January 2008

"There are no short cuts to any place worth going."

– Beverly Sills

INSIDE: BEWARE INHERITANCE TAX CHANGES

Who won the 2007 Predict the Portfolio Competition?

CONGRATULATIONS TO DR TIM CAPRON FROM AMBLE IN Northumberland. After an eventful 12 months, he has emerged as the winner of our 2007 'Predict the Portfolio' competition and receives six bottles of Moët Champagne!

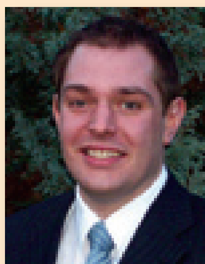
Last January we asked readers to predict how four asset classes – equities, bonds, property and cash – would perform relative to each other from 1 January to 31 December 2007 and then rank them from 1 to 4. Dr Capron was the first out of the hat to do this correctly!

This year, our competition is again about portfolios. For full details, see page 6. In the meantime, may we wish all our clients a prosperous 2008!

Recommend Lowes Magazine to a friend

If you have a friend you feel could benefit from reading Lowes Magazine, then why not have them sent four issues free of charge! Just enter their details on the card inserted between pages 2 and 3 and return it to us. If you would like to recommend more than one person, call us on 0845 1 484848.

Congratulations Andrew!



LOWES' CONSULTANT ANDREW GARDINER recently won a prestigious award from the Newcastle branch of the Chartered Insurance Institute (CII). The annual award, presented at a ceremony at Newcastle Civic Centre, acknowledges the individual who, during the year, achieved the most exceptional results in examinations that lead to the Diploma in Financial Planning. Whilst most advisers in the UK hold only the Certificate in Financial Planning, the Diploma, which was formerly the Advanced Financial Planning Certificate, is the next professional level above and that which all Lowes Consultants aspire to as a minimum. Achieving the Diploma requires a considerable commitment and for Andrew to win this award demonstrates an exceptional effort on his part and we are justly proud of him.

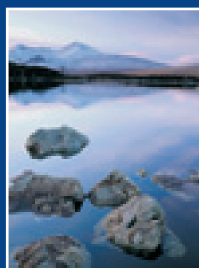
Andrew is originally from Ireland and moved to England to study Economics and Business Management at Newcastle University. After graduating he was a stockbroker/adviser in London before returning to Newcastle in 2005 to join Lowes in our Technical Department. He then switched to an adviser role as he feels he can: "gain greatest satisfaction dealing with clients on a day to day basis, building up good, long-term relationships over the years."

New rules speed cheque clearing

AS A RESULT OF CHANGES MADE TO THE CHEQUE clearing process, consumers across the UK, including Northern Ireland, now know that after six working days money paid to them by cheque cannot be taken out of their account as a result of the cheque being dishonoured or found to be a forgery.

After two working days customers will start to earn interest on money deposited via cheque or, if in overdraft, have their balance reduced. They will be also able to withdraw money against cheques deposited after no more than four working days (six for savings accounts).

The changes to the clearing process have been introduced following agreement by the Payment Systems Task Force chaired by the Office of Fair Trading, OFT.



Our cover shot: Black Mount Lochan na h'Archlaise, Rannoch Moor, Scotland

Make your money work – Best bank and building society unrestricted instant access/no notice accounts

Branch Based

Amount	Provider	Account	Gross Rate	Contact
£1+	Co-op Bank	Smart Saver	4.75%	Branch[1]
£500+	Skipton Building Society	Smart Saver	6.1%	Branch[2]

Postal or Telephone

Amount	Provider	Account	Gross Rate	Contact
£1+	Birmingham Midshires	Direct Telephone Savings Account	5.75%	Call 0845 609 1970 for application form and information pack[3]
£500+	Anglo Irish Bank	Easy Access	6.3%	Call 0845 455 2222[4]

Internet

Amount	Provider	Account	Gross Rate	Contact
£250+	Newcastle Building Society	Net (Issue 7)	6.43%	www.newcastle.co.uk[5]

