Summer 2011

“Pleasure in the job puts perfection in the work”

Aristotle

INSIDE: LOWES CHALLENGES IMA RESEARCH

Pensions changes not retrospective

THE TREASURY HAS CONFIRMED NEW EUROPEAN RULES outlawing the use of gender in underwriting will not affect policies taken out before 21 December 2012.

A ruling from the European Court of Justice in March said applying different rates when underwriting for men and women constituted a form of discrimination. Therefore, from 21 December 2012, there should be no difference in premiums and benefits for men and women because of gender risk factors for products such as life insurance, car insurance as well as pension annuities.

For example, currently men tend to receive higher annual annuity payments than women because their life expectancy is calculated to be shorter. But from 21 December 2012 that higher rate will be illegal and a man considering retirement is likely to get a worse deal from an annuity provider. The fear was that the ruling would be made retrospective, affecting payment of annuities already in existence.

However, in a written ministerial statement, Financial Secretary, Mark Hoban, said the government's view is that the judgment only applies to new contracts for insurance and related financial services entered into on or after 21 December 2012.

Any contracts with gender-sensitive pricing of premiums or benefits concluded ahead of 21 December 2012 will not be affected and will continue unchanged after that date.

New regulator to be tougher

NEXT YEAR THE CURRENT FINANCIAL SERVICES regulator, the Financial Services Authority, will be replaced by two new ones – the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA).

The FCA will be responsible for regulating conduct in retail and wholesale markets, and will operate to protect and enhance confidence in the UK financial system. The PRA will be a subsidiary of the Bank of England and will supervise deposit takers, insurers and a small number of significant investment firms.

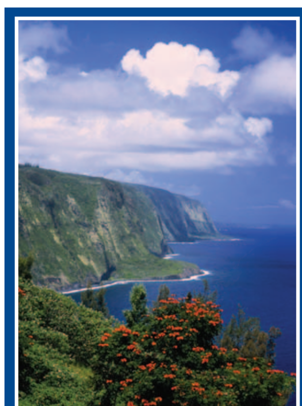
A document outlining the FCA's approach said the new authority would be "tougher, bolder and more engaged with consumers", and more willing to step in "to prevent the crystallisation of large-scale risks and widespread consumer detriment".

This would include taking action to stop widespread scandals, such as Payment Protection Insurance (PPI), mortgage endowment and pension mis-selling, and allowing the public to flag up potential problems.

The new process is intended to raise concerns far earlier than under the FSA and, where necessary, the FCA will temporarily ban products it feels may be detrimental to consumers, or halt misleading adverts. Also, it will make its concerns known to the public sooner.

The regulatory process in the UK has been through many forms in the past 25 years. It was only in 2000 that the FSA was formed under the banner of bringing "a radical new approach to regulation".

In the past all that has happened is that the people in the old authorities are switched to the new authorities and nothing much changes. Time will tell how the new regulators respond to the challenges they face and what kind of rapport they build with the public and between themselves.



Our cover shot: Cliff & coast in Hawaii by John Wang.

Make your money work

Best bank and building society unrestricted instant access/no notice accounts

Branch Based

Amount	Provider	Account	Gross Rate	Contact
£1+	Northern Rock	Branch Saver 4	2.05%	Branch

Postal or Telephone

Amount	Provider	Account	Gross Rate	Contact
£1+	Allied Irish Bank (GB)	Easy Access Account Issue 3	2.4%	0845 455 22 22

Internet

Amount	Provider	Account	Gross Rate	Contact
£1+	Northern Rock	E-Saver Issue 6	2.75%	www.northernrock.co.uk

Sources: Providers' websites, www.thisismoney.co.uk, www.moneyextra.com, www.moneysupermarket.com, www.moneyfacts.co.uk (13/07/2011).
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.

"No" to early pension access

A PROPOSAL TO ALLOW PEOPLE TO DIP INTO THEIR PENSION SAVINGS before age 55 has been dismissed by the Treasury following consultation.

The idea had been put forward to encourage people to put more into pension savings in the knowledge that this could be accessed in an emergency. However, the government said this could both increase costs to consumers of managing a pension and see people deplete their pension pots to such an extent that they became a burden to the state in retirement.

At present, individuals can only access savings in a registered pension scheme from age 55 at the earliest (except in cases of serious ill-health or other limited circumstances).

