LOWES

Est. 1971

Autumn **2012**

"There are many paths but only one journey"
Naomi Judd

FINANCIAL PLANNERS CII CHARTERED

Ian Lowes key speaker in FT industry debate

IAN LOWES WAS A KEY SPEAKER IN A STRUCTURED PRODUCTS industry debate hosted at the FT's headquarters in London. The debate took place in front of an audience of financial advisers and journalists keen to learn more about these investments.

Ian was the only Independent Financial Adviser asked to be part of the panel of experts, which otherwise included product provider representatives, recognising Lowes Financial Management's experience of researching and employing structured products in investment portfolios.

A growing number of financial advisers are following Lowes' lead in using structured products within their clients' investment portfolios and many were keen to hear Ian's view of the market.

A job well done

CONGRATULATIONS TO Thomas Hughes, personal assistant to Ian Lowes, who after a gruelling selection process received the Runner Up award in the Newcomer category of the Hays Executive PA of the Year Awards.

These are national awards, so Thomas was pitted against PAs from some of the largest corporates in the UK.

Thomas joined Lowes Financial Management three years ago straight from Durham University, where he read History. He has become a prominent member of the team, for whom no task is too big or too small. We are all really pleased for him – it is a very well deserved accolade.

Being the only male finalist, the interviewing panel of judges were pleased and keen to stress their desire to see more gender equality in such roles and to remove stereotypes. Shame they awarded him a huge bunch of flowers at the presentation!

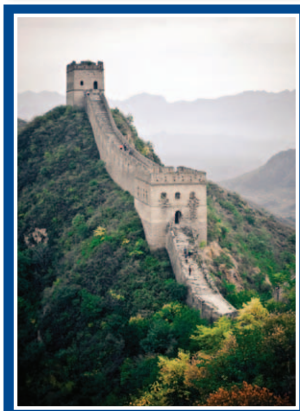
A little of what you fancy

THE SPENDING HABITS OF THE COUNTRY WERE REVEALED IN a recent survey by insurance protection specialist Bright Grey. Having talked to over 1,000 people the firm found that one in twenty believed they spent at least £100 a month on what they termed 'unnecessary and frivolous spending', although the average person spent just £28.90 a month in this way.

The nationwide survey also pointed at men being 'faster and looser' with their money than women. The average man admitted to spending over £30.80 per month on non-essential items during a four-week period, compared with women who tended to spend £27.30 over the same timeframe.

Looking at spending habits on a nationwide basis, Newcastle topped the list with an average monetary spend of £43.90 per person a month, followed closely by Cardiff (£42.80), Glasgow (£38.30), London (£34.50) and Edinburgh (£32.60), Southampton (£31.40) and Manchester (£29.20).

There are several conclusions you can draw from this survey. The two that stand out for us are first, that people in the cities highlighted may well have greater net disposable income to spend; and second, that these are not dramatic figures being spent and in the midst of an economic slowdown maybe a little of what you fancy does you good!



Our cover shot:
Great Wall of China
© istock/Lowes

Make your money work
Best bank & building society unrestricted instant access accounts

Type	Amount	Provider	Account	Gross Rate	Contact
Branch, internet & post based	£1+	Virgin Money / Northern Rock	Easy Access Saver	2.60%	Branch and www.northernrock.co.uk

Sources: Providers' websites, www.thisismoney.co.uk, www.moneyextra.com, www.moneysupermarket.com, www.moneyfacts.co.uk
4 October 2012. All accounts subject to terms and conditions

Measures of inflation
The average change in prices of goods and services over a 12 month period to August 2012

Retail Prices Index (RPI)	Consumer Prices Index (CPI)
2.9%	2.5%

Source: Office for National Statistics

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

UK Regulator to ban exotic retail investments

THE FINANCIAL SERVICES AUTHORITY (FSA) IS AT LAST TO ban the sale of unregulated collective investments schemes (known as UCIS) to the mass market in the UK. They will only be allowed to be sold to sophisticated or professional investors with the experience to properly analyse (and see through) these investments.

