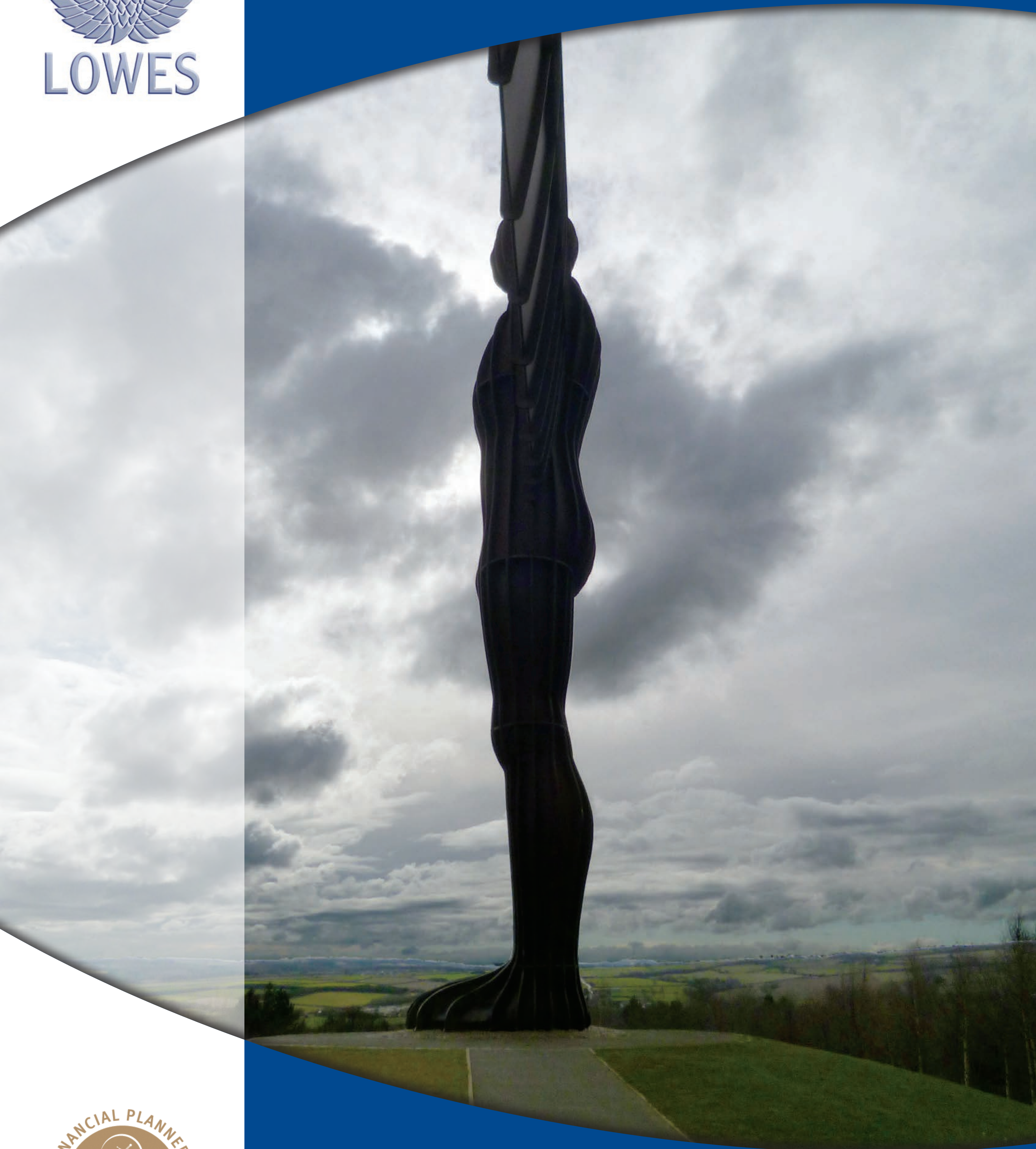
Autumn **2013**



"Abundance can be had by simply consciously receiving what has already been given."

