Spring 2008

"True progress quietly and persistently moves along without notice."

– St. Francis of Assisi

INSIDE: SAVINGS & SECURITY

Lowes wins award

LAST MONTH LOWES Financial Management received a prestigious award for being voted runner up in the influential Money Marketing 'IFA of the Year' event.

Much more than a beauty contest, companies have to prove their expertise in financial planning, show how they cope with regulatory change, and demonstrate their commitment to training and improvement programmes for their staff.

Most importantly, however, they have to be seen to be continuously improving their advice and service to clients. Our client satisfaction survey has always shown that you, our clients, recognise our efforts, but it's also nice when the rest of our industry does too!

Equities still in favour

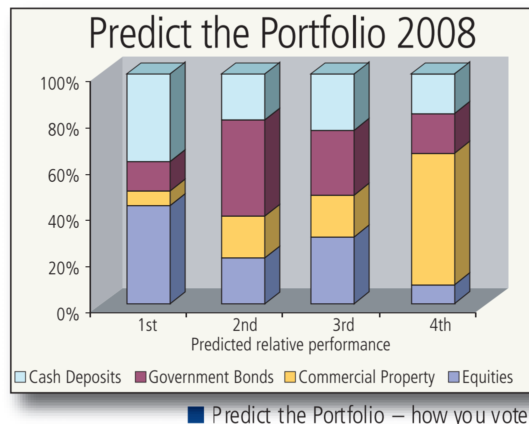
MANY THANKS TO THOSE WHO ENTERED OUR 2008 competition (featured in our last issue) to predict how four main investment asset classes will perform throughout this year.

Last year we ran an identical competition and after analysing the entries we felt inclined to repeat what now seems like an age-old adage: past performance is not necessarily a guide to the future.

This was because it seemed that the strong performance in the commercial property sector had led many entrants to back what had, in recent times at least, been a consistent performer. Eighty two per cent of the 2007 competition entrants believed commercial property would be the best or second best performing asset class that year but, as it turned out, it was the worst.

It is clear that the 2007 performance has significantly influenced the 2008 competition predictions. Commercial property has fallen from favour and 83 per cent of entrants now believe it will be the worst or second worst performer over the year.

The next 12 months could well prove that a lack of faith in the commercial property sector is justified. However, we believe that when we look back in five or so year's time, we may well see that now was a good time to gain some exposure to commercial property as part of a diversified investment portfolio.



Predict the Portfolio – how you voted

In contrast to commercial property, equities have again emerged as the favourite with competition entrants. However, whereas last year 95 per cent predicted they would be the best or second best performer, this year the number has fallen to 69 per cent. There are fundamental reasons why equities should outperform other asset classes over the long-term. But in the short-term, we repeat that past performance is not necessarily a guide to the future.

Cash deposits, meanwhile, came in a close second to equities and, whilst few entrants felt Government Bonds would be the top performer, 46 per cent believe they will be second best in 2008.

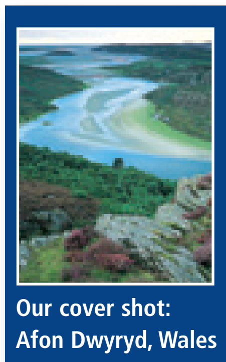
We must wait and see who gets it most right but, whoever it is, they will receive six bottles of Moët Champagne!

IHT ruling favours taxpayers

AN IMPORTANT CASE INVOLVING TRUSTS used for Inheritance Tax planning has been decided in favour of the taxpayer. The decision, made recently by the Special Commissioners of HM Revenue & Customs (HMRC) related to the value of the lifetime gift made by the late Mrs Bower when she set up a Discounted Gift Plan in 2002.

A Discounted Gift Plan is designed for people who want to gift money to a trust as part of their estate planning strategy, while allowing them to take back fixed regular withdrawals. If the person dies in the first seven years of setting up the trust, the amount added back to their estate for IHT purposes may be less than the original cheque they wrote, hence the term 'discount'. The value of this discount depends on the age, health and sex of the person setting up the trust, and on the level of withdrawals selected.

