Issue **95**

"Contentment is not the fulfilment of what you want, but the realisation of how much you already have."

INSIDE TRACK

Slow end of the cash in our pockets?

BACK IN 2012 WE WROTE IN THIS MAGAZINE ABOUT THE rise of contactless cards for paying for goods up to the value of £20. The cards allow fast, secure payments to be made by holding a contactless card over a card reader without entering a PIN number.

Predictions were that cashless payments, including contactless, would soar – and the Payments Council recently revealed that in 2014 just 48% of payments used cash, while 52% of payments were made electronically.

With high street banks including the contactless facility as standard on their debit cards, paired with the option to make cashless payments through smartphones, consumer confidence is growing when using contactless payment methods over cash.

We doubt that we'll see the demise of the coins and notes in our pockets and purses just yet but with cash volumes expected to fall by 30% more over the next 10 years, it looks like we are headed that way.

Vote of confidence from our clients

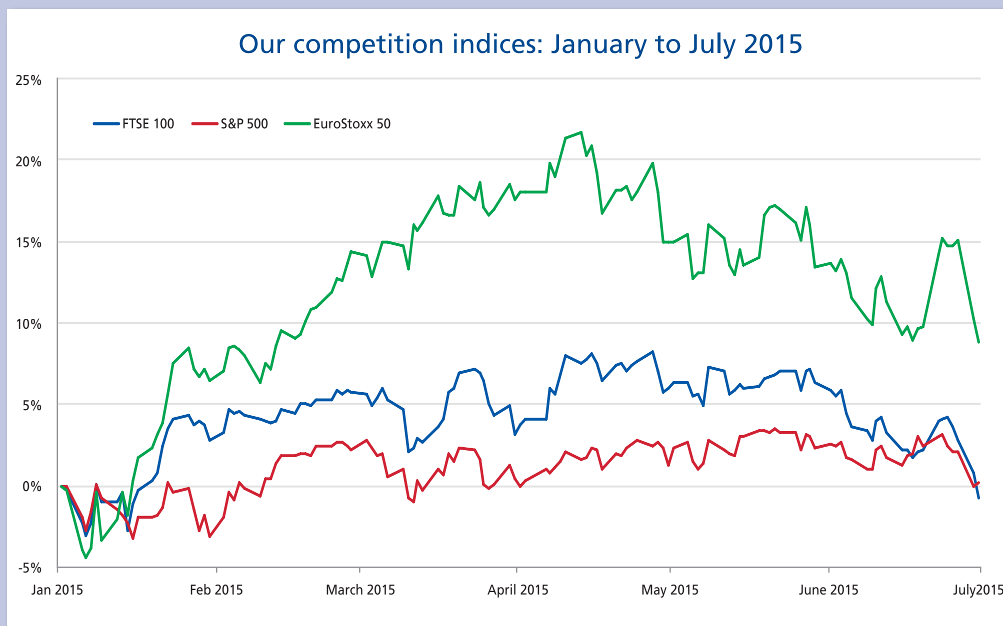
EVERY TWO YEARS WE CONDUCT AN IN-DEPTH CLIENT SATISFACTION SURVEY TO ASCERTAIN HOW YOU FEEL WE ARE PERFORMING. This year over 1400 of you returned our survey and the results beat all previous records, with 97.69% of you stating you would recommend us to friends, family or colleagues. **For further results from the 2015 Survey please turn to page 12.**

Lowes magazine annual competition update

IF YOU ENTERED OUR ANNUAL competition, based around three major indices and how they performed in 2015, the chart shows how well each index is doing to the end of the first half of 2015.

Performance to 30 June 2015 shows that, as in the first quarter of the year, it is the Eurostoxx 50 that is ahead, while the FTSE 100 which had been above the S&P 500 for most of the past six months, fell below the performance of that index in late June as the Greek Crisis took its toll on the markets.

We will continue to keep you abreast of the individual performance of each of these indices in the next issue of the Lowes magazine.



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Quote Anon.

Make your money work Best bank & building society accounts

Type	Amount	Provider	Account	Gross Rate	Contact
Unrestricted instant access accounts					
Online	£1+	Paragon Bank	Limited Edition Easy Access (Issue 2)	1.46%	paragonbank.co.uk
Online, branch, post, telephone	£1+	Coventry Building Society	Easy Access Saver	1.15%	coventrybuildingsociety.co.uk
Accounts with first year bonus					
Online	£1+	Tesco Bank	Internet Saver	1.35%*	tescobank.com
Fixed rate bonds					
Online	£1,000+	Charter Savings Bank	1 Year Fixed Rate Bond	2.00%	www.chartersavingsbank.co.uk
Online	£1,000+	Secure Trust Bank	Fixed Rate Bond 2 Year Term (Series 11)	2.33%	securetrustbank.co.uk
Online, post	£1,000+	Charter Savings Bank	3 Year Fixed Rate Bond	2.65%	paragonbank.co.uk

Measures of inflation - The average change in prices of goods and services over a 12 month period to June 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 14 July 2015. All accounts subject to terms and conditions. Notes: *Includes a 0.60% bonus for 12 months.

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

Under 5's cost a fortune

LATEST FIGURES FROM AVIVA SHOW THAT PARENTS SPEND around £35,000 on their children by their fifth birthday (equating to £28bn spent on the UK's four million under 5 year olds).