Sufi Proverb

Enhancing our investment team

WE ARE DELIGHTED TO HAVE SECURED ADDITIONAL TALENT TO ENHANCE OUR HIGHLY qualified investment team. Paul Milburn previously worked for 16 years for a North East headquartered mutual insurance company, in the Corporate Treasury department, where he gained considerable investment experience investing not only the company's assets but also the company's pension scheme.

Paul's experience at analysing funds and other investments, devising strategies and constructing investment portfolios complements our existing strengths and further demonstrates our commitment as a Chartered Independent Financial Advice firm that selects from the whole universe of investments to help us provide the best possible outcome for our clients.

Outside work Paul used to be an avid golfer with a handicap of 16 and enjoyed mountain biking too, however his two sons, both under 4 years, keep him busy these days, as does the DIY around his new home. "I wouldn't have it any other way," he says.

Cash management service

ANYONE WITH A LARGE AMOUNT OF CASH IN A deposit account and who really doesn't want to take any investment risk with that capital will be suffering from extremely low rates of interest. With inflation as measured by the Consumer Prices Index (CPI) at 2.7%, research by Which? Money in August 2013 revealed that out of 804 cash accounts available at the time, just one had a rate that would beat inflation.

Whilst the best accounts on offer will limit the damaging effect of inflation, the best accounts today are highly unlikely to be the best accounts in a year's time.

With these levels of interest rates, it can pay to have someone in to actively manage cash accounts. For anyone with over £100,000 in cash who wants to achieve the best rates from the market, Lowes can access a cash management service. We do this in conjunction with a third party discretionary investment firm. This service collates the interest rates of a wide range of mainstream providers on a daily basis, which allows for the construction of a diverse portfolio of cash deposits to suit individual requirements. Rates are then monitored and switches made to ensure the accounts are earning a competitive rate of interest.

■ ***For more information on this service talk to your Lowes Consultant or call 0191 281 8811.***

Too many eggs in property basket

GROWTH IN THE HOUSING MARKET IS showing price rises at a three-year high, with rising demand partially driven by Government schemes including Help to Buy. On the back of this news, we have noticed firms marketing to investors recommending they put their money into residential property.

Our view is that most people will already have a sizeable percentage of their wealth in residential property simply through owning their home. So investing in residential property is a bit like putting more of your eggs in the same basket.

In the Financial Crisis investment funds focused on residential and, indeed, commercial property took a massive hit and because bricks and mortar is not a liquid asset, i.e. you can't sell it quickly, many people found their money was trapped in an investment that was losing them value day by day.

There have been warnings recently of a potential house price bubble but whether or not that occurs, the fact is that spreading your money across a range of uncorrelated investments is the basis of good financial planning. It's certainly what we practice here at Lowes and it has stood our clients in good stead for over 40 years.

Our cover shot:
Angel of the North
© Ian Lowes

Make your money work Best bank & building society accounts

Type	Amount	Provider	Account	Gross Rate	Contact
Unrestricted instant access accounts					
Branch, internet & post based	£1+	Virgin Money	Easy Access Saver 7	1.30%	Branch and uk.virginmoney.com
Branch, internet, telephone & post based	£1,000 +	Kent Reliance	Easy Access Savings Account - Issue 4	1.50%	Branch, www.krbs.com or telephone 0845 122 0022
Fixed rate bonds					
Internet & Telephone Based	£1+	BM Savings	1 Year Fixed Rate Bond	2.00%	www.bmsavings.co.uk or telephone 0845 602 2828
Internet Based	£1+	AA Savings	2 Year Fixed Savings	2.25%	www.theaa.com/savings
Branch, Internet & Telephone Based	£500+	Halifax	3 Year Fixed Saver	2.50%	Branch, www.halifax.co.uk or telephone 08457 26 36 46

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

Retail Prices Index (RPI)	Consumer Prices Index (CPI)
3.2%	2.7%

Sources: Providers' websites, Office for National Statistics, www.thisismoney.co.uk, www.moneyextra.com, www.moneysupermarket.com, www.moneyfacts.co.uk 15 October 2013. 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.