Mrs Bower died five months after gifting money to the trust and a key issue was that she was age 90 when she made the gift. HMRC said the discount should only be £250 while Mrs Bower's executors disagreed and argued it should be £7,800. The Special Commissioner decided the discount should be £4,200. Although HMRC may appeal, the decision is regarded by the industry as a vote of confidence in IHT aspects of Discounted Gift Plans.



Our cover shot: Afon Dwyryd, Wales

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

Amount	Provider	Account	Gross Rate	Contact
Branch Based				
£1+	Co-operative Bank	Smart Saver	4.43%	Branch[1]
£500+	Skipton Building Society	Branch Access	5.6%	Branch[2]
Postal or Telephone				
£1+	Anglo Irish Bank	Easy Access Account	6.05%	Call 0845 455 2222[3]
Internet				
£1+	Bradford & Bingley	Internet Saver 2	6.15%	www.bradford-bingley.co.uk[4]

Note 1. Cheques can also be deposited at your local Post Office. Note 2. Withdrawals and deposits by cheque or transfer only and each withdrawal must be at least £100. Rate includes 0.5% bonus paid for the first six months.
Note 3. Interest guaranteed not to fall below Bank of England Base Rate before 1 January 2009. Note 4. Interest guaranteed not to fall below Bank of England Base Rate before 1 July 2009.
Sources: Providers' websites, www.moneyfacts.co.uk, www.moneysupermarket.com and www.thisismoney.co.uk 7/4/2008. All accounts subject to terms and conditions.

No surprises in 2008 Budget

While there were no surprises in the March 2008 Budget, Chancellor of the Exchequer Alastair Darling confirmed a number of the changes announced in the Pre-Budget Report last October.

ISAs
New regulations introduced on 6 April have significantly changed the structure of Individual Savings Accounts (ISAs) and the older Personal Equity Plans (PEPs). For full details, see page 7 of this issue.

Income Tax
The Basic Rate of Income Tax has been reduced from 22 per cent to 20 per cent and the 10 per cent band has been abolished.

Capital Gains Tax
Both indexation and taper relief have now disappeared, and for gains above the annual exempt amount the CGT rate for 2008/9 will be a flat 18 per cent. However, in what amounts to a big U-turn which puts some individuals back to where they were prior to the Pre-Budget Report, 'entrepreneurs' relief' will cut the effective tax rate on some gains to 10 per cent. The CGT annual exempt amount for everybody has been increased in line with statutory indexation to £9,600 for the current tax year.

Inheritance Tax (IHT) allowances
It is now possible to transfer unused IHT allowances to spouses or civil partners. On the face of it this appears to eliminate the need for special IHT arrangements such as the use of Family Trusts, but in practice this may not be the case and special arrangements will still have an important role to play.

National Insurance
Salary earners now pay National Insurance on the first £770 a week (£40,040 a year) of earnings, compared to the first £670 a week (£34,840 a year) in the last tax year.

Personal investment dividends taxation
The tax credit currently available on UK dividends has been extended to overseas dividends for individuals who receive less than £5,000 of overseas dividends a year.

Tax is important

NO MATTER WHAT YOUR ATTITUDE TO RISK and reward, minimising the amount of tax you have to pay will play a key role in maximising potential investment gains.

According to the latest TaxAction report from Unbiased.co.uk, UK adults will waste almost £9.3 billion in unnecessary tax in 2008, almost £1.4 billion more than in 2007. As an example, it says that unnecessary Inheritance Tax (IHT) payments will rise by over £360 million this year to £1.9 billion.

