Issue 99

"The secret of change is to focus all of your energy, not on fighting the old, but on building the new."
Socrates

INSIDE TRACK

We reach the mid-way point of our 2016 Client Competition

SIX MONTHS INTO OUR ANNUAL CLIENT COMPETITION AND THERE IS ALL TO PLAY FOR.

For our client competition this year we asked you to predict what the price of a troy ounce of gold would be in US$, on the close on 31 December 2016, to two decimal places. The price started the year at $1060.00, rose to $1237.00 by the end of the first quarter, reached $1294.00 in early May but fell away during the month only to rise again into June finishing the month at $1320.75.

The recent rises have been attributed to gold being seen as a safe haven in uncertain times around the UK's vote to leave the European Union, as well as concerns around China, the US elections and negative interest rates in some Eurozone countries.

Overall, in the first six months of 2016 the price of gold has risen by 24.59%. Will the repercussions of Brexit keep pushing the price of gold higher? With another six months to go to the close of our competition, just where the price will be on 31 December is anybody's guess at present.

Gold price December 2015 to June 2016 (US$)	
31/12/15	1060.00
29/01/16	1111.80
29/02/16	1234.90
31/03/16	1237.00
29/04/16	1285.65
31/05/16	1212.10
30/06/16	1320.75

Wealth, health & happiness

WHEN DID YOU LAST HAVE A HEALTH CHECK? NO MATTER what age we are, we can all be prone to aches and pains and it always makes sense to take care of ourselves health wise.

A regular health check, like a regular financial health review, can often highlight potential problems and allow them to be treated before they become a serious issue.

A change in health can lead to a change in lifestyle, and as such, may require a review of our finances. Often priorities change and financial plans may need to be altered, both in the short and the long term in order to take account of the new circumstances.

Lowes charitable giving

WITHIN THE LAST YEAR, LOWES HAS HELPED SUPPORT over 50 registered charities. Lowes has a history of supporting numerous charitable causes through our Charity Account.

Recently we helped fund a lorry delivery of humanitarian aid relief items to the poor, sick and disabled children and adults of Belarus, via the Chernobyl Aid UK charity.

Lowes is an organisation built upon family values and as such, we were pleased to help Chernobyl Aid UK as a huge number of families are still in need of help even 30 years on from the disaster.

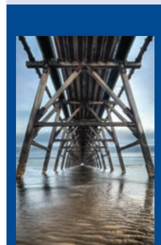
Celebrating the 100th edition of the Lowes magazine

Our next edition of the Lowes client magazine will be our 100th! We will be looking back over Lowes' 45-year history as well as milestones from the 100 editions. Did you know that currently we have over 70 people working for, or associated with the company and we manage over £675 million for our clients?

Keep an eye out for this landmark edition when it drops through your letterbox in October.

Lowes Financial Management has joined Facebook.

Follow us for company updates and articles.



Our cover shot: The jetty at Steetley Magnesium Works, Hartlepool

©Geoff Perry

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 (2)	1.15%	coventrybuildingsociety.co.uk
Accounts with first year bonus					
Online	£1+	Tesco Bank	Internet Saver Account	1.22%*	tescobank.com
Fixed rate bonds					
Online	£1,000+	Charter Savings Bank	1 Year Fixed Rate Bond	1.79%	chartersavingsbank.co.uk
Online	£1,000+	Charter Savings Bank	2 Year Fixed Rate Bond	1.91%	chartersavingsbank.co.uk
Online, branch, postal	£1,000+	The Co-operative Bank	Britannia 3 Year Fixed Rate Bond	1.90%	www.co-operativebank.co.uk

Notes
* Includes a 0.52% bonus for 12 months.

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

Retail Prices Index (RPI)	Consumer Prices Index (CPI)
1.4%	0.3%

Sources: Providers' websites, Office for National Statistics, www.thisismoney.co.uk, www.moneysupermarket.com, www.moneyfacts.co.uk 18 July 2016. All accounts subject to terms and conditions.

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.

Comment

For this issue, Ian Lowes' comment can be found on pages 6-7. Ian discusses Lowes Financial Management's recent move to Fernwood House and what the move means for the company and for our clients.

Making a will to secure your legacy

RECENT REPORTS FROM COMPANIES LIKE SAGA AND financial services website Unbiased.co.uk reveal that more than 53% of all adults in the UK have not prepared a will.

The Unbiased.co.uk research calculates that 65 per cent of those between the ages of 40 to 49 have not made a will; neither have 76 per cent of those between ages 30 to 39. In addition a staggering eight million people over 50 have not made a will.

They are not alone - Abraham Lincoln, Jimi Hendrix, Martin Luther King, Amy Winehouse and most recently singer-songwriter Prince all died young or unexpectedly, without leaving a will.

There are various reasons people put off taking action, such as feeling it is not important, thinking they are too young to do so, or not wanting to think about the subject.

In modern society, where family circumstances have grown more complicated, or where people marry later in life, having a will in place can make sure you control where your legacy is to go.