AIM ISAs

IN AUGUST THE TREASURY CHANGED THE ISA RULES TO allow investors to use stocks and shares ISAs to invest in the Alternative Investment Market (AIM).

AIM is the London Stock Exchange's international market for small companies and a wide range of businesses, including early stage, venture capital backed, as well as more established companies, which join AIM seeking capital to fund their growth. With funding for new companies under pressure, by introducing these new measures the Treasury clearly hopes to encourage further investment in small businesses.

AIM offers investors the chance to get in on the ground floor of a company, investing early in stocks that might rise in value many times over and so deliver high rewards. But, and this must be stressed, because these can be small sometimes unproven companies, the risks can be high as well.

There are very generous tax advantages to investing in AIM stocks as, in most cases, they can become exempt from inheritance tax and from 2014 investors will not have to pay stamp duty on AIM stocks. Under the new ISA rules, investors can invest in an AIM ISA and, in addition to any inheritance tax savings they can also benefit from income tax and capital gains tax exemptions.

However, these are typically high-risk investments and some companies will inevitably fail. Any tax relief must therefore be carefully assessed against the investment prospects.

Spending it

READERS OF FORBES MAGAZINE WILL KNOW THAT EVERY year it publishes its 'Cost of Living Extremely Well Index' – a list of items the magazine purports are 'essential' for luxury living today.

The list tracks the prices of 40 ultra luxury goods, and between 2012 and 2013 noted that the overall cost of purchasing them all is up 2.5% over the year, compared to the US Consumer Price Index which is up 2.0%. Below we highlight a few of the items on the Forbes list and how much they will set you back in 2013.

Item	Price 2013
Learjet 70	£7,018,844
Oyster 625 sailing yacht	£2,112,570
Rolls Royce Phantom Drophead Coupe	£292,032
Steinway Concert Grand Piano	£88,424
1 year at Harvard University	£35,051
Facelift from well-recognised Facial Plastic Surgeon	£11,494
Tsar Imperial Sevruga caviar (1 kilo)	£8,451
Seasonal Flowers: 6 Rooms per month	£5,080
Hermes handbag, bull calf leather	£4,555
John Lobb men's shoes, black calf wing tip, custom	£3,384
Cost of a year's subscription to Forbes Magazine	£37

Micro investment of a different kind

READERS OF THE LOWES MAGAZINE MAY HAVE gleaned over the years that I have a fascination with science as well as the business of financial advice. So you may not be surprised to learn that my attention was drawn to a recent article describing experiments where ecologists have shown how colonies of bacteria balance growth against risk, just like financial investors.

Using lab-based synthetic biology, experiments in bacterial evolution, and mathematical modeling, the experiments identified links between bacteria and investment markets.

The research group, derived from the UK and Australia, used strains of the bacterium E. coli that were constrained by the level of resources available to them for growth, and which also were subjected to varying degrees of biological stress. This resulted in different strains of E. coli developing, with a range of ability to cope with stress and invest in growth.

Using a petri dish as the equivalent of a stock exchange trading floor, the researchers measured the consequences of the trade-offs for the bacteria between development of stress-resistance, which involves the acquisition of costly proteins, or simply increasing consumption to grow. These consequences were recorded in the evolution of the genetic codes of the different bacterial strains.

The authors of the study said the experiment showed how the trade-off in investment decisions led the bacteria to exploit different niches. The strategies showed how the small differences in trade-offs, which are usually invisible or ignored in the real market, can lead to significant differences in growth – in Darwinian terms the difference between survival and failure.

