Summer 2009

"The only reason for time is so that everything doesn't happen at once.."

Albert Einstein.

INSIDE: A RENEWABLE OPPORTUNITY

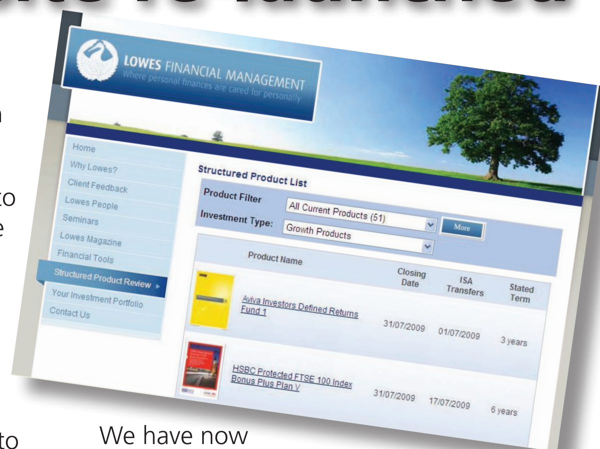
Structured product website re-launched

DUE TO POPULAR DEMAND WE HAVE now relaunched our stockmarket bond review service. The service – which received the accolade of being one of the 'Best kept web secrets' in *The Times* newspaper in October, 2002 – is available on our website at www.lowes.co.uk.

For a number of years starting in 2000 we published our reviews of stockmarket linked investment bonds, or Structured Products, as they are now called. Our initial motivation stemmed from the fact that many of the income contracts that were being launched were, in our opinion, investments that were suitable for no one.

However, because these investments were being heavily promoted from a number of quarters we felt it was appropriate to warn our clients and the wider public via mailings, our website and through consultation with the media.

Our concerns ultimately transpired into what became known as the 'precipice bond scandal' which surfaced in 2003 and concerned the very same investments that we had warned about. Although the contracts launched since then have offered significantly more sensible terms, we continued to publish our analysis to highlight those we felt offered good value. However, at the end of 2006 we decided to suspend the service to enable us to devote additional resources to other areas of our business.

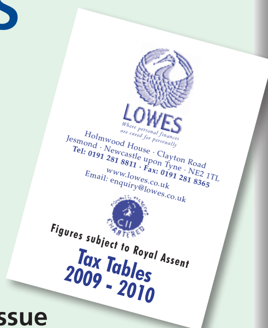


We have now published our analysis of contracts issued in 2008 and the year to date and will endeavour to maintain this service for the foreseeable future.

■ *To see this visit www.lowes.co.uk*

Lowes Tax Cards

OUR 2009/10 tax cards have now been printed and we are pleased to enclose your complimentary copy with this issue of the magazine.



To request additional copies, please telephone 0191 281 8811 or email: client@lowes.co.uk

Boiler rooms hotting up

THE NUMBER OF 'BOILER ROOM' frauds – sophisticated scams where people are lulled into investing their money into bogus or virtually unknown companies – has grown significantly during the recession.

The City of London Police, which has set up Operation Archway to co-ordinate a national response to the problem, says every week 100 new victims come forward who have lost between £3,000 and £1 million. It's estimated that a third of such frauds target people aged over 65.

Boiler rooms usually operate from overseas, beyond the reach of the Financial Services Authority and the protection it offers investors. They might offer shares in an existing but obscure company, so creating artificial demand which drives the share price up and enables their owners to sell at inflated prices. The share price then crashes leaving the victims with nothing to show for their capital investment. Alternatively, they may promote shares in totally bogus companies which don't even exist.

The victims are usually cold called and a persuasive salesman outlines the investment opportunity, either in a firm expected to start growing strongly in the near future, or into a private company about to be floated on the markets. They may even offer research or invite you to an investor meeting at a reputable hotel – a similar approach to that once used by timeshare opportunists.The results are the same. The victim sends a cheque or pays by card over the phone, never to see their money again.

