Spring 2009

"Nothing is more expensive than a missed opportunity."

H. Jackson Brown Jr.

INSIDE: IMPACT OF INFLATION

INSIDE TRACK

Less wealthy in cold

A RECENT SURVEY OF 900 Independent Financial Advisers by the life insurer Skandia suggests that a quarter of them are to drop their less wealthy clients and focus on higher-value customers.

Typical reasons cited include the need to add value in a turbulent market and that lower value clients cost advisers simply because they are on their books.

In our view, this move is part of a trend which is being brought about by the rising costs of providing professional, unbiased independent financial advice. However, we believe that it is fundamentally short sighted, short-term and flawed.

Lowes' philosophy has always been about building client relationships over the longer term, irrespective of how wealthy our clients are. By doing this we benefit from clients remaining loyal and recommending our services to friends and family.

What is more, we have no intention of offering different standards of service to our clients based on the value of their assets we manage on their behalf. As such, please rest assured that if you have investments valued at less than a certain sum, you will most definitely not be receiving a letter from us saying we no longer want you as a client.

Unpaid elderly care tops £39bn

A report from Liverpool Victoria on the hidden costs of caring for the growing elderly population says people are now providing their parents with an average 36 hours per month of unpaid care. The report says that on the basis of 36 hours per month of care at a notional cost of £8.27 per hour (gross hourly pay for care professionals), then over 10 years and taking into account the cost of a 30 month stay in a care home (the average duration), the total price of caring for an elderly parent now averages £132,500. Put another way, people will provide their elderly parents with the equivalent of £39 billion in unpaid care this year.

Premium Bonds drop £1 million prize

NATIONAL SAVINGS & INVESTMENTS (NS&I) has dropped one of its two monthly £1 million Premium Bond prizes.

Instead, on 1 April, a new £25 prize category was introduced as part of a move which sees the total value of monthly prizes cut to approximately £32 million, down from £59 million in March and £87 million in November. The cut means there will be a reduction in the number of higher, medium and lower value prizes.

In addition, the prize fund interest rate (the interest savers with average luck can expect to receive in a year on their holdings) has been reduced from 1.8 to 1 per cent, which is free from Income and Capital Gains Tax. These changes mean the chance of becoming a premium bond millionaire have now halved

Rob gets reward for financial endeavour

OUR CONGRATULATIONS TO consultant Rob Newton who has recently achieved Chartered Financial Planner status.

This is an elite qualification in the world of financial advice and according to the Chartered Insurance Institute, the professional body which awards the qualification, Rob is one of only 1,760 Independent Financial Advisers out of a total 25,000 to have this qualification.

Rob joined Lowes in 2003 and stresses that he is now aiming to achieve the highest qualification currently possible – that of a Fellow of the Personal Finance Society.

He's come a long way since he started his career in financial services as an adviser with Lloyds TSB for eight years before gaining off-shore experience with an Independent Financial Adviser in the Isle of Man. Seven years later he returned to England to join Lowes where he currently advises his growing client base in the North of England. Rob is married with a young son and another child on the way. His hobbies include football – as an amateur team player and as a fan of Newcastle United.

Lowes is itself one of only 200 financial advice firms in the UK which enjoys Chartered Firm status and Rob's achievement reaffirms our commitment to being one of the best qualified Independent Financial Advisers in the UK.

Our cover shot: Cladich, Loch Awe, Scotland

Make your money work

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

Amount	Provider	Account	Gross Rate	Contact
Branch Based				
£1+	Tesco	Instant Access Saving	1.25%	Branch [1]
£500+	Stroud & Swindon	Bonus Guarantee	1.87%	Visit your local branch or call 0845 725 2423 (option 1) [2]
Postal or Telephone				
£1+	Birmingham Midshires	Easy Telephone Savings	1.75%	Call 0845 602 2828
Internet				
£1+	Yorkshire Building Society	Internet Saver	2.1%	www.ybs.co.uk

Note 1: Tiered account - higher rates available for deposits of £10,000 and above. Deposits and withdrawals can be made at any Tesco store, except Tesco Express and Tesco Petrol Filling Stations.

Note 2: Rate guaranteed to remain at least 1% above Bank of England base rate until 31/12/2009. Monthly interest available on balances over £5,000. Subsequent investments must be at least £100. Withdrawals must be at least £100 at a time.