Of course, trading floors and petri dishes are quite different environments from where our Investment Analyst Team examines and selects the investments that we recommend for our clients. Nevertheless, it is the differences between fund managers, which often can be quite subtle, that can lead to significantly diverse rates of growth in investment portfolios and our team spends a large proportion of its time either analysing investment screens or interviewing the managers directly to identify which have the better chance of success. You could say we put fund managers under the microscope.

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.**

Lasting Powers of Attorney

Britain's population is living longer and statistics show at some point many of us will need a trusted individual to look after our affairs. It can help to put in place the right financial plan and legal documents sooner rather than later.

A FUNDAMENTAL PRINCIPLE OF FINANCIAL planning is looking ahead and putting arrangements in place to cover potential eventualities in life.

With an ever ageing demographic in the UK, and the high probability that we will live longer than previous generations, one of the arrangements that should be considered is setting up a Lasting Power of Attorney (LPA). This gives a trusted individual, or individuals, Power of Attorney to look after our affairs should we become unable to do so.

The Alzheimer's Society predicts that more than 1 million people in the UK will have dementia by 2025 and 1 in 5 people over 85 are already suffering from it. Whilst we all hope it will not affect us, or anyone we know, it can make sense to include provisions in our plans in case it does.

A recommended route is to set up a Lasting Power of Attorney. This process has been in place for some time. Until October 2007, Enduring Power of Attorney (EPA) was available and the process to set one up was quite simple. If the person subsequently lost mental capacity, then the attorney had at that point to register the EPA with the Office of the Public Guardian and once registered they could continue to deal with that person's affairs.

However, as a result of the Mental Capacity Act 2005, which came into effect on 1 October 2007, the Lasting Power of Attorney (LPA) was introduced. This implemented a far more stringent process to have Power of Attorney approved, and in doing so was intended to provide a lot more protection for people.

> *"In these circumstances a person's finances can become complicated and an Independent Financial Adviser can play a key role"*

An LPA provides for two major areas in someone's life. The first deals with property and financial affairs. This lets the person choose one or more individuals to make decisions about money and property for them, for example, paying bills, collecting benefits, and selling property.

The second type is the Health and Welfare LPA. This allows the attorney to make decisions on behalf of that person regarding their welfare, such as around medical care, where the person might live (such as a care home) and allowing or refusing medical treatment. A personal welfare LPA can only be used once the person has become mentally incapable of making these kinds of decisions for themselves.

With an LPA there must be a certificate from a prescribed person, such as an Independent Financial Adviser, who can confirm that the person understands the LPA and that there has been no undue pressure put on them to establish the LPA. This clearly provides a safety net for those people who might be vulnerable.

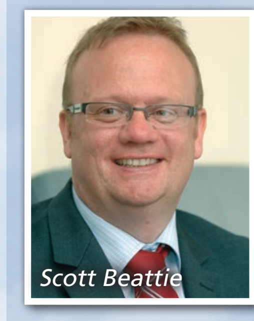
In these circumstances a person's finances can become complicated and Independent Financial Advisers can play a key role in both types of LPA. Good financial advice can assist with the financial LPA, helping to assess the assets that a person – or couple, where one partner has become incapacitated – may have and how best they can be employed to provide for their needs.

Financial advisers can be invaluable on the health and welfare side as well, helping to take measures to ensure that should the person's health deteriorate and they need long-term care, for example, the proper finances are in place to help enable them to receive the best living accommodation, care and attention they are able to afford.

Our experience shows that planning should not start when an individual becomes incapacitated and the LPA takes effect, it should be part of the process that includes the management of finances well in advance of that event. At the point an LPA is empowered, a person's finances could well have fallen into disarray. It is far better to put a financial plan in place as far in advance as possible so that everything is already established, the full extent of the person's assets are known, they are well documented and there is the right balance between some ready cash and shorter, medium and longer term investments within their overall portfolio of savings and investments. This will make it far more likely they will have sufficient means to cover their needs as well as making the attorney's role a lot easier to undertake.

