Summer **2014**

"The world is poised on the cusp of an economic and cultural shift as dramatic as that of the Industrial Revolution"

Steven Levy

Inside: Meet the Lowes team

INSIDE TRACK

30 years in Holmwood House

Having been established in 1971, over the years we have been based in three offices across Newcastle. Starting in Pilgrim Street, we moved to Market Street in 1973 and expanded throughout the building for the next ten years. Having outgrown our Market Street office, Ken Lowes identified Holmwood House in the leafy suburb of Jesmond as a great headquarters for the growing company and instigated a move here in 1984.

Since occupying Holmwood House the company has gone from strength to strength which led to us to acquire Holmwood Mews, an adjacent building, in 1991 as additional space for the ever expanding organisation.

Today, a dedicated team of over 60 individuals helps Lowes provide what we believe to be a unique service of caring for personal finances personally, from fantastic premises of which we are still very proud.

(See the Lowes team in more detail on pages 6 and 7).

Holmwood House

As much as 30% of retirement income taken by tax

WHEN WE REACH RETIREMENT WE MIGHT LIKE TO THINK WE'VE paid the majority of our tax dues along the way. Unfortunately, this is not the case. According to a recent report by Prudential into the effect of taxes on income in retirement, 30% of a retiree's income is swallowed up by tax.

Income tax, due on pension and annuity income, and Value Added Tax are the largest duties that people find themselves paying in retirement and account for around 16% of the average retired household's income, while Council Tax takes another 4%.

Based on Government data, Prudential calculates that three fifths of a household's tax bill is made up of indirect tax, including VAT, vehicle excise duty and taxes on alcohol, tobacco and petrol.

Following the 2014 Budget, changes to the rules around how people take their retirement income, and the different tax implications, it is no wonder that the Prudential says: "A consultation with a financial adviser or retirement specialist before making any choices about retirement income solutions is a must for those looking to make the most of their pension savings without the risk of paying an unexpected amount of tax."

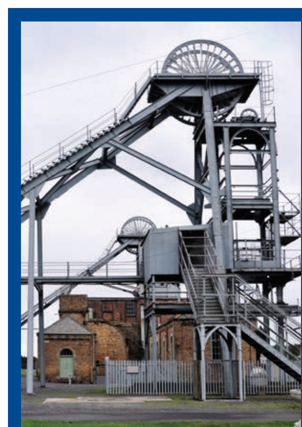
Personal Finance in schools

PERSONAL FINANCE WILL BECOME PART OF THE national curriculum in schools from September 2014.

Finance will be taught in mathematics at all stages in the curriculum and in citizenship classes in secondary school. The curriculum will start in the earliest years in primary school when pupils will learn the value of money and will continue through to secondary school. When aged 14-16 they will learn about income and expenditure, credit and debt, insurance, savings and pensions, financial products and services, and how public money is raised and spent.

In addition, crucial areas such as tax, public spending, and how these issues relate to personal finances will be taught alongside money management.

With a recent survey by the Open University Business School showing that 70% of UK adults were unable to answer GCSE Level finance questions correctly, 50% of consumers never budget and 42% of people (rising to 60% of 25-34 year olds) admitting they suffer stress, anxiety and sleepless nights as a result of their finances, the teaching of sound personal finance in our schools is long overdue.



Our cover shot:
Old coal mine pithead winding machinery, England, UK
@shutterstock/Lowes

Make your money work Best bank & building society accounts

Type	Amount	Provider	Account	Gross Rate	Contact
Unrestricted instant access accounts					
Online	£1+	Virgin Money	Easy Access E-Saver 12	1.30%	www.virginmoney.com
Branch, post, telephone	£1+	Skipton	My Savings Issue 3	1.00%	Branch, 0345 850 1722
Accounts with first year bonus					
Online	£1+	Tesco	Internet Saver	1.35%	www.tescobank.com
Fixed rate bonds					
Online	£1+	Virgin Money	1 Year Fixed Rate E-Bond Issue 88	1.76%	www.virginmoney.com
Online, post, branch	£1,000+	Kent Reliance	2 Year Fixed Rate Bond	2.16%	www.krbs.com
Post	£5,000+	Shawbrook Bank	3 Year Fixed Rate Bond	2.75%	www.shawbrook.co.uk

Measures of inflation - The average change in prices of goods and services over a 12 month period to February 2014

Retail Prices Index (RPI) 2.4% | Consumer Prices Index (CPI) 1.5%

Sources: Providers' websites, Office for National Statistics, www.thisismoney.co.uk, www.moneyextra.com, www.moneysupermarket.com, www.moneyfacts.co.uk 9 July 2014. All accounts subject to terms and conditions.

