Autumn 2011

"Somewhere, something incredible is waiting to be known"

Carl Sagan

INSIDE: INCOME & DIVIDENDS

Andrew Gardiner - Going the extra mile

OUR CONGRATULATIONS TO CONSULTANT Andrew Gardiner. Not only has he achieved the status of Chartered Financial Planner, but he has gone a step further and been awarded the coveted title of 'Fellow of the Personal Finance Society'.

This is an elite qualification in the world of financial advice according to the Chartered Insurance Institute, the professional body that awards the qualification.

Lowes is itself one of only 446 financial advice firms in the UK that enjoys Chartered Firm status, and Andrew's achievement reaffirms our commitment to being among the best qualified Independent Financial Advisers in the UK.

Millionaires trust IFAs

WEALTHY BRITONS USE INDEPENDENT FINANCIAL Advisers more than any other form of third party advice when it comes to managing their money. The Skandia Millionaire Monitor, a survey of over 500 millionaires in the UK, has revealed that 66% of millionaires using third party advisers prefer to put their trust in Independent Financial Advisers.

The main reason millionaires cite for seeking out independent advice is to control risk within their investments. Skandia said the results of the survey were "a great endorsement of independent financial advice."

While Lowes looks after the affairs of many millionaires, our clients come from all walks of life, and we pride ourselves on providing the same high level of service regardless of an individual's net worth.

Over 55s are property rich

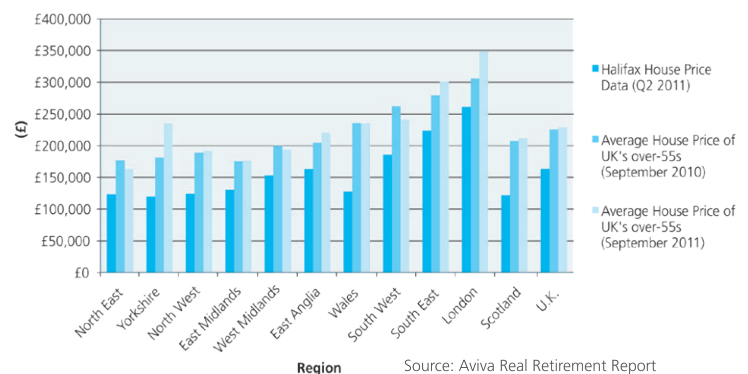
THE AVERAGE HOUSE OWNED BY THE OVER-55s IS 39% more expensive than the typical UK home, according to the latest Real Retirement Report.

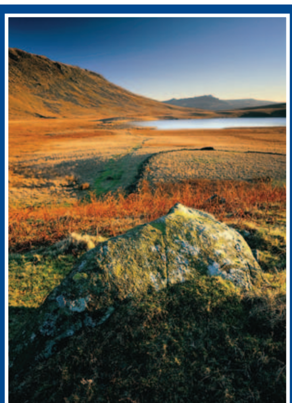
Around 10,000 UK consumers aged over 55 were interviewed for the report, which found that the average worth of their homes was £227,448 compared with the UK average of £163,981.

The report also found that while 18% of those over 55 say they own a second property, only 4% are deriving rental income from it. This suggests that many over-55s own holiday homes, time-shares and properties that are used by other family members.

However, while the majority of properties might not yield an income at the moment, they are a potentially valuable asset for the future. The average value of a second property is £174,564 with an average mortgage of £70,000.

UK House Price vs House Price of over 55s





Our cover shot: Burnmoor Tarn, Eskdale Moor, Cumbria.

Make your money work

Best bank & building society unrestricted instant access accounts

Type	Amount	Provider	Account	Gross Rate	Contact
Branch based	£1+	Northern Rock	Everyday Access	2.05%	Branch[1]
Non-Branch based	£1+	Northern Rock	Everyday Access Online	2.75%	www.northernrock.co.uk[2]

Note 1. Annual interest only. Monthly interest rate is 2.03% gross.
Note 2. Annual interest only. Monthly interest rate is 2.72% gross.
Sources: Providers' websites, www.thisismoney.co.uk, www.moneyextra.com, www.moneysupermarket.com, www.moneyfacts.co.uk
3 October 2011. 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 16 August 2011

Retail Prices Index (RPI)	Consumer Prices Index (CPI)
5.2%	4.5%

Source: Office for National Statistics

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.