Sources: www.thisismoney.co.uk, www.moneysupermarket.com, www.moneyfacts.co.uk 8/4/2009. All accounts subject to terms and conditions.

Act on your cash ISAs

RATES OF INTEREST ON CASH ISAs have slumped to new lows. According to the financial product comparison group, Moneyfacts, average rates on existing cash ISAs are now averaging around 2 per cent.

In some cases, the rates may be considerably lower. For example, the rates paid by four popular high street providers on 17 March were:

Abbey Easy Isa	0.1% on £1 - £18,000
Alliance & Leicester Branch Cash Isa	0.1% on £1 - £21,000
Bradford & Bingley Isa Saver	0.1% on £1 - £18,000
Halifax Isa Saver	0.1% on £1 - £18,000

Whilst banks had traditionally used high ISA rates to attract customers, they are very much aware that money in ISAs is rarely withdrawn and they are apparently hoping that the apathy factor will mean many savers will leave their accounts untouched. But, faced with these rates, savers need to take action and move their money.

However, it's worth noting that more banks and building societies are quietly accepting transfers from their existing ISA accounts into their new products offering superior rates. Darren Cook, Head of PR at Moneyfacts told Lowes: "The banks and building societies are fighting to attract more money to prop up their lending and are keen to retain existing customers."

Selection of some top paying Cash ISAs

Cash ISA	Rate gross
Alliance & Leicester Direct ISA Issue 5	2% gross/AER on £1 - £8,999 which includes 1% bonus until 4/5/2010. 2.5% gross/AER on £9,000+ which includes 1.5% bonus until 4/5/2010.
Abbey Direct ISA	2% gross/AER £1 - £8,999. 3% gross/AER on £9,000+.
NatWest Cash ISA Plus	3.45% gross/3.51% AER on £1+ which is guaranteed never to be less than Bank of England base rate until at least 1/2/2010. Only for new ISAs (no transfers in).
Barclays Golden ISA	3.55% gross/3.61% AER on £1 to £3,600 paid monthly. Includes introductory bonus of 1% paid for 12 months from opening. Only for new ISAs (no transfers in).
Standard Life Direct Access Cash ISA	2.65% gross/AER on £1+.
National Counties Guaranteed Cash ISA 2009/2010	3.26% gross/AER on £1+ which is guaranteed to be at least 1% above the Bank of England base rate until 5/4/2010. Transfers out lose 10 days' interest.

Source: Company websites 7/4/2009

With the accounts offering 'introductory bonuses' you should be careful to ensure that when they run out you move your money again. If you do transfer your money to another bank or building society, be sure to use the proper transfer forms. If you withdraw the money rather than transfer it then it will lose its tax free status and you will only be able to reinvest the annual allowance of £3,600 for the current tax year.

Also, beware of penalties. There is no penalty on most ISAs for transferring your money, but in some cases there may be a fee or an interest rate penalty, possibly up to 180 days lost interest.

■ *For more information on getting the best value Cash ISA and on transferring existing accounts, talk to your Lowes' Consultant or call us on 0191 281 8811.*

COMMENT

No other choice

IN A NUMBER OF RECENT MEDIA interviews, Gordon Brown has been pressed on the issue of the credit crunch and whether the bank bailout was the right thing to do. Despite the simplicity of the explanation, the fact that there was no other choice seems to have escaped some commentators.

There are some prominent economists who argue that, for capitalism to work properly, the appropriate course of action would have been to allow the banks to fail. I'm not sure they would feel the same way after the event though, when they would face the reality of the meltdown of society.

Imagine the situation if, for example, HBOS had been allowed to fail. Obviously, all the retail savers would be up in arms and hoping for a handout to replace their losses, but what about the wider implications? Consider all businesses which banked with Bank of Scotland or Halifax; obviously, the loss of their deposit capital would mean that they were not in a position to pay their staff wages, let alone their suppliers. As a result, the liabilities of the suppliers and the staff would not be met and the situation would snowball with the ultimate result that all 'connected parties' fail. In such a scenario, not just with regard to interbank lending, most UK banks are 'connected parties'. The failure of one major bank would, without appropriate action, lead to the collapse of another followed by the inevitable 'house of cards' scenario and then the collapse of the currency and the economy.