A key way to cut your tax liability is to ensure your investments are held within the right type of investment vehicle. For example, many people invest via life assurance bonds because they offer a 5 per cent tax deferred withdrawal facility. While such bonds are effectively exposed to UK Income Tax, they are not exposed to Capital Gains Tax (CGT). However, given current tax rules, it may be better to be exposed to CGT than to Income Tax because you can utilise your annual CGT allowance, with any gains above this being taxed at only 18 per cent. It is also common for people to pay more tax than necessary because they incorrectly analyse their real needs. For example, people requiring income often invest to provide regular payments

which suffer from Income Tax. In practice, it may be more tax efficient to use your CGT allowance to take tax free profits on investments, which can then be banked and used as required.

A key aspect of managing investments to reduce tax is to use the most appropriate investment 'wrappers'. These include life assurance bonds, pensions, VCTs, ISAs, unit trusts and OEICs. The tax treatment of each differs which makes it essential to obtain appropriate advice.

■ *For more information on appropriate tax planning and investment decision making, contact your Lowes' Consultant or call 0191 281 8811.*

COMMENT

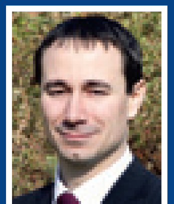
Seminar invitation

ONE OF THE MAJOR SOURCES OF attracting new clients to Lowes over the last 20 years has been our Seminar programme.

We took a break from the format in the late nineties but I decided to re-launch the programme some three years ago and since that time we have presented to thousands of people throughout England and Northern Ireland. Those who have attended will appreciate that our seminars are designed to be thought provoking and interesting rather than simply an advert for our services.

We always adapt our presentations in accordance with feedback received from those attending which is probably why 99 per cent rated their attendance as time well spent.

Over the next 12 months we plan to go to Belfast, Cheshire, Surrey and, of course, Newcastle, so I thought it might be a good idea if I enclosed an invitation which you may want to pass to a friend or relative. All they have to do is complete the details and we will keep them informed of our next seminar in their area, we will also send them a complimentary copy of our magazine. Alternatively you or they could email their details to **seminar@lowes.co.uk**



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

SAVINGS

Hunting the best rates

Lowes' Consultant Andrew Gardiner says you should keep a wary eye on the interest rates paid on savings accounts ...

IN THE BATTLE TO WIN SAVERS' MONEY, IT IS A number of relatively unknown foreign-owned banks which are setting the pace with some of the best interest rates.

Examples(1) include FirstSave from the Nigerian FBN Bank UK Ltd (6.26% gross AER), Savings Account from Icelandic bank Kaupthing Edge (6.5% AER), HiSave from the Indian ICICI Bank (6.16% gross AER), and Icesave, from another Icelandic bank, Landsbanki (6.05% AER).

However, a number of recent newspaper reports(2) have suggested that it may not be wise to deposit more than £35,000 with any one of them.

This concern stems from the 'credit crunch' which has led to the demise of the Northern Rock. For example, a recent Financial Times(3) article reported that: "Iceland's triple A rating from Moody's Investors Service, the highest the credit rating agency offers, is 'at a crossroads' because of the perceived fragility of the country's banks."

So, when seeking the best interest rates on your money you should exercise due caution.

Regulation of foreign banks

What you need to know if your bank goes bust

Situation 1

Banks whose home states are members of the European Economic Area (EEA) – i.e. the 24 members of the EU plus Iceland, Liechtenstein and Norway – and operate in the UK as a branch of their home bank.

Here, regulation – and compensation – is the responsibility of the bank's home country. In the EEA, compensation is set at a minimum of €20,000 but in some it is higher than the UK scheme, the Financial Services Compensation Scheme (FSCS), which offers 100 per cent of the first £35,000 deposited.

Where the bank's home state scheme provides a lower level of compensation than the FSCS (i.e. less than 100 per cent of £35,000), the bank can join FSCS to 'top up' the level of protection to £35,000.

Situation 2

As with Situation 1, but the banks operate through a UK subsidiary rather than as a branch of their home bank. These are effectively UK banks so regulation is by the UK Financial Services Authority (FSA) with compensation covered by the FSCS. Kaupthing Edge and Landsbanki both operate in the UK through UK subsidiaries.

