LOWES

Est. 1971

Issue **96**

FINANCIAL PLANNERS CII CHARTERED

"If you focus on results, you will never get change.
If you focus on change, you will get results."
Henry Ford

INSIDE TRACK

NEW: Lowes blog

FOLLOWING THE RECENT LAUNCH OF THE NEW LOWES website we are introducing a regular blog to the site.

This will provide a range of topical and informative comment and will enable our Consultants and Technical Analysts to give you useful material in between the publication of this magazine.

■ ***You can find the blog by going to the Lowes website www.Lowes.co.uk and clicking on the Latest tab at the top of the page.***

New Consultant joins Lowes team

WE ARE DELIGHTED TO WELCOME NICOLA WRIGHTSON to our 14 strong team of Consultants.

With over 25 years' experience in financial services, Nicola brings with her a wealth of knowledge in all areas of financial planning. Having worked for an asset management company for 12 years, Nicola has a passion for investments. We have seen an increase in requests for a female consultant from both clients and professional connections recently and Nicola is working hard to see as many people as possible. Kathryn Grieves, Nicola's former Personal Assistant also joins us. Kathryn has over 10 years' experience in our industry and they make a formidable team.

Lowes now has a 70-strong team that includes some of the most qualified people in the financial advice sector enabling us to provide financial advice of the highest-quality to clients throughout the UK.

Introducing 10:10 issue 2

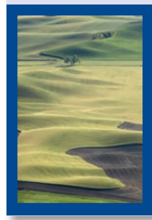
IN SEPTEMBER WE INTRODUCED THE FIRST 10:10 PLAN – an investment conceived by Lowes Financial Management, utilising Société Générale as counterparty.

The first issue was very well received by clients, other adviser firms and in the media. Issue 2 of the 10:10 Plan has now been launched and outline details accompany this issue of the Lowes Magazine. In response to feedback, Issue 2 introduces a defensive option and whilst this offers a lower potential return and it must be stressed that past performance is not a guide to the future, the defensive option is such that throughout the complete history of the FTSE 100 Index an investment with the same terms would always have matured with a gain.

■ ***To obtain details of the new 10:10 plan please return the slip on the accompanying insert, visit Lowes.co.uk/Ten or call us on 0191 281 8811.***

Lowes Financial Management has joined Facebook.

Follow us for company updates and articles.



Our cover shot:

© Olha Rohulya.

Make your money work Best bank & building society accounts					
Type	Amount	Provider	Account	Gross Rate	Contact
Unrestricted instant access accounts					
Online	£1+	Paragon Bank	Limited Edition Easy Access (Issue 2)	1.46%	paragonbank.co.uk
Branch, post	£100+	Leeds Building Society	Everyday Saver	1.25%	leedsbuildingsociety.co.uk
Accounts with first year bonus					
Online	£1+	Post Office	Online Saver 16	1.61%*	postoffice.co.uk
Fixed rate bonds					
Online	£1,000+	Charter Savings Bank	1 Year Fixed Rate Bond	2.07%	www.chartersavingsbank.co.uk
Online	£1,000+	Paragon Bank	2 Year Fixed Rate Bond	2.40%	paragonbank.co.uk
Online	£1,000+	Paragon Bank	3 Year Fixed Rate Bond	2.56%	paragonbank.co.uk

Measures of inflation - The average change in prices of goods and services over a 12 month period to September 2015

Retail Prices Index (RPI) **0.8%**	Consumer Prices Index (CPI) **-0.1%**

Sources: Providers' websites, Office for National Statistics, www.thisismoney.co.uk, www.moneysupermarket.com, www.moneyfacts.co.uk 12 October 2015. All accounts subject to terms and conditions. Note: *Includes a 0.96% bonus for 12 months.

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.

Why Lowes will not be part of the advice gap

WE HEAR THAT OTHER FINANCIAL ADVISERS ARE REDUCING the number of clients they will serve based on the size of the person's wealth, no longer dealing with or turning away people with less than £200,000 to invest.

We are glad to say that Lowes is not one of those firms. We believe people come to Lowes – and have been doing so for over 44 years – because they want a firm they can trust to look after their finances for as long as it's needed. For many of our clients that relationship has lasted decades – and we are now serving their children and grandchildren.

For us, it's about looking after people and being a trusted firm where, as our company philosophy states, 'personal finances are cared for personally'.

■ ***If you know anyone who requires Independent Financial Advice then please pass on our details.***

Over 50s playing the stockmarket

ONE IN THREE PEOPLE AGED OVER 50 HAVE BOUGHT SHARES in a company to help fund their retirement, according to recent research by Saga.

The reasons the over 50s say they buy and sell shares is to give them a regular source of income and because they think they will get a higher return by investing in shares than if they leave their money in a savings account.

While these are sound reasons to invest your money – especially in the current low interest rate environment – in our view there are better and potentially less risky ways to do so. Certainly, if you are relying on your investments for an income in retirement, then we believe it is far better to leave the buying of stocks and shares in the hands of the professionals who do it for a living and have the support of a team of highly trained analysts to help them make the right calls. Many people have tried to make a living out of day trading and learned from their mistakes. Remember, you only hear about the success stories – and these are few and far between.