Hopefully having prepared a Lasting Power of Attorney it will go in a drawer and never need to see the light of day again but given that it provides peace of mind for you and your loved ones, the money spent on preparing it could be one of your best investments.

Practical issues when appointing a LPA



Scott Beattie

SCOTT BEATTIE, Consultant with Lowes, has been helping clients to put in place Powers of Attorney for many years. He says that, in his experience, there are a number of practical issues that people should carefully consider when setting up Lasting Power of Attorney.

The first is careful selection of the attorney. "Clearly you will want someone who you feel will best look after your affairs should you not be able to do so. Invariably, this will be a close family member" says Scott.

However, where difficulties may arise is where there are conflicts of interest. "The problems people can encounter these days is with extended families," says Scott. "I have come across situations where the child from a previous marriage has been made sole attorney and this has worked against the current partner or spouse."

Scott points to issues where property is involved, which may be the primary inheritance for the sole beneficiary, who is also the attorney. In this situation, he says, "decisions have been made which have prevented sale of the property – because of the tax implications – to the detriment of the person's spouse."

Appointing more than one attorney can mean everyone's interests are considered before a decision is made. Appointing them 'jointly and severally' with special provisions means smaller financial or health related issues can perhaps be dealt with by one attorney, but a restriction is applied so that larger decisions are not made unilaterally.

"Also, having attorneys who are resident in the UK can ensure decisions can be made quickly if they need to be, particularly on health issues, and there are no problems due to different time zones, for example," Scott adds.

Importantly, attorneys need not be appointed to deal with both the financial affairs and the health and welfare of the individual and different attorneys may be appointed to deal with each element.

When setting up a LPA, Scott stresses that having professional help can make the process faster and avoid costly errors. "I have seen self completed forms rejected by the registrar because of ambiguities in the intentions which has not only seen the registration fee lost (currently this is £260 for both financial and health and welfare - £130 each) but it can create further problems where a person loses capacity in the meantime and a deputy has to be appointed by the court of protection who only has limited powers without the court's approval. This creates greater complexity and cost in the process."

Finally, Scott says, don't leave setting up a LPA to the last minute. "A well thought-out plan implemented ahead of any eventuality, when the person involved is fully aware and part of the decision-making process, is far better than trying to deal with a situation which has already arisen and can have major financial and health and welfare implications to contend with at what can be a very emotional time as well."

Points to consider

- Appoint more than one attorney, where possible, to spread the responsibility and to ensure a fair outcome for all.
- Appoint them 'jointly and severally' to give the option of making decisions together or individually (applying restrictions where appropriate).
- Appoint attorneys resident in the UK as this can speed up important decisions.
- Discuss the appointments with family members and anyone else potentially affected.
- Have a professional draw up the paperwork to avoid ambiguities and problems further down the line.
- Register the LPA immediately after it is signed and while the person is still "with capacity".
- Don't leave it too late to set up a LPA – once a person has lost capacity then it's too late.

FOR THIS ISSUE'S Top Tip, Consultant Gavin Burton highlights the closing window of opportunity to take advantage of the age-related income tax allowance.

Anyone over 65 is currently entitled to an 'age-related allowance' on their income tax, giving them a higher tax free allowance than the standard personal income tax allowance.

So, in the 2013/2014 tax year anyone over the age of 65 is given an increased personal allowance from the standard £9,440 to £10,500 (meaning they can have an extra £1,060 of tax free income). For those over the age of 75 the allowance is increased to £10,660 (an extra tax free income of £1,220).

However, there is an income limit for age-related allowances of £26,100, and every £1 of income over this threshold can reduce the age-related allowance until it reaches the standard allowance level. This has been known as the 'age-allowance trap'.

Now the age-related allowance is being abolished altogether and from April 2014 there will be just one personal rate. Anyone receiving the age-related allowance has already seen it frozen at £10,500 this year and there is a closing window of opportunity to take advantage of the extra personal allowance for over 65s.