Situation 3

Banks whose home states are non-EEA members. These must set up a UK subsidiary. As such, these are effectively UK banks (e.g. ICICI Bank UK plc, and FBN Bank UK Ltd are, respectively, UK subsidiaries of their Indian and Nigerian parents) so regulation is by the FSA with compensation covered by the FSCS.

NOTES: (1) All rates correct at 4 April 2008. (2) Examples include The Sunday Times, 10/2/2008 'Time to bale out of Iceland' and the Motley Fool (www.fool.co.uk) Are internet savings accounts safe? 22/1/2008. (3) Moody's warns over Icelandic banks, FT, 28/1/2008

Some compensation issues explained

WHEN IT COMES TO COMPENSATION, the key issue in the event of a bank going bust relates to Situation 1 detailed above in 'Regulation of foreign banks'. This includes those banks whose home states are members of the European Economic Area and operate in the UK as a branch of their home bank.

In this situation, any application for compensation will be handled by the authorities of the relevant EEA country.

As such, you may have to wait longer and your eventual compensation could be less than the £35,000 offered by the UK Financial Services Compensation Scheme (FSCS). However, the compensation could be more. The Italian scheme, for example, offers a maximum of €100,000 (about £80,000).

In the event of a failure of one of those banks which has topped up its protection to FSCS levels, the home state scheme would have lead responsibility for claims and would pay the first part of any compensation.

This could actually delay the resolution of claims, as the FSCS may require information from the home state scheme before paying any 'top up' compensation.

However, the FSCS says it would assist claimants by putting them in contact with the home state scheme, or helping them to understand the process that the home state scheme will follow.

A spokesman for the FSA told Lowes Magazine: "Wherever you put your money, it would pay to check out their website, their literature or a branch to establish how they are regulated and the maximum compensation levels."

For those banks which fall into the categories outlined in either Situation 2 or 3 above, then compensation is entirely the responsibility of the UK FSCS.

- *For further information on compensation, visit www.fscs.org.uk or call: 020 7892 7300, Email: enquiries@fscs.org.uk, or write to: Financial Services Compensation Scheme, 7th floor, Lloyds Chambers, Portsoken Street, London E1 8BN*

for your money

Tricks of the banking trade

There are numerous tricks to be wary of when seeking a high interest savings account. They include:

1. Introductory bonuses

Many savings accounts use short-term introductory bonuses to enhance the basic savings rate for up to 12 months by 1 per cent or so a year. But when the bonus period ends the rate becomes less attractive. Success relies on investor inertia and you must be alert to when the bonus period ends. e.g. ING's lifebelt logo promotes its Direct Savings account with a simple rate of 6 per cent AER, but closer inspection reveals that this includes a 12 month 0.95 per cent bonus on new accounts.

2. Regular savings

Another type of account offers a high rate on the first part of your savings – providing you pay in a regular monthly amount – but a much lower rate on the rest of your savings. e.g. The Halifax High Interest Current Account offers 6.17 per cent AER interest on credit balances up to £2,500 and just 0.1 per cent AER above this amount. You must pay in at least £1,000 every month.

3. Tiered interest

HSBC's Bank Account Plus offers 8 per cent AER fixed but only on balances up to £1,000 and only for 12 months from account opening. The rate drops to 2.5 per cent AER variable up to £2,500 and 0.1 per cent AER thereafter. A monthly fee of £12.95 is payable and to qualify you must have an HSBC account into which your salary is paid.

In addition, you should also note the following points:

Don't pay more tax than necessary

If you're a non-taxpayer, then you can avoid paying any tax on your savings interest by completing a Form R85 and giving it to your bank or building society. If you don't do this then tax at 20 per cent will be deducted from your savings.