Sudoku

With all the changes in financial services rules and regulations lately, we find having a brainteaser to do can be a welcome relief.

The idea of Sudoku is to fill the grid so that each row, column and 3x3 block contains the number 1-9. The solution is on page 11.

Source: www.printmysudoku.com

			5		8			2
9		4			2			
			7	1		5	9	
							5	4
		7	1	4				
			8			1		
1			4				7	
							2	
				2	5	9		3

COMMENT

Keeping pace with evolution

WHEN I WAS A TEENAGER THE 'PIN-UP' SUPERCARS WERE the Ferrari Testarossa and Lamborghini Countach, both of which could fire the driver from zero to sixty miles an hour in around five seconds. I cringe slightly when admitting I had posters of them on my wall.

Giant leaps forward in technology since mean the pin-up cars of today cost considerably less by comparison and can reach sixty miles per hour in less than three seconds – and do so without burning a drop of petrol.

When I entered my profession the 'pin-up' investment fund managers were those that more often than not made correct judgement calls (no, I didn't have posters of them). No one got it right all the time but then and similarly, now, some managers can display a bit of a Midas touch – at least for a while. Inevitably however, most human fund managers lose their shine and fade away. That's why we know it's essential to monitor every fund in an investment portfolio and given that consistency of performance can never be guaranteed, switch out when the performance starts to lag.

Just as the internal combustion engine may have many more years ahead of it before it's under threat from the building momentum of the electric car revolution, similarly, the fund management industry still has many decades of success ahead of it. But there's another investment vehicle starting to emerge into a credible contender as an alternative investment asset class.

I am of course talking about structured investments, an asset class for which we have become renowned experts. Accompanying this issue of the Lowes Magazine you'll find information on one such investment that we have helped bring to market; the latest 10:10 Plan. This issue introduces a defensive option and whilst we all know that past performance is not a guide to the future, it's worth noting that had such an investment strategy been adopted on any day since the introduction of the FTSE 100 Index in 1984 and left to mature naturally, it would never have failed to produce a gain.

There's no human fund manager needed to make the right judgment calls and no annual management charges, just ultimately a contract with one of the world's largest banks that is obliged to meet the terms of the agreement. Banks can go bust so you wouldn't put all of your capital with one such contract any more than you would give it to a single fund manager but using a series of such investments, alongside managed funds has in our experience proven to be a recipe for successful investing.

The fact is, the world is changing at an alarming pace and when it comes to managing your wealth, it's essential to keep up with the times and use appropriate, modern vehicles to propel you on your investment journey. It's our job to find those investments for you.

Ian H Lowes,
Managing Director

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: **Lowes Group PLC**, FREEPOST NT197, Holmwood House, Clayton Road, **Newcastle upon Tyne NE2 1BR.**

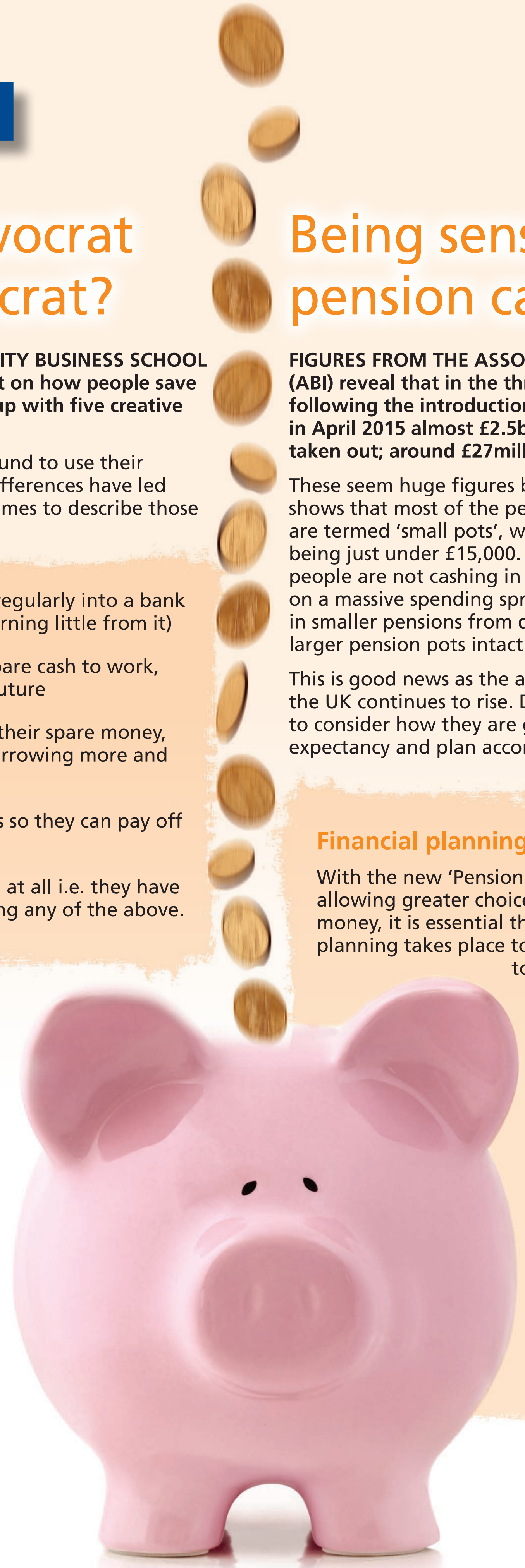
Are you a Savocrat or an Investocrat?