WINNER Investment Life & Pensions Moneyfacts Good Advice Awards 2011 Best Retirement Adviser
WINNER Investment Life & Pensions Moneyfacts Good Advice Awards 2010 Best Investment Adviser
WINNER Investment Life & Pensions Moneyfacts 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.

Lifetime allowance and auto enrolment

IN AN EFFORT BY THE GOVERNMENT TO IMPROVE THE PENSION provisions of employees, particularly in the private sector anyone in employment is being enrolled into a workplace pension scheme.

The largest companies have already gone through the process; small and medium sized companies are going through it now and the smallest employers will have enrolled their staff by early 2018.

This is an automatic process unless the employee formally chooses to opt out. Furthermore, the process must be reviewed every three years and the employee will automatically be re-enrolled unless they consciously opt out again at that time.

The pension Lifetime Allowance is £1.25m in the current tax year, however some will have either Enhanced, Primary, Fixed or Individual protection against this limit. Auto-enrolment could cause this protection to be revoked, so planning may be needed. Anyone concerned about their lifetime allowance or how auto-enrolment affects their retirement planning should talk to their Lowes Consultant.

Referring friends and relatives

DO YOU KNOW SOMEONE WHO MIGHT BENEFIT FROM THE EXPERIENCE and expertise that Lowes brings to personal finance?

We are grateful to our clients who have referred friends, family and colleagues in need of help with areas such as investments, pensions or inheritance tax arrangements or simply needed to put their affairs in order.

We run regular seminars for prospective clients and over 99% of people who attend say it is time well spent.

With the many changes to the investment and pensions market that have been occurring, if you know someone you think may benefit from our advice we would be delighted to talk to them. Our first consultation is on a no fee basis so they can get to know us and see how we can help without committing to anything.

■ ***Anyone interested in talking to us simply has to call 0191 281 8811 and we'll arrange for a Consultant to get in touch.***

Sudoku

As this is our summer issue, we're hoping to be able to tackle this Sudoku puzzle in our lunch hours in the sunshine.

If you've not tried one of these brain teasers before, the idea 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.sudoku-puzzles.net

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

COMMENT

Casting an eye to the past to foresee the future

AMONGST SOME OF MY MORE UNUSUAL POSSESSIONS is a working model of an aeolipile or Hero engine. Hero of Alexandria was an Ancient Greek mathematician and engineer credited with inventing the first-recorded steam engine – his aeolipile. What is particularly impressive, but equally perturbing, about this invention is that Hero lived almost two millennia before the industrial revolution. At the time, Hero's invention was considered little more than a novelty and the limited communication capacity of yesteryear meant that his knowledge and ideas weren't shared with the inventors of subsequent centuries.

How different might humanity be today if every would-be inventor over the last 2000 years could have had access to, and shared the ideas of their contemporaries and their ancestors. Today, the communication capacity of our race is unsurpassed in history and this will continue to help the acceleration of our technological evolution. There are many things in our day-to-day lives that just a few decades ago wouldn't have even been imagined. I think it is clear that the same will be true in another decade or so and new industries will be born. I am enjoying being part of this evolution having just taken delivery of my first all-electric car – a Tesla Model S. If you think you know electric cars, think again; and if you think you know what is going to change the world next, you'll probably be surprised.

Whilst both traditional and new corporations will adapt and thrive, there is significant growth potential to emerge from, as yet, broadly unknown technologies and companies. Investing at an early stage will provide the best chance of maximising performance potential but with start-ups and new technology, the potential for failure and substantial losses is just as likely. One way of managing the risk of investing in futuristic enterprises is to use a portfolio of funds, investing in the requisite areas and managed by experienced teams. This also ensures you have the potential to be exposed to the right companies at the right time.

I believe having a degree of exposure to the right technology funds and the like could be the key to occasional periods of exceptional portfolio performance and so with an eye to the future, our Investment Department have produced the 'Changing World Portfolio' which provides exposure to ten funds investing in themes which it is envisaged will play an important part in the future development of the global economy and society.

By definition, such a portfolio will be higher risk than is typical within our investment philosophy and as such may result in a more bumpy ride so should be considered a longer term investment, perhaps with grandchildren in mind in more ways than one.

I am keen to see what the next 10-20 years are going to bring – not least if they provide advances in automotive transport like the Tesla.

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.

Premium Bonds – Investment or lottery?

IN THE 2014 BUDGET STATEMENT THE CHANCELLOR announced that from August an additional £1million tax-free prize would be added to the National Savings & Investments (NS&I) premium bond jackpot, meaning two people a month could become millionaires by holding premium bonds.