Our cover shot: Swaledale, Yorkshire Dales National Park

Make your money work

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

Amount	Provider	Account	Gross Rate	Contact
Branch Based (National)				
£1+	Tesco	Instant Access Saving	0.75%	Branch [1]
£2,500+	Northern Rock	Branch Saver Issue 2	1.4%	Branch [2]
Postal or Telephone				
£1+	Birmingham Midshires	Easy Telephone Savings Account	1.75%	Call 0845 602 2828
£1,000+	Stroud & Swindon	Postal Account	2.25%	Call 0845 725 2423 (option 1) or visit www.stroudandswindon.co.uk to obtain an application form [3]
Internet				
£1+	Intelligent Finance	isaver	2.85%	www.if.com [4]

Notes: 1. Rate applicable for holdings of between £1 and £9,999. Tiered rates are available for holdings of £10,000+ (up to a maximum of 1.25% gross/AER). Deposits and withdrawals can be made at any Tesco store, except Tesco Express and Tesco Petrol Filling Stations. **2.** Minimum withdrawal amount is £250. **3.** Rate guaranteed to remain at least 0.25% above the Bank of England base rate until 30/09/2010. Subsequent investments must be at least £100. Minimum withdrawal amount is £100. **4.** Rate guaranteed to remain at least 1% above the Bank of England base rate until 31/12/2009.
Sources: www.thisismoney.co.uk, www.moneysupermarket.com, www.moneyfacts.co.uk 06/07/2009. All accounts subject to terms and conditions.

Budget boosts value of capital gains allowances and ISAs

AT LOWES WE FREQUENTLY STRESS the importance of making the best possible use of your capital gains allowances. Now, as a result of changes introduced in this year's Budget, they will for some people assume greater importance than ever in financial planning. This is because of a number of tax changes:

- An additional higher rate of Income Tax of 50 per cent on taxable income above £150,000 will come into force from 6 April 2010.
- The basic personal allowance is to be gradually reduced to nil for those with adjusted net incomes above £100,000.
- A new 42.5% tax rate on dividends, where they represent the top slice of taxable income above £150,000, will also come into force on 6 April 2010.

Given that every individual currently has no tax to pay on gains of up to £10,100 and any excess would only be chargeable at 18 per cent, the maximum differential between income and capital gains increases to more than 32 per cent.

Chancellor Darling: Hit top earners

Another key Budget change affects ISAs where the annual contribution limit has been increased to £10,200. For the over-50s this increase takes effect from 6 October and for all other savers from April 2010. You can either put all of this amount into a 'Stocks and Shares ISA', or invest up to £5,100 as a 'Cash ISA' with the balance of the £10,200 into the stocks and shares component.

Inflation linked – but what inflation measure?

INFLATION LINKING IS ALL WELL AND good if you have an agreed measure of inflation which is applied universally and that people understand. But a key issue for British savers is that while National Savings & Investments (NS&I) applies one measure of inflation to its index-linked products, the government prefers an entirely different measure.

Specifically, the government's preferred measure of inflation, the Consumer Price Index (CPI), was 2.2 per cent in May. However, the measure used by NS&I to index-link its products, the Retail Price Index (RPI), was minus 1.1 per cent.

Until relatively recently, the RPI was consistently above the CPI. However, the tables have been turned and now it is the CPI which is above the RPI. There are a number of reasons for the difference: each index covers different items, samples of UK population and calculation methods.

What difference does it make? Well, to put it bluntly, it is potentially very misleading for investors who may quite reasonably believe that their "inflation beating investments" are protected against the effects of inflation.

On 29 April, NS&I released the 3-year 19th Issue Index-linked Savings Certificates which on each anniversary will pay a guaranteed 1 per cent plus any positive inflation as measured by the RPI. As such, if RPI and CPI on the first anniversary were the same as now, then the return would only be 1 per cent, which would be less than a CPI of 2.2 per cent, so hardly inflation beating.