Dying without a will, which is known as intestate, means the state dictates who receives your assets, according to a strict set of procedures. Many see those procedures as archaic, as they only take into account spouses, civil partners and blood relatives and can cause significant problems for married couples or those with second marriages.

You can write your own will but even the simplest bequest can cause problems from tax and legal perspectives so using a professional, in conjunction with Independent Financial Advice, in order to cover issues like Inheritance Tax (IHT), is always advised.

If you would like to know more, please talk to your usual Lowes Consultant or call 0191 281 8811.

Pension scammers

ONE LIFE INSURANCE COMPANY RECENTLY FLAGGED THAT its internal fraud department had seen the number of attempted pension scams double in the past six months.

Scammers are becoming ever more sophisticated in their attempts to get people to transfer their pensions and they are using different tactics too, often starting with a cold-call. Common tactics include offering a free pension review or to 'liberate' a pension by transferring it away from a genuine pension scheme to one that allows the individual to cash in their pension before age 55.

Another common tactic is to move the pension overseas, promising that doing so could double a person's money in ten years' time. Others promise fantastic returns if the pensions are invested in particular investments.

What the scammers fail to mention is that accessing a pension before age 55 breaks the UK's tax laws, risking a tax penalty of 55% of the fund and that transferring a pension overseas when there is no intention to live abroad can also lead to a similar tax penalty. In addition, the scammers usually take a hefty amount as a charge for the transfer.

In the worst case scenario, people risk losing their pension savings and face paying a hefty tax bill as well, leaving them with nothing to live on in retirement.

For most people their pensions usually make up a significant proportion of their savings wealth and we would advise anyone to seek professional financial advice before making any decisions on encashing or transferring a pension. Certainly, if you receive an unsolicited approach about your pension, before taking any action please contact your Lowes Consultant.

Sudoku

Have you got what it takes to solve our sudoku?

To complete the puzzle fill the grid so that each row, column and 3x3 block contains the numbers 1 to 9. The solution is on page 11.

Source: www.printmysudoku.com

					8	7		9
	8	3				6		4
		9	4	6				
	4					1		3
					9			6
			2	3				
	1		7	9	3			8
				4				7
			8				1	

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, Fernwood House, Clayton Road, Newcastle upon Tyne NE2 1BR.

The £1m IHT tax-free illusion

WITH EFFECT FROM APRIL 2017, THE GOVERNMENT is gradually introducing a family home allowance, so homeowners can pass on property or some of its value, to the next generation without paying Inheritance Tax (IHT).

Also known as a main residence nil-rate band, it will eventually be worth an additional £175,000 per person in the 2020/2021 tax year. The new allowance will be phased in over four years, starting with £100,000 in April 2017.

Individuals will be able to add the £175,000 home allowance to the current £325,000 nil rate band, giving them a potential £500,000 in total.

This means married couples and civil partners will be able to pass on combined assets worth up to £1m including the main residence to their direct descendants, without paying any UK Inheritance Tax on it.

The allowance will apply to one residence and the net value of the individual's interest in the property can be passed on death to direct or linear descendants.

The allowance can be transferred between married couples or civil partners (but not unmarried couples) on death of one partner. Given that often people may want to downsize their property in later years, the value is retained where a person downsizes or ceases to own a home (after 8 July 2015), with equivalent assets being passed down to descendants.

All of which sounds great. However, this move has been described as simply a means for George Osborne to be able to say he has reached the £1m threshold promised in the Conservative party manifesto of 2010.

What has to be realised is that the headline-grabbing rate of £1m IHT tax-free is an illusion. The additional main residence nil-rate band of £175,000 on their home does not apply to other assets. To put this in context, if a couple have all their money in their home, potentially up to £1m can be passed on but if they have most of their assets in an investment portfolio that will fall solely under the £325,000 nil rate band per individual, so £650,000 for a couple.

The full nil-rate value is transferable only when the entire estate is left to the surviving partner. Money gifted away to family and friends, which falls outside the allowed exemptions, is deducted from the IHT allowance where, as per longstanding IHT rules, the donor dies within seven years.

It is worthy to note that, due to the new allowance, the freeze on the IHT nil rate band at £325,000 was extended to the 2020-2021 tax year.

Another point of interest is where a property has been bequeathed away in trust, because the person no longer owns the property the new allowance will not apply.

Anyone with an estate of over £2m (not just a property) will see their home allowance tapered down on a 1 for 2 basis, so that they lose it altogether where their total assets breach £2.35m.

In fact, Treasury figures show that it expects receipts from Inheritance Tax will keep increasing in the years ahead. This means the Treasury does not expect the population as a whole to benefit in terms of overall IHT liability by having this additional allowance.

As shown, this is not as simple or generous a change as it may seem. It is important that anyone with assets that could attract an IHT liability seeks Independent Financial Advice and plans ahead for any IHT liability that may emerge.