Note 1. Account can also be accessed at your local post office. **Note 2.** Withdrawals and deposits by cheque or transfer only. Rate includes 0.5% bonus paid for the first six months. **Note 3.** Rate is guaranteed to stay at least 0.25% above ING Direct Savings Account underlying rate until 1/1/2010. **Note 4.** Guaranteed to match the Bank of England Base Rate until 1/1/2009. **Note 5.** Guarantees to match the Bank of England Base Rate until 31/12/2009.
Sources: www.thisismoney.com 3/1/2008. All accounts subject to terms and conditions

Inflation needs a reality check

Bank of England: Inflation perception up

PUBLIC EXPECTATIONS OF inflation in the UK have reached the highest level since 1999, according to the latest Bank of England quarterly survey.

Expectations of the annual inflation rate over the coming year jumped from 2.7 per cent in August to 3 per cent in November, the highest since the Bank's survey began in 1999. The survey also indicates that perceptions of the current inflation rate rose from 2.8 per cent to a high of 3.2 per cent, although official data showed inflation as measured by the Consumer Price Index was 2.1 per cent in November (the same as in October) and marginally above the Bank's 2 per cent target.

However, the gap between the Bank's official measure of inflation, the CPI, and what people are actually experiencing, increasingly appears to be two quite different things.

The CPI is only one measure of inflation and was adopted in 2004 to allow comparison of inflation in the UK and in Europe. The other main measure is the Retail Price Index or RPI, which was used until 2004 and it shows prices increased at 4.3 per cent for November.

The CPI excludes a number of items that are included in RPI, notably council tax and owner-occupier housing costs such as mortgage interest payments and buildings insurance. The two are also calculated differently which further reduces CPI inflation relative to RPI.

The main upward pressures on inflation are coming from changes in the price of road fuel. Petrol pump prices rose an average 2.7 pence per litre in October, mainly reflecting the increase in fuel duty that came into effect on 1 October.

Last year, by contrast, petrol prices fell by 5.2 pence per litre. There was also a large upward contribution from air travel, mainly due to rising fares to European destinations which fell a year ago. Food prices also rose – in particular meat and fruit. The largest downward contribution to the change in the CPI annual rate came from gas and electricity bills which both fell slightly this year as a result of the continued phasing in of tariff reductions.

COMMENT

The year of investing carefully

WHEN WE LOOK BACK ON 2008 IN 12 MONTHS FROM now what I believe we will remember is a year characterised by two things – the fear of inflation coupled with economic slowdown.

While it is not common for these to co-exist, it is not unknown and you may recall the term 'stagflation' which last existed in the 1970s. Whilst it is not a particularly welcome scenario, as the ones charged with preserving and growing the value of your savings, it's important for us to understand what is happening in order to recommend appropriate action.

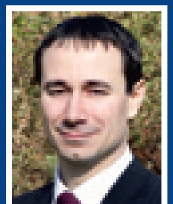
Recently, the price of oil hit USD100 a barrel and faced with increasing demand for soya, wheat and corn from China and India, not to mention the bio-fuel industry, food prices are also on the increase. Set alongside this are rising prices of Chinese exports caused by rising raw material and wage costs.

We also have the global credit crunch – a situation which has been brought about mainly by US banks lending too many homeloans to too many people lacking the income, the assets and the jobs to repay those loans. In the UK the situation has been most visibly manifested in the Northern Rock situation. In practice, it means that all forms of borrowing will be more expensive for some months to come – a situation which will make business more difficult for many firms and slow down economic activity.

The action the central bankers would normally take to avert a credit crunch-inspired economic slowdown is to aggressively cut interest rates. However, this is only likely to stoke up inflationary pressures, so any rate cuts are likely to be gradual.

For our clients this situation has two clear implications. Firstly, to prevent rising inflation undermining the value of their savings they need to invest in real assets. Secondly, to avoid any over reliance on areas of the economy which may suffer as a result of inflationary pressures or economic slowdown, they must invest in a properly diversified portfolio covering all the real asset classes comprising equities, bonds, property and cash.

It is at times like this that the value of the service we offer you as wealth managers will be most rigorously judged. On that note, I would like to wish you a prosperous 2008.



