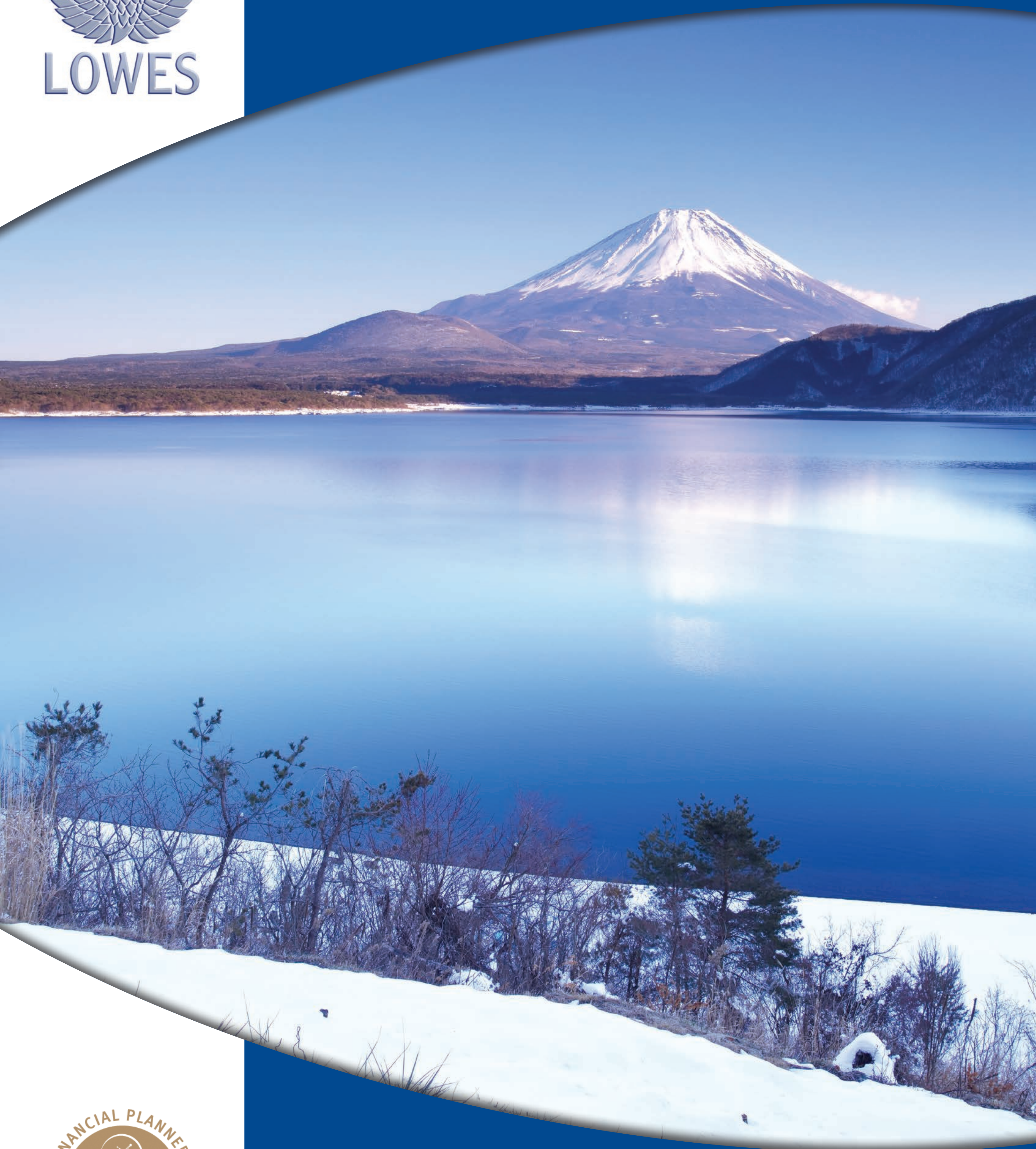
LOWES

Est. 1971

January **2014**



FINANCIAL PLANNERS CII CHARTERED

"With the new day comes new strength and new thoughts"
Eleanor Roosevelt

Inside - Top Tips for 2014

INSIDE TRACK

Our 2013 Competition winner!

HEARTY CONGRATULATIONS TO THE WINNER OF THE Lowes magazine Annual Client Competition.

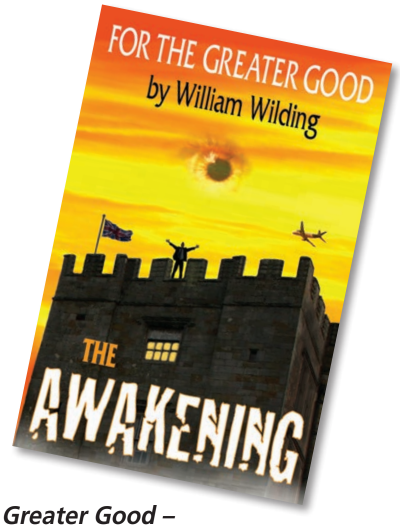
Mrs Mary Edwards from St Annes on Sea is the winner of the Kindle Fire HD. The task we set in January last year was to predict which of six companies in the UK's blue chip index, the FTSE 100, would have a higher price and which a lower price at 31 December 2013 when compared to 31 December 2012, with tie-breaker in case of a draw.

The results were as follows:

The six FTSE 100 companies

Company/ stock	2013 Movement
Barclays	Down by 1.32%
BP	Up by 13.16%
British American Tobacco	Up by 4.76%
Tesco	Up by 129.91%
National Grid	Down by 52.68%
Vodaphone	Up by 50.52%

■ ***Go to page 10 for this year's Lowes Client Competiton where we will be looking at the property market and you will have the chance to win a Kindle Fire HD. Deadline for entries is 28 February***



First novel from William Wilding

LOWES CLIENT WILLIAM WILDING has published his first novel *For the Greater Good – The Awakening*. The idea was conceived 22 years ago when he was reading about the potential power of the mind but was too busy running his own business to give writing proper time. Three years ago he began the project in earnest and the book was completed in 2013. Here's a taster of what readers can expect:

At the beginning Charles is inexorably drawn into a world in which a merciless serial killer, government corruption, Satanists, romance and the possibility that mankind is not alone all play their part. And as he tries to help avert mankind's fast-approaching Day of Reckoning he is subjected to the temptations that inevitably accompany power. Will he succumb to their siren call or risk a martyr's death by remaining true to his principles?"