Best retirement adviser

Best Retirement Adviser

Lowes Financial Management has won the 2011 Investment Life & Pensions Moneyfacts Good Advice Award for Best Retirement Adviser.

The award marks the third year in a row that we have won a Good Advice award and was announced at a ceremony at the Marriott Hotel, Grosvenor Square, London, on 23 September.

Richard Eagling, Editor of Investment Life & Pensions Moneyfacts, said: "One of the main reasons why the Awards have become such a highly sought after accolade of excellence is the rigorous process by which the winners are decided. All the winners at this year's awards can truly be regarded as leaders in their field."

A warning on new scams

UNFORTUNATELY WE HAVE TO ISSUE ANOTHER warning on fraudsters preying on UK savers. When markets become volatile criminals see an opportunity to trick people into parting with their money, which they sometimes never see again.

Aviva has warned that holders of its shares are receiving unsolicited telephone calls from fraudulent companies in the US offering to buy the shares. This is suspected fee fraud, where the investor is asked to pay a fee up front for the service. Aviva has set up a dedicated email for people to advise them if they have been contacted in this way. It is: financial.crime@aviva.com

This follows Financial Services Authority warnings earlier in the year regarding a rise in boiler room frauds (high pressure selling of 'sure bet' shares over the phone, often from offshore locations) and similar land bank scams. Last year the FSA received calls from over 3,100 people who had been contacted by boiler rooms. Of these, 734 had become victims, losing an average of £24,000 each.

In recent weeks we have seen a noticeable rise in the number of our clients receiving calls from aggressive salesmen promoting carbon credit trading schemes. The FSA is warning investors to be very wary of such schemes stating that smaller investors are particularly at risk as "you maybe losing money on your investment by not getting a competitive rate when trading a small volume of carbon credit or not being able to sell your credits at all".

COMMENT

An investment strategy derailed

WHEN I WAS STUDYING 'PRINCIPLES AND PRACTICE OF Investment Management' as part of my degree, I had many interesting discussions and debates with my lecturer. One of these debates stands out above the rest; whilst my lecturer clearly understood and explained the principles of portfolio diversification, I expressed concerns as he confessed that this was one area where he did not practice what he preached.

To my alarm, he admitted that he had put his faith in a single company in terms of the whole of his investment portfolio and his pension fund. He felt the company, sitting as it did at the heart of a national and formerly nationalised, infrastructure industry was so robust, he was prepared to put all his investment eggs in one basket in a way he knew was against the principle of what he was lecturing.

Unfortunately, that company was Railtrack.

Fast forward 14 years and step up the latest bond from National Grid, the RPI Linked 10 Year Sterling Bond, which has been receiving some attention.

Notably, as an inflation-linked investment, it is being talked of as an alternative to the National Savings & Investments Index-linked Bonds, which were recently withdrawn from offer by the Treasury.

The fact that the National Grid is a fundamental part of our physical and economic infrastructure means it is easily portrayed as a 'sound bet', but does that make it a good investment for the ordinary investor?

Let's take a look at what the bond offers. In a nutshell, for a minimum investment of £2,000 this 10-year bond gives an annual payment of 1.25% in half-yearly instalments, with the payment adjusted – up or down – in line with changes in the Retail Prices Index (RPI). After 10 years the bond repays investors' original capital plus any increase in the RPI over the 10 years.

At first glance, with inflation rising and interest rates low, it looks like an attractive proposition. However, it is delivering a low annual return, and while interest rates are low at the moment – and whilst we have to acknowledge the benefit of the capital appreciating in line with inflation - if we face higher interest rates in five to six years' time, this could start to look like a unfavourable investment. Also, the bond is rated by the credit agencies as 'BBB', which is the lowest investment grade rating and certainly not the same as a 'AAA' rated National Savings product.

Now I am not suggesting that National Grid, an international company with a solid foundation, is in danger of collapse like Railtrack, but I seriously question the value of this kind of bond for the ordinary investor when it requires such a long 10-year commitment to this one investment offering a return that could easily be left stranded in the sidings.

The National Grid investment may well form an element of some of the corporate bond funds that we utilise in our portfolios, but only if the managers believe it to be appropriate. By definition, it will therefore only form part of a diversified, actively managed fund, which itself will form part of a diversified portfolio and only be held for as long as the managers see fit.