Whilst there has undoubtedly been significant greed and negligence at play in the banks as well as in society generally, confidence in the banking system as a whole must be maintained if an economy is to function. Whilst things could have been handled better, the various interventions have meant that we now seem to have turned the corner to the extent that confidence is returning.

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.

Inflation, deflation and the stockmarkets

The credit crunch has had a huge impact on spending and the stockmarkets. But the next few months could see the emergence of a quite different picture. Neil Mclachlan reports …

IDEALLY, INVESTING should always be via a diversified portfolio of different asset classes selected to meet your own personal requirements as closely as possible.

Unfortunately, the credit crunch, the result of a decade of easy credit and debt fuelled economic growth, has had a serious impact on even the best diversified portfolios. Equity prices in particular have fallen to levels well below their real values, significantly eroding the value of many portfolios and leading many investors to question the value of investment altogether.

However, based on our experience of past economic downturns and recessions and our analysis of the current situation, it is our view that around the third quarter of 2009 there will be a change in sentiment which will see a return of stockmarket growth, albeit on a more subdued and less volatile basis than over the past decade. However, we also believe this period will be somewhat different to the past decade, which has also been characterised by very low inflation.

Inflation, deflation and stagflation

Depending on your choice of newspaper, radio or TV news, the pundits are predicting everything from deflation and stagflation to the return of inflation. In our view, we do not see that deflation – where real prices decline – will be a major issue. While it is likely that we will witness a period of deflation, we believe it will give way to inflation after several months at the most. Nor do we see stagflation as likely – where inflation and economic stagnation occur simultaneously and remain unchecked for a period of time.

Our thinking is that neither of these will come about because of the speed and the scale of state intervention to tackle the credit crunch. In our view the emergence from the current recession will, we believe, be accompanied by a return to inflation – not the high double digit inflation of the 1970s, but nevertheless levels somewhat ahead of the past decade. Over the medium-term inflation will be driven by a weaker pound, which will push up the price of imports in general, and such essential imports as oil and food, which will experience more rapidly rising prices due to the pressure of global demand.

Change: Shift from bear to bull market usually down to a subtle change in behaviour or sentiment

In a recent presentation to the National Association of Pension Funds' conference in Edinburgh, the investment guru Anthony Bolton, who has established a reputation over many years as a hard nosed stockmarket analyst whose predictions have invariably proved correct, stated his view that we are close to the end of the bear market and the start of a bull market. The shift from bear to bull, he said, is usually down to a subtle change in behaviour or sentiment, and that while there is still negative news to come, there will be more good news emerging in the second quarter of 2009. The first hint of good news came in March when, in an extremely significant move given the state of the banking sector, the US banks CitiBank and Bank of America reported positive operating profits for the first two months of 2009.

In the past, whenever sentiment has changed the situation has moved very quickly. At the current time, in the pricing of equities and corporate bonds the markets have assumed an Armageddon scenario, and anything better than this will be viewed as positive!

Looking ahead over the next decade, there can be little doubt that credit is going to be much more difficult to obtain than over the past decade. Consequently, economic growth is likely to be lower, while stockmarket growth could be more constrained than in the past, with equities assuming more realistic valuations.

This will not be a bad thing. On the contrary, steady and less volatile growth is to be welcomed. Rapid debt fuelled growth and its attendant volatility has proved to be good for no one. We can all benefit from a more sustainable investment climate.

Getting the measure of inflation

THERE ARE TWO KEY MEASURES of inflation – the Retail Price Index (RPI), and the Consumer Price Index (CPI).

RPI stood at a near all time low of zero in February, down from 0.1 per cent in January and 0.9 per cent in December. To put this into perspective, in September 2008 it was 5 per cent and it had not been below 4 per cent since December 2006 except briefly. The reasons for the decline are rapidly falling house prices and mortgage rates due to the bursting of the housing bubble.

In contrast, the Government's preferred inflation index, CPI (now used across Europe) rose by 3.2 per cent for the year to February, up from 3 per cent in January. Historically, CPI inflation has been below RPI, but this has changed in recent months because the CPI excludes mortgage rates and house prices, which have been falling for some months.

It is important to stress that these are average measures and how inflation affects you is determined by your own pattern of consumption. In the case of pensioners, inflation rates may be considerably higher than for non-pensioners – in some cases 10 times higher according to a recent study from the Institute of Fiscal Studies, a leading economic think tank. A key reason is that pensioners spend relatively little on mortgage payments and relatively more on consuming other 'real' items.