In addition, from Sunday 1 June 2014 it has been possible to own bonds to a maximum of £40,000, up from £30,000. This will be increased to £50,000 from 2015.

This is not the first time that a second £1 million prize has been introduced; the last time was in August 2005 but it was reduced to one prize again in April 2009.

When considering whether to put, or keep, money in premium bonds, the question to ask is: “Am I doing it to invest and make money or for the chance of becoming a millionaire?”

According to NS&I statistics, the average return on premium bonds (i.e. the interest rate) is 1.3%, which is tax free. We’ve done some calculations and given that the minimum prize for each draw is £25, then in simple terms, a bond holder with £100 invested could expect to wait 230 months, (that’s over 19 years), before ‘average luck’ dictates that they should win a prize.

This doesn’t sound overly attractive, but remember that each and every bond has the same chance of winning the jackpot every month. The more bonds you hold, the greater the chances of winning any prize. Using the same simple theory as above, if our bond holder had invested £1,000, then average luck dictates they would only have to wait 26 months to win any prize.

However, because NS&I sticks to a strict formula when calculating the value of prizes, it is likely that to fund the additional £1m jackpot, the number of smaller prizes might have to be reduced, at least in the short-term. That said, many people will take advantage of the increased investment limit and it only needs a further £1 billion to be invested for the whole of the additional jackpot to be funded by new investments.

Opportunity cost

If you are comfortably well off and, alongside other investments, you have extensive cash holdings making up a broadly diversified portfolio, Premium Bonds are likely to be part of it. As such, increasing your holding to the £40,000 maximum is likely to be on your agenda. After all, compared to a deposit account earning 1% gross interest, the ‘opportunity cost’ to a higher rate taxpayer of holding a further £10,000 of bonds is just £60 per annum – which with ‘average luck’ should translate to tax-free annual winnings of £125.

If you’re not awash with spare funds, the decision becomes a little more personal. Again, the ‘opportunity cost’ is currently very low, albeit slightly higher for a basic rate taxpayer. If you pay tax at the basic rate, giving up 1% gross interest on a £10,000 investment translates to an annual ‘loss’ of £80 per annum in return for the potential of winning up to £2 million every month, but with a more likely average outcome of winning £125 per year.

No investment is completely risk free, but since they are backed by HM Treasury, National Savings are as close as you can get to an investment that will not give rise to any loss – in actual terms. However, don’t lose sight of inflation risk. By reference to the Retail Prices Index measure of inflation (RPI), holders of Premium Bonds who have won nothing in the last five years have suffered erosion of the spending value of their capital over that same period to the tune of a staggering 20%. In fact, even those who have had the requisite ‘average luck’ haven’t won anywhere near enough for the value of their capital to have maintained its spending power, any more than most depositors have.

In conclusion

No investment or savings solution is perfect, but for those who have a diversified portfolio of other investments and can invest the maximum, then Premium Bonds are worth considering, especially since receiving winnings is fun.

For those who can’t invest the maximum, the frequency of wins will be lower, but excluding very small holdings, it only takes a little bit of luck for such winnings to produce a better net return than most deposit accounts are currently offering. However, a period of no wins can leave a feeling of disillusionment.

At the end of the day it’s all down to luck. So, are you feeling lucky…?

Client question:

Can I afford to give my children money to help them buy a house?

THIS IS A QUESTION WE ARE ASKED MANY TIMES A YEAR. House prices are becoming so expensive and they are continuing to rise, so that getting on the property ladder is becoming more and more difficult, especially for younger first time buyers. The temptation is for parents and grandparents to dip into their own savings to help out. However, there are implications to taking this course of action that often can be overlooked or underestimated.

Here are a few pointers for you to consider.

The first and most important aspect is to look at your own circumstances and whether giving money away will affect your own life not just now but in the years ahead.

In that assessment you need to consider:

- Your age – the fact that we can expect to live longer than our ancestors means our savings and investments have to work harder for us.
- The amount required compared to your overall wealth – any gift or loan should be considered as a percentage or proportion of what you own and with clear reference to your future financial commitments.
- Your total investments – if you are considering taking the cash from your investments, factors to consider are which ones to sell and the effect on your overall wealth of reducing the value of your portfolio. This is especially so if you will need to call on those investments for your income in the future, bearing in mind that stockmarket movements can also affect portfolio size.
- Your total liquid savings – similarly, if you are taking the cash from accessible savings what impact that may have on your own life – potentially reducing what you can afford to do in retirement, for example.
- Is it a gift or loan? If it’s a gift what are the tax implications and if it is a loan how and when will it be paid back?
- The tax implications both for the child/children involved and yourself. Inheritance tax stands out here, as the amount is likely to be over the annual gift allowance and so some of the money may form part of your estate on death and for estates over £325,000 at present, potentially subject to tax.
- What happens if you give to a child who later marries and divorces? Will half the money go to someone not related to you or someone you’d rather didn’t benefit from your hard earned wealth?
- By no means last nor least, the family issues and emotions that may be involved. Will helping out one child disadvantage another? Your wealth now may well be different to your wealth in a few years time when another child or grandchild might also need assistance, and when house prices may be even higher.