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 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

Tax planning or inheritanc

Beware changes to the Inheritance Tax regime introduced in October. They could lull you into a false sense of security. Lowes' Consultant Gary Summers reports ...

AS MANY READERS ARE PROBABLY aware, in last Autumn's Pre-Budget Report, the Chancellor of the Exchequer, Alastair Darling, announced some important changes to the Inheritance Tax (IHT) regime.

Specifically, he has allowed spouses and civil partners to inherit any unused portion of their deceased partner's IHT nil-rate band.

Until now, each individual has had their own IHT nil rate band, which is currently £300,000. When coupled with the exemption of inter-spouse transfers, this meant that if an individual simply left all of their estate to their surviving spouse then that individual's nil rate IHT band was effectively wasted.

The new rules allow the surviving spouse to take advantage of any part of the IHT nil-rate band that their spouse did not use to mitigate tax on their own estate by adding the unused portion to their own nil rate band. To put it another way, the spouse's nil-rate band could double to £600,000 if their deceased spouse's nil-rate band was unused.

In theory it sounds fine. It has – for the time being anyway – defused the political hot potato that IHT was rapidly becoming. However, it is very important to understand the limitations of this change and not be lulled into a false sense of security based on the belief that the need for IHT planning has been rendered obsolete or at least much less important.

The fact is that, despite appearances, the Chancellor has given nothing away that was not already available through discretionary will trusts and, except in the most limited of situations, active inheritance planning is still as important as it has ever been. In practice the impact on the Treasury's IHT take is likely to be very small. It could even increase if people fail to plan correctly.

It is important to understand that while the Chancellor allows a surviving spouse or civil partner to inherit the unused portion of their deceased partner's IHT nil-rate band, this is not the same as doubling the IHT allowance of the surviving partner.

The change only applies to augment the nil-rate band available on death. The surviving spouse or civil partner cannot use the transferable nil-rate band in their own lifetime to increase the amount of chargeable transfers they can make without incurring IHT. For example, any gifts given away by the survivor before death will relate to their own nil-rate band, not to the combined one.

However, since the Chancellor's announcement in the Pre-Budget Report back in October, a number of commentators have claimed that the use of trust-based will planning (e.g. involving the use of discretionary will trusts) should not become a thing of the past. Below are some examples which illustrate this:

Case 1

Without a discretionary will trust

On Mr Smith's death everything is inherited by his wife Mrs Smith, including a portfolio of investments and his share of their home (which they owned as tenants in common rather than as joint tenants).

No IHT is payable on the inheritance because they are husband and wife. Over time, the value of these assets increases and, because all of this growth lies within Mrs Smith's estate, the effect is to erode the value of the two nil-rate bands – her own and the one she inherited from Mr Smith.

With a discretionary will trust

On Mr Smith's death, some of his assets – up to the nil-rate band in value – are held inside a trust created by his will. The assets can be investments, or even part of the Smith's home (providing they own it as tenants in common). Unlike the above situation, any growth in the value of the assets held within the trust, including that part of their home owned by Mr Smith, takes place outside of Mrs Smith's estate for IHT purposes.

What's more, should she need to, then Mrs Smith can still access her late husband's assets held within the trust.

Case 2

The transferable nil-rate band is only available for married couples and civil partners. It is not available to a man and woman who live together but are not married.

As such, if you are not married to your partner, proper IHT planning remains as vital as ever, especially where there are children.

Case 3

Another area you need to consider is where you want to leave assets to anyone other than your spouse or civil partner.

If you believe that the value of what you plan to leave in your will may rise in value faster than the nil-rate band, then trust-based schemes offer greater IHT protection. They also enable your trustees to retain some control over the assets being transferred and, very importantly, your spouse is also able to benefit.

As things currently stand, the government has set the nil-rate band increases to 2010/11 by between 4 and 7.7 per cent.