You can measure your own inflation rate by using the **Personal Inflation Calculator** devised by the Office of National Statistics. This web-based tool is at: **www.statistics.gov.uk/pic/**

Impact of inflation on key asset classes

THE CRUCIAL POINT TO NOTE about inflation is that it is real returns that matter, that is, investment returns after taking inflation into account. If you receive a return of six per cent when inflation is four per cent and a return of four per cent when inflation is two per cent, then you will get the same real return.

- **Equities:** The best protection against inflation has historically been provided by investments in such 'real assets' as equities, as the value of dividends and share prices have tended to stay ahead of inflation. However, this is not certain and, in the past, real asset values have lagged behind inflation or even fallen if demand has dried up, possibly because investors have preferred to stay liquid, e.g. because of economic uncertainty.
- **10-year Government gilts** had a yield of 3.39 per cent as at 8/4/2009 and any rise in inflation will significantly reduce returns due to the fixed nature of gilt income. In addition, the price you can sell your gilt holdings at will also fall as demand reduces due to the impact of inflation. In contrast, corporate bond funds are offering income of between 5 and 12 per cent with the prospect of capital growth in the medium to long-term.
- **Index-linked investments:** While these can insulate against the effects of inflation in the long-term, prices can be driven up in the face of inflationary expectations which in turn reduces their yield – that is, their return after taking the asset price into account.
- **Cash:** Deposit accounts and Cash ISAs usually offer a variable rate of interest and it's vital to ensure that you don't leave your money in an account with a poor rate of interest which is eroded by inflation, which is the case with many accounts. See page 3 of this issue where we examine Cash ISAs.

5 YEARS AGO

How did it perform?
– The Keydata Extra Income Plan

PORTFOLIO

A Return to Income

- *6% Annual Income, or*
- *1.46% Quarterly Income, or*
- *33% Growth.*
- *Available free of tax via a Maxi ISA*

IT HAS BEEN SOME TIME SINCE WE have been in a position to offer clients a simple income solution; this has been because there have been very few offerings brought to the market and, with only a few exceptions, those that have been launched have not been attractive.

However, enclosed with this issue of the Magazine you will find details of the Keydata Extra Income Plan which aims to provide an attractive fixed level of income, with the capital return linked to the performance of the Dow Jones Eurostoxx 50. The Plan provides an income of 6 per cent per annum or 1.46 per cent per quarter for 5 years. For those who would rather invest for growth it offers an end of term bonus of 33 per cent.

The Extra Income Plan is designed to return your capital in full provided the closing level of the Dow Jones Eurostoxx 50 Index on the 21 May 2009 is no lower than it was on 21 May 2004. If the Index closes lower at the end of the term your capital will be reduced by 1 per cent for each 1 per cent the index is lower **but only if** the Index fell by more than 30 per cent from the starting level at any point during the investment term.

About the Dow Jones Eurostoxx 50

The Dow Jones Eurostoxx 50 Index is a blue chip index consisting of 50 of the leading companies in the Eurozone area, for example Total, Royal Dutch Petroleum, Nokia, Aventis, BNP and Deutsch Telecom. These stocks are all companies with a significant part of their business spread around the globe.

In our opinion, the Dow Jones Eurostoxx 50 completed its correction in March 2003 when the market reached significantly over-sold levels as a result of the imminence of the Iraq War and the fear of the global economy descending into a deflationary spiral. Given the stature and global nature of its constituents we therefore feel that the risks attached to this Index are not significantly greater than those of the FTSE 100 Index which is, if anything, more dominated by a small number of high profile companies. In addition, even if the Index does break the 30 per cent protection barrier, the overall return will equal the original investment if the final Index level has fallen no more than 29 per cent from the closing level on 21 May 2004.

A+ rated assets

As with all contracts of this type the income and return of capital are dependent on the ability of the behind the scenes issuer to meet their obligations.

Assets in this particular contract will be issued by one or more financial institutions which have been rated as having "strong financial security characteristics" (A+) by the leading research and credit rating agency Standards & Poor's. We therefore feel that there is little chance of the issuer(s) defaulting.

Investing for Income or Growth

We believe this contract is suitable for those seeking the opportunity of attractive income or growth whilst maintaining a degree of protection to the original capital invested in case the Index performs poorly and falls over the term.