As you can see there are many variables to be considered. Before making any decision, we recommend that you speak to your usual Lowes Consultant who can talk you through the potential long term and tax implications.

Talking tax

THE ADAM SMITH INSTITUTE RECENTLY CALCULATED THAT the average UK taxpayer will give HMRC 148 days of their salary in tax payments.

This means that for the first five months of the year the average British taxpayer works for the tax man and achieves their first tax free day later than the US and Australia (111 and 99 days respectively).

Since few of us want to pay more tax than we need to, here are some simple steps that we can all take to maximise the available tax breaks provided by the Government and in so doing mitigate our individual tax liability.

First, from July this year the tax free annual allowance for ISAs increased to £15,000, meaning that couples can save up to £30,000 tax free every year via this route.

Second, we can maximise the contributions that we make into pension schemes each year. And with greater flexibility around pensions withdrawals expected from April 2015, this may become more attractive than ever before.

Finally, for those who are likely to be impacted by Inheritance Tax (IHT), – and, if house prices continue to rise and the IHT tax exemption threshold remains frozen, this is likely to include many more of us than before – we could consider setting up trusts and where appropriate, utilising business property tax relief to help reduce our overall IHT liabilty.

Putting a face to Lowes

LOWES FINANCIAL MANAGEMENT HAS BEEN caring for our clients' personal finances for over 43 years.

In that time, we have become one of the largest privately owned Independent Financial Advisers in the UK, managing in the region of £600 million for our thousands of clients nationwide.

There are now over 60 people working for the company and its clients and one of the strengths that has enabled us to grow as a company has been our commitment to client service. Each client not only has the benefit of a dedicated personal Consultant but also the back-up of our highly qualified Investment and Technical Departments, as well as the dedicated support staff who help the Consultants ensure that our advice is current and suitable to clients' ongoing needs.

We are one of the few companies in the advisory market that has not only conducted regular client satisfaction surveys across our client base, but we have also published the results for all to see. We are fully aware that consistent quality of service comes from an attention and commitment to detail and never resting on our laurels.

Likewise, our commitment to continued education and gaining qualifications has seen Lowes stand out in the industry, as we believe it is important that our Consultants are among the very best in the country.

In addition, we have highly qualified Investment and Technical teams who have an average of 10 exams each under their belts, with some individuals being Chartered Financial Planners and Fellows of the Personal Finance Association, which is the highest accolade in the industry.

Over the years, Lowes has won a number of prestigious industry awards for our personal service, investment advice, educational seminars and client magazine. Everyone's effort over the years has contributed to our success and we are justifiably proud of such achievements.

The greatest testament to our achievements however, is that many of our clients have been with us for decades and recommend to us family and friends. We are as proud of that as we are of any of our other personal and professional accomplishments.

Ian Lowes
Managing Director
Ian joined Lowes in 1988 and was appointed Managing Director in 2002. He is one of only a few people with the advanced qualifications required to attain Fellowship of the Personal Finance Society.

Christian Gardner
Investment Analyst
Christian joined us in July 2010 having achieved a BA in Economics. He has since gained several investment qualifications and is a keen member of the investment team.

Jacqueline Scott
Technical Manager
One of Lowes' lynchpins, Jacqueline has 16 qualifications under her belt, including the prestigious Chartered Financial Planner.

Neil Mclachlan
Company Director
Neil joined Lowes in 2001. He is Compliance & Training Manager, a Board member and a Fellow of the Personal Finance Society.

Brenda Joyce
Receptionist
Brenda is the smiling face that clients see when they come through the door at Holmwood House. Brenda has been with the company for 22 years.

Marilyn Clark
Marilyn joined Lowes in 1995 working in a variety of client liaison roles before moving to become secretary to Rod Molyneux in 1999.

Caroline Robinson
Caroline joined Lowes in 1987 and became an important member of the Lowes team before leaving in (2002). During her time at Lowes she became an executive board member, and at present is still an active non-executive director

Lisa Porelli
Lisa joined Lowes in 1995 as an Administrator and, as an experienced member of the Administration team, plays an integral role in the business.