The products include the bamboo, unmined gold, US property and storage facility investments we highlighted in the summer edition of Lowes Magazine. The industry has until 14 November to respond to the proposed ban and then there will be a time lag before any regulation is imposed. In that time you may find you receive more product promotions in the post and via email as firms, which more often than not are based overseas, seek to capitalise on the time gap before the restriction is implemented.

These products are often touted as a good way to diversify an investment portfolio because they are uncorrelated to the stocks and shares, bonds and other investments people usually hold in their portfolios. However, the FSA is proposing to ban them because it considers them "higher risk" investments.

As we advised in our last issue, should you receive marketing material on one of these products, as tempting as the investment may seem, please take no action without speaking to your Lowes Consultant.

Building societies make hay at banks' expense

CONSUMERS ARE FAVOURING BUILDING SOCIETIES OVER banks as the latter suffer from the scandals that have continued to hit the banking world this year.

According to a survey carried out by global research company GfK NOP of 2,000 UK consumers, the number of people who felt that building societies valued them as a customer was 22% points higher than banks - in May the gap was 15%. Likewise, the people who thought they could better trust their building society to act on their behalf was 17% points higher than banks, and when asked whether they felt their provider was honest and open with them building societies were ahead of banks by 11 points. Finally, some two thirds of people thought their building society had ethical standards against 50% for banks.

The Building Societies Association also announced that its members' share of the mortgage market has risen to 24% from 17% year-on-year to the end of July.

Just how long the building societies can retain this overall reputational gain over the banks will have to be seen. Banks are so central to our way of life – certainly in the capitalist West – that we cannot do without them. Maybe the building societies should make hay while the sun shines.

COMMENT

Taking care of finances personally

READERS OF THE MONEY PAGES OF THE NATIONAL newspapers are likely to have come across the term Retail Distribution Review (RDR). This is a phrase that has been writ large in the financial advice space for a number of years now and is an initiative started by the Financial Services Authority to ensure all financial advisers had a minimum level of qualification and also to change the way that people pay for their financial advice, bringing financial advice more into line with the legal and accountancy professions. (We talk in more detail about RDR on page 7.)

There have been two major consequences of these changes: firstly, that numerous financial advisers have decided to leave the industry rather than undertake the exams to gain the qualifications they need; secondly, many financial advice firms have reviewed their operations and taken the decision to break down their clients by value of assets and to no longer serve those clients with investable assets below a certain level (£250,000 has been quoted in industry publications as an example figure) or who do not invest a significant amount through them every year.

This is not a policy that Lowes will be following. We have been helping people with their finances for over forty years and stand by our motto 'Where personal finances are cared for personally'. That is core to what we do and it is reflected in the fact that we have many clients who have been loyal to our firm for decades – and that we are even serving children and grandchildren of Lowes clients.

One of the reasons we can take this stance is our longevity in the market and the fact that we run a unique and efficient ship. Unlike many financial advice firms, we have dedicated in-house investment and pension research teams and for every adviser who is talking to you as a client there are three people supporting them in the research, administration and technology teams, ensuring we always have our fingers on the pulse of the financial markets. By pooling our resources in this way, rather than have individual advisers do their own research and administration as some companies do, not only are our staff gaining more experience and expertise all the time, but we can spread the benefit across all our clients.

RDR comes into effect from 1 January 2013. Unfortunately, the increasing burden of regulation, which is pushing up the cost of providing financial advice, is in turn forcing us to review our charging structure, and we will be writing to you about this in due course. Be assured, however, that we expect to remain competitive.

Lowes has one of the most highly qualified financial advice teams in the country and we have built our reputation on providing a high quality service to our clients. That commitment will not waiver no matter how much our clients have invested with us.

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 Services Authority.

Forward **thinking**

Putting in place the right financial plan can pre-empt many issues that accompany bereavement. Lowes Consultant Peter H Collins looks at some of the practicalities that may arise.