This expenditure, calculated from a survey among some 2,000 families, ranges from essentials such as nappies and childcare, to toys and football and ballet classes.

The good news is that 52% of those surveyed had opened savings accounts for their under 5s and/or a Junior ISA. In addition, 8% had started a savings fund for university or a house deposit.

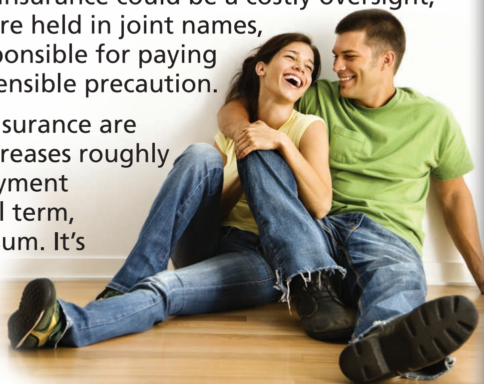
It's also important that savings for big ticket items such as university or a house, whether undertaken by parents, grandparents or other members of the family, are structured in the right way. Where control is more important we would typically recommend a trust be set up which allows control of the cash to ensure it is used for the right purpose. JISAs, in comparison, transfer control to the child at the age of 18 to do with as they wish.

Life insurance for co-habiters

THE LATEST FIGURES FROM THE OFFICE FOR NATIONAL STATISTICS show that cohabiting couples are the fastest growing family-type in the UK – up by 29.7% between 2004 and 2014.

While it might be surmised that it is only young adults co-habiting, in fact people of all ages have chosen to co-habit for a range of reasons.

Neglecting to take out life insurance could be a costly oversight, because when mortgages are held in joint names, both parties are jointly responsible for paying it. Life insurance can be a sensible precaution.



Two popular types of life insurance are decreasing term, which decreases roughly in line with the way a repayment mortgage reduces and level term, which pays out a set lump sum. It's important to consider what's right for you and to seek advice if you're unsure.

Sudoku

Here is the latest in our series of Sudoku puzzles for the problem solvers among you.

The idea of these brain teasing 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 11.

Source: www.printmysudoku.com

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

COMMENT

Why Greece and China don't matter

MY HEADLINE IS INTENTIONALLY PROVOCATIVE BECAUSE while the economic crisis in Greece and the fears over China's stockmarket crash and slowing economic growth are of concern, it is my belief and experience that a portfolio based on sound investment principles and held with conviction, has the ability to weather these kinds of market events.

Anyone invested since the late 1990s will have seen wave after wave of market crises hit the investment shoreline – the dotcom bubble, the aftershock of 9/11, the collapse of the mortgage backed securities market which lead to the Financial Crisis in 2008/2009, Europe's problems in 2011, and now we have Greece and potentially China – but, to continue the analogy, the shoreline always adapts to the changes imposed upon it.

The stories in the press invariably paint a picture of doom and gloom. Some could put investors off investing ever again! However, experience tells us that even when we suffer momentous market events such as those we have seen over the past 15 years, given time the markets will recover.

In fact, Warren Buffet, one of the world's most successful investors, famously observed that in the 20th century, the United States endured two world wars and other traumatic and expensive military conflicts; the Great Depression; a dozen or so recessions and financial panics; oil shocks; a flu epidemic; and the resignation of a disgraced president. Yet, in that time, the US stock market as measured by the Dow Jones Industrial average, rose from 66 to 11,497.

Of course, as investors we are not going to be taking a hundred year view on our investments but, then again, neither are we day-traders to whom short-term market movements will be of huge concern. As equity investors it is important we avoid taking knee-jerk reactions, that we look longer term and also, that we make investment decisions that spread risk within a portfolio.

Investments often work on cycles, in rising markets funds focused on growth tend to win out; when markets are flat or only slowly rising it can be those focused on buying companies that offer good dividends which can perform better. It pays also to look outside of funds to other investment types that can deliver returns when stockmarkets and funds are struggling; I am talking here about selected structured investments. The fact is, taking a global view there will always be areas of opportunity – two to three years ago it was China, today it may be better to be invested in the US or, perhaps counter intuitively, Europe!

Our investment team keeps a watchful eye on the markets and we spread risk by diversifying a portfolio with a range of funds that have track record of performing on a consistent basis and are managed by expert investment managers. These are fundamentals in an approach that we believe will continue to stand the test of time and certainly will enable us to see through market events such as Greece and China.

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.

No need to take your pension now

MEDIA COVERAGE OF THE CHANGES TO THE PENSION rules has tended to focus on people drawing money out of their pensions. But do you need to access your pension at retirement? Do you have alternative investments that you could rely on for an income stream?

Personal pension providers will allow you to take your pension benefits at a later date than you originally planned.

This can have advantages, because if you defer taking your pension it will remain invested, and whilst invested, any growth achieved will be tax-free. The aim of allowing your pension fund to continue is the potential to have a higher income at a later date (see the table).

In addition, if you are able and it is allowed by your particular pension scheme, you can continue making savings into your pension. The current rules allow you to receive tax relief on your pension contribution until age 75.

Things to consider when talking to your Lowes Consultant, are whether checks will need to be made with your pension provider for any restrictions and if there are any specific guarantees included in your pension that may be affected by delaying your retirement date.