William is offering charities that promote the book 50% of the profit from each book they sell.

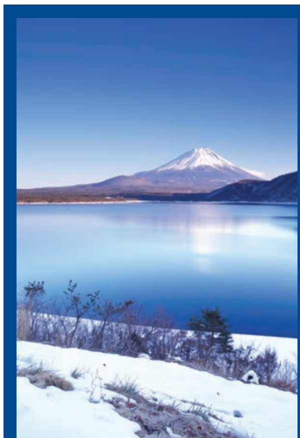
For the Greater Good - The Awakening is available via Amazon Kindle, where you can read it on your computer, tablet or smart phone for £1.53.

New drawdown rate boosts income

CLIENTS WHO USE DRAWDOWN TO PROVIDE THEIR RETIREMENT income may be pleased to learn that the Government Actuary's Department (GAD) has increased the basis rate for calculating maximum income from 3.00% to 3.25%.

This increase is now in effect for someone starting drawdown and for drawdown reviews and means a 65-year-old income drawdown client with a £100,000 fund will be able to take £7,320, rather than £7,080, from their fund.

Overall the rate has risen from 2.25% to 3.25% in the past 12 months, but it is still far lower than its 10-year peak of 5.25% in mid-2007. Of course it is always important to consider how much income can be sustained over the long term, but this could give drawdown investors some extra flexibility to change their income, especially those coming up to their 3 year drawdown reviews.



Our cover shot:
Mount Fuji Japan
@shutterstock/Lowes

Make your money work Best bank & building society accounts

Type	Amount	Provider	Account	Gross Rate	Contact
Unrestricted instant access accounts					
Online & telephone	£1+	Sainsbury's	Extra Saver	1.30%	www.sainsburysbank.co.uk, 0500 40 50 60
Online, branch & post	£1000+	Kent Reliance	Easy Access 5	1.45%	www.krbs.com or branch
Branch & post	£1+	Virgin	Easy Access Saver 8	1.51%	Branch
Accounts with first year bonus					
Internet Based	£1+	Tesco Bank	Internet Saver Account	1.55%	www.tescobank.com
Fixed rate bonds					
Post	£5,000+	Shawbrook Bank	1 Year Fixed Rate Bond	1.95%	www.shawbrook.co.uk
			2 Year Fixed Rate Bond	2.40%	
			3 Year Fixed Rate Bond	2.65%	

Measures of inflation - The average change in prices of goods and services over a 12 month period to December 2013

Retail Prices Index (RPI) 2.7% Consumer Prices Index (CPI) 2.0%

Sources: Providers' websites, Office for National Statistics, www.thisismoney.co.uk, www.moneyextra.com, www.moneysupermarket.com, www.moneyfacts.co.uk 14 January 2014. All accounts subject to terms and conditions.

WINNER Moneyfacts Investment Life & Pensions Good Advice Awards 2011 Best Retirement Adviser · WINNER Moneyfacts Investment Life & Pensions Good Advice Awards 2010 Best Investment Adviser · WINNER Moneyfacts Investment Life & Pensions Good Advice Awards 2009 Best Tax and Estate Planner · Professional Adviser awards 2010 Winner Best IFA website · Professional Adviser awards 2010 Highly Commended Education · Professional Adviser PPR STRUCTURED PRODUCTS AWARDS 2013 Outstanding Contribution to the Market · Professional Adviser PPR STRUCTURED PRODUCTS AWARDS 2013 Best Adviser Communications

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.

Christian Gardner,
Ian Lowes,
Lawrence Gosling (Incisive Media)
and Thomas Hughes.

Lowes Group wins two awards

AS WELL AS LOOKING AFTER OUR CLIENTS THROUGH LOWES Financial Management, Lowes Group provides services to the financial services industry, notably in the structured products field.

In addition, Lowes Financial Management has once again earned positions on two prestigious industry award shortlist where the results will be decided in February and March. These are accolades that we are proud to put next to the personal financial services awards for investment, retirement and tax planning that we have won over the past few years.

In addition, Lowes Financial Management has again earned positions on the shortlists of two prestigious industry awards, the results of which will be decided in February and March. The first award is for Adviser of the Year: North East at the *Professional Adviser* awards and the second is for Investment Adviser of the Year at the *Money Marketing* awards.

Living North Live 2014

FOR THE THIRD YEAR RUNNING Lowes Financial Management will be the headline sponsor of Living North Live, the regional lifestyle exhibition. We sponsor this inspirational event primarily because we believe sound Independent Financial Advice should be a fundamental part of people's lifestyle choices and decisions.

This year's event is being held at Newcastle Racecourse from 21–23 March 2014.

If you are attending the show we would be delighted to see you at our stand. If you know someone who is attending who might benefit from seeing one of our Consultants please do encourage them to talk to us at our stand upstairs. It won't cost them anything and may well change their financial future.

For more information on Living North Live go to: http://spring.livingnorthfair.co.uk

Sudoku

When we're not crunching numbers for our clients, many of us are fond of sudoku puzzles. We know many of you are too, so from this issue we will be including one for your entertainment.

Fill in the grid so that each row, column and 3x3 block contains the numbers 1 to 9. For the solution to this puzzle turn to page 10.

Source: www.sudoku-puzzles.net

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

COMMENT

No Substitute?

I LIKE TO CONTEMPLATE WHAT THE WORLD WILL LOOK LIKE IN 10 or say, 50 years' time. After all, many aspects of the world today are different to how they will have been imagined ten years ago and certainly 50 years ago.

The world moves on and of course the younger generation's almost total reliance upon technology and the internet is a point in hand. While the internet has changed the world, total reliance on all things web based may be premature.