■ ***If you feel you may be affected by the new allowances to Inheritance Tax, please contact us on 0191 281 8811 to discuss any queries you may have.***

Making a difference

ONE OF OUR CLIENTS WAS SO PLEASED AT THE ADVICE SHE received from Lowes that she wanted us to highlight it for the benefit of other clients who may find themselves in a similar situation.

Linda* was referred to Lowes by one of her friends, who was already a client, when Linda realised she needed to seek Independent Financial Advice around the possible ways to manage her pension in light of the Pensions Freedoms that had come into force in April 2015.

Lowes Consultant Craig Moffat met with her to discuss her pensions.

"I met with Linda after she rang up to request a free, initial consultation. She'd had a couple of negative experiences with other financial advice firms which had made her wary of speaking with someone but I was able to put her mind at rest by explaining what Lowes was about and our ethos and philosophy of doing the best for our clients," Craig says.

"As for every client, we conducted a complete and thorough financial questionnaire to ensure we were giving the right advice based on her whole financial situation.

"In doing this we spotted a couple of immediate issues around the life insurance policies for herself and her husband. Neither of the policies were written in trust, which would mean on death the insurance payments would be deemed to be part of their estate and there would be a potential inheritance tax liability. By writing the policies in trust, the payments are kept out of the estate.

"During our discussions, Linda also mentioned that her husband had suffered an aneurism which had put him in hospital for a number of months but he was now well on the road to recovery and doctors had said he would suffer no long term damage.

"As part of the review of their pensions and their protection policies I noticed that one of the policies that the couple had taken out many years ago had a 'critical illness' element to it. I contacted the underwriters to see if this particular illness was one that was covered by the policy. They came back saying that it was but they would need a claim form submitting before they could say whether a claim would be valid in the particular circumstances.

"Linda and her husband completed the forms although both were very skeptical about the possibility that the claim would be paid.

"The insurer then came back saying they needed more information from their doctor.

"I kept on the back of the insurer for them and about a month ago I received the really good news that the claim would be paid and they would be receiving over £100,000 from the insurer.

"I was delighted for Linda and her husband and when I told her she was so surprised."

Linda says that when Craig told her he was going to contact the insurance company she said to him, "I'll eat my hat if we get it".

"At the time the doctors had said that there would be no long term damage so I thought we were on a hiding to nothing. If Craig hadn't been persistent about making the claim, I wouldn't have bothered."

When Craig told her the claim was being paid and the amount it was for, she says, "you could have blown me sideways. I couldn't believe it."

The benefit and comfort of having the money is huge, she says. "We have been able to pay off our mortgage and even though we have been told that my husband will be okay and he has since gone back to work, knowing we have a tidy sum behind us should we need it means that the pressure has been taken off him."

Craig adds: "It was great to see Linda's face when I told her but more importantly, it was really fulfilling for me that Lowes had been able to make a difference to their lives, which was all down to our experience and knowledge of dealing with these issues for clients over many years."

*client name has been changed.

Craig Moffat

Beginning of a new era

LOWES FINANCIAL MANAGEMENT has recently made one of the most significant moves in our history.

After over 30 years of providing service to our clients from Holmwood House, our vision for the future and the growth of the company, as well as our standing as a leading Independent Financial Advice company in the UK, has seen us search for and move to new premises.

Through fortuitous timing, a property two doors down from Holmwood House came on the market and we were able to acquire it in April 2016 moving our operation the short distance between the buildings in May.

As many of our clients will know, Lowes was started by my father Ken Lowes in the early 1970s. This recent move to our new premises is part of a long history that started in Pilgrim Street, Newcastle, in 1971, moving to 10 Market Street in 1973, where the company gradually expanded, taking on more offices above and between Lloyds Bank and the Northern Rock Building Society. When we moved to Holmwood House in Jesmond, in 1984, we had just 12 people working with the company.

As our firm expanded, in 1991 we acquired a neighbouring property, Holmwood Mews, when the previous occupants, JW Mitchell Dodds Solicitors, moved out.

With more than 70 individuals now working for or associated with Lowes, Holmwood House was more crowded and with a clear need to find larger premises, we are delighted to have been able to find a suitable property so close to our historical location.

Fernwood was previously the headquarters of Greggs, the UK's largest bakery chain. Upon taking possession of the keys in late April we made changes and renovations to put our own stamp on the building and ensure it met our requirements.

After so many years in the building, it was emotional to say goodbye to Holmwood House but Fernwood House gives us a lot more room to expand our operations, bring on new staff and deliver our services. In fact, this expansion will not only include new employees, but also will enable greater opportunities to build partnerships with other professional services firms, such as lawyers and accountants, enabling our clients to benefit from one place to come for a variety of needs.

Most importantly, the move to Fernwood House gives us more space for client meeting rooms and the creation of a conference facility and we look forward to greeting many of our clients in our new premises.

Official opening

Tom Harris, aged 79, Lowes Financial Management's first client, who also ultimately became the company's first Consultant, was asked to cut the ribbon to officially open Fernwood House.