A SURVEY BY THE OPEN UNIVERSITY BUSINESS SCHOOL has thrown some interesting light on how people save their money – as well as coming up with five creative new names for the UK's savers.

Across the survey, people were found to use their money in different ways. These differences have led to the creation of the five new names to describe those habits:

- **Saveocrats:** 35% are saving regularly into a bank account (albeit at present earning little from it)
- **Investocrats:** 8% put their spare cash to work, actively investing it for the future
- **Spendocrats:** 20% spend all their spare money, with over a third of these borrowing more and living for the moment
- **Austerocrats:** 11% spend less so they can pay off their debts
- **Non-voters:** 26% do nothing at all i.e. they have not even thought about doing any of the above.

As can be seen from the percentages above, less than half of people (43%) are regularly saving or investing anything. But why? Well, the study showed that many people are put off investing because of what they perceive to be complicated products and processes. We recognise that it can be very daunting when faced with thousands of investments from which to choose – over 8,000 actually, and that's just if you want to invest in straightforward funds. Which is why it makes sense to use the services of an Independent Financial Advice firm, staffed by experts that are analysing and making considered choices about investments on a daily basis.



Being sensible with pension cash

FIGURES FROM THE ASSOCIATION OF BRITISH INSURERS (ABI) reveal that in the three months immediately following the introduction of the new Pension Freedoms in April 2015 almost £2.5billion worth of payments were taken out; around £27million a day.

These seem huge figures but a closer look at the data shows that most of the pensions being accessed are what are termed 'small pots', with the average lump sum payout being just under £15,000. This data would suggest that people are not cashing in their main pension pots to go on a massive spending spree, but instead may be cashing in smaller pensions from different jobs while keeping their larger pension pots intact to fund their retirement.

This is good news as the average lifespan of people in the UK continues to rise. Due to this, individuals need to consider how they are going to fund that longer life expectancy and plan accordingly.

Financial planning for retirement

With the new 'Pension Freedoms' legislation allowing greater choice in how we use our pension money, it is essential that appropriate financial planning takes place to review the options open to people. These include the use of annuities (which can provide a guaranteed income for life), drawdown (which keeps the money invested and, hopefully, growing through retirement) and a mixture of both (products offering guaranteed income while remaining invested).

People's individual needs and circumstances will determine which of the products will best suit them and, where a mixture of products is used, in what proportion.

Putting your money in the hands of experienced investors lets you concentrate on the other important things in your life. If you, or your family and friends require investment advice, whether in general or in respect of retirement, please call to your usual Lowes Consultant or ring us on 0191 281 8811.

Inheriting a pension

FROM APRIL 2015 'MONEY PURCHASE' PENSIONS SUCH AS personal pensions and SIPPs can now be passed on down the generations.

A lot of the focus has been on a person passing on the pension when they die but what is the advice for someone who is the beneficiary of a pension? Unsurprisingly, they are very much entwined and there is much to be aware of and to consider if a pension is to be passed on in a tax efficient manner.

In brief, under the new rules, a pension can be passed on to any named beneficiary whether a relative or not. If the pension holder dies before age 75 then the beneficiaries can receive the pension as a lump sum, annuity or a new 'Flexi Access Drawdown' fund and pay no tax on the money received (as long as it is less than the lifetime allowance, currently £1.25m). This can apply whether or not money has been withdrawn from the pension.

On death of the policyholder over 75, the benefits are taxed at the beneficiary's marginal rate of income tax; so, for example, if they are a basic rate income taxpayer they will pay 20% on any withdrawals (under 2015-2016 tax rules). The exception to this is if the beneficiary takes a lump sum out of the pension, which will be taxed at 45%, but only up to April 2016.

There will be no inheritance tax to pay, but given that the average life expectancy at age 65 in the UK is 86.6 years for men and 89.3 for women, it's clear the government is expecting most people will pay some income tax.

What you should do

- Tell your pension provider who you want to benefit from the pension. This is usually done through an 'Expression of wish' form. This is not legally binding but it lets the pension scheme trustees know what you would like to happen – which is usually followed. You can nominate more than one beneficiary. A will does not cover this for you.
- Find out if your pension can be accessed as a nominees drawdown pension. This keeps the pension invested and allows you to dip in to the pension when you wish. Some personal pensions don't allow funds to be accessed in this way, so a transfer could be considered to a pension that does. It cannot be transferred after death.It is important to consider independent financial advice about a transfer, as some pensions have valuable features that could be lost on transfer.
- If you buy an annuity with your pension, the money cannot be passed on to the next generation in a tax advantaged pension environment. The exceptions to this are an annuity with value protection, or a joint life or a guaranteed payment period, where the annuity will be paid until the end of that period.
- If you intend not to draw on your pension but simply to pass it on to your beneficiaries then look at the funds it is invested in. Some 'lifestyling' funds are designed to automatically reduce risk in the 5-10 years before retirement, then the pension investor is expected to buy an annuity. If you want to leave it for future generations then leaving it in potentially higher returning investments may be a better strategy.