Recognising the importance of education, a close friend of mine was seeking the services of a maths tutor for her seven-year old daughter. Her default 'first port of call' was to reach for her iPad and as many would come to expect, turn to the internet and in particular, Google. In ten years' time I expect that this could be the 'perfect' solution but today, it is simply not a reliable enough solution for everything. Yes, a few sites exist that attempt to match tutors with parents but the experience my friend had was not great and the tutors are not endorsed.

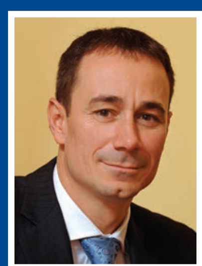
To appreciate what is telling about my friend's experience is to consider how the issue would have been approached twenty years ago. If a parent wanted help with something related to a child's education, the first port of call would always have been the child's educators – the school. Today, those born in the 80's and 90's have developed what in some respects is currently an over-reliance on all things technology-based. Needless to say, on subsequently approaching the school my friend has now found a tutor in the local area who comes highly recommended by local parents.

It may not be long before the internet is as reliable for most things as it is for some things now. In another decade for example, locating a tutor in the local area with endorsements from local parents and schools may be a reality. A decade or so later, the tutoring itself may even take place online. In the meantime, for many services such as tutoring and of course financial advice, there is no substitute for a personal recommendation and personal service.

We are always looking for ways in which we can improve our service and as such have always relied upon technology to help us. But I believe that the time when people can turn to their computer or iPad for thorough and effective personal financial planning and investment advice is still some way off.

With the high street banks and building societies pulling out of the financial advice market altogether and many advice firms removing service from the all but the wealthiest in society, many people you know will be looking for a reliable advisor to help them navigate the financial landscape over the years to come.

If we have achieved our objective of being a warm cloak of comfort to you for all financial matters and you have a friend or acquaintance who you think might benefit from our services please put us in touch for a free initial consultation.



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.** Lowes® Financial Management Limited. Registered in England No: 1115681. Authorised and Regulated by the Financial Conduct Authority.

Put your affairs in order sooner rather than later

OVER OUR LONG HISTORY OF PROVIDING Independent Financial Advice there have been more occasions than we would like where we have been called out to provide assistance to someone on their death bed or with a relatively short time to live.

We do all we can to help put their financial affairs in order at that point but it is an emotional and distressing time and, clearly, far from the ideal time for anyone to have to make any crucial decisions. While better than nothing, it can lead to less than best financial outcomes, and possible complications for those left behind.

This type of situation can be avoided with forward-looking financial planning. Our advice is that everyone, no matter how old they are or how much or little they have to their name, should take the time to sort out their financial affairs sooner rather than later.

In this way, should the unexpected happen, the financial and legal processes can be properly planned for and carried out without causing unnecessary distress at an already difficult time.

Key areas will include:

Inheritance tax

Wills

Lasting Power of Attorney

Trusts

Switching bank accounts

Gifting

Insurance

By seeing a financial consultant and taking a snapshot of your assets – such as investments, life insurance policies and pensions – the right strategy can be planned to give you and your loved ones peace of mind.

■ ***To help ensure you have prepared for the unexpected please talk to your Lowes Consultant or call us on 0191 281 8811.***

Saving for children/ grandchildren

THE FINANCIAL PRESSURES ON THE YOUNGER GENERATIONS are considerably greater than those experienced by the baby boom generation. Not only must they self fund their pensions but to go to university will probably require a long-term student loan, the rising cost of residential property could price them out of the market for years, car insurers appear to be trying to price them off the roads and then there is the rising cost of living in general.

Which is why, increasingly, it is parents and grandparents who are setting up investments for children.

There are a number of ways of saving for children depending on the level of risk and as they have time on their side, you can perhaps take a greater risk over the long term than you would for your own shorter term investments. What is best will depend on individual circumstances and objectives.

Junior ISAs were launched on 1 November 2011 to all UK resident children under the age of 18 who do not qualify for a Child Trust Fund (CTF). Similar to standard ISAs, Junior ISAs have capital gains and income tax advantages and are available as Stocks & Shares or Cash accounts. One potential disadvantage of a Junior ISA is that the child has the right to take control of the investment from age 16 and has access to the funds, without restriction, from age 18.

Alternatively, you can set up an investment in a collective investment, which pools your money with other investors' that is then invested in shares, bonds, equities or other securities as selected by a professional fund manager. Investors have to be over 18 and so the investment is made in your name with the child as the designated account holder.

As the child is also the beneficiary, normally they can use their own personal allowances for any capital gains and income tax liabilities.

If you are investing a large sum for the future benefit of a child or grandchild, then we often recommend putting the amount in trust. This can have tax advantages as well as keeping greater control over the money until the child reaches majority or until it is deemed appropriate time to distribute the trust fund.

But remember, rule number one is look after number one first. Once your money is gifted you cannot get it back and no one knows what the future holds. Don't gift what you might need later – your children have future earning potential where you may not.

■ ***If gifting money to your children or grandchildren is of interest to you please contact your Lowes Consultant for more details.***

It's good to talk

RECENT RESEARCH BY PRUDENTIAL OF CLOSE TO 2,000 UK adults has found that fewer than 46% of couples have made arrangements to ensure that one partner will continue to receive a retirement income after the other dies.

The research, conducted with adults over 40 years of age currently living with their spouse or partner, further showed that more than a quarter (28%) of couples have yet to discuss the impact on pension arrangements of one partner's death, while 19% have at least made a will but no other financial plans.

The retirement risks faced by many couples are further highlighted by the fact that 41% admit they have never discussed how they will turn their pension savings into an income in retirement – perhaps one of the most important decisions of a person's life.

There is also significant confusion among couples about the sources of their retirement income. One in seven don't know what their main source of income will be when they stop working – however, the survey showed that men are more certain as only 9% said "don't know" compared with 18% of women.

Clearly, communication between couples, whether married, in a civil relationship or not, is essential to ensure both feel their income is secure should either one pass away.

To start, both partners need to know how to manage money. Couples rarely pass away on the same day and so both partners need to be on top of their finances. That includes knowing the basics – the location of bank/building society accounts and the most up-to-date balances, investment portfolios, insurance policies and wills – and for each to be familiar with the processes and requirements needed to manage a bank account or investment portfolio, or to encash an insurance policy.