Potential income uplift from delaying retirement

This table shows the income a male or female might receive from a single life annuity bought with a £50,000 pension pot in retirement at four different ages: 60, 65, 70 and 75.

Age	Income	% of pension pot
60	£2,587.06	(5.2% of pension pot)
65	£2,919.74	(5.8% of pension pot)
70	£3,333.08	(6.7% of pension pot)
75	£3,912.48	(7.8% of pension pot)

Source: Whole of market research via 'IRESS Exchange'. Annuity options: no escalation, 5 year guarantee period, paid monthly in advance.

There are numerous other annuity products, including those that provide an income for a spouse or partner on death of the annuitant, those that take into account inflation and enhanced annuities for people who fit certain health or lifestyle categories, such as smokers, which invariably offer higher rates.

New pension rules reverse spending order

THE NEW PENSION RULES THAT CAME INTO EFFECT ON 6 April 2015 quite literally turned on its head the traditional way of thinking when looking at how to use our pensions and other savings vehicles.

For years pensions have been thought of solely in relation to saving for a retirement income. True, it has been possible to take a 25% lump sum but 75% of the pension pot traditionally has been used to purchase a retirement income product, typically an annuity in most cases.

The new pension rules now allow for a pension to be passed on to any named beneficiary – whether a relative or not – where they pay no tax if you die before age 75 and income tax at their marginal rate if you die after age 75. This is a vast improvement from the previous 55% lump sum tax and opens up a whole new way of looking at pensions.

People with savings in a range of investments now need to look at their entire pot of money, the various tax wrappers the money sits in, and consider the best way to access these to meet their income needs in retirement. Using each vehicle in the right way can make for a more sustainable income stream and potentially more money passed on to your beneficiaries.

For example, pensions and retirement are normally seen as one and the same. Now for anyone wishing to pass on their wealth, it is advisable to start with their savings and investments to utilise their income tax and capital gains tax (CGT) allowances before accessing their IHT-free pension.

In this tax year, a person can take £26,700 income tax and CGT free – made up as follows: personal income tax allowance of £10,600; a further £5,000 savings income now can be tax free; and the annual CGT exemption can be used to offset capital growth of £11,100. For a retired couple that's £53,400 a year tax free.

Hence, it can make sense now to use those tax allowances and exemptions to withdraw money from unit trusts and bonds, to then take money out of ISAs, on which there is no income tax or CGT to pay and only then access their pension. Income tax is payable after the first 25% has been withdrawn from the pension but any residue at death is passed on outside of inheritance tax.

Also, for anyone approaching retirement, it should be considered whether there are advantages in making pension contributions before retirement.

New way of thinking

When saving: Use pension and ISAs then unit trusts and bonds.

When spending: Use unit trusts and bonds then ISA then pension.

Later life entrepreneurs

RATHER THAN PUT ON THEIR RETIREMENT SLIPPERS, it seems many over 55s would consider drawing money out of their pension pots to start a small business or go into consultancy. This is according to recent research published by AXA Wealth, following the pension rules reforms, which concluded that more than half a million over 55-year-olds would shun retirement in favour of becoming later-life entrepreneurs.

The survey reflects that due to the changes in the pension rules, which came into effect on 6 April this year, many can access their entire pension pot to do with as they wish. This freedom enables the opportunity to take out some capital to fund a business venture.

The top three reasons for starting a business with released pension funds, revealed by the survey, were:

1. **Realising a lifelong dream to be a business owner**
2. **Monetising a hobby, such as photography or catering**
3. **Using the experience and skills gained throughout their professional career in order to supplement their pension income through consultancy work.**

However, starting a business venture needs careful planning and consideration as around 50% of start-ups fail in the first two years.

Anyone eyeing up their pension pots as a means to start a business should be aware that there could be severe tax implications to taking a lump sum from a pension. Everyone can take 25% free of income tax but thereafter, depending on the size of the pot, anything from 0% to 45% could be paid on the rest of the cash, as taking a lump sum in one tax year can push people up into a higher income tax bracket.

We're here to help. If you require further information regarding any aspect of your pension please contact us on 0191 281 8811.

Care must be taken so that withdrawing money now does not leave a budding entrepreneur with insufficient income in retirement. And likewise, the new pension rules mean that pensions are now a tax efficient way for people to pass their wealth on to their beneficiaries.

Certainly, we recommend that anyone thinking of accessing their pension cash for use outside of a retirement income talks to their Lowes Consultant before taking any action.

Start-Up Stats

Figures from the Office of National Statistics (ONS) show that 15% of people working in the UK are self-employed, the highest proportion in four decades, and the largest growth in self-employment has been among the over 65s.

ONS figures also show that the number of pensioners starting a business increased 44% last year, with a record 332,000 people over the age of 65 having started a business in the past 12 months.

This growth has been attributed to people living longer but also to the advances in technology which have made starting a small business far easier than even a few years ago.

Why I became a Lowes client

Retiree Valerie Innes tells Rob Kingsbury why she became a Lowes client, how her Consultant, John Walton, helped her deal with unexpected inheritance tax issues and why she has insisted her children also take advice from Lowes

Ms Valerie Innes chats to her Lowes Financial Management Consultant John Walton

Photo: Michelle Fowler Photography

VALERIE INNES BECAME A LOWES CLIENT IN 2010 AFTER her husband Ian passed away and she found herself, as many people do, having to deal with mountains of investment paperwork and tax issues which she had never before needed to consider.

