Issue **94**

"Sometimes in the waves of change we find our true direction."

INSIDE TRACK

Meeting people face-to-face

LOWES CONSULTANTS SAY THE BEST PART OF THEIR JOB IS meeting with clients and helping them to plan their finances. In some cases, making the most of the available savings and investments opportunities can significantly improve a client's financial future.

It is for this reason that, for the fourth year running, we were the primary sponsor of Living North LIVE, an event which brought together some of the most established lifestyle exhibitors to showcase their services. Over this weekend we met many people and helped show them how Independent Financial Advice can have a positive impact on their financial lives. This year the main conversation was influenced by the announced pension reforms and why people should not leave their retirement to chance but instead should seek Independent Financial Advice to help maximise the impact of the new pension freedoms.

If you are a new client of Lowes and have joined after meeting us at Living North LIVE, we welcome you and look forward to providing you with advice and guidance on your financial affairs for many years to come.

Lowes Tax Tables

FOLLOWING ANOTHER BUDGET ANNOUNCEMENT IN WHICH THE CHANCELLOR ALTERED THE TAX landscape and provided help for savers in the process, we have updated our annual tax tables publication with the new rates so you can have an easily accessible booklet on your personal tax allowances and exemptions.

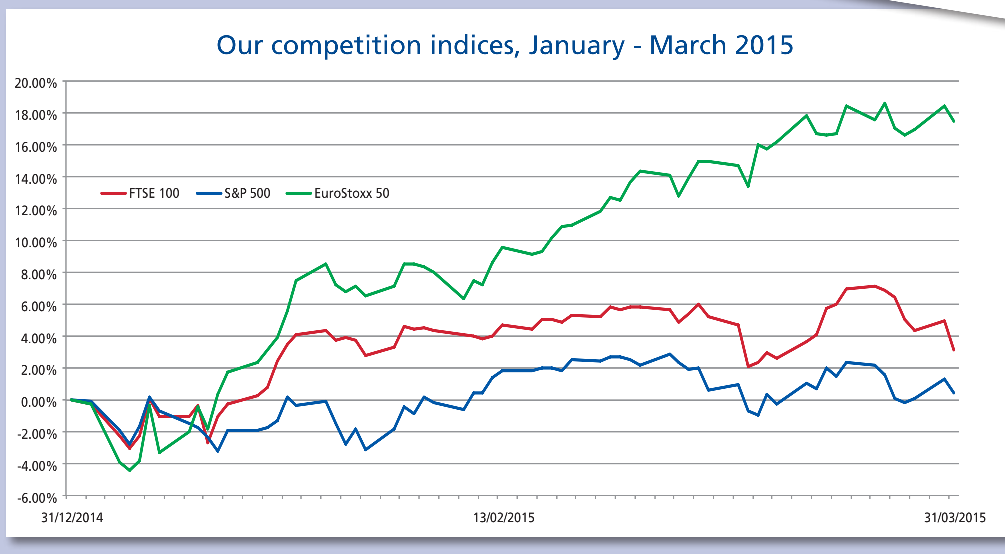
We are pleased to provide a complimentary copy of the tables within this edition of the Lowes magazine. If you would like additional copies, call us on 0191 281 8811 or email enquiry@Lowes.co.uk

Three indices – one winner

THANK YOU TO EVERYONE who entered the annual Lowes Magazine competition.

The competition asked you to predict which of three major indices would perform best in 2015 – the FTSE 100, EuroStoxx 50 or the S&P 500 – and to put them in order.

The chart shows the performance of each of the three indices. We'll be updating the chart in each issue of the magazine throughout the year so you can see how your entry is doing.



Our cover shot:
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Make your money work Best bank & building society accounts

Type	Amount	Provider	Account	Gross Rate	Contact
Unrestricted instant access accounts					
Online	£1+	Skipton Building Society	Limited Edition eSaver	1.25%	www.skipton.co.uk
Branch, post	£1+	Virgin Money	Easy Access Saver 13	1.21%	Branch
Fixed rate bonds					
Online	£1,000+	Charter Savings Bank	1 Year Fixed Rate Bond	2.00%	www.chartersavingsbank.co.uk
Online	£1,000+	Charter Savings Bank	2 Year Fixed Rate Bond	2.20%	www.chartersavingsbank.co.uk
Online, post	£1,000+	Paragon Bank	3 Year Fixed Rate Bond	2.40%	www.paragonbank.co.uk

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

Retail Prices Index (RPI) 1.0%	Consumer Prices Index (CPI) 0.0%

Sources: Providers' websites, Office for National Statistics, www.thisismoney.co.uk, www.moneysupermarket.com, www.moneyfacts.co.uk 7 April 2015. 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.

HMRC confirms deceased spouse ISA transfer status

IN THE 2014 AUTUMN STATEMENT THE CHANCELLOR OF THE Exchequer announced that ISAs would come into line with the rule changes for pension benefits, enabling the transfer of the tax shelter on death. Following the changes when an ISA holder dies, the benefits can be passed on to their surviving spouse or civil partner via an 'additional' ISA allowance. This allows them to invest as much into an ISA as their spouse had invested, 'in addition' to their normal annual ISA limit.