FOLLOWING THE DEATH OF A spouse or partner, as well as the emotional and immediate practical considerations, there are many financial issues that need to be addressed. Where plans have been put in place in advance many of the financial worries can be pre-empted and a solution recommended.

However, actions or decisions taken in the past, that have not been made with the whole financial picture in mind, even those made with the best intentions, inheritance tax, lifetime income, inheritance, capital gains tax, money for day-to-day living needs, etc - can present problems with which partners or relatives have to deal at a time when they can be least best equipped to do so.

A common example is where a spouse takes out a single life annuity with their pension. Often these annuities pay more in income than a joint annuity but what many people do not realise is that the annuity relates to that one person and is not transferable, so on their death the annuity payments stop. This can leave a spouse without a large proportion of their income or indeed any income.

The best way to deal with these issues is in forward thinking and forward action – because these eventualities happen to people of all ages all of the time. Making a will, ensuring all documents are stored securely in a known location and are easily accessible, talking to your Lowes Consultant about potential tax issues especially inheritance and capital gains tax, can all help plan for the future financial security of loved ones.

These are financial planning issues that you can talk through with your Lowes Consultant either over the phone or in one of your meetings.

Practical considerations

There are many practical considerations that have to be dealt with immediately following bereavement. Here we outline some of the issues that should be considered as part of their arrangements.

- In order for lawyers, financial advisers and banks to deal with the financial issues they will need sight of the Death Certificate and may need a copy to keep on their records. The Certificate is issued by the local Registrar. Once this has been obtained you can go to your bank and present it to them to make sure you can access money from a joint account.

> *"There are many practical considerations that have to be dealt with immediately following bereavement."*

- You will need money to pay for the funeral and the bank should release funds to the Executors of the Estate on presentation of the Death Certificate.
- A financial adviser will need Certified copies of the Death Certificate from the Registrar.
- Investments in single names cannot be transferred to beneficiaries without a Grant of Probate. Once the funeral has passed, contact Lowes and talk to your consultant as often we can advise on a suitable solicitor. If possible negotiate a fixed price for their service. Alternatively, a member of the family can complete the application for the Grant of Probate themselves and save money for the deceased's estate and in turn the beneficiaries. The forms can be downloaded from the internet or obtained from your local Probate Office.
- If you are applying for Grant of Probate yourself, Lowes will obtain valuations of the deceased's investments on the date of death and forward them to the executors of the Estate. As mentioned above, we will need a Certified copy of the Death Certificate before we can legally take action in this respect.
- If the Will is valid and the executors get to work and add the deceased's assets together and pay any Inheritance Tax out of the assets, we have known a Grant of Probate on a simple Estate obtained at little

cost in a relatively short period of time. Probate Offices usually are very helpful and sympathetic and will help make any necessary amendments to the forms at the meeting you will have with them before the Grant is issued.

- If a 'Will Trust' is involved or anything out of the ordinary, then it is best to seek legal advice before taking any action.
- If there are beneficiaries under the age of 18 then seek legal advice.
- Where there are savings and investments involved talk to your Lowes Consultant who can advise on an appropriate strategy to help maintain their value for beneficiaries.

Consultant experience

Here also are some practical points from our Consultants drawn from their many years of experience helping clients through such difficult times.

- Always make sure you have some money in your own name so there are no immediate cash problems if something happens to your spouse.
- Make a will with an appropriately qualified professional, please do not do it yourself. Intestacy, ambiguities, punctuation and incorrect witnessing can be expensive.
- Try not to appoint children or relatives who live far away as Executors of your Estate. There are numerous tasks that must be conducted locally and it is best that executors are in a position to see people such as the Registrar. Practically, your surviving spouse or partner and a relative who lives nearby makes sense to be appointed Executors.
- Banks can charge a staggering 5% of the value of the Estate in order to be Executors. If your house is worth £500,000 and you have only a few investments, that can be little work for an awful lot of money.
- If you are single then appoint a friend as your Executor, or a solicitor and in the case of the latter, if possible, have the charges agreed in advance.
- Funeral Plans can be good value as they lock into the current price of funeral arrangements. However, the Plan should be with a reputable, trustworthy company that will be around for a long time.
- Be careful about holding certain investments in joint names because the other owner could automatically inherit the joint holding. A real example of how this can go wrong is where one of two siblings persuaded a parent to put their money in the building society in joint names with the sibling. On the death of the parent all the money in the account went to the one sibling, leaving the other out in the cold, despite the terms of the Will stating that half should go to them.