Lowes takes on trade body over misleading research

IT IS NOT OFTEN THAT A FINANCIAL advice firm will take on the trade body of the entire investment management industry, but recently Lowes felt compelled to do so. The reason was simply that the Investment Management Association (IMA) published research and made claims in the media that we believed were biased and misleading for investors.

This related to structured products which Lowes believes can play a valuable role in investment portfolios, both in delivering returns and providing various levels of capital protection. In fact, we have been advising on structured products for over 15 years, so we can base our views on considerable knowledge and experience of using these investments.

The IMA, which represents fund managers, published a document comparing NS&I Guaranteed Equity Bonds (a structured deposit investment) with direct equity-invested tracker funds which it says conclusively proved that investing in tracker funds would, in the majority of cases, deliver better returns for the investor.

This is why we felt we had to point out to the IMA the flaws in its arguments. The major flaw was that comparing the NS&I product with a tracker fund is comparing a deposit account with a fund directly invested in the stockmarket. These are two very different investments and it is an unfair comparison to expect one to compete with the other. They are designed to do different things.

It is true that not all structured products make for good investments, and the same is true of tracker and other mutual funds. But to dismiss one type of investment because it performs in a different way does investors a disservice. These are views we made formally to the IMA and to challenge its comments in the media.

COMMENT

Clear objectives in mind

In an initiative backed by Prime Minister David Cameron, individuals may be offered a new 'early intervention' ISA which features a £200 higher savings limit than a conventional ISA if they invest in schemes which are intended to help turn round the lives of the poor.

The overall aim would be to raise £200 million from private investors for a new Early Intervention Foundation (EIF) to fund initiatives aimed at helping teenage mothers, young criminals and children from workless families improve their lives whilst the opportunity for positive change is greatest.

In my view this is a truly laudable aim. However, I do have reservations. Quite simply, I feel that this is blurring the distinction between investment and what should be charitable giving.

Whilst as an ISA, any gains or income produced by the EIF would be tax-free (but losses would not be tax deductible), interfering with the ISA allowance will, in itself, cause unnecessary confusion and costs. Furthermore, given that the additional contribution limit would only be £200, it is unlikely to appeal from an investment perspective.

In any event, I do not expect that the EIF is likely to be a good investment in terms of achieving financial returns.

Whilst the intention of the new scheme may be good, surely would it not be far better to simply offer additional tax relief for a charitable contribution of £200 towards the same objectives and, as such, avoid the bureaucracy, costs and confusion of interfering with an investment tax shelter?

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.

Listening, professional appro

Retired BT manager John Monk talks to Rob Kingsbury about how he came to use Lowes Financial Management …

JOHN MONK HAD PUT HIS MONEY with two high street names before he attended a Lowes Financial Management seminar back in 2003. "Both of those establishments lost me money over time and one of them, by cashing in part of my investment, landed me with a large tax bill," he says. "So I turned all my money into cash and just kept it on deposit."

Before retiring, John was a Specialist Broadcast Manager with BT, responsible for ensuring the relay stations that carried television transmissions around the country were operational 24 hours a day, 365 days a year. As such he was used to dealing with problems. But after talking to another three high street banks and building societies he found he had a problem he could not resolve. "I found no-one that I felt I could trust to give me good advice. The people I was meeting were financial salesmen not financial advisers. I didn't feel they had my best interests at heart," he says.

"Then I received an invitation to a Lowes' seminar. I went along, listened to the presentation and stayed for a chat with the people at Lowes over coffee. What immediately struck me in comparison to my previous experiences was that they were professional and friendly. There was no pressure, they talked about a range of products rather than trying to steer me down one avenue and, most importantly and for the first time with a financial company, I felt someone was listening to me."

John arranged to have an interview with one of the Lowes Consultants, Rob Newton: "I sat down with Rob and we went through my financial affairs - how I wanted to manage my money, whether I was a cautious investor or prepared to take a little more risk, what I wanted to achieve with the money in terms of what was important to me, and how I wanted to live my life.

John Monk gets to grips with his finances with Rob Newton

"He explained also how Lowes would use tax planning, the various investments they could utilise to give me a better rate than I was getting in the deposit account where my money was sitting, the level of risk involved with those investments and how Lowes would be paid. Everything was spelt out for me in a very accessible way. There was no pressure, it was all about what I wanted to do, and a little later Lowes produced a financial plan for me."