We question the fairness and integrity of National Savings. On the one hand it markets its investments as "backed by HM Treasury" while on the other it promotes an investment return as inflation beating when the measure it uses for inflation is different from the official inflation figure used by the government.

COMMENT

What goes around …

IT IS THE MONTH OF AUGUST; a seaside resort town nestles in a quiet bay. It is raining and the little town looks totally deserted. Times are tough, everyone is in debt and everybody lives on credit.

Suddenly, a rich tourist comes to town. He enters the only hotel, lays five crisp £20 notes on the reception counter and goes to inspect the rooms upstairs in order to pick one.

The hotel proprietor takes the £100 and runs to pay his debt to the butcher. The butcher takes the £100 and runs to pay his debt to the pig farmer. The pig farmer takes the £100 and runs to pay his debt to the supplier of his pig feed. The supplier of pig feed takes the £100 and runs to pay his debt to the garage for last month's diesel.

The garage proprietor runs to the hotel with the £100 and pays off his debt, the last payment outstanding for his daughter's wedding reception. The hotel proprietor then lays five crisp £20 notes back on the counter so that the rich tourist will not suspect anything.

At that moment, the rich tourist comes down after inspecting the rooms and takes his £100 back, after saying that he did not like any of the rooms and leaves town.

No one earned anything. However, the whole town is now without debt and looks to the future with a lot of optimism.

And that, ladies and gentlemen, is how the British government is doing business today.

Yes, eventually the government will pick up the taxes on all those transactions, but that is another story!

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.

Renewable energy – a 'new paradigm'?

Lowes' Consultant, Peter Collins, investigates potentially significant new investment opportunities …

AT THE TURN OF THE 21ST CENTURY, during the rapid rise in popularity of internet and telecommunications companies, the talk was of the 'new paradigm'. Older and highly profitable industries were disparagingly branded 'smokestack' while the future, we were told, was less about profits than the number of hits your website received.

This new paradigm was painfully short lived, rapidly disappearing as the old, traditional industries reasserted themselves and profits again emerged as the rationale for investing.

But now we may be on the threshold of a genuine new paradigm. If so, then it could open up compelling new investment opportunities. This new paradigm is about the growing importance of clean and renewable energy technologies.

Despite years of apparent indifference to the consequences of climate change, developments in the area of clean power generation are not only happening but are gathering momentum as evidenced by the changing pattern of public and private investment flows around the globe.

In a report (1) published in February, HSBC calculated that US$430 billion or 15 per cent of the estimated US$2.8 trillion of the economic stimulus packages announced by various national governments to get the global economy moving were allocated to key climate change investment themes. Of these, measures designed to promote renewable energy and energy efficiency accounted for 77 per cent of the total.

Figures released on 3 June by the United Nations (2) show that in 2008, for the very first time, green energy overtook fossil fuels in attracting investment for power generation (see sidebar 'Investment in green energy').

A key indicator of the changing investment patterns are the activities of the world's major superannuation or pension funds which control the lion's share of private global investment.

In 2007, Prince Charles brought together a number of leading pension funds into what is called P8 (after G8). They currently number 10 and include the world's largest superannuation fund, the California Public Employees Retirement Scheme (CalPERS), plus the UK Universities Superannuation Scheme, which runs the scheme for thousands of active and retired UK higher education workers; ABP, the giant pension plan for Dutch civil servants; and the Association of Superannuation Funds of Australia. Collectively, they manage US$3 trillion of retirement funds and their influence is felt at the highest levels of government. They are preparing an action plan to lobby global policy makers and are increasingly using their financial muscle as long-term investors to encourage the development of clean and renewable energy.

We are also seeing governments across the world preparing new laws which will either tax carbon emissions or introduce some form of emissions trading scheme. While such policies are meeting stiff resistance from the entrenched members of the oil and coal industries, such policy initiatives are gaining momentum and the likely result will be to price dirtier hydrocarbon fuels to reflect the consequences of their impact on the environment, and to encourage the greater use of clean and renewable energy sources which will in turn bring their costs down.