However, in its initial announcement after the Autumn Statement HMRC said: "In most cases, it is anticipated that the additional allowance should be used to subscribe to an ISA offered by the same financial institution that provided the deceased saver's ISA".

In final rules published in March, HMRC and the Treasury confirmed that this is no longer the case and the spouse will now have the option to change to a different type of ISA, cash or stocks and shares, and change providers if they wish.

Unmarried couples are unable to benefit from this tax break.

■ ***See pages 8-9 for our coverage of the 2015 Budget and what it means for you.***

Update on flat rate pension

IN THE PREVIOUS ISSUE OF THE LOWES MAGAZINE WE STATED that the full new basic state pension would be 'no less than £148.40'.

This was information reported from information provided on the Government's website. However, we are indebted to Mr D Hoolihan who has written to advise that in response to his requests for clarification about this matter, the Department of Work and Pensions stated that people retiring when the new state pension is in place will get "at least what they would have got for the national insurance contributions they have paid under the current system... many will get more". This may mean they receive £133 per week, as under the current rules.

For more detailed information and a pensions calculator, go to the government website **http://www.nidirect.gov.uk** sectioned 'Pensions and retirement planning'.

Sudoku

Have you tried to solve one of our Sudoku puzzles as yet? They are a great way of unwinding after a busy day.

The idea of these brain teasing Sudoku puzzles is to fill the grid so that each row, column and 3 x 3 block contains the numbers 1 to 9.

You can find the solution on page 10.

Source: www.printmysudoku.com

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

COMMENT

Compass points

IT IS A LITTLE KNOWN FACT THAT THE NORTH MAGNETIC Pole is moving. Scientists have calculated it is now moving at the alarming rate of 50 kilometres a year, and is currently heading towards Siberia. By 2019 it is expected it will be located in Russia.

What would happen if our compasses pointed South one day? It sounds far-fetched but that is exactly what happened around 780,000 years ago according to scientific analysis.

These are fairly monumental facts and served to remind me that nothing is given and that change is inevitable, even when we are not fully aware of it. On the other hand, knowledge can empower us and enable us to predict the impact of change and help deal with it. Scientists are now investigating the possible effect of the Magnetic Pole shifting on the Earth's magnetic field through the European Space Agency's Swarm mission and their views, based on analysis of the data, will be crucial to knowing just how this may affect the planet in the future.

The most significant change in the personal finance space in our lifetimes is the recent overhaul of the pension rules. George Osborne's announcement in his 2014 Budget speech pretty much turned the pensions compass on its head.

It's having a full understanding of those changes that will determine whether people make right or wrong decisions. But how many people really understand the ins and outs of the new rules? A recent survey by YouGov of 1,500 people aged between 54 to 65 found that almost one in 10 think all pension withdrawals are tax-free, while 16 per cent believe only 25 per cent is taxable.

Unsurprisingly, when they found out the consequences of fully withdrawing their cash it influenced their decisions. While initially 17 per cent said they would take their whole pension in one go, on being informed that, in fact, 75 per cent of the pension pot is taxable at the holder's marginal rate of income tax, and that those paying the ordinary rate of tax who took the pot all in one go could fall into the higher rate tax bracket and see 40 per cent of their pension cash go to the tax man – this figure dropped to 11 per cent.

A full understanding of the pension rules that have come into effect this April is crucial before any action is taken. Those looking to retire will be pushed and pulled from different directions and it is important that your retirement plan is undertaken with the proper analysis so that it is appropriate for your needs.

At Lowes, we've been analysing pension rules and working with people on their retirement plans for over 40 years. It gives us the knowledge and the experience to help you through this latest round of change and to keep your finances pointing in the right direction.

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.

What you're saying about Lowes

OVER THE YEARS MANY OF YOU HAVE WRITTEN TO US commending the financial advice and service being provided by Lowes and your individual Consultants. We are always touched and grateful when our clients take the time to put pen to paper (or these days more often fingers to keyboard).

It is a tremendous fillip for the whole Lowes team – those you get to see and those working behind the scenes that you don't. When we recently updated the Lowes website we were reading through your many letters and kind words and we thought we'd share some here.

"My wife and I have been very grateful for the advice on our financial matters. My Consultant goes to great lengths to understand our personal situation and what we are hoping for from our investments. We get a considered personalised response to our situation, which so far has always been appropriate and, given the state of the markets over the last few years, as productive as could be expected."

Mr R Thornton

"We transferred to Lowes many years ago after attending an excellent seminar, when we realised that the service we were receiving from the company we were with at the time bore no resemblance to that offered by your company. Since then we have been entirely satisfied and cannot praise our Consultant highly enough for the advice and expertise, both of which have resulted in putting us on a very sound financial footing."

Mr R B King

"Your company inspires confidence. For most of the 20 years we have been looked after by our Consultant who has been outstanding in the care of our affairs, and always ready with sound advice. We think we have prospered under the guidance."