One way to do this is by withdrawing cash from investment bonds, which tax returns as income rather than as capital gains. With careful planning an investor could take advantage of the full age allowance threshold, although they could lose their age allowance if they fully surrender a bond.

Someone already in the age-allowance trap could replace their taxable income with investment bond withdrawals of up to 5% per year within the cumulative allowance without any further immediate income tax liability.

This 5% rule could also be used to withdraw a lump sum while avoiding the age-allowance trap altogether.

Taking advantage of this closing window will depend on individual circumstances.

■ ***If you might benefit from this opportunity and would like more information please contact your usual Lowes Consultant or call 0191 281 8811.***

Assign your pension benefits

WE HAVE STRESSED IN PREVIOUS ISSUES OF THE LOWES magazine the importance in anyone's financial planning of making a Will and keeping it up to date. One good reason for this, recently highlighted by the Association of Member Nominated Trustees, is the growing number of challenges being made regarding the beneficiaries of a pension on the death of the pension holder.

Trustees of a pension scheme make the decision as to who is the beneficiary (or beneficiaries) of an individual's company pension or their own personal pension. While they must take their members' wishes into account, they do not have to follow them if they decide another solution is more appropriate or, for instance, the scheme rules do not permit for those wishes to be carried out.

Most people sign an 'expression of wish form' when they first become a pension scheme member saying who they want to benefit from their pension should they die. But many fail to update it. Trustees have a duty to consider other potential beneficiaries, especially if the paperwork was signed many years before and never updated. The modern extended family can cause complexities when pension savers remarry and fail to update their wishes – especially where children are involved in one or more relationships.

For anyone with a company pension scheme, or personal pension, making sure the trustees have an updated expression of wish form, which is backed up by an up-to-date Will, can help prevent wishes being challenged.

■ ***For assistance with assigning your pensions rights or making a will, please contact your Lowes Consultant or ring 0191 281 8811.***

Face-to-Face

CONTINUING OUR SERIES WHERE WE LOOK AT SOME OF the fund managers that are included in our primary portfolios, this issue we focus on two of the best known equity income managers in the industry, Adrian Frost and Adrian Gosden, who jointly run the Artemis Income Fund.

When constructing our strategic investment portfolios we believe it is important to have consistently producing equity income funds. One of the reasons is that income seeking funds have a focus on finding companies that pay good regular dividends to shareholders, so when the stockmarkets may not be growing, these funds, which seek their returns mainly through what is called yield rather than growth, can still deliver for us. They complement the other funds and investments in our portfolios, bringing balance and diversity to them, which is important in helping to maintain our investment performance.

Adrian Frost and Adrian Gosden have been running the Artemis Income Fund since 2002 and 2003 respectively, so they are highly experienced hands, which is one of the reasons we have included them where we think it is appropriate in our investment models.

The fund is an equity income fund that invests in shares rather than bonds and particularly shares that pay good dividends as well as having the potential for growth. When the managers invest they are thinking about the cashflow of the company (i.e. the cash left after tax, investing in the business and any bank loans) how much dividend a company can pay and whether it will grow over time.

In describing the way he and co-manager Adrian Frost run the fund, Adrian Gosden said: "We look for quality companies, run by the right people, which are generating cash and paying dividends."

Adrian Frost

Adrian Gosden

Given the rise in the stockmarkets in 2013, and also the surprises they delivered in the summer, Gosden stresses the need to continually "check where you are" which has seen the two managers continually meet with companies and work with third party analysts "to try to understand the dynamics of every business we own".

In September he says they made the decision to sell some of the well known shares they held because they could see too many people were piling into those companies forcing prices up to a point where they would be unsustainable. "It meant selling some old friends, shares that have been in the portfolio between three and five years, and look for new ideas to replace them," Gosden said. "But," he added, "this is what we do all the time."

The fund mainly invests in the UK and in large companies but it has the ability to invest in mid- and small-sized firms and to a lesser extent to invest overseas. This flexibility is one we like as it gives the fund managers the scope to find the best investment opportunities.