Tom said he was delighted and honoured to accept the invitation to cut the ribbon and welcome in a new era for Lowes.

I was especially pleased that Tom Harris officially opened Fernwood House, not just because he was Lowes' first client and a decade later came to work alongside my father Ken Lowes, as the firm's first Consultant, but because I had known Tom for many years as I was growing up. Indeed, it was Tom who persuaded Ken to give me a start in the company – from which I have never looked back, carrying on the tradition of growing Lowes as a firm with strong family values and where we care personally about our clients' financial wellbeing.

Series of coincidences

One of the tales about Holmwood House told to me by my father, was how in the 1960s he had visited a firm of solicitors located in a stable block behind a grand house that had been converted into offices. At that point, he said, he had set his heart on the firm owning offices like those. In 1984 when he was looking to expand the company that very building became available – Holmwood House.

In a similar way, just as we were looking to move to bigger and better premises, so Fernwood House became available.

But the coincidences don't stop there. Both Lowes Senior Consultant Peter Collins and our Non-Executive Chairman Len Gatoff were born at Fernwood House when it was a maternity home, as indeed, was Ian Gregg, the son of the founder of Greggs, John Gregg, – who went on to head up the company after his father's death. In addition, since we moved in, several of our clients have mentioned they were born in Fernwood, when it was a maternity hospital under the patronage of Dr Henry Evers. Do you have a connection to Fernwood? If so please contact the office to let us know!

Looking to the future

The move to Fernwood House marks the start of an exciting chapter for Lowes as we aim to grow the business and expand the services that we deliver to clients.

We have brought on two new Consultants in recent months – Nicola Wrightson and Jennifer Morris – increasing the growing number of Consultants to 15 and we are on the look out for more experienced financial advisers to help further increase our team as we move forward.

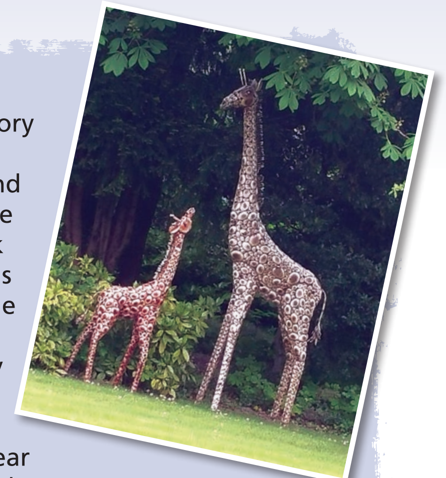
Tom Harris (left) aged 79, Lowes Financial Management's first client, who subsequently became its first Consultant too, cuts the ribbon to officially open Fernwood House, accompanied by Lowes Senior Consultant Peter Collins (centre) and Non Executive Chairman Len Gatoff (right)

The greater space that we have available now will make it easier for us to continue to deliver a quality service for our clients as well as expanding our capability and adding to our range of services.

In particular we are seeing increasing requests for us to help with the finances of families across the generations. This need has come to the fore since the introduction of the pension freedoms in April 2015, which allowed pensions to be passed down the generations and often requires careful handling in respect of tax issues.

Of course, alongside the numerous changes to the UK tax regime and pensions legislation that we have seen in recent years, there are the repercussions of the Brexit vote and what that might mean for the UK and global economies, as well as the impact on the investment markets. The need for financial advice is critical and here at Lowes we are more devoted than ever to keeping abreast of such changes to better serve our clients.

About Fernwood



Fernwood House has a history dating back to the mid nineteenth century. The land was originally owned by the Warwick family of Warwick Hall in Cumberland and was purchased from them by the Archbold family in 1822. Fernwood House and many others in Clayton Road, which given the similarity in architecture, would appear to have included Holmwood House, were reportedly built by Pears Archbold. The deeds date Fernwood's construction to between 1863 and 1865.

Over the years Fernwood has been extended and used for a variety of purposes, including a maternity hospital. In 1994, Greggs moved in and the premises served the company well for over two decades before it moved most of its Newcastle operations to Quorum Business Park.

Fernwood is a Victorian mansion on three floors and surrounded by extensive gardens. The latter particularly have suited the Lowes sculptural giraffes, mother Georgia and daughter Georgina, which have been transported to their new home and are now surrounded by the trees in the grounds.

Keeping an eye on the Lifetime Allowance (LTA)

FROM 6 APRIL 2016 THE MAXIMUM AMOUNT OF TAX-relieved pension saving that an individual can build up over their lifetime was reduced from £1.25million to £1million, and the most that can be paid into a pension fund per year was limited to £40,000.

Tax relief on any pension benefits taken over the LTA is recovered by HMRC through a tax charge on the excess of 25% if the excess is taken as a pension income or 55% if it is taken as a lump sum.

The treasury said reducing the Lifetime Allowance supported the government's objective of a system of pensions tax relief that is "fair, affordable and sustainable". However, this policy decision has been seen simply as a means of reducing the amount of pension tax relief being paid out by the government.