● *For clarification of how the changes announced in the Pre-Budget Report might affect your specific circumstances, contact your usual Lowes' Consultant or call 0845 1 484848.*

e insecurity

Long term care: The perils of inadequate planning

A FACT OF MODERN LIFE IS THAT PEOPLE ARE, IN GENERAL, living longer. Sadly, as a direct consequence, the requirement by older people for long term care is also increasing. It is right here that we find an extremely important additional benefit of trust-based IHT planning – to avoid having all or a substantial part of your hard earned estate, and the family home in particular, gobbled up by a local authority seeking to recoup care costs.

The costs of care should not be underestimated. According to the Financial Services Authority*, charges vary from one area to another and according to the type of care you need. As a very rough guide, personal care provided in your own home might cost around £13 per hour. So, if you needed two hours help every day, it could cost £9,490 a year. In 2005, average care home fees were roughly £19,500 a year for a residential home and £27,500 for a nursing home. But they can be significantly higher depending on location and care facilities.

However, as things currently stand in England and Northern Ireland, only people with assets to a maximum of £13,000 will have their care costs paid for by the state, although they may be obliged to contribute any income they may have. If you have assets worth between £13,000 and £21,500 you will be expected to make some contribution, but if they are worth more than £21,500, you won't receive any local authority funding at all.

It is for this reason that many elderly people are forced to sell their homes to fund their care fees and it's estimated that some 70,000 homes are sold each year. However, the use of a trust can avoid this scenario.

As in Case 1 on the previous page, Mr and Mrs Smith each owned a half of their home as tenants in common. When Mr Smith died, his half of the house plus other assets he owned went into a trust. However, Mrs Smith had potential use of these assets for the duration of her lifetime.

Now, should Mrs Smith fall ill and require care, then her assets will be means tested by the local authority, but those that previously belonged to Mr Smith will be ignored.

The local authority would, of course, try and recoup the costs of Mrs Smith's care, but they cannot force the trustees to sell the trust's assets. It's also highly unlikely that they would be able to get Mrs Smith to sell just half a house. As such, the family home remains intact and can pass to the children or anyone else on Mrs Smith's death. The very best the local authority is likely to be able to achieve is a charge on Mrs Smith's share of the house which can be recovered from her estate on death.

**FSA Factsheet: Paying for long-term care, April 2006*

How did it perform?

Phoenix Venture Capital Trust

IN OUR ONGOING SERIES examining the progress of investment products we featured in Lowes Magazine five years ago, we report on the Phoenix Venture Capital Trust …

The objective of the investment managers, Octopus Asset Management, was to build a diversified portfolio of investments in UK smaller companies listed on the Alternative Investment Market (AIM). Their aim was to provide investors with attractive returns in all market conditions whilst striving to minimise risk.

PORTFOLIO

Back tomorrow's winners – and receive tax relief

GIVEN THE CURRENT STATE of global stockmarkets, it's hardly surprising that many investors have gone running for cover.

But there are still many who are looking to invest in tomorrow's winners. Their view is that if we take no risks, we can't expect any rewards, and one area worth considering for those who are prepared to take a higher investment risk is a Venture Capital Trust or VCT.

VCTs are not new. They were introduced by the Government in 1995 to encourage individuals to invest into a diversified portfolio of smaller private trading companies. These smaller companies are able to use these funds to develop and grow and, since 1995, over 30,000 people have invested more than £1.5 billion into VCTs.

After the initial fund raising exercise, the shares in the VCT are quoted on the London Stock Exchange and their shareprices are featured in the *Financial Times* and other newspapers.

The Phoenix VCT

Our preferred VCT is the Phoenix VCT from Octopus Asset Management, whose fund managers have many years of experience of this type of investment. Phoenix aims to build a diversified portfolio of investments in UK smaller companies which are listed on the Alternative Investment Market (AIM).

The FTSE AIM Index is currently below the level it was launched at in 1995 and most AIM-listed companies have seen their share prices decline since the stock market peak of 2000. However, the managers of the Phoenix VCT believe there has been little distinction between good and bad companies. As a result, the managers believe there are some excellent opportunities available to invest in those well run smaller companies whose share prices have been hit just as hard as their less well run counterparts.

The managers' investment objectives are to provide investors with attractive returns in all market conditions whilst striving to minimise the level of risk.