In addition, several governments have announced initiatives in respect of carbon capture and storage (CCS) technologies which are designed to clean up the use of hydrocarbon fuels, notably coal.

The potential investment opportunities opened up by the enormous shift in investment towards clean energy and energy efficient technologies should not be confused with ethical, environmental or socially responsible investing. There is no screening process where some companies are excluded because they do not correspond to certain definitions of 'greenness', or included because they do. What is taking place possibly represents the start of a fundamental shift in the shape of industrial investment patterns analogous to the investment in computer and telecommunications technologies which started to gather pace 40 years ago. While a major driver is the growing awareness of the fact that that we must address climate change, it is also recognised that clean and renewable energy offers highly profitable investment opportunities as the technologies mature.

To quote Tim Bond of Barclays Capital in the 2007 Barclays Capital Equity Gilt Study: "The energy revolution is not dissimilar in scale to the technology revolution…..

PS10 solar thermal power plant, Spain

Picture courtesy Abengoa Solar

Just as the personal computer cannot be un-invented, neither can the impending energy revolution. And if it doesn't happen, nothing else will."

So what are the investment opportunities? Around the world, faced with the loss of their traditional industries, national governments are coming to see renewable and clean energy as the new motors of continued industrial growth, employment and prosperity. In countries such as Australia, which is heavily dependent on coal, national and state governments are moving rapidly to develop an array of clean energy projects such as solar, wind and one designed to capture and store the carbon dioxide emitted from its many coal fired power stations. In the US, the Obama Administration is pushing the development of green technologies, which the new President and his supporters regard as crucial to the US maintaining its position as a global superpower.

As noted above, the major private investors are the pensions institutions. Some of this is in conjunction with numerous specialist funds investing in renewable energy and for the retail investor a growing range of funds from numerous fund managers can be expected to become available in the short to medium-term.

■ *Please see page 8 where we explain more of our thinking about renewable energy and the long-term investment opportunities available.*

Investment in green energy

GREEN ENERGY OVERTOOK FOSSIL FUELS IN ATTRACTING INVESTMENT FOR power generation for the first time last year, according to a report published on 3 June by the United Nations (2).

Wind, solar and other clean technologies attracted US$140bn compared with US$110bn for gas and coal for electrical power generation. More than a third of the green investment went to Britain and the rest of Europe. Or to put it another way, four out of every 10GW of new energy capacity built last year came from the renewables sector.

The biggest growth for renewable investment came from China, India and other developing countries, which are fast catching up on the West in switching out of fossil fuels to improve energy security and tackle climate change.

Wind, where the US is now global leader, attracted the highest new worldwide investment, $51.8bn, followed by solar at $33.5bn. The former represented annual growth of only 1 per cent, while the latter was up by nearly 50 per cent year-on-year.

Biofuels were the next most popular investment, winning $16.9bn, but down 9 per cent on 2007, as the sector was hit by overcapacity issues in the US and political opposition, with ethanol being blamed for rising food prices.

Counting energy efficiency and other measures, more than $155bn of new money was invested in clean energy companies and projects.

Although the recession led to a decline in global renewable investment during the first quarter of 2009, investment picked up again in the second quarter, while investment by China and India has continued to rise strongly.

NOTES:
1. A Climate for Recovery: The colour of stimulus goes green, February 2009.
2. Global Trends in Sustainable Energy Investment 2009, commissioned by the UN Environment Programme.

5 YEARS AGO

How did it perform?
– The Eclipse VCT

PORTFOLIO

Eclipse goes for growth

IN OUR ONGOING series examining progress of investment products we featured in Lowes Magazine five years ago, we report on the Eclipse VCT which we promoted in the Summer 2004 issue.

This product is a Venture Capital Trust (VCT) designed to invest in a diversified portfolio of unlisted and AIM-listed UK companies with the aim of maximising tax-free capital and income returns for investors whilst minimising the risk.