All returns are distributed gross of tax; basic rate and higher rate taxpayers will be liable to income tax on income at 20 and 40 per cent respectively and those investing for growth may be liable to Capital Gains Tax, but only if their gains in the year of maturity after the application of taper relief exceed the personal gains exemption, currently £8,200.

Obviously, for investments sheltered within an ISA or PEP, the returns will be free of all tax. As the new tax year has commenced the plan may offer an excellent home for this years ISA investment.

How to invest

The closing date for applications in the Keydata Extra Income Plan is 14 May 2004 but we must receive your application by 12 May to allow plenty of time for processing. You can invest anything from £5,000 upwards into the Keydata Extra Income Plan, (£7,000 for Maxi ISAs). Please take the time to thoroughly read the Keydata literature and Key Features which accompanies this magazine to establish whether you agree that this is a worthwhile investment and that you understand the risks. Please also read the Factsheet issued by the Financial Services Authority (FSA) entitled "Capital-at-risk products" which is reprinted at the back of the investment literature. If you have any doubts about the suitability of this investment for you then please contact your usual Lowes Consultant or this office on 0845 1 484848.

To proceed please complete the relevant application form and return it to us in the reply paid envelope provided together with your cheque made payable to "Keydata Extra Income Plan Client A/C". If your cheque is not a personal cheque but is drawn from a Bank or Building Society it should be made payable to Keydata Extra Income Plan A/C "reference "Your Name"" and should be endorsed on the reverse by the issuing branch to identify you as the account holder.

Please note that the application form contains a tick box for investment into a Maxi ISA for the 2003/4 tax year. Obviously, as we are now in the 2004/5 tax year this box should be ignored.

Important Notice: This investment is intended to be held for the full five years. If you need to surrender your investment early you may get back less than you invested even if the level of the Index has risen. This is a limited offer and in the event of oversubscription your application may not be accepted. We are obliged to undertake certain money laundering checks before processing your investment; these may delay your application or result in it being rejected. Before investing, you should ensure that you have read the product key features paying particular attention to the risk factors printed on page 8. Levels and basis of reliefs from taxation are based on our understanding of current tax legislation and are subject to change.

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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 Keydata Extra Income Plan which we promoted in our Spring 2004 issue.

This product was a 5-year investment designed to pay either a fixed income throughout the term or a growth payment at maturity and return capital in full unless the Dow Jones Euro Stoxx 50 Index fell by more than 30 per cent from its starting level at any time during the investment period and fail to recover by 21 May 2009. If this was the case then the capital returned would be reduced by 1 per cent for every 1 per cent the final value of the Index was lower than the start value.

This investment has not escaped the global economic collapse and the 30 per cent protection barrier was, unfortunately, broken in March. The plan is not due to mature until May but, as we went to press, the Eurostoxx 50 stood at 2204 on 9 April. At this level it will translate to a reduction in capital of 18 per cent which is very disappointing. That said, when the growth payment of 33 per cent or the income totalling 30 per cent that the plan has paid throughout the term is taken into account, the total return is still in positive territory which, given the market movement over the five years, is far from a disaster.

Optimism over FTSE for end of 2009

MANY THANKS TO ALL THOSE CLIENTS WHO HAVE entered our 2009 'Predict the FTSE 100' competition.

Clients have attempted to predict what they think will be the value of the FTSE 100 Index of leading UK companies at the close of business at the year end. The client who comes closest will win six bottles of Moët Champagne!

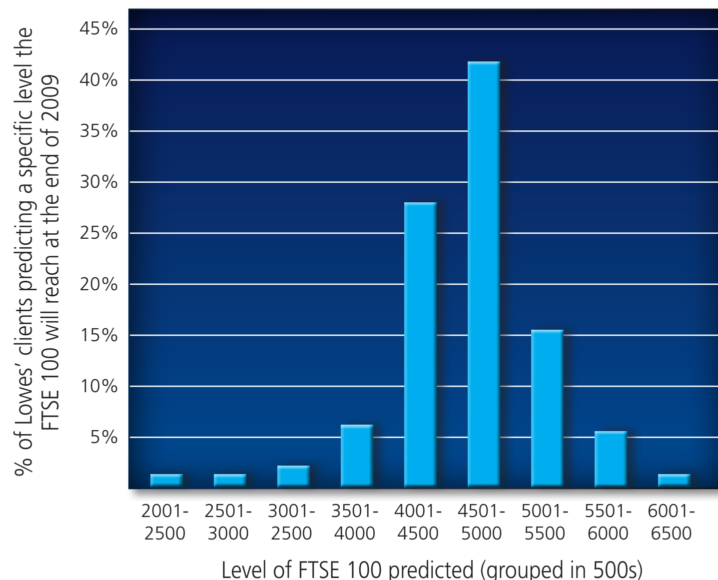
Despite current economic conditions, nearly 42 per cent of clients entering believe the FTSE 100 will end 2009 between 4500 and 5000.