For those looking to buy a retirement income product, typically an annuity, choosing the right product can make all the difference to the income of a surviving spouse/partner. Single Life annuities pay an income for the life of the individual. Once the person dies the income stops. Couples who have been unaware of this have found that the surviving partner has been left with a large income gap; in some cases no income at all. This can be even more marked given that single life annuities tend to pay a higher level of income.

Alternatives, such as Joint Life annuities, pay the income to the named holder and, should they pass away, the surviving spouse receives the income or a proportion of it instead.

The Prudential survey found that, while a third of couples had reached a decision on the best retirement income option, only 10% of them planned to purchase a 'joint life' annuity. Clearly, this is an area that needs careful consideration, not least because once an annuity is bought it cannot be changed.

Retirement planning can be more complex where a portfolio of investments is the source of income or where pension income drawdown is used, i.e. where investments are maintained in a pensions wrapper allowing income to be 'drawn down' on a regular basis. To ensure the proper management of the portfolio, whether pre or post retirement, each spouse/partner should be aware that investments need to be researched and a balanced portfolio is important. That portfolio should include a range of investments, including cash, diversified across various sectors and asset classes.

There can be a lot to learn if one partner has taken sole responsibility for the finances. So the sooner couples start talking about these issues and working together the better.

■ ***Your Lowes Consultant is well placed to help in this situation, so please give them a call on 0191 281 8811.***

TOP TIPS

To mark the start of a New Year, we asked our Consultants to each come up with a Top Tip to give you food for thought over the next 12 months.

Here is a selection of those tips.

John Walton
Financial Consultant

Don't believe you can time the market

We've said this before and we'll say it again, but at Lowes we are strongly against trying to time the market to make a quick buck. There are paid professionals who do this for a living and who can get it wrong frequently – and that is with a wealth of research and proprietary investment tools at their disposal.

Occasionally someone might get lucky but in financial planning taking a long-term view has been proven to deliver results.

Indeed, in an article in the *New York Times* in 2008, at the height of the Financial Crisis, renowned investor Warren Buffet said: "Over the long term, the stockmarket news will be good. In the 20th century, the United States endured two world wars and other traumatic and expensive military conflicts; the Depression; a dozen or so recessions and financial panics; oil shocks; a flu epidemic; and the resignation of a disgraced president. Yet the Dow [Jones Index] rose from 66 to 11,497."

We will all have different time frames over which we can invest but employing a balanced, diversified, long-term strategy for your investments invariably will have more chance of smoothing out the ups and downs of stockmarket (equity) investing than trying to jump in and out of the market when you think the time is right.

Garry Summers
Financial Consultant

Making the most of Capital Gains Tax

We all have a number of personal tax allowances and exemptions that, if we are properly planning our financial future, we should utilise as fully as we can.

From an investment point of view, taking advantage of tax wrappers is essential. The tax wrappers most familiar to people are pensions and Individual Savings Accounts (ISAs). Pensions offer income tax benefits for every penny paid into the pension, to set limits, while ISAs allow investors to save up to £11,520 in the 2013/2014 tax year (either all in a stocks and shares ISA or up to £5,760 in a cash ISA with the rest in stocks and shares ISA) on which any gains and interest may be accrued free of income and capital gains tax (CGT).

One tax exemption that doesn't get as much coverage is the CGT allowance. This tax year individuals can receive up to £10,900 in returns on capital without paying tax on it. For anyone who invests to the limit of their ISA allowance each year, careful deployment of investments over and above the ISA allowance can make use of CGT exemption. Many collective investments, structured products and other investments are deemed taxable under capital gains rules and may be used to maximise the CGT exemption each year.

Andrew Gardiner
Financial Consultant

Lifetime Pensions Allowances

In April 2014 the amount anyone will be able to save into a pension over their lifetime without incurring penalties is being reduced from £1.5m to £1.25m. This may seem like a considerable amount but it is not a case of having contributed a sum of £1.25m but the entire pension pot, including its growth over the years, reaching that amount. For example, a pension pot of £900,000 five years before retirement growing at 7% a year would breach the limit. For anyone on a company final salary scheme, the amount considered will be the annual payment times twenty plus tax free lump sum.

Anyone breaching the amount will be penalised for the amount over the limit, which will effectively negate any tax relief they may have gained when saving the additional amount while, of course, paying tax on the income they take from their pension.

However, HM Revenue and Customs (HMRC) have allowed for people who may breach the allowance to lock in to the higher £1.5m amount up to 5 April 2014, but with the catch that no further contributions can be made to their pension pot.

Robert Newton
Financial Consultant

Give now to reduce Inheritance Tax

There are numerous ways to mitigate against Inheritance Tax (IHT) when we die. When thinking ahead people will often consider taking out insurance or putting funds in trust for younger generations.

However, there are various annual gift exemptions of which people can take advantage to pass on some of their wealth earlier without their heirs incurring a tax liability. Namely (in the 2013-2014 tax year):

- Small gifts per donee of £250 (any number of these can be made as long as each £250 is to a different person).
- An annual exemption per donor of £3,000. if the gift allowance has not been used in the previous tax year, this can be carried over to the current tax year.
- Parental gift on marriage of £5,000.
- Grandparent gift on marriage of £2,500.
- Friends, relatives and others making marriage gifts classed as out of normal expenditure.
- Gifts classed as out of normal expenditure and which do not have any impact the individuals lifestyle.

For example, a parental gift of £3,000 a year can be given free of IHT, and invested in an ISA will also be free of income tax and capital gains tax. Over the years, with careful investment choices, annual gifts can be built into a sizeable investment portfolio, particularly if added to by the recipient.

Barry O'Sullivan
Senior Technician

Check your projected state pension

Looking ahead to our retirement is an essential part of good financial planning. With the ongoing demise of the oldstyle company schemes and the switch into self-funded retirement funds there is now more pressure on individuals to prepare for the future. We all now need to know how much to put away so that when we give up work we have the size of pension pot necessary to fund the kind of retirement lifestyle we'd like.