At the time of launch VCTs were particularly attractive from a tax point of view as the amount of tax relief an individual could claim on an investment had just been increased from 20 to 40 per cent. What made the investment especially attractive was the fact that you didn't have to be a higher rate taxpayer to receive the 40 per cent relief.

In addition, there is an exemption from income tax on dividends from shares in VCTs, while profits made by a VCT on the disposal of investments are not subject to tax and can be paid out as tax-free dividends to shareholders in the VCT. In addition, capital gains realised on disposals of shares in VCTs are tax-free, although losses realised on disposals of shares in VCTs cannot be used to offset capital gains.

So, how has it performed? When the fund was launched on 4 August 2004, it's Net Asset Value (NAV) was 100p a share. The last published NAV, which is calculated every six months, was 76.1p on 31 March 2009. In addition, dividends of 25.7p a share had been paid out.

As such, the total return of the NAV plus the dividends is 101.8p, which infers little gain but, of course, the 40 per cent tax relief should not be forgotten.

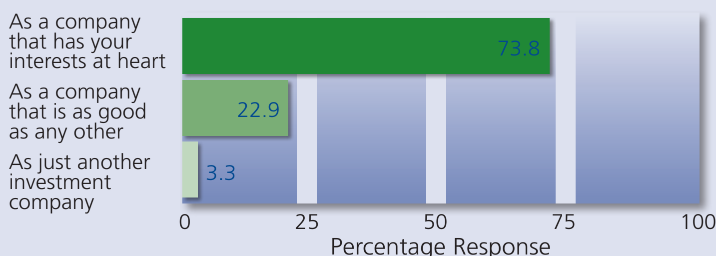
CLIENT SURVEY

SINCE 1991 WE HAVE BEEN conducting client satisfaction surveys to help identify where we get things right and, more importantly, where we get things wrong.

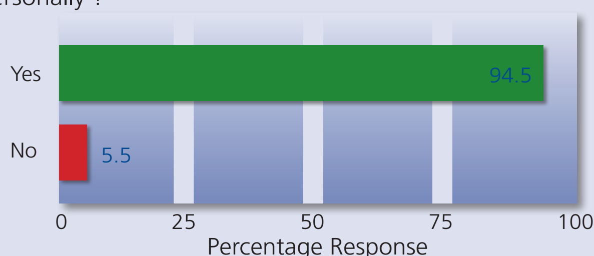
Over these 18 years we and our clients have benefited from the feedback as it has helped us achieve our objective of providing a service which satisfies all of our clients, thus making life easier in this world of automation and faceless bureaucracy.

We would like to offer our sincere thanks to all clients who took the time to complete and return the 2009 survey. The response rate at 34.5 per cent was again very high for a survey of this type. Perfection is a dream impossible to achieve, but we see no reason why we shouldn't continuously strive for that goal. To this end, aside from the biennial client survey, your feedback or suggestions are always welcome. The full survey results are on our website at www.lowes.co.uk.

1) How would you describe Lowes Financial Management to a friend?

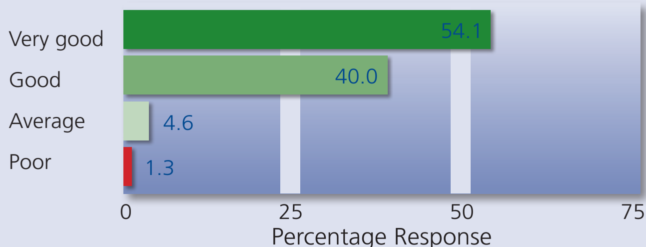


2) Do you feel that the service we provide lives up to the statement "Where personal finances are cared for personally'?