Figure 1 illustrates your predictions and, on the basis of these, we've summarised the main points below:

- The average prediction for the FTSE at the end of 2009 is 4633.1 which is 1.6 per cent above the 2009 opening figure of 4561.8.
- The highest prediction for the level of the FTSE at the end of 2009 is 6427 which would be a rise of 41 per cent.
- The lowest prediction for 2009 is 2107 - which would be a fall of 54 per cent - lets hope they are wrong!

At the time of writing the FTSE is around 3982 a fall of 12.7 per cent on the opening price of 2009.

Figure 1: What you think the value of the FTSE 100 will be at the end of 2009



LENDING

Disaster waiting to happen?

SOCIAL LENDING – financial transactions between individuals without an intermediary – are growing in popularity. But there are risks including a lack of a compensation scheme, says Lowes' Senior Technician, Barry O'Sullivan.

Social lending uses an Internet enabled marketplace to bring lenders and borrowers together and, thanks to the prospect of good returns and declining confidence in the traditional banks, it is booming.

The best known example in the UK is Zopa. Launched in 2005 it now has 240,000 members. While the contractual relationships are between the individual lenders and borrowers, Zopa performs administration and credit checking tasks which allow the market to function more smoothly. Currently, individuals have £36 million on loan to 5,000 borrowers. In return for the risk, lenders expect a good rate of interest of which 1 per cent goes to Zopa as an annual fee. The maximum anyone can borrow is £15,000 for a flat fee of £95. The average lender commits £5,000, although many lend £25,000 or more.

Zopa profiles a borrowers' risk and then lenders set the rates they want to charge. The riskier a borrower's credit profile, the more a lender can charge. To spread risk, lenders' capital is split between many borrowers. Defaults are expected which naturally can result in the loss of expected interest and lenders' capital. The issues to be aware of include:

- No compensation scheme. Zopa is regulated by the Office of Fair Trading and is a member of the Finance and Leasing Association and anti-fraud association, CIFAS. Lenders are not covered by the UK Financial Services Compensation Scheme.
- Even if a lender splits his loans between 50 borrowers to reduce the risk, it would take only 2 defaults a year to slash the return by 4 per cent.
- More popularity means lower returns. The new money flowing into Zopa in recent months, together with the reductions in base rates, has cut the interest charged to borrowers which means lower returns for lenders.
- Lower rates encourage borrowers to reborrow. Borrowers can repay loans whenever they want without penalty. So, if you lend money at one rate and more lenders enter the market, then borrowers can repay their debt and reborrow at lower rates. Money not borrowed usually earns only 0.75 per cent below base rate - i.e. nothing at present.
- Not a substitute for cash savings. Zopa has received much favourable publicity and there is a genuine danger that people will see it as less risky than it is and an alternative to savings or deposit accounts. It is not and your money is at risk.
- Another downside is that your loan portfolio is likely to need regular attention – e.g. when there are defaults or your loans are repaid you have to spend time tracking down what happened. Another point to note is that returns are subject to income tax.

Finally, there has been some talk that social lending should tolerate higher default rates, so that it is able to lend to less credit worthy borrowers, become more popular and generate higher returns for lenders. In the absence of a deposit-style compensation scheme, however, this could be seen by many as a risk too far.

Scheme pension can improve retirement income

BY MAKING USE OF WHAT'S CALLED a 'Scheme Pension' it is no longer essential to buy a pension annuity or continue income drawdown at 75. As a consequence you may be able to obtain a higher pension income.

The Scheme Pension concept has been available as a retirement planning tool to individuals since 5 April 2006, but it is only recently that pension companies have developed products which are able to make use of it in practical terms. Previously it was only available through final salary pension schemes.