How to invest

We feel that this investment offers an exciting complement to the investment portfolios of those clients who are prepared to invest for the medium to long-term by exposing some of their capital to an element of higher risk.

The minimum investment is set at £3,000 and 20 per cent of this is subject to income tax relief. As an investor with Lowes, if you apply for shares before **15 February 2003**, you will receive an extra allocation of 15 shares for every 1,000 shares (i.e. for every £1,000) you purchase.

If you would like to receive a copy of the prospectus and application form please return the request slip accompanying this issue or call us on 0845 148 4848.

If you have any questions or, indeed, if you have any doubts as to the suitability of this product for you, then please call your Lowes consultant or our office.

Tax savings

VCTs offer investors four valuable tax incentives which help to boost returns and reduce risk. They are available to all investors aged 18 or over on investments up to a maximum of £100,000 in each tax year. These are:

1. Income tax relief. Subscribers for new ordinary shares in VCTs can claim income tax relief at 20 per cent in the year the shares are issued, provided they are then held for at least three years.
2. Tax free dividends. All dividends on VCT ordinary shares are exempt from income tax.
3. Tax free capital gains. Profits on the disposal of VCT shares are exempt from capital gains tax.
4. Deferral of capital gains tax arising on the disposal of any asset up to the amount invested in the VCT shares. To qualify for this, the VCT shares must be issued in the period beginning 12 months before and ending 12 months after the disposal that gave rise to the capital gains tax.

Important Notice: Past performance is not necessarily a guide to the future. This investment is not guaranteed and if you need to sell it you may get back less than you invested and may also lose any tax reliefs. Levels and bases of reliefs from taxation are based on our understanding of current tax legislation and are subject to change.

8 • LOWES January 2003

Subscribers for new ordinary shares in the Phoenix VCT were able to claim tax relief at 20 per cent in the year the shares were issued provided they were then held for three years. All dividends paid on the shares were exempt from income tax. Any profits on the disposal of the shares are exempt from Capital Gains Tax.

So how did the Phoenix VCT perform?

The closing mid-price for the Phoenix VCT on 31 December 2007 was 96p (it was £1 on launch five years ago) but this does not include the dividends.

The following tax-free Dividends have been paid out:

31 October 2003	0.15p
31 October 2004	2.5p
31 October 2005	4p
31 October 2006	4.35p
20 April 2007	6p
TOTAL DIVIDENDS	**17p**

So, based solely on the change from the original offer price after the addition of dividends it has therefore risen by 13 per cent. However, this does not take into account the VCT tax relief which was 20 per cent when the investment was made, i.e. for a net investment of 80p the return would be 41.25 per cent.

DIVERSIFICATION

It makes sense to diversify

AT LOWES WE HAVE LONG MAINTAINED that the best way of investing to optimise returns and keep risks under control is to spread investments across a diversified portfolio of different assets classes, including equities, bonds, property and cash.

Collective funds like unit trusts and OEICS enable such diversification because they provide a share in a broad portfolio of assets. However, in our view, diversification also requires spreading investments across a range of quality fund managers. This way you avoid putting all your eggs in one basket, both in respect of funds and fund managers.

There is sound logic for diversification. While over the long-term equities should generally outperform other asset classes, such outperformance cannot be expected to take place smoothly or in every year. There will inevitably be corrections and no single asset class should realistically be expected to dominate the performance tables all of the time.

However, there is a strong temptation among many investors to assume that an asset class which has performed strongly in the past will continue to perform well in the future. Such a view was probably behind the thinking of many of our clients who entered our 2007 'Predict the Portfolio' competition. On the back of several years of strong commercial property performance, 82 per cent of competition entrants tipped this asset class to be either the top or second best performing asset in 2007.

As it turned out, 2007 was a poor year for commercial property. In November, UK commercial property returns showed their biggest monthly drop on record, leaving the market set for the first annual loss since 1992, according to the Investment Property Databank's (IPD) benchmark UK All-Property index.

Given a huge amount of luck – and an equally large amount of risk – it's not impossible to select a single asset class and do spectacularly well. While investment diversification (which aims for steady and consistent growth) may mean you could miss out on spectacular gains, it also means that you do not risk making some equally spectacular losses.