What the beneficiary of a new Flexi Access Drawdown pension should consider:

- If the pension holder dies before age 75, the money is passed on tax free and can be taken as a lump sum or as income via an annuity or flexible drawdown.
- If the policyholder dies on or after their 75th birthday, given your tax status and personal circumstances, ascertain whether it will be better to secure a guaranteed regular income via an annuity or the more flexible drawdown arrangement, paying income tax on the amounts withdrawn, or as a lump sum (45% tax prior to April 2016).
- Flexi Access Drawdown schemes keep the money invested and will need managing. Look at the risk you want to take with the money and accordingly, take advice about which may be the most suitable investments.
- If you have beneficiaries you want to pass the pension on to, ensure you have completed your own expression of wish form for your new Flexi Access Drawdown fund.

There is no doubt that the Pension Freedoms legislative changes can make pension planning more complicated. If you would like to discuss your options please contact your Lowes Consultant on 0191 281 8811 who will be pleased to talk them through with you.

Long Term Care needs long-term planning

New Long Term Care rules, the Government's decision to delay capping the cost of Care and the new Pensions Freedoms have opened up a number of issues for those needing care in later life.

THE GOVERNMENT'S DECISION TO PUT BACK ANY CAP on Long Term Care (LTC) costs, set alongside the access to pension money enabled by the Pension Freedoms have ensured that not only could people pay more for their care from the assets that they have at their disposal but also that the money in people's pensions could be more widely exposed for assessment of LTC needs.

It has also made it imperative that people think about the possibility that they may need care and what that will mean for their finances and any desires they may have to pass on their wealth to their family or other beneficiaries. Knowing your options should you need to consider LTC should be part of your forward planning.

Cost of care

Just how beneficial the potential cap on LTC costs at £72,000 will be if/when it comes in has been fiercely debated as the cap was on direct care costs only - living costs that people would have to pay in the community to cover things such as accommodation, food and bills were not included.

Government figures show that where no state support is provided the average person will pay between £35,000 and £40,000 a year in care fees. Others say the figures are higher.

Some estimates suggest it would take 5.1 years for someone's payments to reach the cap, while another worrying figure quoted is that around 25% of people in care run out of money and have to fall back on basic support.

The new Long Term Care rules that were introduced in April 2015 affect the way that local authorities decide what support they can provide when people need care.

Every individual requiring care is given a pre-assessment to find out how difficult it is for them to carry out certain activities in their everyday life. This determines whether they are eligible for support.

Care funding is then made up of three core elements with three different providers:

- Personal care: Help with washing, dressing, eating and mobility. The Local authority may provide this.
- Medical care: Anything that must be supervised by a clinician. This falls under the NHS.
- Accommodation: Including amenities and food. This is the individual's own responsibility.

There is an important difference between social care and medical care. Social care is means tested and may be partially paid by the local authority, whereas medical care is funded in full by the NHS and could potentially lead to nursing care fees being partially or fully funded by the NHS. Obtaining medical care, however, is particularly difficult and individuals need to meet set criteria.

Where a person needs care simply due to frailty, they are unlikely to be given any support provision.

Attendance Allowance and Continuing Care

Where a person does meet that set criteria they may be eligible for Attendance Allowance or cover under Continuing Care.

To obtain attendance allowance a person needs to be over 65 and two rates are payable – higher and lower – depending on the level of care needed due to a person's disability. Eligibility requirements are that a person has a physical disability (including deafness or blindness), a mental disability or both and that their disability is severe enough that they need help caring for themselves or need someone to supervise them for their sake or someone else's safety.

Continuing care is based on a number of prioritised needs which are then given a weighting.

Paying for Long Term Care

However, where a person needing care falls outside of those criteria, then they will need to undergo a financial assessment of their means to contribute to the care costs. Currently, a person with capital and savings over £23,250 would be required to pay for their care. This includes:

- Bank and building society accounts;
- National Savings and Premium Bonds;
- Stocks, shares and investment products;
- Income from State, personal and occupational pensions;
- Property and land (less any mortgage).

Jointly held savings and assets usually will be divided by two.

Disposing of assets does not help as local authorities can take into account assets that have been given away or put into a trust when assessing for eligibility of assistance.

Given the low value of capital and savings threshold, which includes property, most people will be expected to pay for their care in full.

Ways that people pay for their Long Term Care include:

- Income from pensions
- Family contributions
- Savings accounts
- Investments
- Insurance products
- Equity release
- Selling their property.

Selling a much loved home can be a highly emotional and difficult decision but it is one that many people face to help pay for Long Term Care. Sometimes local authorities will agree to help with the cost of care and defer recouping the amount until the property is sold. Property cannot be sold if it is the home of a spouse or partner.

Pension income is a common way of paying for care costs. If a pension scheme has already started making payments or the person is receiving annuity income, 50% of this is disregarded if there is a spouse or other adult dependent to whom that income is being paid.

However, assessing pension capital, whether it is has started drawdown or not, could be more complex in the new world of pension freedoms. Local authorities look at whether there has been 'deliberate deprivation' of capital or income to reduce the value assessed against LTC costs. This could happen if a pension saver, including from final salary schemes, does not claim their pension lump sum or income at their retirement date. Income that could be paid, but has not been claimed, could be included in the means test.