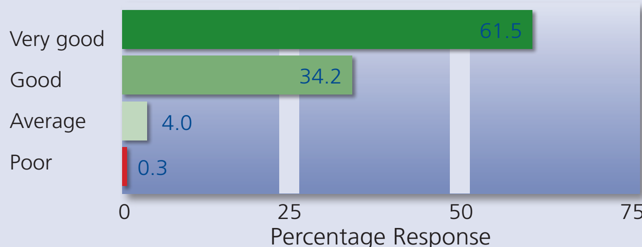


3) Bearing in mind, if appropriate, your experiences with other advisors and investment groups, how would you rate Lowes Financial Management:

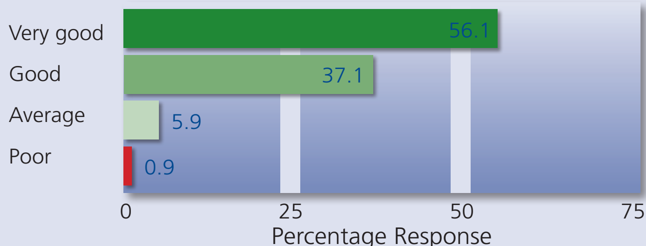
On Client Service?



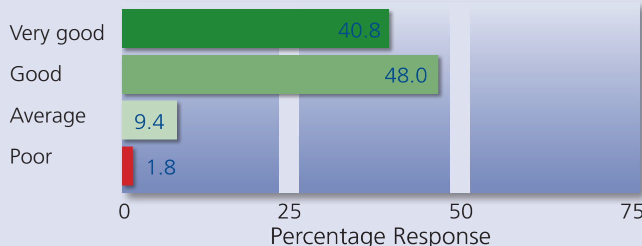
On Professionalism?



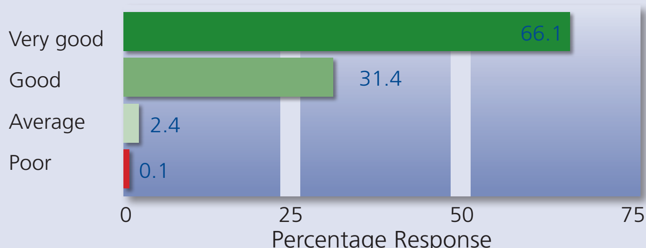
On Depth of Knowledge?



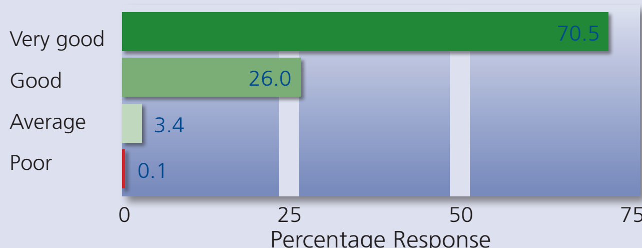
On Investment Advice?



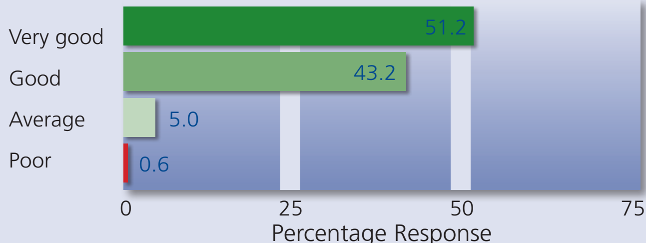
On Approachability?



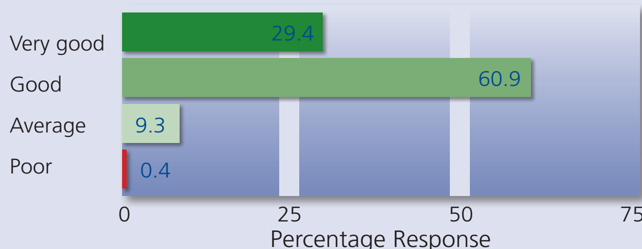
On Staff Helpfulness?



4) Do you believe the level and quality of contact you receive from Lowes Financial Management to be:



5) How would you rate the Lowes Magazine?