You can obtain your state pension figures by filling in a simple form – BR19 – or answering a few generic questions online. This includes a quick calculation, or the means to apply for a fuller statement. Either way it serves to focus the mind on just what we can expect from the government when we reach state pension age – and just how much responsibility falls on ourselves to save and invest for the future. This is especially important for those just starting to think about their retirement options - what will my lifestyle be like if state pension is my main source of income?

Stephen Hoggarth
Financial Consultant

Don't overlook income protection insurance

Did you know that people in the UK spend more on insuring their pets than they do ensuring they will have an income should a major illness or accident befall them?

I work with a Newcastle-based cancer charity FACT (Fighting All Cancers Together) and I've seen at first hand the problems that can befall people if a breadwinner cannot work because they are too ill to do so. When people think about cancer, they think about the medical issues but often do not expect the further pressure that can be put on a family when this is combined with financial issues too.

Taking out an income protection policy, particularly where families with dependent children are involved, can help everyone focus on the medical concerns without having to worry about how they are going to pay the bills as well.

(See the profile of Stephen on page 10)

Barry Hopper
Financial Consultant

Keeping vigilant against scams and Internet fraud

In the Lowes magazine we have warned on many occasions in the past about the various scams perpetrated by criminals and the unscrupulous in society.

Criminals are taking advantage of the Internet to try to get our personal financial details by sending phishing emails. These often purport to be from official agencies like HM Revenue & Customs (HMRC) or banks asking for personal details such as bank account and credit card numbers. Alternatively, they may include instructions to click on an attachment for further details. Doing so can release malware onto your computer which may track what you type and send data, including passwords, back to the criminals.

But scams don't have to be online - boiler-rooms more often make use of the telephone. As the name suggests, these cold callers put intense pressure on a person to invest in questionable shares or investments on the basis that it is a short-dated opportunity you dare not miss.

My advice is, at all times be vigilant and remember:

- HMRC and the banks confirm that they will never email you asking for account and pin numbers.
- Be suspicious of any unsolicited email. Google the company's telephone number and official email address and verify authenticity.
- If you receive a boiler-room style telephone call, don't be pressured into making any investment – you are in charge, you can always just put the phone down.

HMRC provides some useful information on security measures at: www.hmrc.gov.uk/security/advice.htm

Closing window to maximise retirement funds

PENSION CONTRIBUTION LIMITS ARE DECREASING AGAIN which provides an extra challenge to those wanting to maximise their funding for retirement. The 'annual allowance' is reducing from £50,000 to £40,000 in April, but some savers can still sweep up unused pension contributions from previous tax years to make higher contributions.

Maximum contributions eligible for tax relief are normally limited to 100% of your gross earnings in the year, up to a maximum of £40,000 from April, so there is a closing window to take advantage of tax relief up to £50,000. Income from dividends, rental properties or pension income does not qualify as earnings for this purpose. It is also worth noting that contributions from an employer or a third party, such as a parent or grandparent, also count towards the annual contribution limit.

For those wanting to invest a larger lump sum, maybe from a salary bonus or to boost pension funds ahead of retirement, 'carry forward' can allow these contributions to be made. Savers can only receive tax relief up to their maximum annual earnings, so carry forward is useful for those with annual earnings of more than £50,000. The rules allow up to £50,000 to be contributed in the current tax year and three previous years, so up to £200,000 could be invested before April, for those with earnings of £200,000 or more.

For a relatively small number of savers the reduction in the 'lifetime allowance' to £1.25m could also be an issue when thinking about making large pension contributions. (See our Top Tip on page 6)

Finally, it is important that, having planned to take advantage of the tax relief on offer, you make sure the full relief is claimed from HMRC. Some suggestions have been made that 180,000 higher and additional rate tax payers don't claim their full tax relief, resulting in £229m of tax relief going unclaimed in the last tax year alone.

Retirement income versus inflation

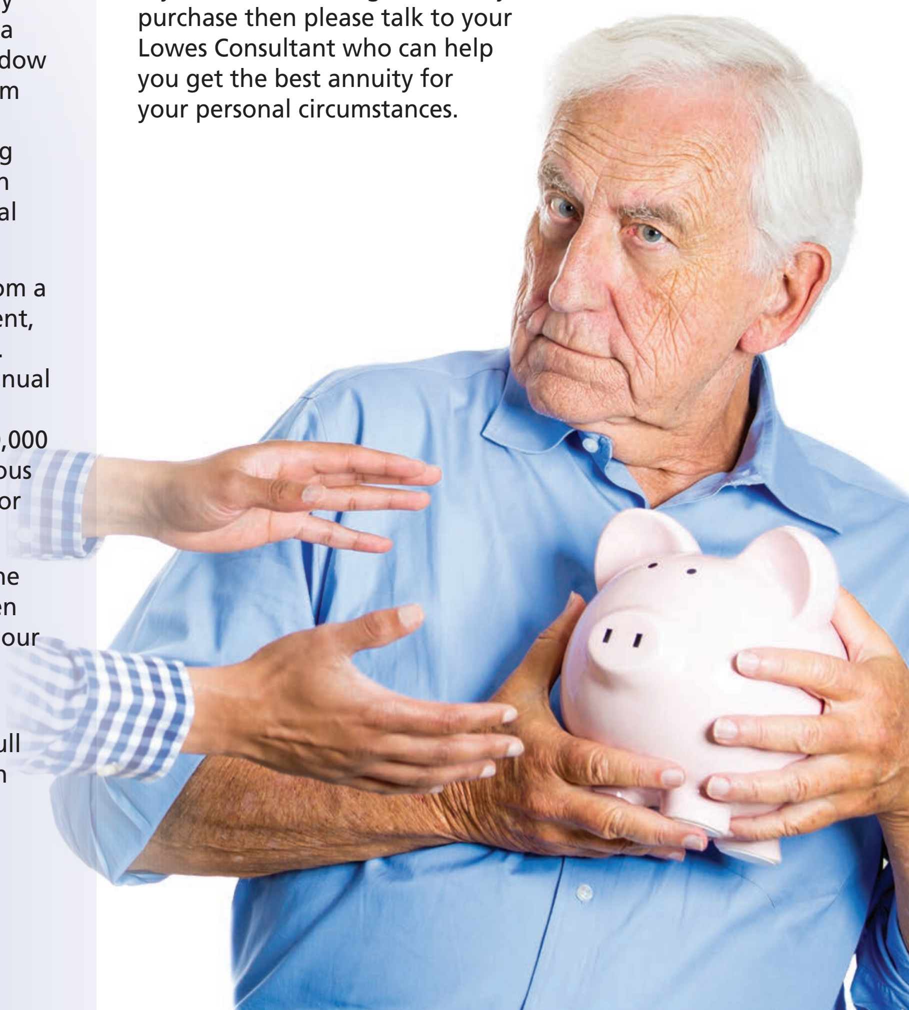
PLANNING OUR RETIREMENT INCOME IS FULL OF VARIABLES and 'what-ifs'. How long will my income need to last? How much income will I need to be 'comfortable'? One of the few things we know with certainty is that inflation will erode the value of our income during our retirement.