As can be seen from the above, this is a complex area so if you believe it is one that may apply to you or a close member of your family in the next few years, please contact your Lowes Consultant or call 0191 281 8811.

Researching Care Homes

There are different care homes for different care needs, some are for physical care needs only whereas others look after patients with dementia, for example.

When looking for the right care home, look at all the homes in your area.

Homes should be happy to show you around and spend time explaining what they offer. Some will allow the person to spend a trial week at the home to get a feel for it and help make up their mind.

Often people see the care bills as being on top of the bills they are already paying but if people are not paying everyday domestic bills and instead are paying the care home, often it may not be as expensive as they think.

Talk through the costs. What's included in the main payment, what extras there may be, does a deposit have to be paid up front, etc.

Lasting powers of attorney

AS THE AVERAGE AGE OF THE UK POPULATION INCREASES, there is a greater risk that as individuals we may suffer from incapacity due to degenerative mental conditions, such as dementia, or from a physical illness such as a stroke, as a result of which we may not be able to make decisions.

Therefore, legal forms we should all consider completing are LPAs, or Lasting Powers of Attorney. This can be invaluable in preparation for the later stages in life.

In brief an LPA is a legal document that allows one person (the donor) to appoint another (the attorney) to make decisions on his or her behalf, including in circumstances where the donor lacks capacity.

The Mental Capacity Act 2005, which came into force on 1 October 2007, provided a statutory framework to protect and support individuals who lack mental capacity, determining who can make decisions on their behalf and the principles that must be followed when making decisions. It introduced two types of LPA:

1. **Health and welfare – which can be used only when the donor lacks capacity. This includes:**

- where the donor should live
- day-to-day care (including for example, diet and dress), and
- whether to give or refuse consent to medical treatment.

2. **Property and financial affairs – which may also be used while the donor has capacity. This includes:**

- the buying and selling of property
- operating a bank account
- dealing with tax affairs, and
- claiming benefits.

The majority of LPAs are made in connection with property and affairs.

The LPAs replaced the Enduring Powers of Attorney, which covered this issue in a few pages and instead introduced much longer forms to complete. Previously executed EPoAs are however, still valid. The LPAs give greater protection to donors (for example from unscrupulous family members) but unfortunately, fewer numbers of people have been taking out the LPAs – which may be down to the complexity of the forms. This has now been partly addressed by the introduction of new, simpler and clearer forms from 1 July 2015.

While for many people an LPA is just a precaution when planning for old age and is never used, having an LPA in place is an important part of an overall financial planning strategy and they are best made in advance of possible use rather than at a time of vulnerability and emotional pressure.

Setting up an LPA

Proper consideration needs to be given to how an LPA is set up.

Donors can chose to appoint family members as their attorney(s) and/or someone independent to avoid a conflict of interest. Where there is more than one attorney, the donor must decide how they will act when making decisions, either jointly - where the decisions must be made together; jointly and severally – where decisions can be made by attorneys jointly or independently of one another; or a mixture of the two. Attorneys can have restrictions applied to limit their scope as individual attorneys to reduce the risk of financial abuse.

Where an LPA is set up, it is advisable to let other family members or close friends know who the attorneys are and how they intend the power to be used.

If there is no LPA, then an application needs to be made to the Court of Protection to appoint a deputy. However, the choice in this case is that of the court and not of the individual, and there is an effort and expense involved often at a time of great stress. The powers given to any deputy without the need to refer back to the court of protection are also very limited.

We believe that an LPA should be considered as part of your financial planning. Your Lowes Consultant can talk you through what is needed and help with the paperwork.

Keeping our fingers on the pulse

Behind the scenes the Lowes Investment Team is closely monitoring the markets and individual funds – which led to a good call earlier this year

LOWES IS ONE OF A FEW FINANCIAL ADVISER FIRMS to have a dedicated in-house investment research and management team.

This has stood us in good stead over the years as it has allowed us to see things coming that others haven't and it has given us the depth of knowledge and the capability to run a series of independent investment portfolios. Each portfolio is run based on our views of the markets and where the best places to allocate investments may be and then finding the best funds in the market to match those views.

This requires our Investment Team to take a top down approach, watching what is happening on a global scale, as well as examining what individual fund managers are doing to their funds and whether we feel that is consistent and in line with our investment strategies.

We keep our fingers on the pulse of how funds are being managed through formal updates and face-to-face meetings with the fund managers – such is Lowes standing in the market that fund managers will come to see our team here in Newcastle – as well as, of course, the regular review of fund performance through our investment monitoring systems.

The plethora of funds in the market require constant monitoring so that not only are we selecting the right investments for use in our portfolios but we are also considering viable replacements for those funds should they be needed. Fund managers may exhibit a Midas touch for a period but consistency of performance can never be guaranteed.

Inevitably, there will come a time when we will want to swap out one or more funds, perhaps because their performance is lagging or they are in areas that we consider will drop off in the near future. It is then that we'll need those alternative funds so that when we make the move it can be carried out quickly and efficiently.

Good call on smaller companies funds

Earlier this year, our investment team came to the conclusion that the small- to medium-sized companies (SMEs) market was likely to perform well given the gradual but positive growth in the UK economy.