Mr M J Wilson

"Lowes made everything understandable and gave us confidence that our financial future was in safe hands. Since then we have encountered other financial problems and on each occasion we have been provided with sound advice and a way forward."

Dr J C Newton

"Over the years (at least the last 30) I have come to rely on the down to earth and frank advice given and the friendly & helpful assistance of your support staff."

Mr B Slater

Referring to Lowes

If you know someone who is unsure where to take their finances or is unhappy with their current adviser and would benefit from having an independent view on financial issues, please ask them to call us on 0191 281 8811.

Inheritance tax threshold

IT WAS RECENTLY REPORTED BY THE INSURANCE COMPANY Canada Life that 62% of adults in the UK aged over 45 were unaware of the inheritance tax (IHT) threshold. The IHT threshold was set at £325,000 back in April 2009 and is at this limit until the 2017/2018 tax year.

Many people think that they will never amass a wealth of over £325,000, but if you think of how much house prices have risen in the past 20 years or so, it can be understood how a single person's wealth could easily exceed the limit. In 1993 the average national house price was circa £62,000. By the end of 2014 it was around £247,000 - that's an increase of nearly 400%.

If you apply a rise of 400% to the average house price of £247,000, in 20 years time the same property would cost you over £1m.

In 1993, the IHT threshold, also known as the nil rate band, was set at £140,000. If we apply the same 400% rise to the IHT threshold, the nil rate band should have increased by £560,000.

There are a range of influences that will determine just how much house prices rise over a period of time, often driven by salary rises and an individual's ability to take out a mortgage – both of which have been curbed in recent years.

The possiblilty remains that anyone owning a house worth the national average could breach the IHT threshold in the years to come.

It remains important to note that for individuals who own expensive houses and those who may have investments and savings built up over the years, as well as the equity in their homes, the IHT both now and in the future could pose a problem for their beneficiaries.

The new savings rules, which allow the passing of wealth through pensions and ISAs have added further ways to mitigate the impact of inheritance tax. Also, where someone dies any of the unused nil rate band may be passed on to their married or civil partner's estate, to help reduce the tax burden. Where all assets are passed on to the spouse or civil partner, they are free of IHT at this stage, so the nil rate band for the surviving spouse can double to £650,000.

It is always better to take action sooner rather than later. If you believe inheritance tax may be an issue for you now or in the future, please contact your usual Lowes Consultant to discuss your options.

Tax fact: In 1914, Estate Duty, the equivalent of IHT at the time, was set at £100.

Deed of Variation

IN THE 2015 BUDGET GEORGE OSBORNE ANNOUNCED a Government review of what he described as attempts to avoid inheritance tax (IHT) through the use of deeds of variation. The review will report by autumn and will look at cases where individuals use deeds of variation to alter a will retrospectively in order to pass bequests on to their children, thereby removing sums from their estate for IHT.

However, deeds of variation are not just tax planning vehicles. They can ensure estates are passed on as families wish where there is no will.

It is important that taxpayers ensure their will reflects their up to date wishes. This is especially so where families know their estates will be exposed to inheritance tax.

There has been concern expressed that legislation abolishing variations to wills may be pushed through quickly once the review is published.

Much has been made also of the fact that earlier this year it was revealed that Labour Party leader Ed Miliband used a deed of variation to pass on a family property on his father's death. However, we should expect that this review is more than pre-election swipe by the chancellor at the political opposition.

Investing in the themes of the future

GIANT STEPS ARE BEING TAKEN IN TECHNOLOGY AND healthcare in a world where climate change is impacting areas like energy, water and food production. All of these offer investment opportunities but what's the best way to access them?

The world is changing at such a rate that sometimes it is difficult to keep up with all the many and fantastic things that are being invented, created, manufactured and made available to us all. What will the world look like in 2020, 2030 and beyond?

There are four key drivers of change – termed megatrends – that are seen as major influencers on how the world will be shaped in the years ahead; demographics, the environment, technology and social behaviour.

We have only to look at how, in just a few short years, the Internet has changed the world, to see how rapidly things could progress in the future. The way we work, the way we gather, receive and send information, how much information we can access quickly and easily, as well as the way we communicate have been transformed by this technology.

In March, the Apple Watch received a massive amount of hype and column inches in the media that we have come to expect of any Apple product launch. It will hit the streets around the time this magazine goes to press. Look at this technology: this is not only a watch that will keep the time to within 50 milliseconds, but it connects also to the user's digital calendar and contact book, so people can send and receive messages, calls and emails and through contactless payment technology it will even pay for things like coffee and groceries. In five years time will most of us be wearing these types of watches – either Apple's or another manufacturer's?

Look at Tesla, a car manufacturer that produces electric cars that perform and handle like petrol and diesel driven cars and are indistinguishable from them, something unheard of a few years ago. Our Managing Director Ian Lowes owns a Tesla S, saloon car and will attest to its performance. At the same time, self-driving cars that can take us from A to B almost without us having to touch the steering wheel, are now on our streets, as part of government-backed autonomous driving projects in Bristol, Greenwich (London), Coventry and Milton Keynes.