To some extent the LTA is a tax on investment performance because if you are paying into a fund for decades and your pension fund performs well it could take the total value over the £1m mark.

A £1m pension pot may seem like a lot of money but a fund of £780,000 today will breach the LTA in 10 years' time if it achieves a real rate of return of just 2.5%.

The LTA limit is tested when a pension is accessed, such as taking a tax-free lump sum, buying an annuity or starting to withdraw an income.

It is also re-tested at age 75, which means that anyone looking to keep their pension intact to pass on to their inheritors must constantly monitor their pension fund's value.

Anyone who feels they might breach the £1m limit in their lifetime can look to take out LTA Protection in 2016, which will protect the limit at £1.25m.

If you, or someone you know, are or could be in this position, please contact your usual Lowes Consultant for advice on 0191 281 8811.

The LTA defined benefit pension trap

SAVERS IN DEFINED BENEFIT SCHEMES IN PARTICULAR have to be watchful of the LTA and public sector employees, such as doctors or teachers, could be surprised that they are affected by the rule change.

It can be difficult to know just how much you have in your pensions and how much they are worth (or could grow to over time) if you've been in a public service role for quite a while.

Taking, for example, a doctor in the NHS final salary scheme that will pay £40,000 a year. This is multiplied by 20 to arrive at the 'value' of this pension, equating to £800,000. A tax-free lump sum due of around £160,000 is in addition to this, while the saver has also been paying Additional Voluntary Contributions now worth £100,000. Adding these individual elements, gives us £1.06m, which is over the new lifetime allowance.

Those in final salary schemes who are approaching retirement and are now at the top of their career could easily fall into this trap. Multiplying the expected pension by 20 and adding any tax free cash expectation, as well as other accrued pension funds or scheme benefits will give the total figure to consider.

You can apply for protection against the impact of the new limit, retaining the old lifetime allowance of £1.25m but this will be lost if any further contributions are made, or benefits accrued after 6 April.

Control over the timing of when pension benefits are drawn may not always be possible but options can be maximised and tax consequences minimised with appropriate ongoing financial planning and regular reviews.

How extra savings interest could cost you dearly

RECENT CHANGES TO THE WAY THAT INTEREST IS TAXED and the introduction of the Personal Savings Allowance (PSA), which came into force in April, could result in savers unexpectedly facing a ridiculous amount of tax to pay on some of their income.

Interest earned on banks and building society accounts is no longer paid net of tax, but instead a PSA will apply, which allows basic rate taxpayers to earn £1,000 in interest tax-free and higher rate taxpayers £500, while additional rate taxpayers do not have any allowance.

It is an all or nothing amount that can be received tax-free. This means that if, as a basic rate tax payer, you earned £1 over the threshold to the extent that you become a higher rate tax payer on that £1, you lose the £1,000 allowance and instead the £500 PSA applies. This can result in very unfavourable tax scenarios where people can effectively end up subject to taxes of a multiple, rather than a percentage of what they earn.

Let's take the example of an individual with total income just below the higher rate tax threshold after accounting for the 1.25% interest generated on their £80,000 of savings. The interest totals £1,000, which is up to the limit of the PSA and as such, is tax-free. But if they add £800 to the account, resulting in an extra £10 of interest being generated, this additional interest (regardless of how small it is) pushes them into the higher rate tax bracket meaning £4 of the extra £10 interest is due in tax. Now, as they are a higher rate tax payer on a portion of their income, their Personal Savings Allowance drops to £500. The result is that basic rate tax at 20% is now due on £500 of their interest, which amounts to £100. So that extra £10 of interest gave rise to a £104 of tax falling due – an effective tax rate of 1,040%!

The impact of the rules mean that it will be significantly more beneficial to take moderate earnings that push an individual into the next tax bracket and give it to charity or contribute it to a pension to avoid losing the PSA. In the example above, giving £10 to charity would result in more than ten times that amount staying in your wallet instead of going to the taxman's coffers.

For a borderline basic rate taxpayer, with £1,000 or more of interest from deposit accounts, receiving anything less than £166 beyond the basic rate tax threshold will mean that more than all of that excess will be due to the taxman.

Of course, having a bedrock of deposit-based savings is shrewd financial planning, but because of this penal tax trap, it's worth considering where the relevant tax thresholds correspond to your total income and whether an alternative home for some of the money could significantly improve your tax position.

Sheltering interest bearing holdings in tax shelters, such as ISAs where interest is tax-free could be even more beneficial than previously assumed, as could moving savings from the higher rate to the lower rate taxpayer of a couple or, even to alternative investment vehicles subject to more favourable Capital Gains Tax treatment.

An interest rate rise may be what you're waiting for to boost the meagre amount that is now earned on deposits, but to ensure that this money ends up in your wallet, rather than the taxman's, the careful assessment involved in sound financial planning is necessary.