The reward for risk

POORLY PAYING CASH DEPOSIT ACCOUNTS IS A SUBJECT we have highlighted before in the Lowes Magazine and how some providers have been reducing their rates further. Recently savers holding National Savings & Investments (NS&I) products were told the rates on the products they hold were being cut again.

The Government-backed provider announced in June that rates on its Direct ISA, Income Bond and Direct Saver products would be reduced in mid September.

In a statement, NS&I said the reductions were in line with savings market trends but this leaves its cash ISA paying 1.75% and its easy-access direct saver account offering 1.1%.

What can savers do when bank and building society rates are below inflation and the latest Consumer Prices Index (September 2013) shows inflation is still hovering around 2.7%?

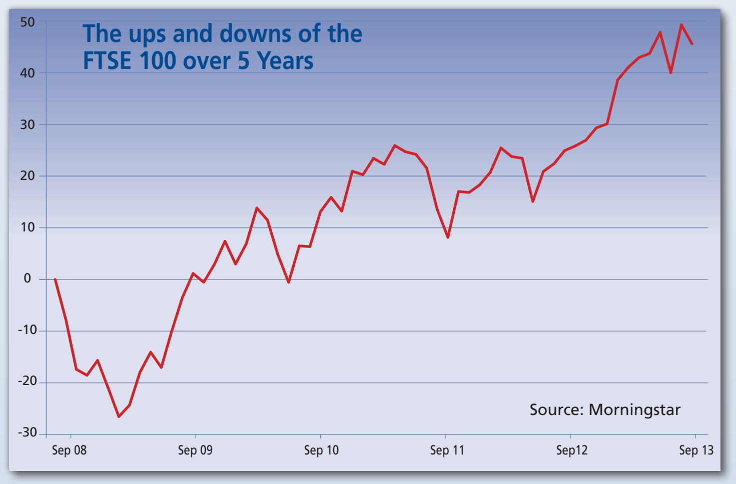
The Bank of England has indicated that interest rates are not going to be raised anytime soon. Indeed, in his first major speech after becoming Governor of the Bank of England, Mark Carney told business leaders that interest rates would not rise from 0.5% unless unemployment falls to 7%. Further, he added that there was only a one in three chance of this happening within the next two years.

While this is great news for borrowers, it brings no joy to savers with money in low interest paying cash deposit accounts.

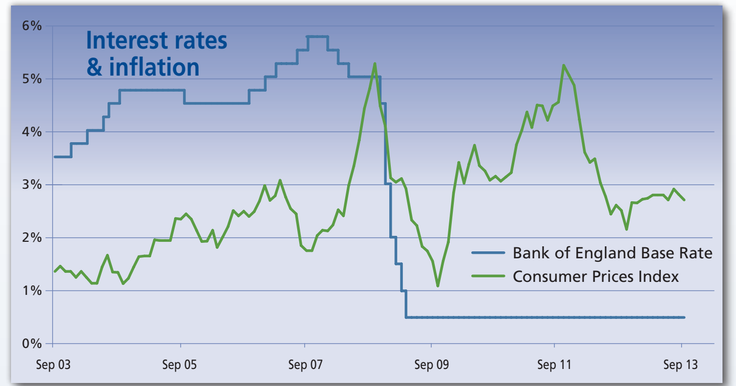
While many people are concerned about taking too great a risk with their money, simply put, the only way to make above inflation returns on savings and investments is to take greater risk. At current interest rates, those that don't are accepting a guaranteed loss in real terms.

As a result, many more savers are becoming investors and transferring their Cash ISAs to Stocks and Shares ISAs and investing.

The maximum overall contribution into an ISA for the 2013 -2014 tax year is £11,520, which can either be all in stocks and shares or £5,760 in a Cash ISA and £5,760 in a Stocks and Shares ISA. For anyone who has built up a substantial pot of cash in ISAs over the years, transferring a proportion of their money into Stocks and Shares ISAs could allow them to benefit from better returns while balancing their overall savings portfolio.