Solar panels used to be expensive and need banks of batteries to work. Now they are slimline, highly efficient, feed a battery bank no bigger or obtrusive than the average household boiler and are reducing in price at such a rapid rate that within a few years they could be within the range of most UK households – feeding surplus energy back into the national grid to boot.

There are many, many other examples of the leaps and bounds being made in technology but these are three that we are likely to see around us and that potentially will affect the way we live, travel, work and communicate in the near future.

At the same time, areas such as natural resources, energy, food and water, also are seeing new initiatives, innovations and long-term planning that will require external investment to be brought to fruition. Energy efficiency, for example, is one theme that is not only seeing demand from corporates seeking cost efficiencies and competitive advantage but demand for energy efficient consumer products is being driven by tightening energy standards.

Other themes include the fact that the global population is growing older, which means that healthcare and biotechnology are areas of growth and are likely to be for



decades to come. Here, equipment manufacturers, supplies distributors, facilities providers and others, are all likely beneficiaries of the greater focus on and growth in the healthcare market.

The growing movement within corporate entities to be demonstrating positive commitment to the long-term protection of the environment is another theme that will see companies actively providing solutions to environmental and social problems.

Looking at these themes, and others that will come into their own further down the line, we are arguably investing for altruistic reasons; to develop new ideas, innovations and inventions which could influence the world.

The next big thing

Of course, everyone likes to think they have found the next great investment theme. We only have to think back to the late 1990s when people were piling into technology companies to learn a salutary lesson about chasing investment fads no matter how 'sure thing' they look, as well as putting all our eggs in one basket.

Spreading your investments across a number of investment themes is extremely sensible – the principle of diversification about which we often write in this magazine – so that should one theme be affected by natural, political or regulatory issues, for example, or simply not take off in the way that was expected, the other themes in the portfolio may help compensate for that to some extent and keep the portfolio on track.

Likewise, using experts who spend their days looking for themes, researching the trends and analysing the companies active within those areas to find the best ones in which to invest, in our view makes for a far more robust investment strategy than trying to predict those themes, trends and companies on a global scale ourselves.

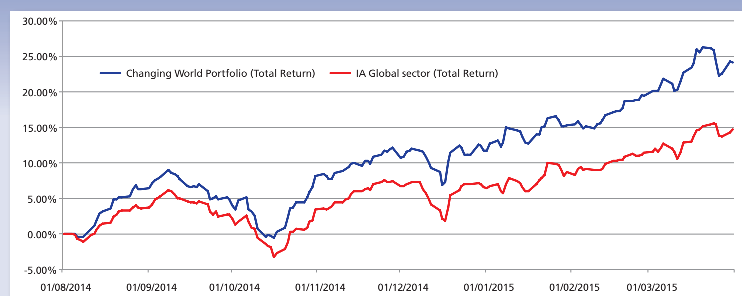
At Lowes we've constructed the Changing World Portfolio, which in line with the above, is designed to invest in funds, which themselves invest in the themes that it is envisaged will play an important part in the future development of the global economy and society.

The Changing World Portfolio is our best performing portfolio since launch (see the chart below), although past performance, of course, is no guarantee of future results.

Many technologies that feature in our day-to-day lives wouldn't have even been imagined just a few decades ago. While we can point at the examples above as areas where we can see opportunities, it is clear that over the next decade or two there will be new products, technologies and possibly industries springing up that will offer significant potential and most likely it will be companies unknown to us now that will successfully bring them to market.

If we look back over the past 10-20 years and see what has been achieved in that time, we believe we will see some phenomenal changes in the next 20 years and if it suits our investment strategy, it makes sense as investors to be aligned with those themes as early as possible.

Changing World Portfolio Performance
1st August 2014 to 31 March 2015



10 themes included in the Changing World Portfolio

The megatrends of the future are expected to be focused around four key themes: demographics, the environment, technology and social behaviour. As an example of subsets within those megatrends, here are 10 areas included within the Changing World Portfolio.

- Agriculture
- Biotechnology
- Clean Energy
- Digital Communication
- Healthcare
- Natural resources
- Premium Brands
- Security
- Timber
- Water

What the Budget means for Lowes clients

THE CHANCELLOR OF THE EXCHEQUER'S 2014 BUDGET turned out to be good news for tax payers and savers.

Personal allowance

One of the first announcements made by the chancellor was that the income tax personal allowance would be rising each year until it reached £11,000 in 2017/2018.

In April 2015 it went up to £10,600 and in 2016 it will rise another £200 to £10,800.

This will benefit anyone in retirement who maybe works part-time, allowing them to keep more of their gross pay. In addition, the level at which people will pay the higher rate of income tax will rise from £42,385 to £43,000 by 2017/18 – a rise that will see "the threshold at which people pay the higher tax rate rise not just with inflation but above inflation… for the first time in seven years," George Osborne announced. The Government has said it aims to push that figure higher, to £50,000 by the end of the decade – assuming they resume power at Westminster.