> *"The best way to deal with these issues is in forward thinking and forward action."*

- If you hold property abroad often you will need a Will created in the country the property is situated. The existence of the overseas Will also needs to be mentioned in your UK Will as legally this is usually your last Will and Testament.
- Keep your financial paperwork all in one place and tell your executors where it is. Long delays can be costly, particularly when trying to plan for Inheritance Tax on second death when every day of delay matters.
- A Will can be changed after death if all beneficiaries agree by a Deed of Variation. This requires legal advice.

As can be seen from the above, there can be many things to consider and act upon, depending on a person's individual circumstances. When considering your overall finances, it is prudent to make this type of provision also. Your Lowes Consultant can talk in more detail about the financial issues we have outlined and help you put a suitable financial plan together.

Top Tip

Lowes Consultant Stephen Hoggarth considers how to start planning for an inheritance tax liability.

IT IS EASY TO become confused when thinking about how to plan for an inheritance (IHT) liability, so considering these two methods is a good place to start.

Insure against it

A 'guaranteed whole of life' cover policy provides funds on death that can be used to pay some, or all, of the IHT liability. For couples, a policy that pays out on second death is normally recommended as this is when the IHT liability normally arises. It is important to write the policy in trust at the outset, and any excess funds from the policy, after meeting the liability, can be distributed to the trust's beneficiaries. The level of cover is not directly linked to your potential IHT liability, so it is important your situation is regularly reviewed. This type of planning is usually suited for those with a relatively low appetite for risk as there is no underlying investment, and the benefits are guaranteed.

Invest for it

Some investments are designed to make use of HMRC rules that can benefit from reliefs and or exemptions from IHT after a holding period of either two or seven years. They both involve some level of investment risk. Seven year exemptions apply to investments established via a trust. After seven years these can be 100% exempt from IHT depending on other gifts from the estate. 100% IHT relief is available after only two years for some higher risk investments such as the AIM stock exchange and Enterprise Investment Schemes (EIS).

■ ***As ever if you have any questions, please talk you your usual Lowes Consultant or this office on 0191 281 8811.***

Client Question: What are equities?

ONE OF THE MOST COMMONLY USED TERMS WITHIN THE investment industry is 'equities'. Fund managers will talk about holding equities, equity investing or having equity in a company and yet, as surveys have shown, this term is one of the least understood by ordinary investors.

An easy way to explain equity is in relation to property. The equity a person has in their property is the share of the property's value that is wholly owned by them, ie that is not mortgaged to a lender like a bank or building society. So, it is having ownership of a particular asset.

In the investment world, the term equities is most usually used in relation to stocks and shares. Equity investing or having equity in a company means holding stocks or shares in that company.

Yet even the phrase stocks and shares can be confusing because a stock and a share are pretty much the same thing. 'Stock' is the original capital paid into or invested in a company by the founders/investors. This is divided into numerous 'shares' that are distributed among the holders according to the amount of money they have invested into the company. Hence, a share is literally that: a share of the company.

Stock is used as another name for a share, mostly in the US, and from where we get the terms stockmarket, stockbroker and stock exchange.

When companies want to raise money they can open up ownership of the company - called 'going public' - which gives external investors the opportunity to obtain equity in the company by buying shares.

Direct equity investment can be highly risky, so typically we advise our clients to invest in investment funds. These pool many investors' money and use fund managers' skills and the research they have at their disposal, to buy and sell company shares, with the intention of making a profit in the process. That profit, after fund manager charges, is distributed to all investors in the fund.