After finishing my degree I did not stay in touch with my lecturer, but I hope that before the collapse of Railtrack he changed his investment philosophy and adopted a more sensible approach, such as that outlined above.

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.

Taking a worldwide view on

WHETHER WE ARE SAVERS OR INVESTORS, by and large we prefer to keep our money close to home. 'Backing Britain' is a phrase that still rings true for many investors and there are several good reasons for this. First, we are familiar with the UK companies. Names such as Tesco, Shell and Marks & Spencer are all well-known brands that we have grown up with and trust. Similarly, these UK brands have often done well for investors over the years. Also, by investing in UK companies we avoid the additional risk and perceived uncertainty of overseas investing and the foreign exchange risk to our portfolios.

With global economies still under pressure and stockmarkets rising and falling, sometimes quite dramatically, over recent months, dividends are becoming a more talked about element of overall investment strategies. These payments – based on company profitability and usually made half-yearly or annually – have been a welcome income stream for investors over the years. Just as investors like to invest in well-known companies, so do those companies like to be seen to be paying regular and decent dividends, because it enhances their reputation as a solid business and so attracts more investment.

In fact, one of the benefits of investing in companies that pay dividends is that they require a strong balance sheet, they have healthy inflows of cash from sales and they also have a disciplined corporate management in order to maintain and grow their dividend.

Yet, surprisingly, dividends are often overlooked, especially in a bull market when people tend to focus on the price of shares going up, i.e. the capital growth. In those circumstances the small dividend payments investors receive can get lost in the hype that often surrounds a stock market that is on an upward trajectory.

In fact, the most commonly referenced index, the FTSE 100, is a 'capital-only' index and as such does not account for dividends. In some cases, such as structured products, a capital-only index is used in investors' favour by taking the anticipated dividend income stream of the underlying companies to produce different risks and returns than by investing directly in those companies.

However, just as we know regular saving can build over time into a sizeable pot, statistics show that receiving and reinvesting dividends can be the biggest source of an investor's return over the long-term. But, with the UK economy possibly set to limp along for the foreseeable future, there could be a knock-on effect on the ability of home-grown companies to pay decent dividends. Some commentators, therefore, are suggesting that we will be better off ditching UK companies and looking to the global markets for our dividend payments.

In fact, there are clear and strong arguments for both camps.

Let's take the British/UK camp first. While we like to think of our big brands as being wholly British/UK companies, in reality many of the largest companies listed on the UK stockmarket have global operations, with a fair proportion of their revenues coming from abroad.

Aviva, GlaxoSmithKline, HSBC, National Grid; these are all FTSE 100 listed companies that are producing decent dividend payouts and a large part of the reason for that is they are companies that are trading in different countries around the world. This means they are not dependent on sales solely from the UK for their profits. A company that maybe sells in the UK, Europe, the US and Asia, will experience different economic situations in each of those regions but, because it is diversified in this way, it spreads its risk so that it does not have all its eggs in one basket.

income

A good example is the Prudential. The company was founded in the UK back in 1848 – the 'Man from the Pru' is synonymous with financial services and saving in Britain - but the group is now listed in London, New York and Hong Kong, reflecting its international business operations. In August, the group announced it would be paying a half-year dividend that is 20% higher, which is its best payout since 2002. This was due in the main from the success of its business operations in Asia.

As investors this means we can invest in companies that are not wholly reliant on the UK economy and which can benefit from their overseas markets. Yet, because they are listed in the UK, we can invest in them in sterling, and get paid our dividends in sterling.

The global markets camp on the other hand also has a strong argument, in that because the culture of paying dividends has been growing around the globe in recent years, it is seen as an opportunity that should be tapped into.

UK companies have a very strong culture of making dividend payments, as do those in the US. In contrast, few companies in Asia have traditionally paid dividends to investors, but that has been changing rapidly in the past few years. Asian companies have come to realise that if they want to attract more investment from western fund managers and pension schemes, then they have to make these payments. As a result, the dividend culture has reduced the point where some Asian companies are surpassing UK companies in terms of making the highest value payments.

As might be expected, fund manager groups have been tapping into the global dividend market for some time and we have seen numerous launches of funds keen to take advantage of this new global trend.