Income tax abolished on first £1,000 savings income

By giving everyone in the UK a personal savings allowance whereby they can have the first £1,000 of their savings income tax free, George Osborne claimed that 95% of the UK population will pay no tax on their savings. However, for higher rate tax payers the limit is £500, and for additional rate tax payers there is no personal savings allowance. In practice this will work by banks and building societies no longer collecting tax at source.

More good news for ISA holders

Over successive years, the chancellor has gradually loosened the reins on ISAs and made them even more attractive as savings and investment vehicles. George Osborne has made four significant changes for ISA holders:

1. Last year he boosted the amount that can be saved into an ISA each year to £15,000. This year the amount was modestly increased so that investors and savers can now put away £15,240 in the 2015/2016 tax year.
2. He did away with the restrictions stopping people swapping between Stocks and Shares ISAs and Cash ISAs, enabling them to be used in a far more constructive way within portfolios.
3. In the autumn statement he announced that as with changes to the pension rules, ISAs will effectively be allowed to be passed on to a surviving spouse or civil partner while retaining their tax sheltered status. This is good news for couples who would otherwise have lost the tax advantages even if they were saving as a couple.

   One point to note is that while the ISA wrapper protects investments from income and capital gains tax, this money still forms part of a person's estate and in due course could be subject to inheritance tax.
4. In the 2015 Budget George Osborne announced that savers would be allowed to withdraw and replace money in their ISA without it counting towards their annual limit. However, it should be noted that not all ISA savings products allow ad hoc withdrawals as part of their terms and conditions, so it is worth checking the terms and conditions before taking out the ISA.

Help to Buy ISAs

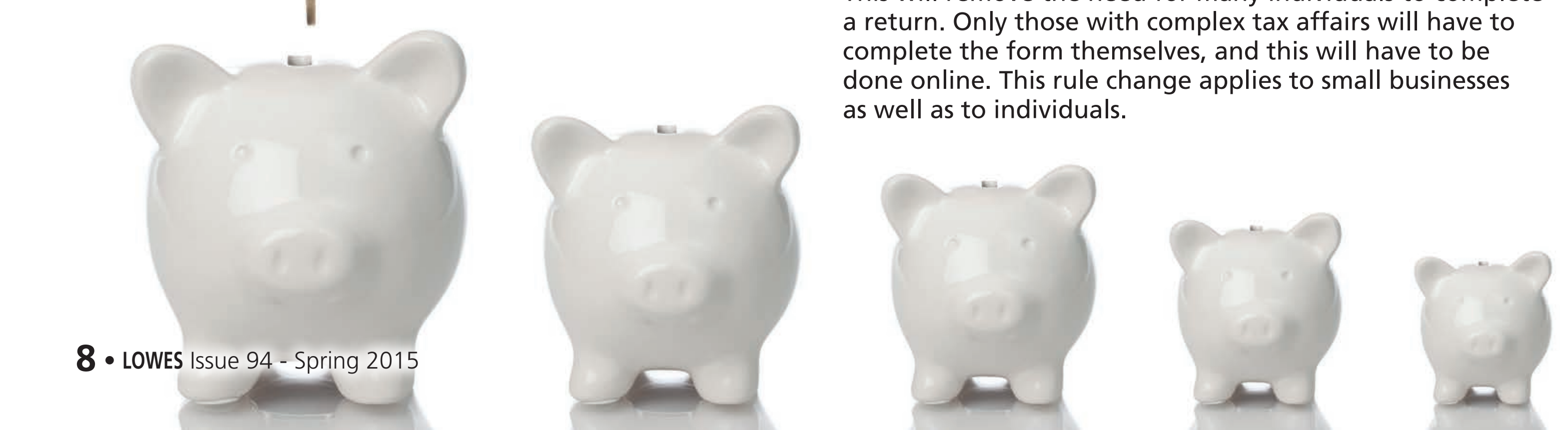
In addition, the Government introduced a Help to Buy ISA. The Government will boost the savings accounts of first-time buyer saving for a house by 25%. This means first time buyers can receive up to £3,000 from the Government if they save up to £12,000, the bonus payment being made when the account holder purchases their first home.

VCTs and EIS changes

The rules for venture capital trusts and enterprise investment schemes are to be altered so that they are more focused on their original intention, which was to support small, private up-and-coming companies. All investments made by VCTs and EISs will have to be seen to be with the intention to grow and develop a business and that business has to be less than 12 years old, other than where the investment will lead to "a significant change in a firm's activity". Investment into VCTs and EISs has always involved more risk due to the size and level of growth of the companies involved and these changes merely serve to emphasise that risk.

Annual tax returns abolished

There was good news for anyone who has to fill in a self- assessment tax return every year. George Osborne announced that over the course of the next Parliament, the Government plans to introduce digital tax accounts. This will remove the need for many individuals to complete a return. Only those with complex tax affairs will have to complete the form themselves, and this will have to be done online. This rule change applies to small businesses as well as to individuals.