Stockmarket crashes can create opportunities

AS A RESULT OF THE GLOBAL CREDIT crunch and the fall in the stockmarkets, many people will have seen their investment portfolios decline in value.

Whilst this is extremely unfortunate and most unwelcome, it is important to note that this situation offers an opportunity to save tax in the future. For example, if someone anticipated making a substantial capital gain at some point in the future, then it may be extremely advantageous to generate 'capital losses' now which can be offset against future gains.

For example, a future capital gains liability might arise if you were to release capital from your investments, gift a significant asset to your children, or dispose of a portfolio of residential property once prices have recovered.

When it comes to stockmarket investments, it's commonsense to buy shares, or units, when the price is low and to sell them when the price is high. Consequently, the best time to buy is during a recession of the sort we are witnessing right now.

If you can, it may pay to generate capital losses which, unlike your annual Capital Gains Tax (CGT) allowance, can be carried forward indefinitely. To do this, you sell a loss making part of your investment portfolio which then generates a capital loss that can be offset against future capital gains, no matter where these might arise from. Crucially, this transaction will not make any use whatsoever of your annual CGT allowance.

However, it is important to rebalance your investment portfolio by investing in similar investments to those that have been sold at a loss. While it is not possible to buy back identical investments within a 30 day period to those that have been sold, it is possible either to invest in similar shares or unit trusts, or to get your spouse to invest in the same ones that you have sold.

To illustrate how this might work in practice, let's construct a simple example.

Albert Smith has a portfolio of shares and unit trusts currently worth £120,000 but originally bought for £150,000. To create some capital losses, Albert now sells all of his portfolio of shares and unit trusts. This means he now has £30,000 in losses to offset against capital gains in the future.

He then rebuilds his investment portfolio by reinvesting the £120,000 he realised on the sale of his shares and unit trusts into a new portfolio which is either very similar to the one he has sold, or is suitably modified to reflect any changes in his financial planning objectives.

Now, assuming that in 10 years time the value of Albert's new portfolio rises again, he will be able to sell it and offset the capital gains by making use of the £30,000 capital loss he made earlier. Please note that this example, for simplicity, ignores the costs and charges he would have incurred in generating these capital losses in the first place and then in rebuilding his portfolio. In short, he may be able to entirely offset his capital gain.

It is important to note that the concept of generating capital losses will only be appropriate to certain people. However, in the right circumstances – most notably, where you have a reasonable expectation of generating significant capital gains at some point in the future – it could be an extremely useful financial planning tool.

■ *For more information, contact your usual Lowes' Consultant or call us on 0191 281 8811.*

Bull or bear?

MARKET COMMENT

By Melvyn Bell, Lowes' Investment Manager

THE COLLAPSE OF Lehman Brothers last September created genuine fears that the global financial system was about to collapse. Investors fled global equity and bond markets and valuations plummeted. Now, just nine months on, it seems investors believe the bear market has ended, as, in the 14 weeks to 12 June, the rally in global equity markets comfortably met the traditional definition of a bull market by rising more than 20 per cent from a low.

However, not all pundits agree and many describe recent market performance as a 'bear market rally'. Among them is Invesco Perpetual's Neil Woodford who is quoted as saying: "My view is the problems that led to the recession, problems of excessive leverage in the consumer economy, excessive leverage in the banking system, have not been corrected at all." He adds: "There has been no recovery in the economy, there has been no increase in earnings and there's been no tangible sign of any improvement in profitability for many months. My view is the opportunity at the moment exists in businesses that are positioned to cope with what I believe will be for some years to come a very difficult economic environment. I find myself feeling strangely back in the sort of environment that I was in nearly 10 years ago when I saw opportunity in the market in stocks that the market hated because they were old economy stocks, where I see profoundly undervalued share prices."

