the economy focussed on reflation through massive infrastructure spending. How many of these promises he can implement remains to be seen, but equity markets as a whole tend to perform well in an inflationary environment, as rising input costs can be offset by raising prices. If coupled with wage inflation giving people more money in their pockets, this can lead to improved earnings for companies, making their shares more attractive to investors.

In the UK there has understandably been a lot of focus on Europe, but whilst new trade deals and changes to laws and regulations will have an effect in the short term, in the long term Europe is becoming less relevant to the companies that make up the bulk of the UK markets. For the top 100 companies on the London Stock Exchange, only 27% of their revenue originates in Europe, with over half coming from other parts of the world.

**Geographical Sources of Revenue for the FTSE 100**




Source: JP Morgan

Also, looking at the economy as a whole, Europe as a destination for our goods is becoming less and less important. According to the Office for National Statistics, the percentage of our exported goods and services heading to Europe has been in decline for the last fifteen years.

Our falling reliance on Europe as a trading partner is likely to continue into the future. According to figures from the United Nations, the population of the developed world as a whole is expected to remain fairly steady, rising by just 2.7% by 2050. Europe is actually predicted to have a shrinking population, falling by 4.2% over the same time period. By contrast, developing countries are expected to see their population rise by 38.1%. With this change in demographics, companies trading on a global scale will naturally find their focus shifting away from developed regions such as Europe to the growing markets in areas such as Asia and Latin America.

So, whilst the news in 2017 will no doubt be dominated by political events in Europe, for those investing for the long-term there will still be plenty of opportunities available, especially with active fund managers who can choose those companies who are best placed to benefit from the changing world we live in.

**Percentage of UK Exports going to EU (Goods and Services)**

Source: Office of National Statistics



This magazine is not personal advice. If you are unsure as to the suitability of any intended course of action, please contact your usual Lowes Consultant or this office on 0191 281 8811.