We blend a range of these funds into a diversified investment portfolio to better ride the ups and downs of the markets.

Lowes Face to Face

IN THIS ISSUE, LOWES FACE TO FACE FOCUSES ON Richard Buxton, manager of the Schroder UK Alpha Plus Fund.

One of the key elements the Lowes research team looks at when assessing a fund for inclusion in client portfolios is just how long the manager has been running the fund. It is a statistical fact that very few fund managers have been managing the same fund for more than three years, yet longevity of tenure is often reflected in the fund's performance.

This is one of the reasons we like Richard Buxton, the manager of the Schroder UK Alpha Plus fund. In July 2012 the fund reached its 10th anniversary, with Richard at the helm from launch. Investors in the fund over those 10 years will have seen returns of 9.5% per annum on their original investment. Given the many ups and downs of the stock market over that 10 years, the value of investing with Richard can be seen when compared to the FTSE All Share index, which returned 5.8% per annum over the same period.

The UK Alpha Plus Fund was launched in the aftermath of dotcom boom and the stock market crash in 2000. At that time, Schroders were of the opinion that after a decade of rising stock markets in the 1990s, the likelihood was that the markets were likely to move sideways rather than upwards for a 10 to 15 year period.

"We believed that one of the best ways to achieve returns in such an environment would be to construct a concentrated portfolio, focusing on companies in which we had the highest conviction, and with no constraints relative to a benchmark," Richard says.

It is what is termed a concentrated fund, in that it invests in around 35 companies, carefully chosen, says Richard "for their strong balance sheets, sustainable franchises, low valuations and significant growth potential". While some managers may try to time the markets, Richard's view is to find companies he believes in and hold shares in them for three to five years minimum – just how long will be dictated by each company's success and its stock market price.

The fund now stands at some £2.8bn, which shows that quite a few people concur with our own convictions around this fund.

RDR – how will it affect our clients?

By Neil McLachlan, Compliance Director, Lowes.

ON 1 JANUARY 2013, FINANCIAL Management in the UK moves into a new era. Over the past few years the UK financial services regulator, the Financial Services Authority (FSA), has been conducting an official review of the market and a number of changes are being brought into effect from the New Year. So what does this mean for Lowes clients?

In terms of the service you will receive from us and our commitment to handling your financial planning, savings and investments, you can expect the same high standards and quality from Lowes as you have always received.

The RDR requires that all financial advisers have a minimum formal qualification before they can advise people on their financial affairs. Lowes advisers have these qualifications and many hold qualifications well above the minimum requirement. In fact, Lowes has some of the highest qualified advisers and is one of the best qualified firms in the country. This is reflected in our Chartered status, a level held by only a small percentage of financial advice firms in the UK.

What will change is the way in which you pay for the services we provide. In the past this was most often through commission payments made by products providers. This commission was built into the product or service being recommended and was always detailed in our recommendations.

From January 2013, no commission will be paid to advisers and our fees will be agreed directly between Lowes and yourself. As usual our fees can be a direct payment or taken from the investment amount prior to the investment being made. As a result of the RDR we have to review our charges and we will be asking clients to sign a revised formal agreement that reflects the new way that we must now charge you.

Please don't worry about this for the time being as we will be writing to you in due course with all the details and your Lowes Consultant will be happy to discuss the new arrangements with you at your next meeting.

MARKET COMMENT

Doug's digest

In these times of low interest rates where can investors go for income? Lowes Investment Analyst Doug Millward looks at the options.

FOR A LOT OF PEOPLE, THEIR INVESTMENTS are a valuable source of income, either in addition to, or instead of a pension. For many low risk investors this simply meant putting a large amount on deposit in a bank or building society high interest savings account and withdrawing some of the interest each year.