Market review

An update on the global and UK markets from the Lowes Financial Management Investment team

FINANCIAL MARKETS HAVE TAKEN THE RECENT POLITICAL unrest and conflict in their stride. Although the Ukraine situation caused initial concern, its impact was restricted to local markets, in particular Russian equities. The recent tensions in Iraq caused a small spike in the oil price but equity markets remained relatively unperturbed.

Central bank activity remained at the forefront of investor attention. The US Federal Reserve continued with its tapering of monthly bond purchases with completion expected by the end of the year. US interest rates appear unlikely to rise until mid-2015, with current levels of inflation not of concern. The poor winter has had a negative impact on first quarter economic growth and the central bank is keen not to disrupt an improving housing and labour market.

In the Eurozone, with the serious threat of deflation looming, the ECB cut its deposit rate to -0.1% to discourage banks from placing large deposits with them. They also created a new €400bn liquidity channel to financial institutions with the intention for it to be lent out into the economy. The desired effect is the creation of credit in the economy and to stimulate inflation, deemed an essential part of an economic recovery.

The UK economy was one of the strongest performing in the G7, with the National Institute of Economic and Social Research estimating that, in terms of size, it has now eclipsed its level of January 2008. UK unemployment continued to fall, reaching a level of 6.6%.

UK market

The main concern with regard to the UK economy was in respect of the buoyant housing market. Mark Carney on several occasions voiced his concern, to the extent that he felt obliged to indicate that interest rates may need to rise sooner than the market anticipated. This initially led to investors bringing forward a potential rate rise from May to February 2015, with some of the opinion that it could happen this year. Powers granted to the new Financial Policy Committee, which enables it to curb lending, has pushed back expectations to next year.

Despite improving economic data, UK equity markets have traded sideways. With share prices having re-rated during 2013 and the market as a whole now more fairly valued, investors must await signs of top line sales growth, with profit margin growth from cost cutting now exhausted.

Despite the stronger macro-economic outlook for the UK, government bonds (gilts) have been in demand. The ten year gilt yield has fallen from 3.03% at the end of 2013 to 2.67% as at the 30th June. There have been a number of supporting factors, including flat equity markets and the unlikelihood of the Bank of England reversing quantitative easing any time soon.

Support, we suspect, has also been provided by institutional demand. With defined benefit pension schemes closer to being fully funded we believe that they will have been taking advantage of this to de-risk their portfolios. The above factors have also supported the corporate bond market.

ISA becomes the NISA

FROM 1ST JULY THE LIMIT ON HOW MUCH AN ADULT CAN invest in an ISA was increased to £15,000 per person.

In his 2014 Budget speech, the Chancellor of the Exchequer George Osborne announced that the new ISA limit – the NISA – would increase substantially from £11,520 in the 2013-2014 tax year to £11,880 from 6th April 2014, and then to £15,000 from 1st July for the rest of the 2014-2015 tax year.

As well as increasing the limit, the Chancellor added greater flexibility to the NISA by allowing investors to switch between Cash and Stocks and Shares as they wish. Previously it was possible to move from a Cash ISA to a Stocks and Shares ISA but not the other way around.

The rate for the Junior ISA (JISA) also was increased to £4,000 for the rest of the 2014-2015 tax year.

Remember, taking advantage of this annual tax-free allowance, as it is based upon a 'use it or lose it' principle and using it to as full an extent as you can will make sure you legitimately ensure you are paying no more tax than you need to on your investments.

The Pension versus ISA debate

THE PROPOSED CHANGES TO THE PENSION RULES announced by the Chancellor of the Exchequer in his Budget speech will introduce far more flexibility into how we draw down our pension pot, but it has also raised questions about how we accumulate the money we need for retirement. In particular, the changes bring the 'pension vs ISA' debate even more into focus.

It is generally accepted that both ISAs and pensions are 'tax efficient'. But what do we mean by tax efficient? The main taxes we consider in financial planning are income tax, capital gains tax and inheritance tax. Here is a breakdown of the relative merits of using pensions and ISAs in relation to those taxes.

Income tax

Income, whether it is earned or from pensions or investments, is taxed and this significantly affects the overall returns from pensions and ISAs, as illustrated below.

Money in - Investing into ISAs is from net income, after earnings or investments are taxed. Investing into pensions is normally from gross income, after the contribution has benefitted from income tax relief from HMRC.

Net money in		
Pre-retirement / Tax rate in	ISA (from taxed earnings)	Pension (after tax relief)
0%	100%	100%
20%	80%	100%
40%	60%	100%

Money out - Withdrawing money from ISAs is exempt from income tax, but pension income can be made up of 25% tax free lump sum, and from April 2015 we expect that 75% can be paid as taxable income.