Born in West Hartlepool, Valerie met Ian while they were both undergraduates at Leeds University in the 1960s. They lived in Oxfordshire and for three years in Malawi, where Ian, who was a hydrology specialist, was Chief Water Officer. Then in 1998, Ian was offered a chair at Newcastle University "an opportunity he couldn't turn down," Valerie says, which meant a move back to the North East.

They had planned for their retirement, which was to include living and travelling in various parts of the world. Sadly these were cut short by Ian's death.

Valerie says she dealt with probate herself but then she found herself facing the mountains of paperwork that invariably come with owning shares and investments, many of which her husband had made and others he had inherited from his father. In addition, she realised there was an inheritance tax issue for their two children, which she really didn't know how to tackle.

Seeking answers, she attended a Lowes seminar, held in the Lowes boardroom at Holmwood House. "Ian Lowes was presenting," Valerie says. "He spoke about tax and investments and I found it very interesting. I felt the company had a lot of knowledge and experience and would know how to help with the problems I had."

Complex portfolio

Valerie found herself with sufficient income for her needs but also with a range of investments and shares, many of which were based overseas, which made her affairs slightly more complex than usual.

"My husband's father used to work in the oil industry and he lived in various countries around the world. Wherever he was based he would buy shares. More often than not he would also open a bank account so that the dividends from the shares could be paid directly into that account," Valerie explains. "He also instilled in my husband the need to buy shares as a means of planning for your future."

Hence, Valerie found herself with shares in companies in South Africa, the Far East, the United States and Canada, plus the investments she and her husband had made together.

This meant the questions she had for Lowes Consultant John Walton at their initial meeting were slightly more involved than with many clients.

One of the first areas that John had Valerie consider, she says, "was what do I want money for and do I have enough? It was a case of making sure I wasn't sitting with too much in cash that wasn't doing anything but also that I had enough which I could get at quickly and easily should any emergencies arise, as well as investments that I could readily draw money from if I needed to buy a new car, for example."

However, the most important area for Valerie was inheritance tax (IHT), which she felt was a pressing need, given the range of her savings and investments. "After Ian died I realised as I was dealing with probate that if anything happened to me my children would have a very complicated set of issues to deal with. Also, Ian and I had worked hard to save for our future and it seemed unfair that if I were to die that a large cut of that would go to the government," Valerie says.

Among the measures taken to mitigate her inheritance tax situation, John has helped set up a trust to the value of her late husband's IHT tax exemption allowance. "We've also moved some of my old ISAs into a new AIM ISA, which has inheritance tax advantages," Valerie says.

"Had I not spoken to Lowes it would never have occurred to me that I could set up a trust," Valerie says.

Portfolio reviews

Valerie says John regularly reviews her portfolio of savings and investments and will contact her if he thinks there is something new that she will find of interest from a tax or investment perspective. "And if I get anything through the post from the investments I have, then often I will ask John for his advice before I do anything with them," she says.

Valerie would recommend that anyone in a position like herself should get the advice of Lowes as an Independent Financial Adviser. "Without having the advice from Lowes I don't know what I would have done regarding inheritance tax. I would probably have given my children money each year in the hope that I lived another seven years.

"Lowes has helped me plan sensibly for the future and what I like about them is that they're very friendly and helpful. I use John as a sounding board on any problems I have with my shares and investments. This is particularly so with share documents, as they don't make them easy to read or to understand. This isn't something Lowes has to help me with but I'll talk to John and say, 'Can you please tell me what this means' and he'll help me with odd bits of paperwork like that, which is very useful."

Such is Valerie's faith in Lowes as a company that she's insisted both of her children should be Lowes clients. "I got Lowes involved because my own experience has taught me that you're best to be prepared," Valerie says. "And as I've found out, having good advice helps take the pressure off and makes life simpler," she adds.

Using an AIM ISA

IN AUGUST 2013 THE GOVERNMENT CHANGED THE ISA rules to allow shares of companies listed on AIM, the Alternative Investments Market, to be held directly within that tax wrapper.

As an ISA it benefits from freedom from income and capital gains tax (CGT), but the shares also qualify for Business Property Relief (BPR), which is an additional benefit in terms of relief from inheritance tax (IHT).

BPR is a tax concession that, for example, helps families pass on trading businesses to their family beneficiaries. It avoids the beneficiaries having to sell the business just to pay inheritance tax.

Under BPR, an individual must have owned the company, or shares in the company, for at least two years at the time of their death to be able to pass them on free of IHT.

However, BPR doesn't just apply to family businesses. It is possible to benefit from the relief simply by holding shares in a small, privately owned or AIM listed company. As long as it is a trading business, HMRC may decide it qualifies for BPR. The most notable companies that do not qualify for BPR status are those that primarily hold or trade cash, property or shares.

So in simple terms, as long as an investor holds qualifying AIM shares for at least two years, the investments should be exempt from inheritance tax (currently 40% of assets above the £325,000 nil rate band threshold).