One immediate area of benefit John discovered was in relation to tax planning. "No-one at any of the banks and building societies had talked to me about using my Capital Gains Tax (CGT) allowance. Rob pointed out how I could use this to save thousands of pounds of tax a year."

John has invested across a range of investments, but the ones that have impressed him the most have been structured products.

"I am retired and I am looking for income and growth in my investments. I would consider myself overall a cautious investor, but I will take more risk if I like the idea of the investment. With Rob Newton's help I have spread my investments across a range of products, including unit trust funds, but what I like about structured products is that they offer a level of protection for my investment but they also give me decent returns.

"They can protect my investment unless, say, the stockmarket falls 50%, but they can also give me four times the rise in the FTSE 100 at the end of five years, or a fixed rate of return every year."

A structured product John particularly favours, he says, is the 'kick-out' plan. Current plans available are typically 5-6 year investments and will 'kick-out', for example, with a 7% return at the end of year one if the FTSE 100 is at the same level or higher than it was at

ach pays dividends

John Monk's advice on choosing a financial adviser

- Go along to the presentation and listen to what they have to say.
- Talk to the people after the presentation – that will give you a better feel for the company.
- See if they listen to you.
- Are they talking about a range of investments and giving you choice, or are they trying to push you down the route they want you to go.
- If you like what you hear and see – go the next step and have a more in depth interview.
- You can tell by talking with someone if they are on the same wavelength as you.
- If it doesn't feel right, if you don't think the adviser will have your best interests at heart, walk away.
- Or simply go to Lowes!

the start date of the investment. Or, if the FTSE has fallen, it will roll over into subsequent years, adding 7% for each year the investment is held until it does 'kick out'. Should the FTSE fall and stay down for the full period of the investment then the kick-out plan can return investors' capital in full unless the market halves in value.

"What I like about these types of investments," John says, "is that they can give me a return after a year if the stockmarket is the same or has risen, which I can often offset against CGT. However, if the stockmarket is down, they will protect my money and give me double the return if the market is at the right level at the end of the second year."

John adds: "In all cases Rob Newton explains how they work, what I might get back and the risk involved. He also ensures that I spread the risk in my portfolio across not just different investments but companies providing the products as well."

There is one investment John has where he might lose some money, he says. This is a structured product that is benchmarked against the Nikkei stockmarket in Japan. "But after the earthquake and the tsunami and their effect on the Japanese market I didn't really expect my Japan investments to do anything but go down," he says. "I knew there was a risk and I can't complain. Lowes has put me into so many investments that have done very well over the years and risk is an acceptable part of any investment you make."

He adds: "As time has gone on I have been more and more impressed by Lowes. They talk me through everything, make sure I understand my investments before I make them, and if I have a query they call me when they say they will to answer it. They are a family firm and they give me the quality of service that is sadly lacking elsewhere.

"Every year I have an annual review with Rob Newton, where we discuss how my investments are doing, or if one of my investments is maturing, he will call me and we'll meet to talk about what to do next. I keep an eye on the FTSE 100 so I have a rough idea of how my investments might be doing, but otherwise I can leave it all to Lowes."

Rob Kingsbury is a freelance writer specialising in financial services.

5 YEARS AGO

How did it perform?

– The Stellar Portfolio

PORTFOLIO

Stellar shines again!

IN APRIL LAST YEAR THE BACK page of the Spring edition of Lowes magazine carried the headline 'A Stellar Opportunity'.

The article introduced what we believed to be a balanced portfolio of funds, which had been constructed to provide above average returns over the medium to long-term. It is now approximately 15 months since that article was published and it is encouraging to report that in the 65 weeks since 1 April last year the Stellar Portfolio has achieved a total return* of 18% plus.

This return has been achieved despite the recent correction in the stockmarket and, while it is always disappointing to see the value of investments being eroded, we believe the correction creates a further investment opportunity.

Needless to say, memories of the 2000/02 bear market are still fresh in the mind. However, unlike at the beginning of the decade, most companies now have healthy balance sheets and valuations are at the lower end of historic trading ranges rather than the high. Whilst we believe that attempting to time an entry into the market for best advantage is futile, we feel that this correction in the market provides a window of opportunity to invest in a portfolio of funds managed by what we believe to be some of the most able fund managers in their fields, from Jupiter Asset Management and New Star Asset Management.