COMPETITION

Predict the Portfolio Competition

FOR 2008 WE HAVE DECIDED TO RETAIN A similar format to last year and ask you to predict how the four types of asset typically used to build an investment portfolio will shape up over the coming year.

We believe the key to successful investing is a balanced portfolio comprising four main asset classes – equities, bonds, property and cash. So we want you to take a look at the attached competition card and rank from 1 to 4 how you think these asset classes will have performed relative to each other over the period 1 January to 31 December 2008. To help you, Figure 1 illustrates their relative performance over the last five years.

We'd also like you to complete a tie breaker. Simply enter on the card the percentage figure that you think your preferred asset class will rise by over the year from 1 January to 31 December 2008. When you have done this, complete the competition card between pages 6 and 7 and return it to us. The winner will receive six bubbling bottles of Moët Champagne.

So waste no time! Make sure your entries are at our offices by 5pm on Friday 29 February.

Figure 1 – How different UK assets squared up

Rank	2002	2003	2004	2005	2006	2007
1	Commercial Property	Equities	Commercial Property	Equities	Equities	Cash Deposits
2	Government Bonds	Commercial Property	Equities	Commercial Property	Commercial Property	Equities
3	Cash Deposits	Cash Deposits	Government Bonds	Government Bonds	Cash Deposits	Government Bonds
4	Equities	Government Bonds	Cash Deposits	Cash Deposits	Government Bonds	Commercial Property

Notes: **1.** UK Equities: THE FTSE All Share Index is the aggregation of the FTSE 100, FTSE 250 and the FTSE Small Cap Indices and represents nearly 99 per cent of UK stockmarket capitalisation. The returns include reinvested income net of basic rate tax. **2.** UK Government Bonds: The JP Morgan UK Government Bond Index tracks the total returns of liquid, fixed rate UK Government Bond issues. **3.** UK Commercial Property: The IPD (Investment Property Databank) UK Monthly Index is based on balanced and specialist property unit trusts, pooled pension schemes and unit-linked insurance funds – a total sample of 3,821 properties held in 67 portfolios, worth £49.1 billion that accounts for 15 per cent of the total UK market. This index is published monthly on the 15th of the month, and the Index levels for the competition are 15 December 2006 and 15 December 2007. **4.** UK Cash Deposits: LIBOR (London Interbank Offered Rate) 6 month is the rate at which Banks lend cash to each other, in this case for a six month term.

Gains tax change favours investment funds

WHEN IT COMES TO STOCKMARKET investment, Lowes advocates the use of collective investment funds such as unit trusts and OEICS as the best way of investing for many people.

In our view, changes in Capital Gains Tax announced in the October 2007 Pre-Budget Report and due to come into force in April 2008 have strengthened the hand of this approach.

We believe that the tax proposals have made single premium life assurance bonds less attractive to the typical investor. Whilst life assurance bonds offer access to a diverse spread of asset classes and collective investments, we believe they are only suited to some very specialised situations.

Many of our clients require an income from their investments and as a general rule the typical investor tends to make full use of their Income Tax allowances. So how can they meet an additional requirement for tax efficient income, for example, to fund increased living costs?

The key is to make use of their annual Capital Gains Tax allowances which for many investors tend to remain untouched. By encashing investments it is possible to apply the annual CGT allowance to provide tax free gains which can then be used as tax efficient 'income'.

When the Chancellor of the Exchequer, Alastair Darling, announced in his October 2007 Pre-Budget Report that he was abolishing taper relief and indexation allowances in respect of CGT and was instead to introduce a uniform CGT rate of just 18 per cent, the argument in favour of unit trusts and OEICS was strengthened.

While this change will make no difference to investors whose gains would normally fall within the annual CGT exemption, for those investors looking to realise larger gains the difference may be significant.