Smaller companies funds with a domestic focus often will outperform in periods of growth but fare less well during times of economic and market stress. So they suffered during the Financial Crisis because they were dependent on the UK economy but they have flourished as the economy has been recovering.

That view was more than justified. In the first 9 months of this year the smaller companies index returned 5.83%, outstripping the blue chip FTSE 100 by 10.68%.

However, what has to be born in mind is the volatility of the UK smaller companies sector, which can fluctuate quite considerably when bad news is received. This adds risk to a portfolio and requires a balancing of the investments, for example with funds invested in larger companies which are less focused on the domestic economy and so less affected by local events, in order to help grow the portfolio over time.

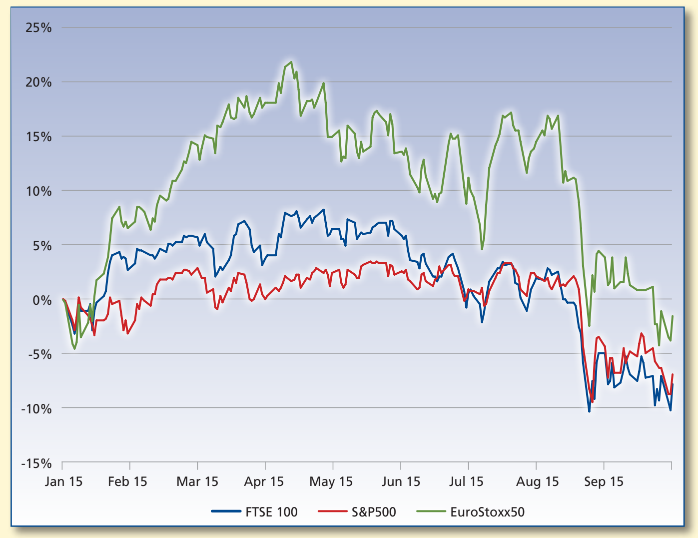
Now we are at the point where we believe the upward trend for smaller companies may have run its course, so we will be reviewing funds focused on SMEs and considering alternative funds for inclusion in portfolios.

Lowes magazine annual competition update

THE LOWES MAGAZINE ANNUAL COMPETITION IS NOW hotting up with just over two months left to go.

As can be seen from the chart below, the volatility in the stockmarkets around the globe in July and August has taken its toll on the three indices, as shown in the graph which tracks their performance until the end of September 2015.

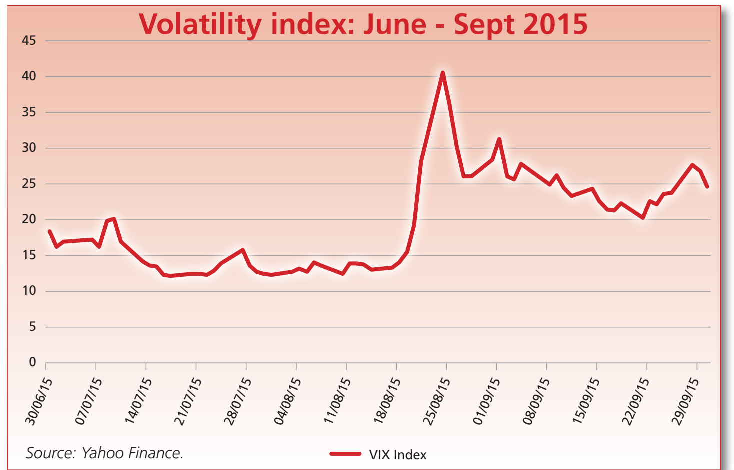
As throughout 2015 it is the EuroStoxx 50 that is ahead, albeit in negative territory at present. But anything can happen in the next two months.



Market report: Volatility returns

IN THE THIRD QUARTER OF 2015 VOLATILITY RETURNED to investment markets with a vengeance. The VIX index, which is a commonly used gauge of volatility in equity markets, spiked significantly during August. Although it retraced from its highs it ended the period at an elevated level. There were two key reasons for this increase in nervousness amongst investors.

The first concern was China. Data continued to point to a slowdown in this important economy as the authorities continued to transition to a local consumer led economy rather than one driven by exports and infrastructure spend. This triggered a significant sell off in the Chinese local share market, known as A-Shares. The A-Share index had risen substantially ahead of this, being up almost 60% from the end of 2014 to mid-June, driven by domestic investors borrowing to fund share purchases. By the end of September, as a result of these positions being subsequently unwound, the index was down over 5.5% for the year to date.



During this period of uncertainty the Chinese authorities also weakened their currency, the renminbi, by circa 3.5%. This move was their first step in an effort to have the renminbi recognised as a potential reserve currency by the International Monetary Fund (IMF) and World Bank. This was misinterpreted by the market however, being seen as perhaps a sign that the Chinese authorities were aware of greater weakness in the economy than the official data suggested. This caused a further sell off and caused contagion amongst surrounding Asian and emerging markets, with western developed markets also not immune.

All indices shown in the table below, with the exception of the S&P 500, entered a correction, technically classified as a fall of 10% from the most recent high.