Net money out		
Post-retirement / Tax rate out	ISA (no income tax)	Pension (paid as 25% tax free, plus 75% taxable)
0%	100%	100%
20%	100%	85%
40%	100%	70%

Of course, you may not pay the same rate of tax while you are earning and when you retire. In fact, the biggest benefit from pension saving is for those that are higher rate earners, but basic rate retirees. For non tax payers an ISA is likely to be the most beneficial because they do not benefit from income tax relief.

The compound effect of growth on regular pension contributions, each one taking advantage of tax relief 'on the way in', means that pension growth can be higher than ISAs over the long term, and this can be enough to outstrip the extra tax due 'on the way out'.

Capital gains tax (CGT)

Pensions and ISAs share the same CGT treatment. Both grow free of CGT within the investment. We often think of any lump sum withdrawals from ISAs as CGT-free, and 25% from pensions as a tax free lump sum, even though the tax treatment of both is effectively the same.

Inheritance tax (IHT)

ISAs are currently subject to IHT, and will become chargeable at 40% if their value is over an individual's 'nil rate band', currently £650,000 joint allowance for couples. Pension death benefits, when paid as a lump sum from income drawdown, are generally taxed at 55%, but these are expected to change with the new rules.

Changes to State Pension rules from 2016

LEGISLATION TO INTRODUCE A SINGLE-TIER STATE PENSION has become law with the introduction of the Pensions Act 2014.

The new rules will replace the current system of a basic state pension plus additional top ups for people who reach state pension age on or after 6 April 2016.

So what are the key changes?

- People will need 10 qualifying years of national insurance contributions to receive any state pension.
- People who start their national insurance record after the reforms are introduced will need 35 qualifying years to receive the full state pension. This replaces the current 30 years.
- The Government has introduced a triple lock guarantee to protect the value of the state pension. This means state pensions will increase by inflation, earnings or 2.5%, whichever is highest.

While the actual weekly amount a pensioner will receive will not be known until 2016, current estimates suggest it will be around £147.00

When he introduced the reforms, the Minister for Pensions, Steve Webb, said the new state pension will replace the "current complex mix of basic and additional state pension" and give people "clarity and confidence" about what income they will get from the state in their retirement and "will benefit those who have historically done poorly under the current 2-tier system".

If you are retiring now or in the next few years, talk to your Lowes Consultant to find out what the best options may be for you, by calling 0191 281 8811.

INTERVIEW

Why we use Lowes

ROB KINGSBURY SPOKE TO MRS H. CLARK FROM Northumberland, about what led her and her husband to become Lowes clients.

Mrs Clark may be new to Lowes Financial Management – she and her husband became clients less than a year ago – but they came to the firm because they wanted their personal finances to be looked after in the old-fashioned way – personally.

"We'd been with a Bristol-based firm for many years and when we first joined we used to be visited twice a year by a man from Yorkshire. Then they got bigger and they stopped having that local presence and all we got were bits of paper through the post," Mrs Clark explains.

"We're getting old and it really became too much for us to handle our finances by post. It's very difficult when you don't understand things or you need a bit of help and guidance," she says. "My husband tried to do it. He'd have the papers all over the dining room table, then they'd come off the table and then they'd go back on it again. It really wasn't working for us, so we decided to change. We needed someone to sit down with us, explain what was going on and answer our questions face to face. We needed that personal touch."

Mr and Mrs Clark received an invitation to attend one of the Lowes new client seminars. "We'd heard of Lowes from one of our neighbours who seemed very happy with them so we thought we'd go along and see what it was like," Mrs Clark says. "We were very impressed."

Tim Dawson is the Clarks' Lowes Consultant and his first job was to help "tidy up the various things that we have acquired over the years," Mrs Clark says. "Now he's gone through everything and explained what they are and what we need and what we don't need, and just helped us sort it all out."

When it comes to their personal finances, Mrs Clark says, the couple want to feel safe. "We want to know that we've got something behind us for the years ahead and we can trust our adviser to handle all the paperwork and work out the figures and deal with the worry of it.

"I think it's important that you feel comfortable and at ease with the person you're dealing with. Some people may not need to have that human touch, they might be happy to just have everything by post, but for us it's the personal contact that makes all the difference."

Rob Kingsbury is a freelance financial services writer.

Lowes clients Mr and Mrs H. Clark
©Louise Best Photography

When fund managers jump ship

FUND MANAGERS CAN OFTEN TAKE ON A CELEBRITY status in the investment world, attracting vast amounts of money into their funds from people wanting to benefit from the manager's potential performance.

So what happens when that manager decides to leave their current company to join a rival, or set up on their own?

It can cause problems for investors and when someone like Neil Woodford, the renowned equity income fund manager, does it the reverberations can be significant. What has to be remembered is that fund managers are usually part of a team that will include analysts tasked with doing a lot of the background research on stocks and shares the fund might buy.