While the tax advantages available within an AIM ISA are undoubtedly attractive, we would generally caution against the tax tail wagging the dog. The underlying risk and potential volatility with an AIM ISA means that they should only be considered appropriate for experienced investors who have a clear understanding and acceptance of the risks involved, and certainly not for the risk averse investor.

Using a range of AIM stocks in a diversified portfolio can help spread the risk.

■ ***If you would like to chat with a Lowes Consultant to see how our services could benefit you, call us on 0191 281 8811 or visit www.Lowes.co.uk for further information.***

Key points from the Summer Budget

We look at some of the changes and issues in respect of earnings, savings, investments and tax planning, raised in the Summer Budget

THE CHANCELLOR OF THE EXCHEQUER'S SUMMER Budget was the first Budget of the full Parliament and also the first for nearly two decades with a majority Conservative Government in the House of Commons. This enabled George Osborne to deliver a Budget with a Conservative party mandate. There was plenty for people to comment on. Here we examine some of the facts, figures and practical aspects when it comes to your finances and investments.

As ever the devil is in the detail, and it is the supporting paperwork that accompanies the Budget speech that provides the real issues from an advice perspective. The Lowes technical team keeps up-to-date on all regulation and legislation and apprise our Consultants of the changes accordingly.

If you have any concerns or queries arising from the changes in the Summer Budget, please contact your usual Lowes Consultant who will be pleased to help you on 0191 281 8811.

Pension Changes

Pension reforms

The Chancellor continued the dynamic review of the pensions rules by announcing a consultation on pensions tax relief. One radical option could be applying tax to pensions in a similar way to ISAs. Currently, when someone pays in to their pension from taxed income the government rebates the income tax paid. This allows for a bigger pot to be built up and any growth occurs tax free. However, income tax is paid at the person's marginal rate of tax when the money is withdrawn (which can be from age 55). With ISAs there is no tax rebate on the money paid in but there is no tax taken when money is withdrawn. The Chancellor is proposing that pensions follow the ISA model where a person pays in from taxed income but there is no tax to pay when the money is taken out. In between the pension receives a "top up" from government.

The Chancellor said this was part of a wider programme of reforms intended to making pensions fairer and simpler for everyone, and to encourage people to start saving for a pension as they could see that in retirement the money they had in their pension would go to them not the government.

Pension contribution limit raised to £80,000 until April 2016

As part of the longer-term drive to make pensions more attractive savings vehicles, a further change was announced to standardise 'pension input periods' (PIPs) from April 2016, and the knock-on effect of this has been to double the maximum allowable pension contribution for the current tax year to £80,000. HMRC uses PIPs to check whether individuals have exceeded their maximum pension contributions, because the last day of the 'input period' determines which tax year the contribution falls into. The rules can be very complex to understand so this is a welcome change. The first part of the standardisation has actually already happened, when the Government announced all pension plans would have at least two PIPs in the current tax year ahead of standardisation next April. Even those who thought they had already maximised their contributions by carry forward can potentially invest an extra £40,000.

Pension tax relief changes

Implementing one of the Conservatives' election pledges, the Chancellor targeted the pensions contributions of higher earners. From April 2016 people earning more than £150,000 a year will see their tax relief on their pension contributions tapered from £40,000 down to £10,000, for those earning £210,000

It will require higher earners to look beyond their pensions to a much broader range of tax efficient savings vehicles.

State pension age

The Budget confirmed the age at which people receive the State Pension would rise to age 66 in 2020. An automatic mechanism for future increases is to be based on a regular, independent review of longevity. Currently this is set at every five years, with the intention that people are given at least 10 years notice of any change to the statutory pensionable age.

Secondary annuity market

Anyone hoping to sell their annuity on the secondary annuity market come April 2016 will have to wait another year as the start date has been pushed back to 2017. This market is intended to allow people the option of selling their annuity as part of the overall pension freedom rules. The Chancellor said the scheme would be delayed as the insurance industry needed more time to be able to deal with the implications and practicalities of trading the products.

Tax Changes

Personal income tax thresholds

The personal income tax allowance will be increased to £11,000 for 2016/2017 tax year – with a pledge it will be at £12,500 by the end of this Parliament. Higher rate tax band rises from £42,385 in 2015/16 to £43,000 in 2016/17. George Osborne indicated he would increase this to £50,000 during this Parliament.

Inheritance tax (IHT)

If there were ever a tax change the Chancellor could make to win favour with Middle England it would be to increase the inheritance tax (IHT) threshold. The current nil rate band, the amount of assets a person can leave to their beneficiaries before IHT is applied, has been frozen at £325,000 until the 2020/21 tax year. As house prices have risen, so many more people have been dragged into the IHT bracket, with a 40% charge on the value of their assets above the nil rate band.

Responding to people's desire to leave the money from their property to their children or grandchildren, the Chancellor has introduced a £175,000 property allowance, which can be added to the current £325,000 when the owners' principle property is left to children or grandchildren. This effectively increases the nil rate band headline rate for a couple that own their home from the current £650,000 to £1m. For those without children, or who do not want to pass their assets to their direct descendants, however, the IHT rate stays at £325,000 per person.

The full additional allowance is being introduced in stages: up to £100,000 from 2017/2018 tax year; up to £125,000 in 2018/2019; up to £150,000 in 2019/2020; £175,000 in the 2020/2021 tax year only; and then increasing in line with Consumer Prices Index (CPI) from 2021/22.