Scheme Pension is an attractive option for those thinking of using an Alternatively Secured Pension (ASP). It is usually only suited to relatively high net worth individuals who also have other sources of income in retirement.

How does it work? A Scheme Pension is in effect a pension scheme for one member – you. If it is appropriate it must be started by age 75 or earlier. It's key benefit is that your income is based on your own gender, age and health rather than external factors such as annuity rates or income drawdown limits.

At the outset, based on your age, life expectancy, the size of your pension fund, and its potential future investment performance, an actuary calculates the upper and lower level of income you can receive. The aim is to tailor the income paid by the Scheme Pension so that on your death the pension fund remaining is as close as possible to zero. If health deteriorates during the term of the Scheme Pension, the actuary can increase the income you're receiving to reflect your new life expectancy.

A key point to bear in mind is that any pension assets remaining on death after age 75 in ASP would, under current rules, be subject to 82 per cent tax if they are not to be used to provide a spouse's pension. The aim of Scheme Pension is to reduce the fund so that less of your fund is exposed to this punitive tax regime.

So what can you do with the extra income a Scheme Pension could generate? If you don't use it for living expenses the income available from a Scheme Pension can normally be gifted under the 'gifts out of income' rules and this can offer a way of minimising a future IHT liability. The scheme is reviewable by the scheme actuary every three years until death, when the income level for the next three years will be agreed. This enables the income to be maximised and account to be taken of any change in your life expectancy.

When setting up the Scheme Pension you have a choice to establish a pre-determined term of 10 years. This will enable payments to a spouse or other beneficiary to continue if you die within the first 10 years of your Scheme Pension, subject to there being sufficient funds to meet the income.

■ ***For more information on Scheme Pensions, annuity purchase and other aspects of pension planning, contact your Lowes' Consultant or call us on 0191 281 8811.***

Is the gilt bubble set to burst?

MARKET COMMENT

By Melvyn Bell, Lowes' Investment Manager

READERS OF LAST month's article 'The King Is Dead! - Long live the King' will be aware of our view that the global credit crunch and the subsequent global recession have caused corporate bond yields to rise to historically extreme levels, offering an entry point not seen for many years.

We are not alone in this view. In recent months numerous leading fund managers have noted that this is an excellent buying opportunity. However, markets wouldn't be markets without dissenting voices and some have suggested we are seeing the emergence of a speculative bubble.

We do not support this view. Speculative bubbles tend to occur where there is a limited supply of assets with many investors chasing them to the point where they are pricing in all the of the probable good news as well as the improbable. Examples of this are the two bubbles of the last decade – the Technology/Dot.com bubble of 2000 and the Property Bubble of 2007. In contrast, with corporate bonds, investment grade bonds are being priced at levels not seen even at the nadir of the Great Depression of the 1930s, while there are many corporations desperate to attract cash by issuing new bonds so that they can either re-capitalise or buy competitors at low prices.

However, while we don't think corporate bonds are a speculative bubble, there is one asset class where excessive demand is chasing limited supply – UK Government gilts. Over the last six months their prices have soared as investors have bought them as a safe haven for their cash. This excessive demand has increased significantly recently with the Bank of England's latest attempt to pump prime the economy with 'Quantitative Easing' (i.e. printing money). Effectively, the Bank wants holders of medium dated gilts to enter a tendering process by which they would sell them back to the Bank. As a result, we have seen a further rise in gilt prices and a fall in their gross redemption yield. e.g. on 19 March the benchmark 10 year gilt yielded 3.04 per cent, well below the 4.75 per cent it averaged since the start of 2000.

Hopefully, quantitative easing will assist the economy to return to a more stable growth pattern. But for holders of gilts there is a downside as any attempt by the Bank to keep inflation close to its 2 per cent target will mean withdrawing the liquidity it is currently introducing. This almost certainly means selling their gilt purchases back to the market just as the UK Debt Management Office will be attempting to issue the new gilts needed to finance record Government borrowing. To quote Paul Read, Co-Head of Fixed Interest at Invesco Perpetual: "Government bond markets rallied sharply in the last few months of 2008 in what was essentially a flight to quality. I am concerned that when markets normalise, we are storing up a big correction in government bonds."