Whilst interest rates were higher than now, this was a feasible means of supplementing income but the marked fall in interest rates following the banking crisis of 2008 has meant a fall in the level of income received to the point where inflation has been eating into deposit capital.

The alternatives to savings accounts used by most investors are Gilts and corporate bonds. These offer a fixed rate of interest, with the return of their nominal value on a set date in the future, providing the company, or in the case of Gilts the UK Government, can continue to meet all its obligations. However, as more and more investors have been turning to Gilts and bonds as a home for their investments, this has pushed up the prices, so reducing the effective yield from these investments. This has been exacerbated by the Bank of England's Quantitative Easing policy, which has purchased Gilts as a means to inject money into the economy, in turn restricting supply. At the same time, companies have prioritised reducing their debts rather than issuing new bonds. Both of which have acted to keep prices high and yields low.

One alternative source of income is dividend paying shares, which we feel offer several advantages in the current climate, not just to investors looking for income. As with any investment linked to shares, while dividend paying shares increase the risk to the invested capital, they can protect against inflation eroding the real value of income.

By choosing strong companies who can comfortably pay dividends out of their regular earnings, hopefully as their earnings grow each year so will the dividend they pay. Not all companies can increase their dividends year on year, which is where a well diversified portfolio can help by increasing the chances and providing a growing level of income overall. Traditionally, diversification was difficult for those seeking income as attractive levels of dividends were only available from UK companies, and a select few UK companies at that. Over recent years, however, there has been a significant improvement in the dividend yields of global companies allowing income investors to gain the levels of diversification they need. In fact a recent report from MSCI (formerly Morgan Stanley Capital International) highlighted that only eight of the world's 100 top stocks' dividend payments were from the UK.

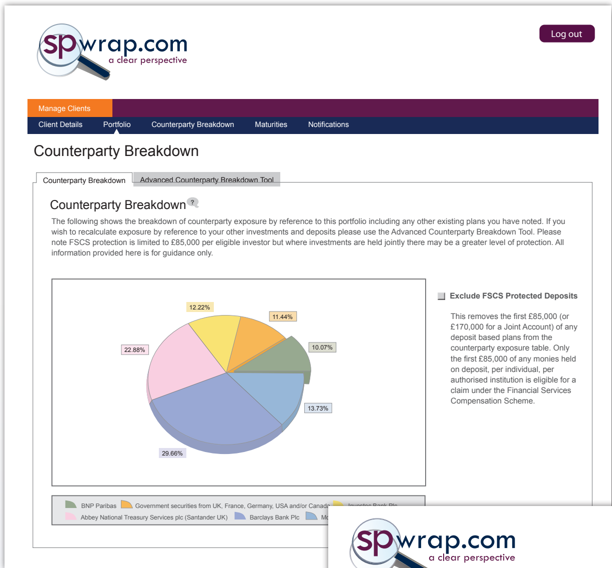
For those investing for growth rather than income, or a combination of both, then income producing shares can also be a worthwhile investment, especially in the current economic conditions. Several academic studies have shown that in periods of low or no economic growth, higher dividend stocks tend to outperform. Also, when these dividends are reinvested the compounding effect becomes a key driver of the total return in the long run.

Of course, funds investing in shares should usually only be one part of a balanced portfolio invested for the long term, but in the current low interest rate world, those looking for income should amongst other things consider funds investing in dividend paying shares.

Putting our clients' investments into perspective

THE FINANCIAL SERVICES MARKET IS CONSTANTLY CHANGING and dynamic. As a forward thinking financial adviser firm, Lowes Financial Management has always ensured that it stays ahead of the game, whether it is in the services we provide for our clients, including the products we research and select for investment portfolios, the training and qualifications of our advisers and support teams, or the technology we use to deliver those services.

One of the key changes that has taken place in the industry is the use of technology to help people see exactly where they are invested and put the investments into perspective in the context of their overall wealth. Through the power of the internet Lowes has been able to deliver personal financial information to our clients for many years. Indeed we have taken some pride in being industry leaders in this respect.