Every investment in the Stellar Portfolio is contained in a 'wrapper' provided by Cofunds. This means simplified paperwork and the opportunity to obtain a valuation at any time via the Lowes website, *www.lowes.co.uk*, as well as receiving regular valuations by post. Full details of the benefits of the Cofunds wrapper are detailed below.

In terms of risk, we rate the Stellar Portfolio as 'medium' because its volatility approximates to the average volatility of all UK authorised OEIC and unit trust funds.

To ensure that as much as possible of your money is invested, we have negotiated discounts with the fund managers for all investments into the Stellar Portfolio. Full details are contained in the literature accompanying this issue of Lowes magazine, which also gives the instructions on how to invest.

** Percentage Growth Total Return – including reinvested income net of basic rate tax – 01/04/05 to 30/06/06. Source: Lipper.*

Source: Lipper.
59 months 31/07/01 to 30/06/06. Percentage Growth Total Return. Net income reinvested at payment date.

12 month discrete portfolio performance: Total return. Net income reinvested at payment date

1 year to 28/6/2002	1 year to 30/6/2003	1 year to 30/6/2004	1 year to 30/6/2005	1 year to 30/6/2006
N/A*	-2.20%	18.06%	15.88%	15.73%

**No figures available for 12 month period previous to June 02/03 as all of the funds in the portfolio were not then available.*

Important: It is important to appreciate that past performance is not a guide to the future and may not be repeated. The value of the investment will fluctuate and you may get back less than you invested.

The Stellar portfolio should not be considered suitable as a short-term investment and is designed to be held for the medium to long-term (at least five years). Please ensure you understand how the investment product is taxed and how this may affect your personal tax position. If you have any doubts about the suitability of this investment, or if there is any aspect you do not understand, then please contact your Lowes consultant or our the office on **0845 1 484848**.

The Cofunds wrapper

– Convenience at the click of a mouse!

THE LOWES/COFUNDS WRAPPER service offers you a number of benefits and greater convenience.

What's more, you face no extra charges to use this valuable service – it is paid for entirely by the fund managers.

The main benefits to you include:

- You keep your investments in one place – making it easier to monitor and analyse them.
- You have an expanded choice of ISA funds. Normally you would only be able to have an ISA with one fund manager in any one tax year. In contrast, the Cofunds service allows you to hold a portfolio in your ISA which invests with two or more fund managers.
- You can use the Lowes website – *www.lowes.co.uk* – to obtain a valuation of your investment portfolio at any time. Fund values are updated daily.
- There is a significant reduction in the complexity and amount of paperwork you have to deal with.
- You receive consolidated valuation reports and tax vouchers covering all your holdings.

If you would like to receive further information on any of the subjects featured in this issue of **LOWES** please call **0845 1 484848, 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

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IN OUR ONGOING SERIES examining the progress of investment products we featured in Lowes Magazine five years ago, we report on the Stellar Portfolio.

The Stellar Portfolio was a portfolio of funds from New Star and Jupiter constructed to provide above average returns over the medium to long-term.

We first offered this portfolio in April 2005 and, when we re-offered it in the summer of 2006, it had achieved an 18% total return in a period of 65 weeks. In the subsequent five years between the beginning of July 2006 and the beginning of July 2011 it has made further progress by rising by 11.74%.

This rise has come despite a massive correction in the stockmarket following the banking crisis and the purchase of New Star by Henderson Global Investors, which resulted in one of the funds being merged with another Henderson fund during the consolidation process following the merger.

New fund categories a recipe for confusion

Do new names better reflect the risk of stockmarket investment?

ALLEGED CONFUSION AROUND THE LEVEL OF RISK being taken by investors in certain fund sectors has led to the renaming of those sectors by both the Association of British Insurers (ABI) and the Investment Management Association (IMA).

However, in some cases the replacement names appear more likely to confuse investors than enlighten them.

In part, this action has resulted from complaints that funds labeled 'cautious' were perceived by investors to be 'no risk or, very low risk' investments, although they could be up to 60% invested in shares. Apparently, some people have attempted to argue they invested without understanding they would be exposed to the stockmarket and, following the market correction in 2008, attempted to claim compensation for their investment losses.