However, some disagree, notably the investment guru Anthony Bolton, the President of Investments at Fidelity International. Bolton sees the share price rally since March as the start of a new bull market and cites the fact that investors are still holding historically high cash positions – moneymarket funds in the US are half the size of the stockmarket, compared to 20-25 per cent in previous lows – and that on any traditional measure of value, stocks are on historically low valuations. His view is supported by the National Institute of Economic and Social Research, which in March called the trough of the recession and also by Guy Monson, the Citywire AA rated manager of the Sarasin Equisar Global Thematic fund, who is quoted as saying: "Economic visibility is improving, even if the picture it reveals is of a deep, global downturn. If this is a 'bear market rally' it's already the longest since August 1932 and I don't think this is the case."

Both Woodford and Bolton have consistently outperformed their peers over the longer-term and, in our view, the fact that one will be proved incorrect will not detract from their status as a fund manager. Their different viewpoints demonstrate that quality fund managers can differ and still outperform their peers over the longer-term.

This is why when constructing investment portfolios we strongly advocate diversifying investments between a range of assets and a range of quality managers. That way the portfolios benefit from the superior long-term performance of the individual managers, smoothing out the volatility of different assets classes and the occasional hiccups in the performance of the individual managers.

PORTFOLIO

A climate of opportunity

"WE CANNOT LET THE FINANCIAL AND economic crisis delay the policy action that is urgently needed to ensure secure energy supplies and to curtail rising emissions of greenhouse gases. We must usher in a global energy revolution by improving energy efficiency and increasing the deployment of low-carbon energy." Nobuo Tanaka, Executive Director of the International Energy Agency (IEA), December 2008.

When you pick up a newspaper, or switch on the television to watch the news, the environment is featured almost on a daily basis. It is now a reality that climate change is at the top of political and social agendas.

It is our belief that the global economy may be at a major turning point and that the changes taking place will be seen by historians as every bit as important as those of the Industrial Revolution in the 18th Century. For investors this should be seen as the opportunity to participate in a sector which Ernst & Young estimate could be worth US$750 billion by 2016 - a staggering 650 per cent increase on the level in 2008. The changes, however, will not be restricted to just the production of energy – the availability of drinking water, the management of waste products and the production of agricultural products will all offer opportunities for investors.

We believe these changes are inevitable as the world's population continues to grow at a time of limited resources. To get some idea of the scale of the growth, at the beginning of July the US Census Bureau estimated the world's population to be approximately 6.8 billion and that it was growing at a rate of approximately 1 per cent a year.

Assuming this is correct, the world's population is projected to rise to 8.2 billion by the year 2030. Critically 94 per cent of this growth is going to come from developing countries such as China and India. These two countries have led the global surge in demand for energy and resources as a result of their ever more affluent citizens increasingly copying western lifestyles by demanding cars, consumer goods and high protein diets of meat and dairy products. The resulting increase in demand will almost certainly create significant strains on our ability to provide the energy to produce those products and the animal feed and fuels needed to produce the food to feed the rising population. This is a classic case of a supply/demand imbalance which in the long-term will mean higher prices and higher profits for those involved in their production.

Targeting the opportunities to come

These developments have not gone unnoticed by some of the world's leading asset managers and, over the last year or so, we have seen the introduction of a number of funds, both in the UK and Europe, investing in companies which the asset managers believe will play a dominant part in the changes to come. These funds range from exchange traded funds which track indices such as S&P Global Clean Energy Index, and actively managed open ended investment funds that focus on alternative energy companies, environmental technology companies and companies likely to benefit from the production of agricultural products for both food and in the production of biofuels.

Like all early stage investments, such funds should be considered adventurous. However, we do believe some of the risk can be mitigated by investing in a diversified portfolio of these funds. We therefore think that for investors with a slightly longer time horizon, a small part of their investments placed into such a portfolio should pay dividends over the long-term.

If we have whetted your appetite, please contact your Lowes' Consultant who will be able to give you some suggestions on what we believe would be a suitable diversified portfolio to take advantage of this opportunity. Alternatively, call us on 0191 281 8811.