3% inflation reduces spending power by 30% over 12 years, and by 50% over 25 years. The government provides some inflation-proofing with the 'triple lock' system, which increases the state pension in line with the highest rise in earnings, prices, or 2.5%. But an inflation-adjusted state pension is unlikely to sustain a decent standard of living in retirement.

Inflation-proofing an annuity, on the other hand, can be expensive and creates a dilemma for many people planning their income. For example a 65 year old can buy a level income of £3,025 with a £50,000 pension. This income reduces to £2,115 if it includes fixed 3% annual increases, or £1,787 with variable RPI increases. It would take 12 years for the 3% increases to reach an annual income of £3,025. But even after those first 12 years the total income from the increasing annuity would be £6,300 less than the level annuity. The total income received wouldn't actually break even until after 23 years.

Whether an increasing annuity is good value for money depends on your individual circumstances, including your state of health and your other retirement income.

If you are considering an annuity purchase then please talk to your Lowes Consultant who can help you get the best annuity for your personal circumstances.



Lowes Market Review

THE LOWES INVESTMENT MANAGEMENT TEAM IS constantly monitoring the global markets as well as individual fund managers to ensure the investments we make on your behalf are informed to the highest level. Here, Doug Millward and Paul Milburn present a review of the markets from July to 31st December 2013

During the period under review investment markets were dominated by the theme of quantitative easing (QE). With regard to the US, we had the initial smoke screen of the potential for tapering in September. This caused government bond yields to rise and equity markets to fall, both investment classes reacting in line with the theme "good news is bad news," i.e. that better news regarding the economy was bad news for investment markets.

However, it wasn't until 18 December that the US Federal Reserve finally began the process of tapering, trimming its monthly bond purchases to $75bn from $85bn on the back of "cumulative progress and an improved outlook for the job market". Further tapering of $10bn per committee gathering was hinted at, if the US recovery continued.

At the same meeting the Federal Reserve also said that its benchmark interest rate was likely to stay low for some time to come.

In the UK, the level of QE remained constant throughout the period. The base rate also remained static, with the Bank of England remaining focussed on stimulating growth by keeping borrowing costs low. The latter decision was somewhat vindicated by a fall in inflation, particularly during October, where the yearly rate of inflation fell from 2.7% to 2.2%.

	31/07/2013	31/12/2013
Inflation UK CPI	2.90%	2.10%
UK RPI	3.30%	2.60%
Bank of England Base Rate	0.50%	0.50%

Equity Markets

Equity markets have posted positive returns for the period under analysis (see table). As a whole, developed markets performed strongly, supported in particular by improving economic conditions and therefore the future potential for companies to produce top line growth.

Japan was the strongest performer in the period in local currency terms. The country's stockmarket continued to benefit from 'Abenomics' (the economic policies of Prime Minister Shinzo Abe) and the desire to reflate the Japanese economy. An inflation target of 2% has been set, the aim being to finally pull the economy from a period of deflation and encourage consumers to spend. This involves a substantial programme of QE.

Gains were also double digit in Europe, with more positive economic news from the peripheral countries. Receding fears of further weakness amongst financials and generally more positive earnings figures provided support for a consensual view that European equities were a more attractive place to invest. US equities reached new all-time highs as we approached year end, driven by positive economic data, including an improving labour market and a continuation in house price rises.

Emerging market equities also posted strong returns during the period, although for 2013, as a collective, they lagged the performance of the major developed markets.

The UK remained a laggard in terms of the FTSE 100 index, but this potentially reflects the returns generated by the underperforming sectors, which dominate the index in terms of market capitalisation, including Oil & Gas and Mining sectors. The FTSE 250 over the same period returned 7.14%.

Fixed Income Markets

In the first half of the period under analysis, bond yields generally continued to rise, leading to total return losses from bonds. The initial trigger for bond yield rises occurred in May, when Ben Bernanke, the chairman of the US Federal Reserve, hinted that tapering of QE could be considered from September.

This comment, along with improving data with regard to the UK economy, saw the UK 10 year Gilt yield rise from 2.54% at 31st July to 3.02% on 10th September. When in September, when tapering did not commence, this provided a fillip to bond markets as a whole, and the sell-off which had previously occurred in bonds was partially reversed. The UK 10 year gilt yield subsequently retraced and by 31st October, the yield stood at 2.62%.

From this point onwards however, the 10-year Gilt yield began a relatively consistent rise to a year-end level of 3.02%. Although inflation fell during the period, other economic data released surprised on the upside, including manufacturing and service sector data, coupled with rising house prices. The increase in yield was given further impetus by the US Federal Reserve decision to commence tapering mid-December.

As a whole, the FTSE British Government (All Maturities) index posted a total return of -1.63% for the period. The Merrill Lynch UK Corporate Bond index (All Maturities) posted a total return of 0.64%, benefitting from the yield premium available over government bonds.