However, savers making the transfer have to accept that they are giving up the relative security of saving in cash for the potentially better returns they can achieve through what are generally riskier, typically stockmarket-linked investments.



The paradox is that taking no risk could transpire to be the biggest risk of all in that the current environment dictates that money held on deposit is as good as guaranteed to lose value in real terms.

It should never be forgotten however that the acceptance of stockmarket and other risks does not always transpire in the best possible outcome. As the chart of the FTSE 100 shows, markets can go down as well as up and investors need to be prepared to accept the worst case scenario to the extent that there may be periods when their investments do not outperform deposit-based returns and/or losses are ultimately realised.

Risk can be mitigated by using one of the core principles in investment strategy, which is to balance and diversify an investment portfolio by using a spread of different investments. Preferably these should be uncorrelated to one another so that if one type of investment suffers a market fall, the other investments in the portfolio will keep the overall strategy on course.

Certainly, those prepared to ride out the vagaries of market movements by committing to medium to long-term investment at least have a chance of maintaining the real value of their capital and, given the right market conditions, they may just profit substantially.

Doug's digest

Lowes Investment Manager Doug Millward looks at the issues for investors to consider when investing in Emerging Markets and why funds with a broader remit are preferable to single country funds.

IN MAY OF THIS YEAR, THE HEAD OF the Federal Reserve, Ben Bernanke, caused a stir in global markets by hinting that they would soon begin reducing the US Quantative Easing program. As investors thought the supply of cheap money might be coming to an end they moved from riskier assets to safer ones, causing amongst other things a sharp fall in the value of investments in emerging markets.

This re-enforced two of our beliefs when it comes to investing in stockmarkets. Firstly, you should never try to time the markets. There are many debates to be had over this being an overdue correction or a knee-jerk reaction that has led to the markets being oversold. One thing seems certain to me, however: No matter how well informed you are, an unexpected event - be it a comment from a central banker, a potential war in the Middle East, or something completely different - can move the goalposts and negate a lot of the research you have done. Better to ignore the short-term noise and concentrate on looking for a proven fund manager, with a consistent track record of producing out performance over the long term, through a variety of market cycles and events. This point was emphasised further in September, when the markets had positioned themselves for the "inevitable" tapering of QE that was hinted at in May, only for Mr Bernanke to decide that the time wasn't right after all.

Second, diversification is important. As I said, the comments led to a fall in what were perceived as riskier assets, especially those in the emerging markets. For many people emerging markets still means the BRIC countries - Brazil, Russia, India and China - but at Lowes we are reluctant to limit investments to such a small geographical area. There are, of course, good companies in each of these four countries, but there are also some not so good, and by limiting the area a manager can invest in, they can be forced to invest in some of these poorer quality firms. The manager of a more general emerging markets fund can still invest in the good companies in these countries if he feels the investment argument warrants it, but he can also look to other countries for investment ideas if there is nothing that catches his eye. By looking at a wider area he has a longer list of quality firms to invest in, and doesn't have to make up the rest of his portfolio with "also-rans".

If we look at one of the top performing emerging markets funds, for example, we can see that following the announcement by Mr Bernanke, it fell by 12%, but then recovered slightly, and is now, at the time of writing, only down a little over 6%, and is still up just under 7% over the last twelve months. By contrast, one of the top performing funds investing only in India fell nearly 16% in May to June, but then suffered a further significant fall in August as worsening news came out of India regarding the economy. This affected the emerging market fund too of course, but not by the same amount as less of the fund was exposed to India, and despite a recent recovery, the India fund is still down 16% since May, and more than 5% over the last twelve months. (See chart).

Of course, these two tenets of investment are nothing new, but at times when something out of the ordinary is affecting the stockmarkets, it is good to remember that they are there for a reason, and that a well-diversified portfolio held over the long term will hopefully provide better returns.