If there is one characteristic which markets do not find palatable it is uncertainty and the direction of interest rates in the US certainly caused this. At the beginning of August, prior to the spike in volatility caused by the Chinese sell off, a survey of economists conducted by Bloomberg indicated that 77% thought that the Federal Reserve would finally move away from their zero interest rate policy at their September meeting. By the end of August however the same survey revealed that only 48% thought that there would be a rate rise.

As we moved closer to the meeting date the chances of an interest rate rise diminished further, with futures contracts, used as a prediction tool as to the direction of rates, suggested that there was only a 30% chance the Federal Reserve would hike. Finally, once the date arrived, the central bank did indeed resist raising rates, citing that "recent global economic and financial developments may restrain economic activity somewhat and are likely to put further downward pressure on inflation in the near term." The decision was made despite an improving domestic economy and labour market.

The decision not to raise rates spooked the market somewhat, with some investors nervous of the Federal Reserve's apparent inability to justify a rate rise. At the time of writing those same futures contracts now suggest only a 10% probability that they will raise rates at the October meeting, despite Janet Yellen, the chairwoman of the Federal Reserve, post the September meeting, suggesting that they still foresee a rate rise this year.

In summing up the last three months it feels quite fitting to quote Howard Marks of Oaktree Capital. "You can't predict. You can prepare".

Key indices June - Sept 2015

		Index level		Price Return	
Region	Index	30/06/2015	30/09/2015	Local Currency	Pound Sterling
UK	FTSE 100	6,520.98	6,061.61	-7.04%	-7.04%
	FTSE All Share	3,570.58	3,335.92	-6.57%	-6.57%
US	S&P 500	2,063.11	1,920.03	-6.94%	-3.38%
Europe	DJ Estoxx 50	3,424.30	3,100.67	-9.45%	-5.81%
Japan	Nikkei 225	20,235.73	17,388.15	-14.07%	-8.85%
Hong Kong	Hang Seng	26,250.03	20,846.30	-20.59%	-17.52%

Ombudsman ruling on firefighter and police pensions

IN A RULING OF 'MALADMINISTRATION' AGAINST THE Government Actuarial Department (GAD), the Financial Services Ombudsman recently determined that a retired firefighter's pension had been under calculated at the time he retired and he was due a larger amount.

The ruling came about because the value of the firefighter's pension at the time of his retirement in 2005 was based on GAD calculations that had not been changed since 1998. The rates should have been updated to reflect new factors (such as the fact people in the UK were living longer) in 2001, 2002 and 2004. In fact the rates were not reviewed until 2006, after the firefighter retired.

The firefighter claimed that had the reviews taken place when they should have, then more beneficial terms would have applied and he would have received a higher cash sum on retirement or a higher residual pension for the same amount of lump sum he received at the time.

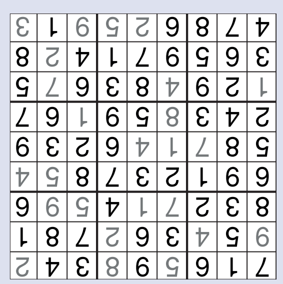
What is important about this case is that because a large number of complaints had been received, it was used by the Ombudsman as a lead complaint, with the principles being the same for other retired firefighters, as well as police officers who were similarly affected.

Following his direction, the Ombudsman said he expects government to make arrangements for payments to be made to others affected, reflecting the more beneficial terms that would have applied had the relevant factors been reviewed and, where appropriate, revised at the appropriate times.

This will have relevance to many firefighters and police officers that retired in the early 2000s. If you or anyone you know might be affected by this ruling and you require advice, please contact your Consultant or call 0191 281 8811.

Sudoku solution

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



Spotlight on your Lowes Consultant

ROB NEWTON JOINED FINANCIAL Services at the age of 17 and has held three positions in the past 28 years. This says a lot for his loyalty to the firms he has worked for and his love of giving financial advice.

His first role was with the Trustee Savings Bank (TSB), where at the age of 21, he became the bank's youngest financial adviser. His second job was for an independent financial adviser firm on the Isle of Man, where he stayed for seven years. Then the decision to start a family saw Rob and his wife move back to their roots in the North East of England. "We packed in two jobs and sold our house and moved back to Newcastle," Rob says.

That was in 2003 – the same year he joined Lowes. "In fact the discussion with Lowes about joining accelerated our move as we had intended to take about a year to find new jobs and sell the house. But having put feelers out I was invited to meet Ian Lowes and some of the other Consultants and I knew immediately that Lowes was where I wanted to be. It felt right. I didn't want to work for a large company that restricts what you can do and tries to fit the client to the product they want to sell, rather than find the right solution for the client. Coming here gave me the opportunity to do what I like to do best, which is work with clients, have the space to find the right solution and to do my best for them. I can honestly say, taking the position with Lowes has been the best decision I've ever made and I can't see myself going anywhere else."

It was also a good move for his wife, Linda, who is now his personal assistant. "I have to explain to people that she was my wife before she was my secretary," Rob laughs.

After 24 years as an adviser, does he still get the same satisfaction in his job? "Yes, I do, because what gives me most satisfaction is when I can sort out people's problems, when they've had a life event and you can hand hold them through it." So how does he approach finding solutions? "The best approach to it I've found is to try to give advice based on what I would do myself if I was in the same position. That's been key to the way I work."

While Rob has had some of his clients for all of his 13 years with Lowes, he also has his fair share of new clients, most recently as a result of the Pension Freedoms.