Equities		Index Level		Return (Price)
Region	Index	31/07/2013	31/12/2013	
UK	FTSE 100	6,621,06	6,749.09	1.93%
	FTSE All Share	3,509.94	3,609.63	2.84%
US	S&P 500	1,685.73	1,848.36	9.65%
Europe	DJ EuroStoxx 50	2,768.15	3,109.00	12.31%
Japan	Nikkei 225	13,688.32	16,291.31	19.19%
Emerging Markets	MSCI Emerging Markets	44,314.35	47,159.01	6.42%

Lowes Annual Client Competition 2014

FOR THIS YEAR'S CLIENT COMPETITION WE ARE LOOKING at the property market. The competition is in two parts, related to residential and commercial property. For most of us our home constitutes a significant proportion of our overall financial portfolio. So for part one of the competition we are asking you to predict the rise or fall in residential property prices for the year to December 2014.

However, when it comes to investing, the majority of funds go into commercial property rather than residential, so for the second part of the competition we are asking you to predict the average performance of the IMA Property sector for the 12-months to December 2014.

Q1: What will be the percentage rise or fall in the Halifax House Price Index year-on-year as at December 2014.

Previous years' figures

2007	22.4%
2008	-7.9%
2009	-10.5%
2010	2.9%
2011	-2.6%
2012	-0.6%
2013	7.5%

Q2: What will be the average fund performance of the IMA Property sector over one year, as recorded at 31 December 2014?

To help you, the figures for one, five and ten years released by the IMA in December 2013 (i.e. for 12 months to November 2013) are below. But we only want you to predict the one-year figure.

1 year	6.8%
5 years	46.4%
10 years	54.2%

Variables to consider include the state of the economy, continuance of the Government's Funding for Lending scheme and the Help to Buy programme.

The entry card is included with this issue and the deadline for entries is Friday 28 February 2014. The person closest to the two actual figures will be the winner.

Sudoku solution

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

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

Spotlight on your Lowes Financial Consultant

LOWES FINANCIAL CONSULTANT Stephen Hoggarth says dealing with people and helping make a difference to their lives is where he gets most enjoyment from the job. He comes from a long history of working in the Industry.

Stephen's career in financial services started back in 1989 when he joined Prudential Insurance and became a 'Man from the Pru', one of the army of salespeople across the nation regularly visiting people in their homes to arrange insurance, savings and investment plans.

He spent some 12 years with the company dealing with peoples' financial and insurance needs and towards the end of that time he built up a specialism, dealing in detail with teachers. "In particular I was dealing with the pensions issues that teachers faced, which could be quite complex" he says.

When the Pru closed down its entire salesforce operation Stephen joined another insurance company. However, in his new role, he used his skills gained in his years dealing with peoples' financial issues to provide support and technical knowledge to Independent Financial Advisers.

"It was a good job and there was a great deal of job satisfaction but it wasn't dealing with the end client and there came a time when I realised that was what I wanted to do again," Stephen says.

So he looked around for a firm to join. "Lowes had a great reputation in the industry, it was well established, Chartered and focused on the client. That was what I wanted and where I wanted to be," he says. He joined Lowes in late summer 2011 and hasn't looked back.

If there is one piece of work undertaken for a Lowes client that stands out for him it is for the lady who had come through breast cancer. "I was reviewing her financial assets and saw that she had listed rather a lot of life insurance cover. On seeing the actual documents I realised that one of them wasn't for life cover but rather for critical illness insurance. The fact that she had previously been diagnosed with cancer meant she was able to make a valid claim on the policy and that turned into a cheque for £50,000."

Stephen also provides financial advice for the cancer charity Fighting All Cancers Together (FACT). "This charity looks to help link all the different health professionals, statutory bodies, support groups and services, charities and voluntary organisations available to people with cancer so they, their families and friends can get the right help, support and social opportunities," he explains. "It's as much about providing preventative advice through the charity, such as the sense of spending money on income protection, as it is about helping people sort out their finances in a reactive way once they have cancer."

Doug's Digest

LOWES INVESTMENT MANAGER Doug Millward examines the potential for a significant shift in the market that will make good research ever more key to successful investing.

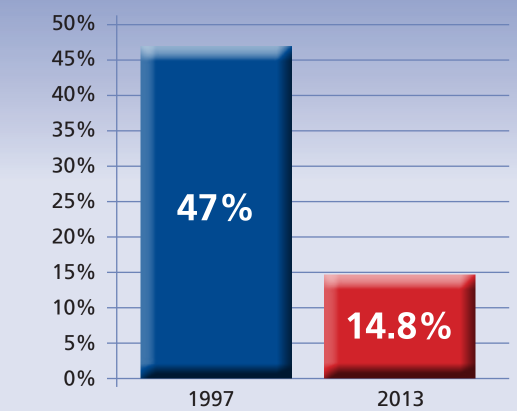
As highlighted in the autumn edition of our magazine, in his previous job my colleague Paul Milburn helped manage the investments of a significant pension scheme. This gives him a different perspective on investing at times, and has also recently led him to raise a very interesting point.

With increases in regulation and legislation making defined benefit pension schemes (also known as final salary pension schemes) more expensive to run, the vast majority within the private sector have now closed to new members. The schemes still exist, of course, but now the membership of the scheme is fixed, which means that the Trustees and Investment Managers of the schemes are in a very different position. With the help of actuaries they can now predict their future liabilities with a reasonable degree of accuracy, and for those schemes which are well funded this means they often don't have to take quite so much risk with their investment strategy.

In simple terms this means that they can move away from investing in equities, with their potential for increased volatility, and invest more in bonds, where barring a default by the company issuing the bond, they will receive a known level of income for the life of the bond and a set capital return at the end. These can then be matched to the future liabilities and the scheme can be allowed to run in this way as the scheme slowly winds up over the years – which may be several decades for schemes with relatively young members.

The effect of this shift in such a significant source of investment capital is two-fold. First, it has helped support the bond markets in recent times, particularly for bonds with longer to go to maturity and is likely to continue to do so in the future. Second, as the capital is moving into bonds, it is exiting the equity markets and where the flow to bonds has helped lift prices, the reduction in capital investing in shares could lead to a weakening in price – in any market it is harder to get the price you want if there are few people to sell to.