Any unused nil-rate band will still be able to be transferred to a surviving spouse or civil partner.

Tapering will occur for people owning properties over £2m, but some relief will also be given to those downsizing.

Income from dividends

From April 2016 the dividend tax credit will be abolished and replaced with a flat rate £5,000 tax-free allowance. Above that amount basic rate tax payers will pay 7.5% on any dividends received, higher rate tax payers 32.5%, and additional rate tax payers 38.1%. This will not affect dividends paid within ISAs and pensions.

From April 2016 individuals will therefore be able to receive up to £17,000 of income a year tax free via a combination of income tax reliefs, as well as investing £15,240 in an ISA tax free. In particular, business owners who pay themselves via dividends could benefit by reviewing their income tax position.

Property tax relief

Buy-to-Let landlords will see their mortgage tax relief tapered back from 40/45% to 20% for all individuals from April 2017. This measure is aimed at restoring a balance between those buying property to let and those buying a home. The Bank of England recently announced that 15% of new mortgages were for Buy-to-Let purposes. In addition, 10% deductions from profit for wear and tear in rented properties will be replaced by a rule where only actual costs will be deductible. This will make property investment much more complex than it appears on paper.

Other Changes

Help to Buy

The Chancellor re-iterated a commitment to build 275,000 "affordable homes" by 2020 and formalised the introduction of "help to buy" ISAs to be provided by banks and building societies from 1 December 2015.

Insurance premium tax

The tax paid on insurance policies will increase from 6.5% to 9.5% from November 2015.

Budget surplus

The Chancellor announced that Britain would take longer to reach a budget surplus than previously announced. He does not expect a surplus to be achieved now until 2019/20, a year later than previously anticipated.

Rate hike speculation

Lowes Investment Manager Doug Millward considers the implications for investors when the Bank of England finally puts up the interest rate

VIRTUALLY SINCE THE MOMENT INTEREST RATES REACHED their current low levels, people have been speculating about when they will begin to rise again. In fact in financial circles it has become a more common topic of conversation than the weather.

Most experts are predicting that the United States will be the first to raise their rates, with some saying it will happen in September, and others saying December. With the problems in Greece raising their head again of late, December now seems to be the more likely, but whenever it happens, the UK will no doubt follow soon afterwards, probably in the beginning of 2016. The strange thing though, is that interest rate rises are often spoken about as a bad thing, but is that really the case?

Moving away from such low levels at long last should be interpreted as an indication of a far healthier economy. Unemployment has fallen, average wage increases have once again moved above inflation, and a lot of companies are in a better position to deliver on earnings targets, which in turn should help support share prices. So whilst there will no doubt be a knee jerk reaction with share prices falling when the first interest rate rise does happen, over the longer term it should prove positive for the equity markets. This is borne out by research conducted by J.P. Morgan, which is summarised in the table.

S&P 500 price return when the US Fed raised rates

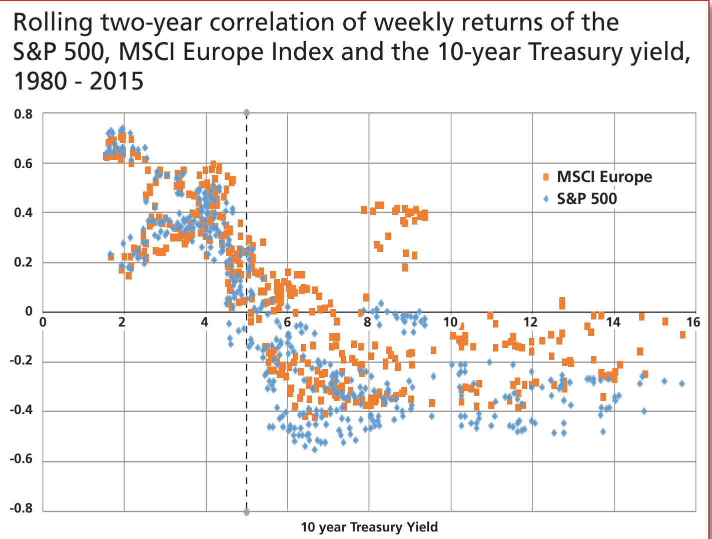
	1987	1987-1989	1994-1995	1999-2000	2004-2006
Initial Reaction	-5%	-8%	-10%	-7%	-8%
Subsequent Reaction	32%	27%	7%	18%	20%
Total Reaction	26%	17%	-2%	10%	11%

Source: J.P. Morgan Asset Management

The initial reaction measures the movement of the S&P 500 from when they considered the market had started pricing in a rate rise (which will be before the rate rise actually happens) to the second rise in the rate rising cycle. This shows the knee jerk reaction downwards as expected, but the subsequent reaction measures the movement in the market from the second interest rate rise until the end of the cycle. In all the periods covered this was positive, and only once from 1994 to 1995 was the price movement over the whole interest rate cycle actually negative.

What is more important to those investing, however, are the subsequent rises that follow the initial one, and also their frequency and size. If rate rises come too quickly they could stifle the recovery, and also if they go back to the levels of 2007 then that is more of an indication that things are overheating, which is when equity markets tend to underperform. Again, using research from J.P. Morgan, the graph below shows the correlation between weekly equity returns in both the United States and Europe and the 10-year Treasury yield.