The ABI and IMA have both come out with alternative names for the sectors perceived as 'lower risk' by investors. The names are designed, they say, to better reflect the risk profile.

Figure 1 illustrates the changes to the names of fund sectors that were implemented by the ABI with effect from April 2011, and the changes that have been proposed by the IMA.

If you are raising an eyebrow at this point we are not surprised. The explanation from the IMA is that by reducing the sector names to A, B and C, investors are forced to research and learn more about the sectors and so, in turn, will better understand the levels of risk involved.

To us this seems like dumbing down taken to ridiculous levels. As investors we know that nearly all financial transactions involve taking some degree of risk. If we want to earn returns above those we could receive from, for example, 'risk free' cash deposits, then we are not going to achieve that without taking some risk – that is simply something we have to acknowledge and accept.

Even 'risk free' deposits carry the risk of loss from the bank going bust (above the protection provided by the Financial Services Compensation Scheme) and are, in any event, being eroded by inflation on a daily basis. Over the last year a 40% taxpayer has required 8.33% on their deposits for the value to have risen in line with the Retail Prices Index (RPI), while for basic rate taxpayers it is 6.25%. Most deposit accounts might offer a third of that at best and so the real value of the deposit capital is falling.

A 'cautious' approach to anything implies treading carefully, while being very much aware of the inherent risk which, while it is to be avoided if possible, may ultimately still affect you. To argue that 'cautious' in the context of an investment implies that the money is safe, i.e. it has 'no or very low' risk attached, is in our view naive and, more likely where compensation is involved, opportunistic.

While the ABI and the IMA may claim to be aiming to achieve clarity for consumers, it seems to us that the name changes are being forced through by a need to adapt to our growing compensation culture. Unfortunately, all financial services organisations will be forced to follow suit or leave themselves open to potentially opportunistic claims in the future.

At Lowes we have always been careful to clearly define what we mean when we talk, for example, about risk and whilst Lowes' clients are not typical of those who may have ultimately led to the above changes becoming necessary, we have had to consider the knock-on implications and have had no alternative but to adapt accordingly. For this reason, clients have already started to witness a similar transition away from words in our recommendations that could possibly be construed as meaning something (such as 'cautious') towards alternatives which force the reader to refer to the definition. For this we offer our apologies!

Figure 1: Fund category name changes

ABI	
Old	**New**
Cautious Defensive	Managed Mixed 0-35% shares
Balanced Cautious	Managed Mixed 20-60% shares
Flexible Balanced	Managed Mixed 40-85% shares
Flexible	Managed Mixed 60-100% shares

IMA	
Current	**Proposed**
Cautious Managed	Managed C
Balanced Managed	Managed B
Active Managed	Managed A

Removing uncertainty from long-term care

Andrew Dilnot: Far reaching suggestions

Photo: Department of Health

THE LONG-TERM CARE (LTC) MARKET in the UK has been under severe pressure for a number of years. Changing UK demographics are driving up the percentage of elderly people in the population, so proportionately more people need care.

At the same time, local authorities have sought to contain their LTC costs in the face of those growing numbers, insurance companies have shied away from offering insurance to cover the costs, and government has brought in means testing, which has forced people to make tough decisions regarding their future at critical times in their lives.

Age UK, formerly known as Help the Aged and Age Concern, has said that funding for social care for older people has been cut annually by 8.4% or £610 million. The charity also says that 2.9 million people over age 65 in England need care, but only 1.148 million of them are receiving support from their council.

In addition, means testing has meant that anyone with assets of more than £23,250 – which in most cases will include the value of their home – receives no help at all with care costs, which has led to people with mid and high incomes and assets above that figure often paying substantial charges.

As a result, in 2010 the Government appointed the Commission on Funding of Care and Support, chaired by economist Andrew Dilnot, to examine LTC funding and propose ways of dealing with the growing crisis.

The Commission's report, published earlier this month, has proposed:

- Capping individuals' lifetime LTC contributions, with £35,000 the recommended figure. When the cap is reached individuals would be eligible for full state support.
- Raising the current £23,250 means-tested asset threshold to £100,000.
- Capping contributions to general living costs to between £7,000 and £10,000 a year.