Following a cult fund manager on the basis that they will always do well does not always pay off.

Fidelity's Anthony Bolton is an example of a cult status fund manager who did amazingly well for investors at the helm of the Fidelity UK Special Situations fund, but when he left that fund to run the Fidelity China Special Situations fund he failed to come close to his previous achievements, leaving people who had piled into the fund disappointed with the performance.

While Woodford's first own brand fund is an equity income fund similar to the one he ran at Invesco Perpetual, our experience tells us to watch and wait rather than jumping on the bandwagon.

Since Woodford was running a huge mandate for Invesco Perpetual – overall some £30 billion with £10.5 billion in the Income fund – there is speculation that he may have difficulty following a similar strategy and obtaining the stocks and investments he wants at the right price for his new fund. Many people wanting to follow Woodford have had to sell their holdings in the funds he was running at Invesco Perpetual to buy into his new fund, potentially causing tax issues for themselves.

There may be instances where it is suitable and appropriate to invest in the funds but any decision we make to invest in the Woodford own brand fund will be based on sound research and observations.

■ ***If you are thinking about investing in the new Woodford fund, please talk to your usual Lowes Consultant or call 0191 281 8811 for advice on whether it is suitable for you in the context of your overall portfolio.***

Sudoku solution

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

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

Spotlight on your Lowes Financial Consultant

Rodney Molyneux

ROD MOLYNEUX CAN BOAST A long career with Lowes Financial Management, stretching back to January 1995, in which time he has dealt with literally hundreds of clients.

Rod started his life in financial services in 1979 working for Abbey Life after a brief career as a qualified teacher – "it really wasn't for me," he says. In 1985 he was working for HSBC, having been part of the Midland Bank, which was acquired by the Hong Kong-based giant in 1992. He stuck with the bank for nine years but became frustrated by its 'tied' operation, which limits the range of investment solutions advisers can recommend. "There were occasions when the bank expected me to recommend things that I didn't think were that good because we didn't have anything else and that just didn't sit right with me," he says.

Rod decided he wanted to join an Independent Financial Adviser so he could give the kind of advice he felt was correct and suitable for his clients.

"I'd come across Lowes and had heard enough about the company to know it was an independent adviser that I'd like to work for," he says. "So I applied and got the position."

The fact that he has been with Lowes for close to 20 years suggests that he made the right decision. "Absolutely," Rod says. "It's the variety of people that I meet through working for Lowes that makes the job. They are from all walks of life. And every day is different; you never know what is going to happen. It's also a very rewarding job, such as when a client has done very well from an investment or you've undertaken Inheritance Tax planning and you can see the family has benefited from it."

Outside of work, Rod's passion in life is mountaineering and rock climbing. It's a sport he's been involved in since he was 16. "I was in the sixth form at school and one of the teachers asked if anyone would be interested in rock climbing."

Since then he's climbed in Yosemite Park in the States, as well as Norway, France, Spain, Switzerland and Italy among others.

However, clients may not have benefited from Rod's advice following what he described as "one or two scary experiences". The worst was a major accident in 1979 when he was caught by an avalanche. "I was dug out and just about survived. I had five broken ribs and was quite badly injured. It took me about a year to get fit and to start climbing again," he says.

"Now when it comes to winter climbing I tend to be Mr Cautious. If there is even hint of a possibility of an avalanche I don't go out," he says. But the sport is so much in his blood he won't give up until he really has to, he adds: "The joints are getting a bit creaky these days but I'm determined to keep on going until my knees give up on me."

The Active versus Passive Debate

AS INVESTMENT ADVISERS, IT IS HARDLY surprising that we would advocate actively managed funds over passive funds, but with more and more coverage in the popular press of the use of passive funds, Lowes' Investment Manager Doug Millward counters some of the arguments made.

Passive investments try to replicate the performance of a given stockmarket index, such as the FTSE 100, including the reinvestment of any dividends generated by the underlying companies, but without making any decisions about whether or not the underlying companies are worth investing in. These should not be confused with structured products which, whilst often linked to the likes of the FTSE 100 index, offer pre-defined returns and protection based on the position of the defined underlying index and have pre-defined maturity dates.

Active investments, on the other hand, are managed by a single person, or a team of people, whose job it is make decisions about which companies are worth investing in. People often believe the passive fund should diversify the risk, as most active funds invest in fewer than 100 companies, but as the FTSE 100 is a capital weighted index (i.e. each company does not contribute an equal amount, but instead the larger the company the bigger its contribution) the top ten companies account for 43% of the index. The same applies to the sector breakdown: there are nineteen sectors within the FTSE 100, but the top five account for over 56% of the index, with Oil and Gas alone accounting for 17.2%. This is fine when the biggest companies or the biggest sectors are doing well, but when they are falling, or even just in the doldrums, a passive investment will continue to track their performance, whilst an active manager can move on to a different stock with greater potential.