Percentage of UK pension fund assets invested in UK equities



Source: Royal London Asset Management

This leads to the question raised by Paul: If the defined benefit pension schemes are moving from equities to bonds and are likely to do so even more in the future as it becomes easier to predict their liabilities and match them with bond purchases, then who will replace them in the markets? Historically the other big investors were the banks and insurers, but the recent controls applied on the riskier assets they are allowed to hold by the regulators and the introduction of the Basel III and Solvency II rules respectively has led to them reducing their equity purchases also. And if three of the big institutional buyers of shares are reducing their holdings over the coming years, what will drive the share prices upward as we go forward?

I appreciate this is a bit of a depressing line of thought as we begin a new year, but on reflection it needn't be. We have asked this question of several of the fund managers we have met over recent months to see what their take on it would be, and not one of them has questioned the logic of the scenario. But more interestingly, not one of them has been concerned about it either. They were all confident in their abilities to pick good quality companies, and believe if they pick the right companies, and they match their expectations to improve the businesses and increase their earnings, then investors will be rewarded by an increase in the price of the shares.

Of course, the scenario suggested may not be the case; we never know what is round the corner after all. If it did prove to be true in the coming years, however, then it could lead to a period of slow growth in the markets in general. But those fund managers who more often than not can pick out the right companies to invest in, well they will still produce reasonable returns in the medium to long term. Whilst every fund manager we spoke to was confident in their abilities, not every one could back it up when the performance and composition of their fund was looked at in detail, which emphasises the point that regardless of market conditions, good research will remain the key to successful investing.

Deposit targeting income of 5%

At Lowes we endeavour to find our clients the best solutions the market has to offer. This is one such solution which we believe is worthy of consideration for those who understand the risks and commitment.

THE REDUCTION OF THE BANK OF ENGLAND BASE RATE TO 0.5% was almost five years ago and since then, money held in deposit accounts has, in the main struggled to produce a real return – i.e. keep pace with inflation. To achieve better returns invariably means acceptance of risk in one form or another but that does not necessarily meaning risking your capital. The Investec FTSE 100 Target Income Deposit Plan 9 is a six year fixed-term deposit offering the potential for an annual income of 5% gross and the surety of return of capital at maturity. We feel it is worthy of consideration as one of a number of other deposit based solutions. This deposit is also available as a cash ISA.

If you wish to take advantage of this offer we require completed applications and cheque by 13th February. For cash ISA transfers the closing date is 31st January so please contact us immediately on 0191 2818811 to request the relevant transfer form if required.

The potential returns:

This six-year structured deposit has the potential to pay 5% gross interest each year.

The interest payment will be triggered by the five day average of the FTSE 100 Index of the UKs leading companies, being at least 90% of the level recorded on 3 March 2014 (the Initial Index Level).

If the FTSE is below the 90% trigger point on a relevant anniversary that year's interest payment will rolled up and added to the potential interest for subsequent years and paid on the first anniversary that the trigger is met.

For example, if the FTSE 100 Index, subject to five day averaging, closes below 90% of the Initial Index Level on the first and second anniversaries, no interest payments will be triggered for those years. If on the third anniversary, the FTSE 100 Index, subject to five day averaging, closes above 90% of the Initial Index Level, an interest payment of 15% gross will be paid, comprised of the 5% due in respect of the third year, and the two previous payments which were not made. The plan will then continue for the remaining three years on the same basis. If the FTSE is above the trigger point on the final anniversary the total gross interest produced throughout the term will be 30% being 5% for each year.

The potential risks:

This is designed as a six-year deposit and whilst you could gain access to your capital before the final maturity date the value may be less than the original capital invested.

Whilst the deposit is designed to return your original capital sum at maturity, its purchasing power will have been reduced by inflation.

Whilst at 5% the potential interest offered is much higher than that currently available from an instant access, or even fixed term deposit account, this needs to be considered in the context that the interest payments are not guaranteed to be made each year and also interest rates could improve over the duration of the term.

Any individual with deposits with Investec Bank plc totalling more than £85,000 will not have a right of recourse to The Financial Services Compensation Scheme in respect of the excess over £85,000 in the event that Investec Bank is declared bankrupt.

Taxation: The product literature states that the interest payments generated by this deposit outside of a cash ISA, will be distributed net of basic rate income tax. Under current legislation higher and additional rate taxpayers will be subject to a further liability via self-assessment. Non taxpayers can apply for the interest to be paid gross by completing a form R85 available on request.

Target Market: Investec's assessment states: "This Plan has been designed for clients who are looking for cautious growth or income and may use the potential payments for growth purposes over a 6 year period. As payments are not certain to be paid, it has been designed for clients who are looking to use the payments for non-essential spending and who aren't dependent on having a known level of income to meet living expenses. They will be looking to achieve a higher return than is available in the fixed rate cash market and have the capacity to accept the potential of not receiving any payments to achieve this."

Intermediation Fees: Following the Regulatory changes introduced in January 2013, our charges are no longer incorporated in the terms of any such investment and instead our fee which, for this plan is 2.25 per cent, will be deducted from the total investment amount by Investec at outset and paid to Lowes. Any application will also serve as the relevant authority for Lowes to be paid in this manner via Investec unless the application is accompanied by a separate cheque payable to Lowes Financial Management for the 2.25 per cent fee. There will be no on-going or annual fees.

How to Invest: The minimum investment is £3,000, and the deposit is also available as a cash ISA. The offer closes on 14 February for direct investments and new cash ISAs and 31 January for ISA Transfers. It is important that you read the plan literature, which gives full details the contract and the risks, to which you should pay particular attention. The deposit is, of course, not right for everyone and this promotion should not be construed as personal advice. However, if you have any doubts about the suitability of this, or any other deposit or investment for you, or need any help completing the application form please contact this office on 0191 281 8811 or your usual Lowes' Consultant.

■ ***If you are satisfied that the Investec FTSE 100 Target Income Deposit Plan 9 is right for you and are happy to proceed without advice, please complete the application form and return it to our office in the pre-paid envelope provided.***