In practice, the CGT changes mean that:

- Higher rate taxpayers investing over 10 years or more with gains exceeding their annual CGT exemption will now pay 18 per cent tax on their gains as opposed to 24 per cent. Basic-rate taxpayers will pay 18 per cent tax instead of 12 per cent.
- Higher-rate taxpayers investing for less than three years with gains exceeding their annual CGT exemption will now pay 18 per cent as opposed to 40 per cent. Basic-rate taxpayers will pay 18 per cent tax instead of 20 per cent.

So, higher-rate and basic-rate taxpayers already using their annual exemptions and investing for less than three years will have an improved CGT position under the proposed rules. For both groups, the benefits when compared to the current regime will reduce the longer they hold their investments, especially for the lower-rate taxpayer.

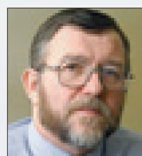
There is a general consensus that the Pre-Budget Report CGT changes have weakened the argument in favour of investing in single premium life assurance bonds from a pure tax perspective. In our view, such products are generally only suitable for use in a limited number of situations. Even then they are often unsuitable for lower rate and non-taxpayers, and for people who will be higher rate taxpayers at the time of encashment.

Growth in a single premium bond is charged to Income Tax when the bond is encashed, with an initial 20 per cent of this taxed within the fund which is non-refundable. The tax situation is:

- Investors who are higher rate taxpayers at encashment will have to pay an extra 20 per cent tax on the bond's growth (40 per cent less 20 per cent).
- Basic rate taxpayers may have no more to pay. Lower rate and non-taxpayers cannot reclaim the tax paid within the fund.

To conclude, life assurance bonds do not utilise CGT allowances and can also be Income Tax inefficient in the hands of some investors.

The REIT time for commercial property?



Lowes' Investment Manager, Melvyn Bell, believes there's some value to be had in 2008 ...

THERE'S AN OLD INVESTMENT axiom: "Buy on the rumour, sell on the fact". Last year it hit with a vengeance when legislation authorised the use of Real Estate Investment Trusts (REITs) in the UK, introduced on 1 January 2007.

REITs were designed to make it easier to invest in UK commercial property (offices, shopping malls, etc). The concept was not new as REITs have their origins in the US in the 1880s when investors were able to avoid double taxation because trusts were not taxed at the corporate level, provided their income was distributed to shareholders.

Following the introduction of the UK legislation existing property companies such as British Land converted to REITs to benefit from the new tax regime. Their share prices rose strongly as 1 January 2007 drew near.

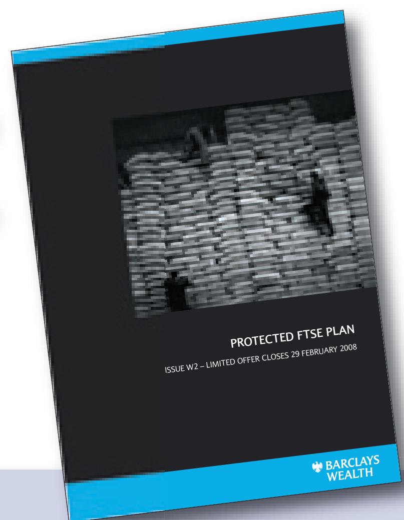
Unfortunately, this is an excellent example of buying on the rumour as by the time 1 January 2007 dawned the share prices of these companies were close to the Net Asset Value (NAV) of their property portfolios. For many pundits this was not unusual as REITs in other markets around the world frequently traded at premiums to NAV. However, at Lowes we felt the risks outweighed the potential rewards of REITs. As with other investment trusts (where the share prices often trade at a discount to NAV) we believed it was always possible for leveraged shareholders (those who had borrowed to increase their holdings) to take profits, leading to the share price to fall regardless of the state of the commercial property market. In the event, commercial property company shares have declined due to fears that the global 'credit crunch' would slow growth.

In any bear market it's impossible to identify the bottom. However, the legendary fund manager Anthony Bolton got close when he told the annual meeting of the Fidelity Special Values Investment Trust: "Now with share prices falling, I've started to add back into this area." Bolton believes there is a buying opportunity because the fall in commercial property values is shallower than the decline in property shares.