Pension Freedoms - *more flexibility for annuities*

EVEN THOUGH MOST OF THE RECENT HEADLINES around the new pension freedoms have covered income drawdown, annuities are still likely to be the most suitable retirement income for many retirees. In fact the new changes make annuities more attractive than they were, even while income rates are still disappointingly low.

Annuities can now be set up to decrease in payment, as long as this is stated at the outset, which could be useful to tie in with other expected income such as state pension, and it may become more common to use them alongside a drawdown fund as part of a blended retirement plan.

New changes to death benefits are the biggest change. Annuity death benefits are still subject to the options chosen at the start of the annuity, but they now have added flexibility, linked to age 75, under the new rules.

Lifetime annuities can now pay income to any beneficiary within a guaranteed payment period, rather than just dependants, or they can make a lump sum payment on death of up to £30,000 within the guaranteed payment period.

The tax position depends on age at death. On death before age 75, income will be paid tax free for the remainder of the guaranteed period, or for a surviving spouse under a joint life annuity. Lump sums under £30,000 are also tax free from April 2016, but are subject to a 45% tax charge until then. On death after age 75 pension payments are subject to income tax at the beneficiary's marginal rate.

Annuities still aren't able to pass wealth down the generations, like drawdown can now do, but for those who want the security of guaranteed income, they now provide some more suitable options.

They may also be tradeable from April 2016, meaning that an annuity could be sold for a taxable lump sum, and the income would continue to be paid to the buyer for the remaining life of the annuitant. This could also allow the lump sum to start flexi access drawdown. This certainly fits within the overall flexibility of the wider changes but whether it will be good value for savers is debatable. The government is expected to decide on whether annuities will be tradeable later in the year.

The Pension Freedoms tax trap

The new pension rules allow pension savers much more flexibility over accessing their retirement fund than ever before, but if you're considering withdrawing some of your pension pot beware of HMRC's 'emergency income tax'.

As part of the new rules the Treasury requires pension companies to charge a temporary emergency income tax code on withdrawals. This is likely to be more than is actually due, especially for those remaining in the basic rate income tax band (under £42,385 in 2015/16) but the onus is still on the saver to reclaim any overdue tax if they want it back their pocket before the end of the tax year.

So for someone considering taking £20,000 via the new lump sum option, called UFPLS, 25% would be free of income and capital gains tax but the remainder would be subject to emergency income tax, sometimes called 'Month 1' tax. A basic rate taxpayer would expect to pay 20% tax on £15,000, leaving a total net lump sum of £17,000. But the 'Month 1 basis' assumes that the £15,000 gross income will be received in each of the next 12 months, and the gross amount is reduced to £9,802 net. A cheque for the total net lump sum would be £14,802 rather than £17,000. The effective income tax rate is 34%, rather than 20%, leaving a reclaim of almost £2,200. A higher rate tax payer releasing a similar amount will have underpaid tax by around £800, which would be due to HMRC by the end of January 2017 in respect of the 2015/16 tax year.

The Treasury is likely to collect a significant amount of extra income tax from pension savers, albeit on a temporary basis, but it means that not only will some savers not receive what they expected but also they could be out of pocket for a number of months and they may have to deal directly with HMRC for the first time. HMRC have two forms (P50 and P53) for reclaiming overpaid tax in this situation.

MARKETS

Breaking through the barrier

LOWES FINANCIAL MANAGEMENT'S INVESTMENT TEAM reviews the performance of the markets in the opening months of 2015

The first quarter of 2015 has proved attractive in terms of investment returns achieved by asset classes. With regard to the UK equity market we finally saw the FTSE 100 eclipse its previous all-time high of 6930 on the 18 March, a record that had stood since the 30 December 1999. Within a few trading days the index also managed to surmount the physiological 7000 level, closing above this level for three consecutive days.

Although the index was unable to maintain this performance, it still ended the quarter up over 3% before dividends. The return for UK mid cap stocks was even stronger with the FTSE 250 recording a gain of 6.25% for the period, again before dividends. These returns were achieved despite the uncertainty of an impending UK election.

Returns across most equity indices from a global perspective were positive, as illustrated in the table below.

		Index Level		Price Return	
Region	Index	31/12/14	31/3/15	Local Currency	Sterling
UK	FTSE 100	6,566.09	6,773.04	3.15%	3.15%
US	S&P 500	2,058.90	2,067.89	0.44%	5.49%
Europe	Euro Stoxx 500	3,146.43	3,697.38	17.51%	9.55%
Japan	Nikkei 225	17,450.77	19,206.99	10.06%	14.84%

Source: Yahoo Finance

One of the strongest performing regions was Europe, with the EuroStoxx 50 posting a return of over 17% in local currency terms. Although deflationary pressures continued to be of concern in the Eurozone and the potential for a Greek exit persisted, the stock markets of member states reacted positively to stronger economic data from Germany and the launch of the €1.1trn quantitative easing programme by the European Central Bank (ECB). This is expected to improve the competitiveness of European exporters by weakening the euro currency, in turn improving the underlying earnings potential of these companies. The weakening of the euro, however, had a profound effect on the return achieved by sterling based companies, reducing that return by almost 8%.