Whilst there are now many modern systems serving the traditional unit trust and open ended investment company space, Lowes is introducing a revolutionary service designed to help clients and their advisers manage and monitor portfolios of structured products - SPwrap.com.

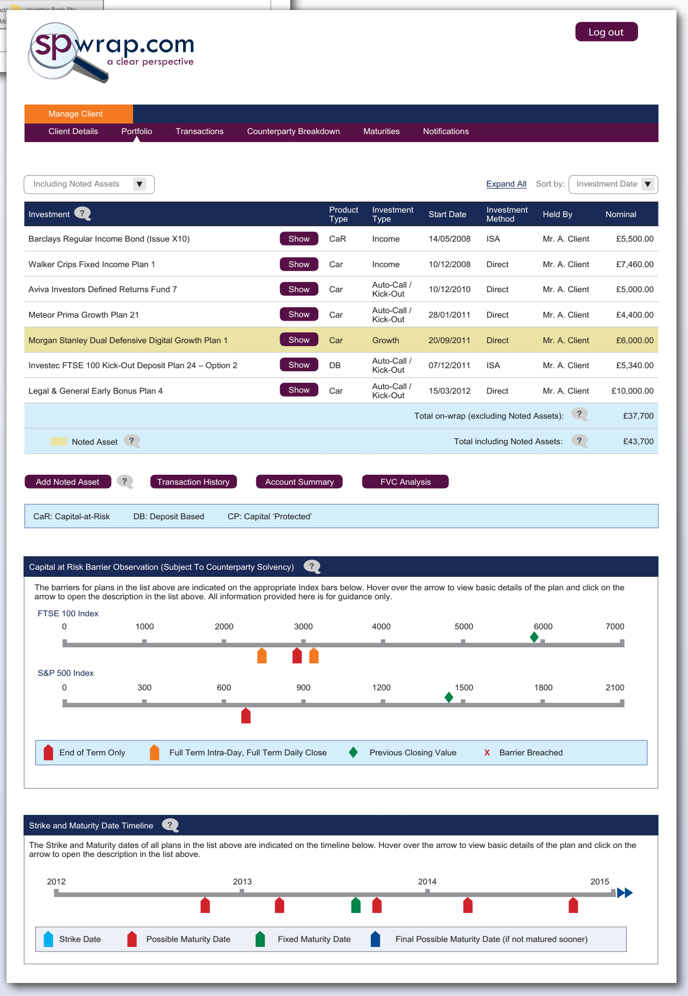
What is SPwrap.com?

SPwrap.com is a dedicated structured product platform that gives unrivalled access to key information on the structured products held within a portfolio in a clear and easy to understand way. It is a service from one of the leading providers in the sector, Meteor Asset Management and has been created in conjunction with structured product specialists and advisers including Lowes.

The service provides online access, with each individual product in a portfolio shown with a straightforward, easy to understand summary, including access to the original literature (so you don't have to keep it filed away somewhere). All the details of a product are shown with a graphical display of a range of information. From easily-read line charts you can see the maturity dates, including potential kick out points for autocall products; the level of the index when the investment commenced, where any applicable capital-at-risk barriers are and the most recent closing level of the respective indices. It also identifies the tax year in which plans will mature and produces a list of those plans for that tax year, thereby aiding tax planning.

It also boasts a comprehensive notification system, where investors are kept updated with information on key portfolio events such initial index levels as soon as they are known and potential forthcoming maturities.

Not only does this new service provide vastly improved access to information on a structured product portfolio, making its management far more straightforward than it has ever been before, it also serves to reduce the minimum investment levels on individual structured products thereby facilitating much broader portfolio diversification in much the same way that fund based wraps such as Cofunds have done for the unit trust space.



This now gives greater potential for blending products together to gain more balanced payoffs and a spread of counterparties and underlying assets and indices.

Whilst the financial services arena is constantly evolving it's only occasionally that a quantum shift occurs. We believe SPwrap.com represents such a shift and will revolutionise the sector.