These caps, if implemented, would make LTC planning more predictable and, importantly, enable the development of new insurance-based solutions that people can use to cover LTC costs in later life. Such insurance has been missing from the market in recent years. A White Paper based on the Commission's report is expected by Spring 2012.

■ ***If you would like further information on meeting LTC costs, then contact your usual Lowes' Consultant, or call us on 0191 281 8811.***

Are we witnessing Tech Bubble 2.0?

MARKET COMMENT

By Melvyn Bell, Lowes' Investment Manager.

It's 11 years since the dot-com bubble burst on 10 March, 2000, with many dot-coms either being liquidated or acquired by competitors with more traditional business models.

Not every dot-com company disappeared though, and some like Amazon and eBay have flourished although, paradoxically, their success has been a major factor in the contraction or even demise of competitors with traditional business models, such as Borders, HMV and Zavvi.

Nevertheless, the impact for most investors has been significant and long lasting as, despite rising by a not inconsiderable 164% in the period between 1/10/2002 and 4/7/2011, the Investment Managers Association Technology & Telecoms sector average is still over 61% down on the level reached on 10 March 2000.

In the last 12 months we've had warnings of numerous new prospective bubbles, notably corporate bonds, Gilts and commodities, and there are now signs of investors chasing stock to unrealistic levels in parts of the technology sector. However, recent events in the US have reawakened fears of a repeat of the dot.com bubble.

These have been fed by the remarkable stock exchange debut of the business social networking site, LinkedIn. Valued at under US$1bn a year ago, it soared to more than US$10bn when floated on 19 May following a vastly over-subscribed Initial Public Offering (IPO). Many analysts believe this owed less to the merits of LinkedIn than to investors desperate to gain exposure to the craze for social networking companies, but unable to buy the as yet unlisted market leader, Facebook. LinkedIn is now trading at an extremely optimistic 36 times last year's revenue and 600 times net income.

This has prompted other social media companies to bring forward their stockmarket debut with 'deal of the day' website Groupon filing an IPO for up to US$750m and 'social network game developer' Zynga filing one for up to US$1bn. Rumours that Facebook is planning an IPO in 2012 may also have had an impact. However, while values in this area are undoubtedly looking stretched, unlike in 2000 we are not at the stage when anything remotely described as being 'internet linked' is being chased by many thousands of small, short-term investors.

Youssef Squali, a fund manager at global securities and investment banking group, Jeffries, told the FT he believed 80% of internet firms on the public market "are trading at reasonable levels". Only time will tell whether he is correct. However, the key lessons of 2000 for me and many others were to diversify your risk, never be significantly overweight in specific sectors (especially ones which have historically displayed volatility) and always look under the proverbial bonnet to see what's really there!

Defined return with defined risks

WITH THE RECENT WARNING FROM the Bank of England that UK inflation may not return to the 2% target for "two or three years", it is vital to ensure you achieve the best possible return from your investments. The Morgan Stanley FTSE Bonus Growth Plan 4 is a FTSE 100-linked plan that offers a very competitive potential return of 9.5% for each year held. Whilst it has a maximum term of six years, it could mature on the 2nd or any subsequent anniversary.

The terms: We can only summarise the investment here, so please refer to the plan literature for full details of the investment including the risks. We are promoting this plan as we believe it provides a potentially attractive return to clients prepared to expose their capital to a degree of risk.

The potential returns: For the plan to produce a gain on the 2nd anniversary (9 September 2013) the closing level of the FTSE 100 Index only needs to be the same or higher than the closing level recorded on 7 September 2011 (the Initial Index Level). If it is, the plan will mature and you will receive a 19% gain and your original capital back in full.

If the plan does not mature on the 2nd anniversary, it will continue into year three. Once again, if on the 3rd anniversary the FTSE 100 Index closes at, or above the Initial Index Level, the plan will mature returning a 28.5% gain plus the original capital. Otherwise, the plan will continue into years four, five and six adding a potential additional gain of 9.5% for each year held.

If the plan reaches its final maturity date because on each of the previous four anniversaries the FTSE 100 closed below the Initial Index Level, then the maturity value will depend on the level of the FTSE 100 Index on 7 September 2017 (the Final Index Level). If the Final Index Level is at, or above the Initial Index Level, then the original capital investment should be returned in full, plus a 57% gain (i.e. 9.5% gain multiplied by six years).