In the US the return achieved by the S&P 500 was marginally positive. Currency again had a significant impact on the return for sterling investors, with a strengthening of the US dollar against the pound improving the return achieved to almost 5.5%. In Japan strong returns were posted, with the market continuing to be buoyed by the increase in allocation to equities by pension schemes in the country, the ongoing reform with regard to improving shareholder value and a continuation of quantitative easing.

Demand for fixed income, both government and corporate, remained strong during the period, leading to positive returns across UK markets, as shown in the table below.

	Total Return for Q1 2015	
Maturity	UK Government Bonds	UK Corporate Bonds
Short (1-5 years)	0.58%	1.38%
Medium (5-15 years)	1.58%	3.43%
Long (15+ years)	4.10%	5.15%
All Maturities	2.30%	3.42%

Source: FE Analytics, iBox

This was evidenced by the strong take up of UK gilts issued which will not mature for fifty three years at a yield of only 2.62%. With headline inflation falling to 0%, driven lower by the falling price of food and energy, inflationary pressures were benign. This has further supressed expectations for an interest rate rise in the UK, with traders now of the opinion that there will be no rise now until May 2016.

The demand for government bonds has been greatest in the Eurozone, with additional demand created by the ECB purchasing of bonds, as part of its quantitative easing programme. This has seen yields move negative in many member countries. In Germany you need to buy government bonds with greater than seven years to maturity to achieve a positive yield whilst in France you need to purchase bonds with greater than five years to maturity.

In the US demand for fixed income also remains strong. Although the US Federal Reserve removed the word 'patient' with regard to their statement on interest rate movements they were quick to point out that this does not necessarily mean that a rise is imminent. Furthermore, they also reduced their prediction for interest rates downwards from 1.125% to 0.625% by year end. Although the market is pretty unanimous in their thoughts that the US will be the first western developed nation to raise rates doubts still exist as to when that will be.

Sudoku solution

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

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

Salutary warnings

A LOWES CLIENT HAS ASKED THAT WE PASS ON A WARNING to our readers of a sophisticated scam to which she and her husband almost fell prey.

The scam involves a call from a purported representative of one of the most popular telephone and broadband suppliers. The caller has genuine data and account numbers and will usually ask if the person has been experiencing slower than usual internet connection or tells them there has been an attempt to hack their computer. The hoax caller will then walk the person through a long-winded sequence of actions to take on screen, saying this will clean certain files and resolve the problem. These actions will ultimately give the caller computer access. The person is then told the problem is sorted and notified that because they have been inconvenienced the supplier would like to give them an ex gratia payment of £200 or £250, at which point they are directed to a number of bank icons on screen and asked to click the one for their bank. They are informed that a text message will be sent to their mobile with a 'one time passcode' (OTP) which must be verified over the phone to receive money. The scammer then instructs that their landline must stay open so the caller can communicate with them. This allows time for the scam to go through the bank and prevents the person being scammed from contacting the bank themselves.

The victim then finds out that rather than money being paid into their account, thousands of pounds have been extracted from it. What is worse, because they have willingly passed on the OTP code neither the telephone supplier nor the bank will reimburse them.

Our client said when they first received the call they thought "what great service". It was only towards the end of the conversation that they became suspicious. Fortunately, they had a separate line into the house run by a different telephone operator and they were able to contact the bank, who informed them it was a scam and stopped any money being taken from their accounts. "We were lucky in that we didn't lose anything but we've since learned that people have lost a lot of money and so we wanted to spread the word to other Lowes clients about this scam," they said.

Unregulated and unsuitable investments

OTHER LOWES CLIENTS HAVE CONTACTED US TO ADVISE they have been inundated with calls from supposed 'advisers' trying to get them to invest in all manner of exotic investments promising high rates of return. Our advice is, if it seems too good to be true it probably is. If not an outright scam, invariable these 'investments' are unregulated and so have none of the safety nets of regulated products, such as access to the Financial Services Protection Scheme (FSCS).

If you or your family and friends want to know if an offer is legitimate and might be suitable for you then do get in touch with your Lowes Consultant.

Also, if you are receiving many unwanted calls you can register with the Telephone Preference Service, which can help stop unsolicited sales calls. Go to **http://www.tpsonline.org.uk/** to find out more.

Spotlight on your Lowes Financial Consultant

SCOTT BEATTIE HAS BEEN WORKING in financial services for some 20 years, eight and a half of which have been as a Consultant with Lowes. In that time he's seen a lot of changes, he says, but none as dramatic and far reaching as the pensions reforms brought in by the 2014 Budget.

"They really have resonated with people and they want to know more," Scott says. "The new rules give people a lot more flexibility but with that comes choices. People want to know what they can do, whether they can do it tax efficiently and what's right for them. It's an exciting time and with our in-house pension expertise at Lowes we are able to talk people through the options and point out the pitfalls."