In our view, a well-balanced portfolio should be taking these different opportunities into account and using them to the best advantage. As we have seen in recent years, the dynamic of the world is changing. Whereas the US and Europe dominated investors' portfolios, now Asia (China in particular) and South America have become far more attractive investment destinations. By carefully diversifying a portfolio across assets as well as geography we can take advantage of stockmarkets that are doing well and have an element of protection when they fall.

Likewise, there is no doubt that funds which invest in stocks of companies that are dividend paying can often benefit from an attractive combination of income payments and, potentially, seeing their share price rise when markets recover. Carefully selected, these therefore often form a useful addition to our portfolios.

■ ***Whatever your investment requirement, please contact your usual Lowes Consultant or this office on 0191 281 8811.***

Investment income from dividends

SINCE THE FINANCIAL CRISIS IN 2008, COMPANIES AROUND THE WORLD have been taking stock of their positions and implementing their own 'austerity measures'. This means they have been reducing costs and refraining from investing in new plants, machinery and staff. As a result, many companies have been building up large reserves of capital – they are what is termed 'cash rich'.

As a result, as the market has been recovering since the recession, many companies have been raising their dividend payments. Capita Registrar's latest Dividend Monitor shows that dividends from UK listed companies have grown for five consecutive quarters, with total dividends paid out in the period April to June this year having increased by 27% on the previous three months to £191bn. This has seen the returns available from many stock and share dividends rise above those of traditional income investments such as government and corporate bonds.

How much longer can gold shine?

GOLD HAS SEEN A METEORIC RISE IN its price since the start of the financial crisis. Fearful investors have sought safety in this precious metal, pushing up its relative value as stock markets have tumbled and major economies have seen their sovereign debt written down.

If there is one certainty we can point to in the future, it is that the price of gold will fall – probably dramatically. The big question, of course, is: When?

A year ago, when the relative price of gold was approaching $1,200 an ounce, commentators were calling the top of the market. Since then gold has hit $1,900 an ounce.

Opinions differ as to whether gold has now peaked and we are currently in a 'gold bubble'. HSBC Global Asset Management, for example, is predicting gold will continue to increase in relative value, rising to around $2,600 an ounce. Contrarily, US bank Wells Fargo has stated strongly that it believes interest in gold investing has reached the level of "a speculative bubble". The bank points out that when gold hit its all time high in January 1980, within two years its price had dropped 65% and it took until January 2008 - 28 years later - before investors who bought at the high broke even.

One problem with gold as an investment is that it doesn't generate any income and it costs money to store. As such, it is in effect a depreciating asset. This is fine when the price is going up and investors can see a profit. But its value is only as strong as investor demand for it. At some time the global economy is going to start to recover. What we will likely see at that point is a rush of people wanting to move out of the safe asset into those where they can make better returns.

Inflation hits retirees harder

RECENT INDUSTRY REPORTS, INCLUDING ONE FROM THE Centre for Economics and Business Research (CEBR) on behalf of Saga, have revealed that not only has overall income of retirees fallen in real terms, but inflation is biting retirees harder than the rest of the nation.

The hard hitting facts of the studies show that the average monthly income of those over 55 has fallen from £1,294 in June last year to £1,216 today while, since the start of the credit crisis, prices of goods and services purchased for older age groups is up by close to 19% cumulatively against around 14% for the rest of the nation.

This imbalance in inflation is the result of lower mortgage rates benefiting those in employment, while retirees, reliant on income from pensions, savings and investments, have seen their living costs rise as low interest rates have affected their income streams. Retirees' shopping baskets also tend to be different from those still in employment, with more emphasis on food, fuel and light, and so are more susceptible to inflationary pressures.

With UK interest rates looking set to remain at 0.5% for some time, the prospects for savers looking for income remain troubled as they are lagging considerably behind both headline inflation (Consumer Price Inflation - CPI) at 4.5% and the more traditional inflation measure - Retail Prices Index at 5.2%. At these rates, a basic rate tax payer reinvesting their interest will need to earn 5.63% for the value of their capital to stand still in real terms.

Saga is calling for the government to take action to help those over 50 get the most from their savings as prices soar and interest rates remain at all time lows. One way the group believes the government could help is by providing higher ISA limits for older people. This, the group has calculated, "would be the equivalent of the Bank of England raising interest rates by up to 3%".