The potential risks: If, on the other hand, the plan has not matured on the previous four anniversaries and the Final Index Level is below the Initial Index Level, no growth will be achieved. However, the original capital investment should still be returned in full, unless the Final Index Level is 50% or more below the Initial Index Level. If such a fall occurs, the original capital investment will be reduced by 1% for every 1% the Final Index Level is below the Initial Index Level (e.g. if the Index finishes 55% lower, the original capital will be reduced by 55%).

The counterparty to this investment is Morgan Stanley. Founded in 1935, this household name has 600 offices around the world and a credit rating of 'A' from Standard & Poor's, indicating a strong capacity to meet its obligations. However, if the bank fails you could lose all your investment.

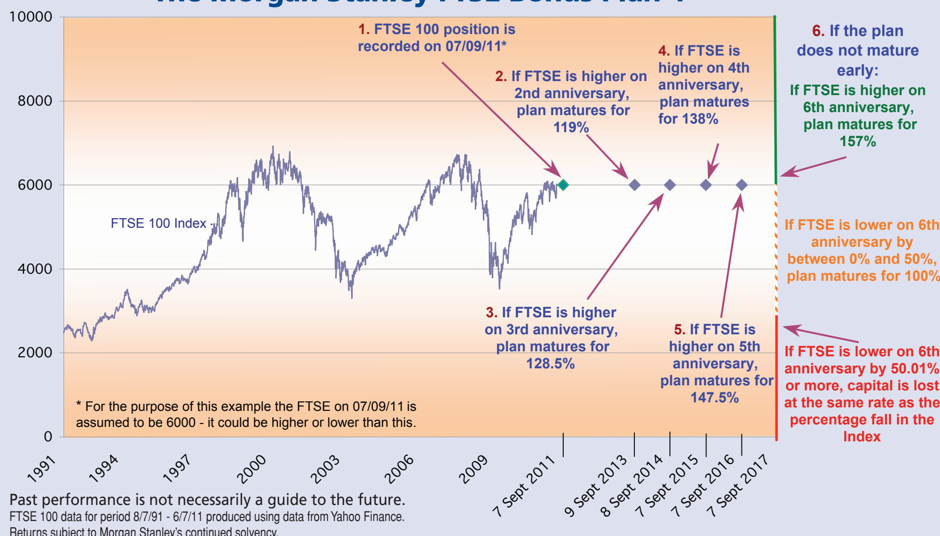
Therefore, under the terms of this plan, for there to be a reduction to the original investment capital, Morgan Stanley would have to default, or the plan would need to fail to mature early because the FTSE 100 was lower than the level recorded at commencement on the 2nd, 3rd, 4th and 5th anniversaries and be more than 50% lower on the 6th anniversary. Past performance is no guide to the future and, whilst no such fall has ever occurred in the history of the FTSE 100 Index, it is not impossible that this could occur, resulting in a loss of capital that would be at the same level as the fall in the Index.

It should be noted that this investment is designed to be held until its ultimate maturity date and, if it is encashed during the term (other than as the result of the early maturity feature being triggered), investors' capital may not be returned in full.

Taxation: Under current legislation, where the investment is held outside of a tax shelter such as an ISA, any gains will be subject to Capital Gains Tax. This could prove to be favourable, as total gains achieved by an individual in a tax year of less than the annual Capital Gains Tax allowance (currently £10,600) are tax free and any excess is currently taxed at only 18% for basic rate tax payers and 28% for higher rate tax payer.

How to Invest: The investment closes on 17 August. The minimum investment is £3,000, and investments may be made directly, via an ISA or ISA transfer, or through a Self Invested Personal Pension. It is important that you read carefully the investment literature, which gives full details the contract and the risks, to which you should pay particular attention. The investment is, of course, not right for everyone and this promotion should not be construed as personal advice. However, if you have any doubts about the suitability of this, or any investment for you, please contact this office on 0191 281 8811 or your usual Lowes' consultant.

When you are satisfied that this investment is right for you and are happy to proceed without advice, please complete the application form and return it to our office in the pre-paid envelope provided.



Past performance is not necessarily a guide to the future.
FTSE 100 data for period 8/7/91 - 6/7/11 produced using data from Yahoo Finance.
Returns subject to Morgan Stanley's continued solvency.

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.