Company	Weight
Royal Dutch Shell A & B	8.57%
HSBC Holdings	6.90%
BP	5.35%
GlaxoSmithKline	4.67%
British American Tobacco	3.80%
Vodafone	3.53%
AstraZeneca	2.92%
Diageo	2.83%
Rio Tinto	2.51%
BHP Billiton	2.35%

Source: FTSE Group. Weightings as at 31st March 2014

Sector	Weight
Oil & Gas	17.22%
Banks	13.64%
Health Care	9.31%
Personal & Household Goods	8.18%
Basic Resources	8.10%

Source: FTSE Group. Weightings as at 30th May 2014

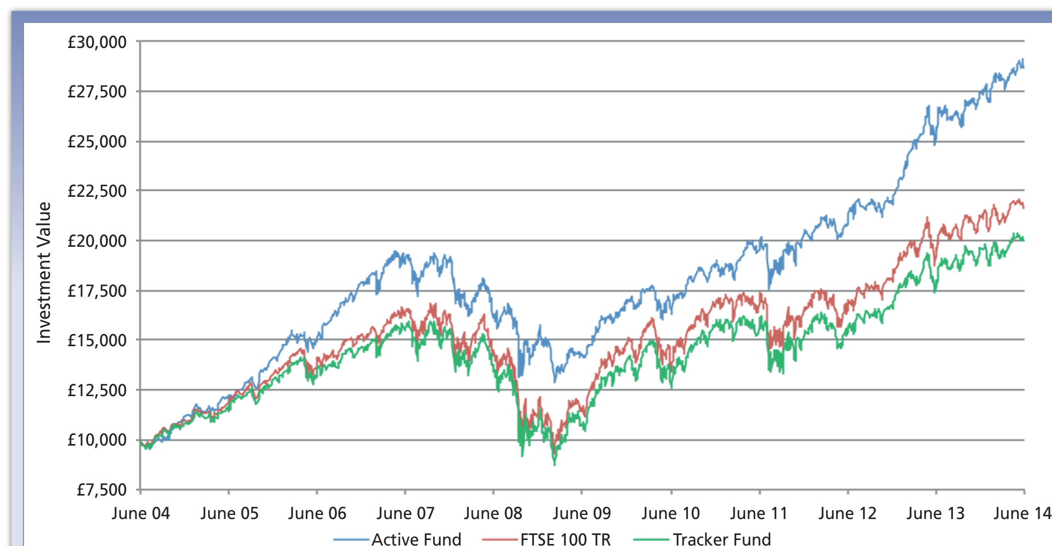
The need for research

Which leads to an argument often given in favour of passive investments over active investments: "*the average fund manager underperforms his benchmark or sector*". This may well be true, but whilst it is rare for any fund manager to never have a poor period, with proper research it is possible to avoid the poorer, and even the "average" fund managers, and invest instead in those who are more likely to consistently outperform over the longer term. Active investing does not only describe the funds used, of course, and regular monitoring of the funds chosen and switching when a better alternative presents itself will help avoid holding on to funds which fail to perform over the longer term.

The argument about underperforming the benchmark can be easily turned around as well. Whilst the average fund manager may underperform their benchmark, all passive funds which track an index will not match the performance of that index when the re-investment of dividends is taken into account, as they must make charges to cover their costs. Indices do not take any charges into consideration, such as the dealing cost of buying the underlying shares for example, and over time the effect of these charges acts as a drag on performance.

The costs argument

This brings us to the main argument against active investing: "*passive investments are cheaper than active investments*". Now this is a fact which cannot be denied – a popular fund which tracks the total performance of the FTSE 100 index is currently available with an annual management charge of 0.1%, which compares very favourably with an actively managed fund which would typically have an annual management charge of 0.75%. As with most things in life, however, with investing you get what you pay for, and the important thing is to make sure you get value for money. With an investment this comes down to the performance – if you invest £10,000 today, how much will it be worth in ten years? This is the main reason we favour active funds over passive funds, and is illustrated by the accompanying chart.



The chart shows that £10,000 invested in a popular FTSE 100 tracker fund ten years ago would be worth £19,951.31 today. Investing that £10,000 into a well-known mainstream fund, however, would have given you a value today of £28,795.90, even after charges had been taken into account. That would leave the investor £8,844 better off.

That difference is why we are committed to pursuing an actively managed strategy within Lowes portfolios.

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.