A cultural divide over tax

IS THERE A CULTURAL DIVIDE BETWEEN THE WEALTHY in the UK and elsewhere when it comes to tax? While there are growing calls in the UK from economists and think tanks to abolish the 50% tax rate on the UK's wealthiest individuals to help solve the financial crisis, in the US and elsewhere the exact opposite is happening.

During August, the US billionaire Warren Buffett, in an article in the *New York Times*, stated that the US should stop "coddling" the rich and raise the top income tax rate in an effort to reduce the deficit.

Echoing these calls, members of the European wealthy elite urged their governments to raise their taxes or enact special levies to help reduce growing budget deficits. Maurice Lévy, the chairman and chief executive of the French advertising firm Publicis, writing in the *Financial Times*, said it was, "only fair that the most privileged members of our society should take up a heavier share of this national burden."

The multimillionaire chairman of Ferrari, Luca di Montezemolo, then backed Mr Buffett's idea in an interview with the Rome daily *La Repubblica*. "I am rich and I am ready to pay more taxes, for reasons of fairness and solidarity", Mr Montezemolo told the newspaper.

In France, 16 of the wealthiest people, including the chief executive of the energy giant Total and the L'Oréal heiress Liliane Bettencourt, signed a petition published in the magazine *Le Nouvel Observateur* urging the French government to tax them more. Other signatories were the chief executives of Société Générale, Airbus and PSA Peugeot-Citroën.

In Germany, a group of 50 wealthy individuals who have been campaigning for a higher top tax rate since 2009, welcomed the French petition. They said: "Austerity programmes, which affect mainly the poor, are ill-suited to solve the crisis."

Generation savings gap grows wider

GRANDPARENTS ARE NOT PASSING on traditional thrifty savings habits to youngsters because they believe the 'Facebook generation' is not interested in them, according to a survey by National Savings & Investments.

Research by the Government's savings arm discovered that famous old adages like 'Take care of the pennies and the pounds will look after themselves', often cultivated in the lean years after WWII, could be in danger of dying out as only one in ten Britons has received money tips from a grandparent and a third of over-65s said they didn't think their wisdom was wanted by a generation brought up during the credit culture and focused on Facebook, iPhones and other instant access technology.

But many of the younger generation say they would welcome money advice and around a third of those surveyed thought grandparents had sound financial experience built up over the years and so were good role models in money management.

After 40 years of advising, often across the generations, Lowes is a strong advocate of money talk within families. If the economic and investment environments of the past 10 years are anything to go by, then it is essential we all have a firm handle on our finances. Certainly, proper advice at the right time can go a long way to helping younger generations make the most of their savings and investment opportunities.

The figures speak for themselves

It is not just the younger generation that needs to pay attention to its finances. According to industry research, over a lifetime, the average time taken by UK adults to make important purchases is:

Purchase	Time taken
Annual holiday	311 days
Insurance e.g. car or home	282 days
Service from a utility provider	246 days
Christmas presents	190 days
Pension or annuity	7 days!

Junior ISAs – a good way to invest?

FROM 1 NOVEMBER 2011 PARENTS and grandparents keen to invest for a child's future will be able to open one of the new Junior ISAs. These tax wrappers replace Child Trust Funds and allow up to £3,600 to be invested in one cash and/or one stocks and shares Junior ISA each year. They have the benefits of a regular ISA in that the child will not pay any Income or Capital Gains Tax on any return or interest, or gains earned by the account. Once the child reaches 16 years of age they can manage their Junior ISA(s) themselves and they can access the funds at age 18.

Realistically, we have to question the value of these schemes over placing money in a simple trust.

Firstly, most children will not earn enough to pay tax before the age of 18, which negates the value of the tax wrapper unless they continue to hold and invest in the ISA beyond age 18.

Then, to get the maximum benefit from the ISA, the full £3,600 needs to be invested each year.

Properly invested and with compounded growth this could amount to a sizeable amount over 18 years (a six figure sum). However, at age 18 there is nothing to stop the child withdrawing the cash and frittering it away in a matter of a few years (or months!).

In our view, it makes more sense to place savings of this size in trust. The portfolio can be managed by responsible adults, invested professionally, and held or passed to the child in a controlled manner until they reach a certain point, for example age 21 or 25.