"I think the changes to the pension rules are fantastic because they've given people control of their own money and it's enabling them to pass money down through the generations. People have to be cautious, of course, because once the money is gone, it's gone and what you want to do is outlive your money and pass it on. Also, the rules have made things more complex to deal with but that's alright because we're here to give people advice and help sort it out for them."

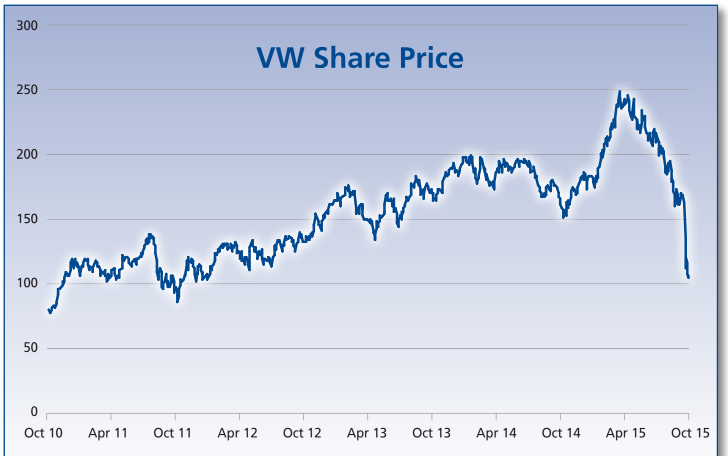
Smoke Gets in Your Eyes

There are investment lessons to be learned from the recent VW scandal, says Lowes Investment Manager Doug Millward.

IT WOULD HAVE BEEN DIFFICULT FOR ANYONE TO HAVE missed the emissions scandal which has enveloped Volkswagen in recent weeks.

The Environmental Protection Agency in the United States discovered that many VW diesel cars had software installed that could detect when they were being tested, by monitoring things such as the speed, air pressure, and even the position of the steering wheel. When the car appeared to be operating under controlled conditions it would change the performance and running of the engine to improve the results. If the car was on the road, however, it would switch out of the testing mode, resulting in more power, but emissions up to 40 times over what is allowed in the US.

This had a devastating effect on Volkswagen's share price, wiping almost 60% off the value. We think this highlights several important investment l essons.



Source: Yahoo Finance. Closing price in Euros.

Firstly, diversification is key. It would be better, of course, not to experience the fall at all, but no-one outside of VW could have predicted this was going to happen, and most would have been very happy with the three-fold increase in the share price they had enjoyed over the five years to the share price high on the 17th March. If all your money was invested in Volkswagen, however, having the value of your life savings more than half in the following six months would be more pain than most investors could bear. If you hold a wide portfolio of shares, so say the holding in VW was only 5% of your portfolio, all other things being equal a 60% fall in the share price would only cause a 3% fall in the total value. Still not ideal, but much more manageable.

Theory states that for a truly diversified portfolio, an investor needs to be holding at least 20 different companies, whilst it is our belief that even at this level, this is too few, and in any event the costs for many investors would be prohibitive, or the individual holdings would be so small that dealing costs would have a major effect on the returns. Also, selecting a portfolio of companies to invest in based on fundamental information is both specialised and time consuming, requiring an understanding of company accounts and being able to forecast the future growth of a business. Using a collective investment, such as the Unit Trusts and OEICs utilised in our portfolios, gives investors access to a much wider portfolio at less cost, and also gives access to the research and expertise of professional investors.

Having a professional fund manager in charge of your money also gives the benefit of someone taking a more long-term, dispassionate view. Even as a small part of a larger portfolio a lot of private investors would be panicked by the scandal surrounding VW and the subsequent sharp fall in price and decide to sell their shares. The better fund managers will take stock first. They will look at their long-term forecasts for VW and decide how the news will change them. There will no doubt be fines to be paid, and possibly compensation payments to be made, which will affect profits in the coming years. As a business, however, how will it be affected in the long-term? Will this see a fall in diesel car sales? If so, can it make these up with traditional petrol vehicles? Will the damage to VW's reputation be enough to stop people buying their cars, or will their history of high quality engineering keep people's loyalty?

If they come to the conclusion that all the negatives have not yet been factored in to the share price, they will sell the shares. If they still believe in the long-term viability of the company, however, they will maintain their holding, possibly taking advantage of the fall in price to add to their position. The important thing is the decision will be driven by information, not emotion, and with a well-resourced research team a conclusion can still be reached quickly.

Finally, by using active investments rather than a passive one such as a tracker fund, you can reduce the fall-out from unexpected problems such as this. The scandal hasn't only affected VW, but has had an impact on all car manufacturers as investors worry that others will be found to be doing the same thing. If an index is dominated by a particular industry, any kind of problem which has a contagion effect within a particular sector can cause the index as a whole to fall, and consequently the tracker fund, whilst an actively selected portfolio, which is carefully spread over various industries and sectors, will hopefully not be affected.

So we see the problems currently experienced by Volkswagen as a valuable reminder. Mistakes will always be made, and unexpected things will happen, so investments should be made through a well-diversified portfolio, and the use of well-resourced, knowledgeable fund managers will ensure that decisions are based on facts, not fear.