If you would like further information regarding this subject, see our article on dividend tax changes on page 11.

DOUG'S DIGEST

Is it all doom and gloom?

Investment Manager, Doug Millward

AS WE ALL WENT TO SLEEP ON THE 23RD JUNE, DESPITE THE polls predicting a close result it appeared that the Remain campaign was going to win the UK's EU Referendum. Even Nigel Farrage, the long-time proponent for leaving the European Union was predicting a win for Remain. The markets had taken a similar view too, with the FTSE 100 rising 6.5% in the seven days leading up to the result.

Waking up on the morning of the 24th brought a very different picture however. During the night, as it became obvious that the Leave campaign had actually won, the value of sterling had fallen sharply against other currencies around the world. It was followed by the FTSE 100 when the markets opened, which at one point during the day was down 8.7% from the previous day's close before recovering slightly to end the day down 3.1% at 6,138.7.

The FTSE 100 is more exposed to global markets than just the UK, however, with around 70% of its earnings coming from overseas. Hence, once the initial knee-jerk, market reaction had passed, the index soon started to recover, rising to 6,700 over the following fortnight. By contrast, the FTSE 250 Index, which measures the next 250 companies by size on the London Stock Exchange after the first 100, tends to include companies more exposed to domestic markets, so provides a better indication of the UK. This has been more volatile and, at time of writing, has yet to return to its pre-referendum peak.

So with domestic facing companies falling in value, and the pound losing value against the other major currencies is it all doom and gloom for UK investors? Seeing a number of funds that invest in commercial property in the UK suspending trading in early July you might have been inclined to think so. But there are some important things to remember.

Benefits of active management

First, we quote the FTSE 100 and FTSE 250 as these are common measures of how the UK investment markets are performing. But if you are investing with an active manager as we advocate, you are not investing in the index. You are investing in a portfolio of companies. The companies may or may not be part of one of those indices and it is a fund manager's job to sort the best from the worst of them. In the short term all share prices may be dragged down but over the long term, the better quality companies should recover and do better.

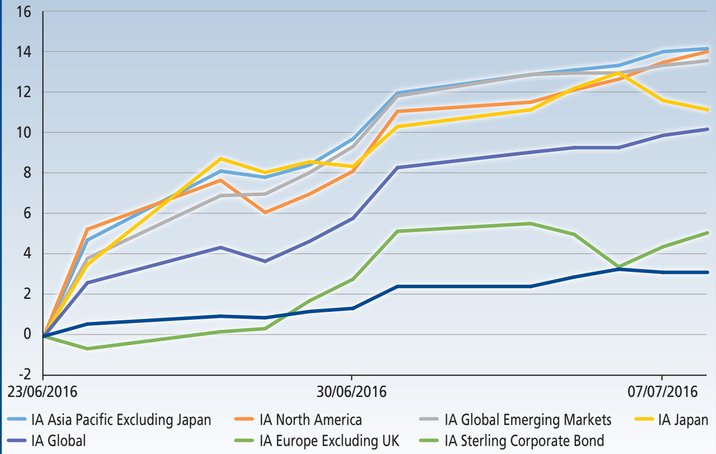
Second, other than a referendum decision in favour of leaving the EU, nothing is known for definite. Until Article 50 is invoked the timescale cannot even be estimated, and with the political unrest we have at present, that certainly isn't likely to happen very soon. So what we do have is uncertainty, and markets do not like uncertainty. This is what has in part led to the recent suspension of of some commercial property funds. Speculators invested last year hoping to reap the benefits of foreign investors pushing up property prices, especially in London. Now with uncertainty over there being sufficient tenants for those properties should the UK economy suffer, or should businesses relocate overseas, there is a rush of people trying to get their money back out. It is this rush for the door due to fear of the unknown, which has caused the property funds to close, not collapsing property prices. According to an independent property valuer in London, property values are not expected to fall more than 5% as a result of the vote to leave the EU. We view commerical property as a diversifying source of income for the long-term investor, and continue to do so. As such we are happy that the fund managers have taken steps to protect long-term investors.

Further positives

Finally, despite the unknowns we feel there is plenty about which we can be positive. Whilst the political parties have been thrown into turmoil, Mark Carney at the Bank of England has proven to be proactive, already freeing up capital within the banks for them to lend, and also strongly suggesting that there will be a further interest rate cut. These two measures have provided a lift to confidence within the markets.

Added to this, a well-diversified portfolio has continued to provide protection despite the UK's troubles. The Investment Association (IA) Sterling Corporate Bond sector average, which measures how well funds investing in loans to companies have performed, has risen by 3.1% since the referendum. Those investing overseas have benefited from the falling value of Sterling too. The IA Asia Pacific excluding Japan sector, as one example, has risen 14.2% since the referendum. This doesn't mean companies in that region have become more valuable as a result, but when the value is converted from the local currencies into cheaper pounds they are worth more to UK investors.