How might equity markets respond to a rate hike?



Source: J.P. Morgan Asset Management

This graph shows that while yields are below 5%, equity markets will tend to have a positive relationship with interest rate rises as this indicates a recovering economy. Above 5%, however, the correlation breaks down, and equity markets tend to fall as interest rate rises go up further.

Thankfully, both Janet Yellen, the head of the US Federal Reserve, and Mark Carney, governor of the Bank of England, have made it clear on several occasions that although an interest rate rise is approaching, the rate of increase will be gradual, and more importantly will be likely to level out closer to 3%, rather than reaching their previous highs, which should be a positive for equity investors.

So whilst interest rate rises are inevitable, they should perhaps not be viewed as the negative thing they will no doubt be portrayed as in the media, but as a positive indication that although the economy may still have a way to go to be fully recovered from the crisis of 2008, it is certainly on the right path and is much healthier than it has been.

In or out of the EU?

ALTHOUGH IT HAS BEEN LARGELY OVERSHADOWED BY the Greek crisis of late, one of the key issues arising out of the UK General Election was the commitment made by the Conservatives, if elected, to hold a national referendum on whether Britain exits or stays within the European Union.

In effect, the decision on what will be Britain's future role in the EU. The referendum looks set to be held by 2017. Financial markets consider the potential impact of the referendum, and its outcome, to be a major negative to emerge from the General Election result. There is no doubt that this will affect investment markets; the big question is just how much?

On the economics front the referendum is referred to as 'one of the long-term uncertainties' by Stephanie Flanders, chief market strategist for Europe, J.P. Morgan Asset Management. She said: "In the past five years, the likely future shape of Europe has changed dramatically and so have UK popular attitudes towards it. Both these developments will make it much more difficult for us to remain in the EU on the same terms as before."

There have already been noises from big business that should the UK pull out of the EU they would consider whether to invest further or in the case of international corporates, even pull out of the UK altogether. This a fear is expressed by Azad Zangana, Senior European Economist and Strategist at Schroders UK, who notes that "uncertainty" caused by both an unknown date and an unknown result of the referendum will affect "both domestic and international investment in the UK".

Zangana adds: "Although Prime Minister David Cameron has said he will campaign to remain in the union if a deal over the UK's relationship can be struck, there is still a concern that much of the UK's ills will be blamed on its membership. The uncertainty is almost certainly already hitting foreign direct investment, where overseas investors in particular want to have access to the entire European market, not just the UK."

Economists agree that there could be a short-term hit to investment in the run-up to the referendum but Flanders notes: "Our role in Europe, the growth rate of productivity and the state of global demand: on any reasonable timeframe, these are the things that matter most to Britain's economy and its markets. But other global forces may well matter more."

Where investment economists, fund managers and we at Lowes agree, is that uncertainty serves to emphasise the importance of proper diversification in investment portfolios to weather both the impact of the final result, whether that is In or Out.

Sudoku solution

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

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

Spotlight on your Lowes Consultant

ANDREW GARDINER WILL MARK HIS tenth year working for Lowes this September. Originally from Northern Ireland he took a degree in Economics at Newcastle University then headed to London for a stockbroking job. Two years later, he and his (now) wife moved back to the North East, where he has been settled ever since.

Andrew looked around for a job in which he could use the knowledge and skills he learned in London. He approached Lowes and was taken on in the technical department for a year before becoming a Consultant. The attraction of Lowes over other companies he says was its size, history and prestige. "Lowes stood out because it had history and a great reputation in the market. Also it wasn't a large company where you felt you'd just be a number; there was more of a family feel about it and that was the kind of company I wanted to work for."

Now nine years a Lowes Consultant, Andrew is both a Chartered Financial Planner and a Fellow of the Chartered Insurance Institute. He has clients in Yorkshire, the North East and Belfast. "I suppose most of my clients are in their late 50s and early 60s," he says, "but with the recent changes to the pensions rules, which have not only opened up the opportunities for people to pass down their wealth but have changed the way people view their pensions and investments, I find I'm talking more and more to clients' family members too. I'm helping families to plan for their financial future."

He says he would heartily recommend to anyone that they become an independent financial adviser but only if they like people. "If you talk to any of the Lowes Consultants what we all say is that we love this job because we get to talk to clients. Having the conversations, helping people to get their finances in order, to plan for the future, to make the right choices around their investments and sometimes even to make life-changing decisions, makes this job what it is." Then he laughs. "The downside, of course, is the paper work that goes with it!"

There is also a sense of responsibility, he adds. "You perhaps feel it most where you are advising people who need their investments to produce a regular and sustainable income because that income is what they are going to live on. You know that your advice will influence their standard of living."

Andrew views the pension freedoms as a major step in the right direction for people in the UK. "It's treating people like grown-ups by giving them responsibility for the money they save during their working lives," he says. "Most people will act sensibly with it, although I do have some fear around people spending small pension pots because they think they are not worth much. Recently, my aunt was over from Australia where they introduced pension freedoms several years ago. She was saying that people drew out their small pots but didn't take into account inflation and how long they would live and now many 85-year-olds are running out of money."

Outside of work, rugby and walking holidays with his wife keep him busy, Andrew says.