Scott says he was attracted to join Lowes because of it's long history (now over 40 years), the fact that Lowes is an Independent Financial Adviser, and the company has a well established set up that includes it's own in-house investment managers and pensions technicians. What also made an impression, he says, was Holmwood House. "There is something reassuring about bricks and mortar and knowing there's a team working out of the building and it's a place that clients can come to personally for their advice. You can see there's something solid and stable there. I liked that and I think clients like it too."

He adds; "Since I joined, the company has continued to grow and it has won several awards for its investment, pension and technical advice. I think that is reassuring for clients as well."

If there is an area where he thinks he has most influence in changing people's finances and their lives it is in the area of trusts. "Clients have worked hard for the money they've made and quite naturally they want to pass it on to their children and grandchildren. We can help them to tax plan efficiently and protect their wealth for the generations going forward.

"Use of trusts is a specialist area so it's not a natural route for people to think about taking. Lowes has a lot of knowledge and experience in using trusts, which we have built up over the years and it is a piece of advice where we can see tangible benefit for not just one client but their whole family."

What makes the job of Consultant enjoyable, he says, is dealing with a diverse range of people. "I met three new clients yesterday and every one was different with differing needs, so it keeps you on your toes," he says.

Outside of work Scott's passion is food. "I'm an aspiring Masterchef," he admits.

Recently, his love of cooking spilled over into charitable work after organising a gourmet night in aid of a local teenager who was recently diagnosed with cancer. "I love cooking," Scott says. "I prepared a six course menu and people had to donate money to charity to attend. We raised £800 in total."

DOUG'S DIGEST

Rate of exchange

Lowes Investment Manager Doug Millward looks at the principles of currency exchange rates and their effect on investment performance

WITH MOST PEOPLE, CURRENCY EXCHANGE RATES ONLY become interesting when they are buying money for their holidays abroad. For investors, however, exchange rates can have a meaningful effect on how well their investments perform.

Currencies tend to strengthen as the economy of the particular country or region improves. Growing companies attract overseas investment, which means investors exchanging their own currency for the local one to buy shares. Also, an improving economy usually leads to a rise in interest rates as the central bank of the area acts to prevent the economy from racing away and overheating. As interest rates go up, this also makes local bank accounts more attractive to foreign savers, and again they are exchanging their own currency for the local one. As one currency is sold and another is bought a classic supply and demand situation occurs, pushing up the value of the local currency, and pushing down the relative value of the currency people are coming from.

For companies trading solely within the local currency area, exchange rates are not relevant, but for those trading internationally, like a lot of the companies in the FTSE 100, then exchange rates can have a big effect on their profits. If a company trading in Europe, for example, made a 100 million profit in euros in 2012, it would have equated to approximately £82.4 million at the time. If they made the same level of profit now, however, it would only equate to around £72 million at current exchange rates. So even though they are making the same level of profit in Europe, their profit will actually have fallen when it's converted back to Sterling. (Exchange rates from FE Analytics)

The converse is also true. A weakening currency can help companies when they are repatriating their profits. This has been the case in Japan, where the introduction of quantitative easing (QE) has significantly weakened the Japanese Yen. In the same way that people wanting to invest in a currency causes it to strengthen due to supply and demand, the introduction of a large amount of a currency into the markets as happens with QE increases supply pushing its value down. When this happened in Japan, profits that Japanese companies had been holding offshore were quickly repatriated as they were suddenly worth a lot more when converted to Yen, so their profits on paper have jumped, even though the firms were doing no more business around the world.

For companies that largely export their goods and services to other countries, a weakening currency will make them more competitive in foreign markets, which is one of the hopes behind the introduction of QE in Europe. If it costs a company 10 euros to manufacture a widget in Germany, that would have equated to £8.26 this time last year, but only £7.18 today. It still costs the same for them to make it, but they can now reduce the price in the UK.

Of course, the same theory applies to investments made in companies in other countries. The S&P 500 index in America, which measures the top 500 companies by size in the USA, has grown by 14.49% in dollar terms over the last year, but a UK investor would have seen an increase of 29.54% measured in pounds and pence due to the dollar strengthening relative to the pound. Again, though, the converse is true. The EuroStoxx 50 Index, which measures the top 50 companies by size in the Eurozone, has increased by 20.85% in Euro terms over the same period, but only 5.85% measured in pounds, due to the euro weakening. (14 April 2014 to 14 April 2015. Source: FE Analytics).

There are investment tools available to remove the effects of currency fluctuations in investments, but these can be relatively expensive to utilise, and as the currency markets are some of the most volatile it is difficult to get the call right all of the time. Some fund managers do utilise these tools at times to help protect their returns, but most do not as the effects tend to "wash out" over the longer term as exchange rates move up and down. It is always important to remember, however, that when investing in regions other than the UK these short term changes can lead to an increase in volatility of investment values. Perhaps more significant though, is to be wary of headlines quoting fantastic investment returns in a particular country, as these may be measured in the local currency and may translate to mediocre returns at best for a UK investor.