Sector Average Performance since the referendum



Source: FE Analytics. Bid-Bid. Total Return in Pounds Sterling

The important thing to remember is we are investors, not speculators. We are trying to look through the short-term noise in the hope of finding the funds and fund managers who can grow our investments over the long term. There will always be periods when things look bleak, especially over the coming years as details of trade deals and exit negotiations are released piecemeal, but by building a diversified portfolio we can hopefully protect from some of the falls, and be in a position to benefit from the subsequent recoveries.

Dividend tax allowance
- what it means for investors

FROM 6 APRIL 2016 THE GOVERNMENT INTRODUCED what it termed a £5,000 'dividend allowance'. This term is slightly misleading as in fact it is a nil rate band, any dividends above which are subject to tax at different rates depending on an individual's nominal rate of tax.

This means that all dividends received are treated as taxable income but the first £5,000 is charged at 0% tax. Any dividends over £5,000 will be taxed at 7.5% for a basic rate taxpayer, and 32.5% for higher rate and 38.1% for additional rate taxpayers.

This makes a difference to a person's taxable income. Until 6 April the dividend income an investor received was the amount plus a tax credit: so, £1,000 dividend received actually meant a taxable income of £1,111. Now the £1,000 received as a dividend is the amount on which tax is paid.

However, assuming total dividends of 3% or more, anyone with a portfolio of £166,667 or over invested in equity investments (dividend-paying stocks and shares) will be worse off.

In the case of married couples or civil partners, spreading investments between them can help maximise their individual dividend tax allowances as, of course, will maximising investments into stocks and shares ISAs. Now that people have a Personal Savings Tax Allowance making savings interest up to £1,000 tax free, and given the low interest rates at present, people may wish to put ISA money (up to £15,240 per person in the 2016-2017 tax year) into equities and save cash in ordinary deposit accounts, depending on their personal circumstance. *(See our article on page 9 on the Personal Savings Tax Allowance.)*

Likewise, individuals should make use of their annual Capital Gains Tax allowance (£11,100 this tax year).

Where things become more complicated is for trusts, which do not benefit from the nil rate band, and where it pushes up a person's overall income, for example above £50,000 when claiming child benefit, as well as for company directors who derive a large percentage of their income from dividends. Often it can still be better to draw a dividend as a director than take a salary or bonus, it just cannot be done on as favourable terms as before.

The most important factor is to know when to submit a tax return and what to disclose, as failure to declare what's due and paying it on time could lead to hefty penalties.

Despite the potential downsides, for most people the dividend tax 'allowance' is a beneficial tool that may be used alongside other tax allowances and exemptions, as part of a tax efficient financial plan.

Sudoku solution

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

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

Spotlight on your Lowes Consultant

DANIEL WAUGH HAS BEEN WITH LOWES for just two years, starting with the firm the day after he returned home from honeymoon but he started work in financial services after leaving university in 2003.

Daniel graduated with an Honours degree in economics from Manchester Metropolitan University and wanted to use the knowledge that he had in his career. This saw him move to London and take a job with a financial services firm dealing in pensions and annuity products.

He stayed with that firm for two years during which time he started working with financial advisers and understanding what the job entailed. "It was then that I decided that I would like to be an adviser," he says. "I liked the fact that it would use my degree but I'd also be helping people sort out their finances." So he started taking the qualifications he would need to become an adviser, achieving his Diploma in Financial Planning in 2009.

He stayed in London for seven years moving to a financial advice firm, first as a systems administrator and then in a paraplanner role, which just like paralegals provide research and support to partners and associates in law firms, provides technical and research support to financial advisers. He continued taking exams to expand his qualification range and expertise.

It was his decision to marry and start a family that drew Daniel back to his roots in the North East.

It was also the time he decided to go all out to become an adviser. "I was 30 and I felt that I had enough experience under my belt with my qualifications and the technical knowledge I had acquired as a paraplanner to look for an adviser role."

Unfortunately, at the same time the company that he was working for eliminated all the adviser roles in the North East, consolidating them in a central location. This meant he had to start looking for a local firm that would be willing to take him on as an adviser.

Which was good news for Lowes as we saw his potential and he became a trainee Consultant.

In order to fast track Daniel to becoming a fully-fledged Financial Consultant he first shadowed Peter Collins, one of our oldest and most experienced Consultants, working closely with Peter, attending client meetings and learning the ropes over and above his qualifications and previous experience, before taking on clients of his own and becoming a full-time Consultant.

So having achieved his ambition, the important question to ask Daniel is whether being a Consultant has met his expectations, which were sparked in his first role after university.

"I can truly say that it's brilliant being a Lowes Consultant," he says. "It's thoroughly enjoyable and suits me much more than the technical support side of the business. That said, having those years of experience behind me, knowing the technical side of things, is of great benefit when doing the job."

Daniel provides advice across pensions and investments but has specialist knowledge of retirement planning. "That has been very useful," he says. "More and more people are coming in wanting to talk about their pensions and their options since the pensions freedoms were introduced. With all the headlines in the media people need to understand what they can and can't do and we can help them make informed choices."