Support for this view comes from Anthony Bolton, President of Investments at Fidelity International. When asked by the FT recently if we are seeing a bubble in Government bonds, he responded: "Possibly yes, the quantitative easing I think has produced the final phase."

PORTFOLIO

50 per cent gain even if the stockmarket falls by up to 50 per cent

WE ARE STRONG ADVOCATES OF THE principle that if it seems too good to be true, it very possibly is and so when we find an investment that seemingly "ticks all of the right boxes" we are careful to take a close look to ensure that we understand the structure.

Sometimes, such analysis leaves the subject matter destined for the bin, but on other occasions we identify what we believe to be exceptional value.

The Barclays Target Growth Plan is a very appealing, 5-year investment that offers a potential 50 per cent growth return and aims to protect investors' capital in the process, subject to just two simple conditions:

1. Barclays Bank Plc does not default on its obligations

2. The FTSE 100 Index finishes the 5-year investment period above half of the level recorded on 16 June 2009.

As far as the first risk is concerned, despite the problems in the banking sector, Barclays is still rated by all of the main credit rating agencies as having a very strong capacity to meet its obligations.

So, aside from what would seem to be the unlikely default by Barclays, as long as the Index finishes above half of the closing level recorded on 16 June 2009, investors will receive their full capital back plus the 50 per cent bonus.

If on 16 June 2014 the FTSE 100 is below half the level recorded on 16 June 2009 investors will, however, suffer a loss. This is therefore an investment where the return of capital is not guaranteed and, as such, investors could lose some or all of their investment.

Based on a FTSE 100 Index position of say 4000 (noting that the level recorded on 16 June 2009 could be higher or lower than this), a fall of more than 50 per cent would mean that the recent correction continued to the extent that in 2014 the Index would be closing below 2000 - lower than any time since the end of the 80s. However, you would still get back your capital plus a bonus for a fall of anything up to 50 per cent, but more than a 50 per cent Index fall would see your capital and bonus reduced 1:1 in line with the Index.

So, assuming a £10,000 investment and the index down 60 per cent at maturity, you would lose 60 per cent of your total accumulated value, leaving you with £6,000 (£10,000 capital plus £5,000 bonus less 60 per cent). In this example, the 60 per cent stockmarket fall therefore translates to a loss of 40 per cent.

The investment is designed to be held for the full five years and if surrendered early you may get back less than you invested.

So, how is such an investment created? Let's take, for example, an investment of £10,000, from which charges of approximately £600 are deducted. This leaves £9,400, to which a premium for you accepting the stockmarket risk of the FTSE 100 being more than 50 per cent lower in five years is added. In this case, and in line with the current investment climate, that premium is worth approximately £2,600.

Your £10,000 is now, in theory, worth £12,000 and, in return for lending them this capital for a fixed term of five years, Barclays will pay interest fixed at approximately 4.5 per cent per annum. This interest is added at the end of the term giving you £15,000 at maturity from which any liability arising if the market was more than 50 per cent down would be deducted. Simple as that!

Under the current rules, gains achieved under the investment will be subject to Capital Gains Tax (CGT), but this will only be payable if your total taxable gains in the year of maturity exceed the annual CGT allowance. The current allowance is £10,100 per individual. In addition, any gains in excess of this would be subject to tax of only 18 per cent. Please note that this is based on our understanding of current taxation levels, bases and reliefs, but that they are subject to change.

How to Invest. The Target Growth Plan is open for investment until 29 May. You can invest in the Target Growth Plan directly either as an individual or on a joint basis; the minimum is £5,000 and the maximum £500,000. Before investing you must read the accompanying brochure carefully to ensure that you understand all of the risks and details about the investment.

Whilst we are endorsing the Barclays Wealth Target Growth Plan, this endorsement should not be construed as personal advice for you. We would of course welcome the opportunity to assess the suitability of the investment for you and issue a written recommendation. That said, if having read and understood the investment literature you are satisfied that the Target Growth Plan is right for you, simply send your cheque and completed application form to Lowes Financial Management, Holmwood House, Clayton Road, Newcastle NE2 1TL or use the envelope provided.

If you have questions relating to the investment terms or its suitability for you, please contact your usual Lowes' Consultant or this office on 0191 281 8811. We are required to point out that we cannot be held responsible or liable if the investment is applied for in the absence of a personal written recommendation and you subsequently decide that it was not suitable for you.