■ ***There are various trusts that can be arranged, so if you are thinking of taking out a Junior ISA talk first to your Lowes' consultant about the benefits of establishing a trust.***

5 YEARS AGO

Norwich Union UK Growth & Value Fund

PORTFOLIO

Minimum Investment £1,000,000!!! – There is another way!

2% DISCOUNT on the standard initial charge if you invest via LOWES

IN OUR ONGOING SERIES examining the progress of investment products featured in Lowes Magazine five years ago, we report on the Norwich Union UK Growth & Value fund, promoted in the Autumn 2006 issue.

This was a relatively new fund from Norwich Union to enhance their profile in the retail investment market and was managed externally by two of the industry's most highly rated managers, Michael Barakos and Chris Complin, whose JP Morgan Strategic Value fund had just been closed to new business to ensure the fund's flexibility could be maintained.

Like most UK equity funds the performance suffered during the credit crunch before it participated in the recovery, which began in the Spring of 2009. However, following the fund's largest investor expressing a wish to withdraw, it was decided to close the fund as it would be too small to run without charges adversely affecting performance. Consequently, in September 2010, the fund was wound up with investors who had not already switched to an alternative fund receiving the bid value of their units.

Where the nimble and bold tread

By Melvyn Bell, Lowes' Investment Manager.

THE FTSE 100 SUFFERED ONE OF its worst weeks on record at the beginning of August, when between the close on Friday 29 July and the close on Friday 5 August it fell by 9.77%. A fact that undoubtedly led to an article headed 'Bargains in store for nimble and bold investors' in the *Financial Times* on 5 August, which opened with the following statement: "At some point fundamentals, as opposed to fear and panic, will start to reassert themselves. And when they do there will be bargains around for those nimble and bold enough to take advantage of the recent corrections in equity prices."

This is a sentiment with which I have difficulty in disagreeing. Unfortunately, determining when fundamentals will reassert themselves is the difficult part and, to be honest, it is something I think nobody really knows – which goes a long way to explaining the erratic movements in global stock markets in recent weeks!

That investors were fearful, however, is hardly surprising as, in the latter half of July, they witnessed politicians in Europe and the US demonstrating an inability to arrive at any degree of consensus about the problems facing their economies.

In fact, for the most part, they were diametrically opposed to their counterparts. In the US, for instance, the Republican dominated House of Representatives was standing toe to toe with the President and the Democrat controlled Senate on increasing the debt ceiling, knowing failure to reach agreement was certain to lead to large parts of the Federal Government closing down.

Meanwhile, in the eurozone, they were witnessing the European Central Bank and those eurozone members with sounder balance sheets arguing about how, or if, they should respond to the increasingly likely prospect of the Greek government defaulting on its debts. An event that, if not handled correctly, could see the problems spread to Italian and Spanish sovereign debt, the banking system and ultimately undermine the very existence of the euro.

Inevitably, corporations and consumers have drawn in their horns and delayed their spending plans, which paradoxically increases the probability of the already weak economic recovery dipping back into recession. Consequently the markets have become subject to the fear and panic referred to in the *Financial Times* article, and between 3 and 12 of August the FTSE 100 Index saw a daily movement of more than 3% in five of the eight trading days (three down and two up), with two of the three other days moving by over 2%.

However, belied by this volatility and in contrast to the uncertain background, company reports have been pretty encouraging, particularly in the US where there has been an extremely successful reporting season, with positive surprises on earnings for 80% of the S&P 500 companies that reported by the end of July. We can also say that the fall had little to do with the health of companies in the UK, such as British American Tobacco, GlaxoSmithKline, Johnson Matthey or Diageo. All of these companies have seen their share prices suffer in recent weeks, despite being highly successful global leaders in their particular industries, which have the ability to perform regardless of the strengths or weaknesses of the UK economy.

I can't help feeling that the almost universal decline in share prices of companies like these, irrespective of their individual merits, owes a lot to the rise of passive investment strategies like Exchange Traded Funds (ETFs), where an investor wanting to step back from the market ends up selling quality companies that will perform well irrespective of the strength or otherwise of the economy.

This is, of course, where investing in funds managed by experienced fund managers comes to the fore, as it offers traditional value investors who are taking the long view the buying opportunities that the *Financial Times* article was referring to. I therefore believe that, short of a total collapse of the financial system, recent events are creating the growth opportunities for the future.

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.