While we cannot be certain that the decline has ended, we do believe the commercial property market is now offering better value than for some time. Consequently, investors willing to take a long view might consider some exposure. Although, to minimise the risk associated with investing in individual REITS companies, we would recommend using a managed fund that invests in a diversified portfolio of REITs.

- *For more information, contact your Lowes' Consultant or call 0845 1 484848.*

Upside without the downside



THE CURRENT INVESTMENT CLIMATE IS giving rise to a fall in investor confidence which means that some people are deferring investment decisions, choosing instead to stay away until such time as things 'settle down'.

At times like these, we continue to point out that when it is very difficult to commit to the investment markets, it is invariably the best time to do so and, conversely, hindsight often proves that when it is easy and comfortable to make decisions about stockmarket investments it may be time to get out.

That said, we do appreciate that everyone is looking for the 'Holy Grail' of investments – ones that rise when the stockmarket rises, but don't lose when it falls. Barclays Wealth has launched just such a range of investments in the form of its Protected FTSE Plan which, for many, will be ideal in the current climate.

There are three investment options – 3-Years, 5-Years, and Early Maturity – and these are detailed in Figure 1.

The minimum investment is £4,000 and this can be spread over more than one option.

You can invest in the Five-year Option or the Early Maturity Option via an ISA and if you do there will be no obligation to pay tax on any gains. If you invest in any Option outside of an ISA any gains will potentially be subject to Capital Gains Tax (CGT) in the year of maturity. However, all UK residents have an annual CGT exemption, which is currently £9,200 and this means that total gains made by an individual up to this amount in a tax year will be free of tax. Any gains made in excess of this will be liable to tax at your highest Income Tax rate (currently either 10 per cent, 20 per cent or 40 per cent). Taxation rules, rates and exemptions are, of course, subject to change.

The starting level of the FTSE 100 Index for all three options will be taken as its closing level on 14 March 2008 and your capital will earn effective interest at a rate equivalent to 4.5 per cent a year until then. The final level of the Index is calculated by taking the average of its closing value on the 14th day of each of the final six months for the three-year option and 12 months for the other two. It should be appreciated that, whilst such averaging can protect the investment, if the Index suffers a fall towards the end of the term, it could also be responsible for constraining growth where the Index rises towards the end of the term. For the Early Maturity Option, early maturity will be triggered simply if the Index is 24 per cent higher on the third anniversary.

Figure 1. Protected FTSE Plan – Investment Options

3-Year Option	5-Year Option	Early Maturity Option
1.5 times the rise in the FTSE 100	Two times the rise in the FTSE 100	Two times the rise in the FTSE 100 unless early maturity triggered
Maximum growth of 24% if the FTSE 100 has increased by 16% or more when the Plan matures	Maximum growth of 48% if the FTSE 100 has increased by 24% or more when the Plan matures	As with the 5-Year Option, unless the FTSE 100 has increased by 24% or more after 2½ years, in which case it will mature early paying growth of 24%
Full protection of original capital if held until maturity	Full protection of original capital if held until maturity	Full protection of original capital if held until maturity

Full details about the investment and all of the risks and tax issues are contained within the accompanying brochure and you should read this thoroughly to ascertain whether the investment is right for you.

We hope that having read the brochure you will conclude that this is indeed an attractive proposition.

As with any investment offer we make to our clients, we would be delighted to conduct a review of your personal financial affairs to determine whether we feel the investment is right for you and provide our written recommendations. That said, if having read the product literature you are satisfied that the investment is right for you and would like to forego the offer of a consultation, please complete the application form and return it to our office at: Lowes Financial Management Limited, FREEPOST NT197, Newcastle upon Tyne, NE2 1BR – or use the pre-paid envelope provided.

It should be appreciated that in the absence of a personal recommendation your application will be treated as a 'direct offer' case under which we are not required to assess the suitability of the investment for you. As such, if you do proceed and subsequently decide that the investment wasn't in fact suitable for you, we cannot be held responsible or liable.

If you have any doubts about the suitability of the investment for you and would like a personal consultation, or simply need some help in completing the forms, please do not hesitate to contact your usual Lowes' Consultant or this office on 0845 1 484848.