2015 Client Satisfaction Survey

Every two years we carry out a substantial client survey to find out what you think about Lowes Financial Management and the level and quality of service you are receiving from our Consultants and staff.

FOR THE PAST 10 YEARS WE HAVE SEEN THE RESULTS OF our biennial survey get better and better. In fact, after our 2013 results we felt it would be hard to top the feedback we received from you. But we have. This year's results have beaten every other year since we started the survey back in 1991. Not surprisingly, these are results of which we are very proud.

There is always room for improvement and we value all comments received.

While we won't be following up the suggestion to build a bar in reception, there were plenty of others that we can consider and implement.

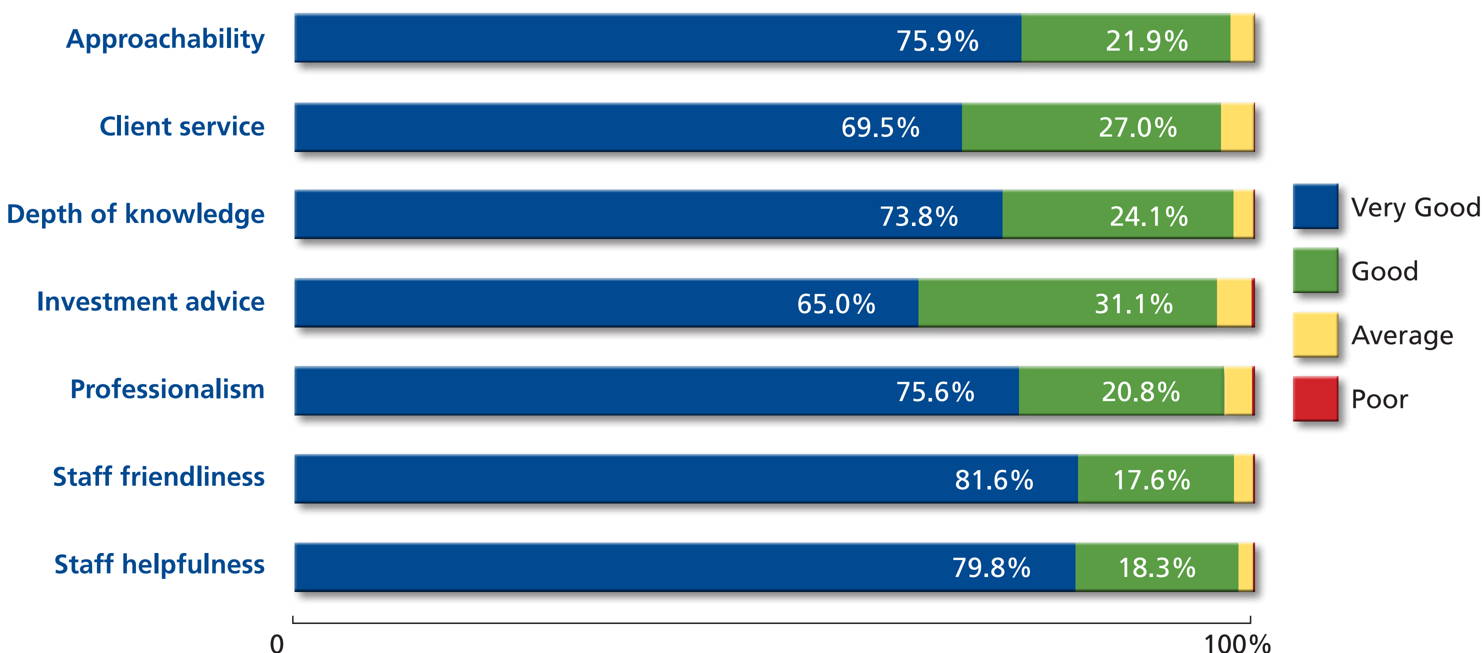
■ ***To view the full client survey results, please visit www.Lowes.co.uk***

We would like to thank everyone who took the time to complete our survey form and return it to us – that is over 1400 people.

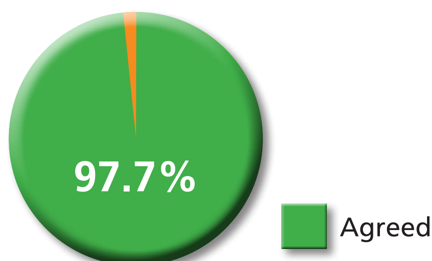
Lowes Biennial Client Survey Satisfaction Results 2015

The percentages quoted reflect the opinion and experiences of the clients who completed the survey and marked Lowes as Very Good, Good, Average or Poor under each of these categories.

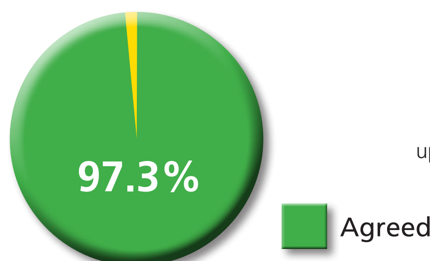
How would you rate Lowes Financial Management on the following?



Would recommend Lowes to family, friends and colleagues



Lowes service reflects the statement: 'Where personal finances are cared for personally'



Source: Lowes Financial Management. Figures rounded up or down to one decimal place.

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