Since joining Lowes another of Daniel's plans has become reality – he is now a father. "It has all been life changing – getting married, joining Lowes and starting a family. It's all come together for me."

Lowes' expertise in a diversified fund

ONE OF THE REASONS THAT LOWES HAS SUCH A HIGH standing in the country as an Independent Financial Adviser is the fact that we have a dedicated, full-time Investment Management team constantly monitoring and reviewing the markets, as well as a dedicated team of analysts focused on the structured product market, making us a recognised, leading independent authority on these investments.

Over the years these capabilities have stood us in good stead as we have dealt with the inevitable ups and downs of the investment markets.

Notably, our profile in the market also means that our Investment Managers have enviable access to fund managers and structured product providers, and can call on a large volume of investment information to support them when analysing and selecting opportunities from the huge range of investments available.

With so much resource at our disposal it seemed natural, therefore, that we should also construct our own funds that made full use of our expertise and capabilities, so we could to extend our range of investment opportunities for clients.

Diversified Strategy Fund

Over the years we have created and managed a number of model portfolios, such as the Changing World Portfolio, but we wanted also to draw specifically upon our expertise in portfolio construction and in structured products to create a particular investment opportunity. Hence, we launched the Diversified Strategy Fund, in April 2010.

Initially, the fund was based in Jersey, which is a UK offshore jurisdiction, as this gave us certain advantages when setting up the fund, and allowed us to test and prove our convictions. Over the five years to the end of June, the fund has outperformed the average of its sector (the Investment Association Flexible Sector), met its objective of long-term capital growth, and its risk level is commensurate with that of its sector peers.

In May 2015 we brought the fund onshore, to make it available to a broader range of UK investors and other advisers but also to enable Lowes clients to buy it direct. The performance of the fund over the year since it was UK registered can be seen in the chart (right). As with any investment, past performance alone should not be relied upon to make judgements about the future performance of the fund.

What does the fund aim to do?

One of the keys to achieving investment returns is to diversify where money is invested. This is a fundamental principle of the way that Lowes manages its clients' portfolios. As the name of the fund infers, this principle is core to the Diversified Strategy Fund.

Specifically, the fund aims to achieve capital growth over a long-term time horizon, which it does by investing across a range of investments that may include equities, fixed interest, structured products, and property. Primarily, the fund invests in equities via other funds and structured products.

What does the fund invest in?

The fund has a global remit, which means it can invest in a broad range of assets, within internal and regulatory parameters, providing diversification and alternative sources of return. For example, the fund invests in secondary market structured products. These products are similar to those already used by many of Lowes' clients, but are principally intended for institutional Investment Managers and so are not widely available to ordinary investors. By utilising Lowes' expertise in this asset class the fund can buy into these products when we feel they favour the investor. It is this flexibility and expertise that sets the fund apart from many competitor portfolio investment solutions.

Who are the Investment Managers?

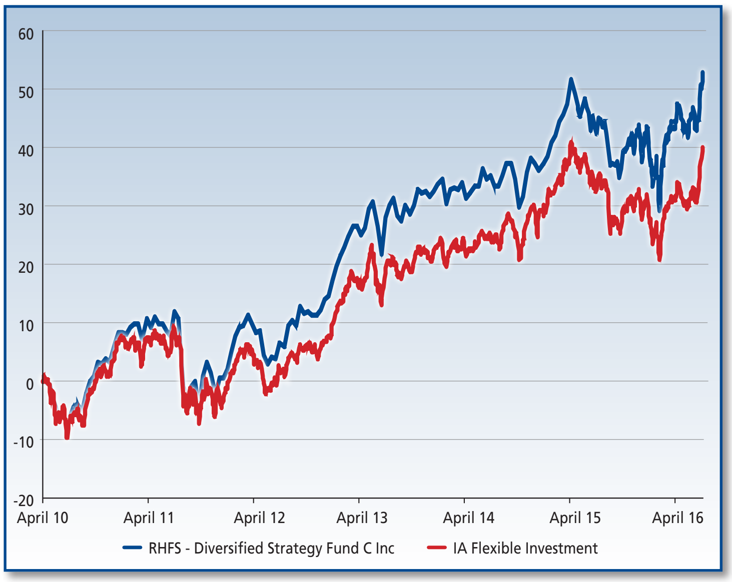
Lowes Investment Managers, Doug Millward and Paul Milburn, will be familiar to regular readers of the magazine and internal market commentary reports, and are the managers of the fund. Doug and Paul have collectively worked at Lowes for over 20 years and have experience managing investment decisions over a range of market cycles.

The fund is administered by Rawlinson & Hunter Financial Services, which also acts as the authorised corporate director.

How to find out more about the fund

The best way to find out more about the fund is to contact your usual Lowes Consultant or call 0191 281 8811.

Performance of the Diversified Strategy Fund vs the IA Flexible Sector - from launch in 2010 to May 2016.



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.