Government protection is limited

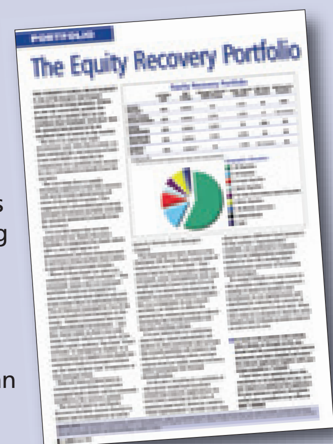
If your bank goes bust then the Financial Services Compensation Scheme (FSCS) will return the first £35,000 in your account. But there is no safety net for money above this amount. As such, you should spread your money across different banks. Also, be careful to ensure the banks you use are not owned by the same company. The FSCS £35,000 limit applies to all of these together, not to each individually.

5 YEARS AGO

How did it perform?

The Equity Recovery Portfolio

IN OUR ONGOING SERIES EXAMINING THE Progress of investment products we featured in Lowes Magazine five years ago, we report on the Equity Recovery Portfolio …


The Equity Recovery Portfolio

The Equity Recovery Portfolio was launched during a period when the stockmarkets were undergoing a major correction. The aim was to provide the components of an investment portfolio able to benefit from the recovery. It comprises five funds offering a high degree of diversification which had demonstrated in previous rising markets their ability to provide above average returns.

These five funds are: Newton Managed, Jupiter Merlin Growth Portfolio, Fidelity Wealthbuilder, Threadneedle Global equity and Gartmore UK Focus. Each fund formed 20 per cent of the Portfolio.

So, how has the Equity Recovery Portfolio performed?

£10,000 invested five years ago on 31 March 2003 would have grown to £19,383 as at 31 March 2008.

That is a rise of 93.84 per cent which compares very favourably to both the Active Managed and Global Growth unit trust sectors, both of which rose by just over 70 per cent over the same period and the FTSE 100 which rose by 57.81 per cent.

These performance figures are net of all charges and dividends, where applicable, were reinvested at their payment date.

Source Hindsight 5/Lipper.

Rising inflation starts to hit savings

THE RECENT DECISION BY the Bank of England to cut its official base rate to 5 per cent from 5.25 per cent at a time when inflation is on the rise comes as unwelcome news for pensioners and other people living on their deposit account and savings.

The key reason for this is that the real rate of inflation faced by many of the UK's pensioners is higher than the official figures suggest.

You can calculate precisely what your personal rate of inflation is by using a tool from the Office of National Statistics (see 'Calculate your own inflation rate'). However, according to research by the Newcastle Building Society, the average real rate of inflation for the UK's pensioners is predicted to reach up to 7 per cent* this year.

This is a far cry from the predicted official rate of inflation for the year of 3 per cent, as represented by the government's preferred measure of inflation, the Consumer Price Index or CPI. The fact is that if pensioners are to have any chance of preserving the purchasing power of their money, they must invest to aim for better returns.

Table 1: **The Pensioner Price Index**

Period	Pensioner Price Index (1 person household)	Pensioner Price Index (2 person household)	Retail Price Index (RPI) (excluding housing)	Consumer Price Index (CPI)
2002	1.7%	1.5%	1.6%	1.3%
2003	1.8%	1.8%	1.6%	1.4%
2004	1.8%	1.6%	1.5%	1.3%
2005	2.6%	2.2%	1.7%	2.1%
2006	4.5%	3.5%	3.5%	2.3%
2007	3.3%	3.1%	2.5%	2.3%

Source: Office of National Statistics (ONS). Figures show the change on the corresponding period 12 months earlier.

Food, fuel and … Council Tax

The main contributors to rising inflation are the increasing costs of fuel and food, which, according to the weightings of the government's Pensioner Price Index (see Table 1) account for more than a third (14 per cent and 22 per cent respectively) of all pensioners' expenditure.

The Newcastle Building Society says that in 2008 fuel is likely to rise by around 15 per cent and food by 12 per cent. It adds that even if all other items paid for by pensioners remain at the predicted official inflation rate of 3 per cent then, based on food and fuel price rises alone, this means that pensioners will face 7 per cent inflation overall – the highest of any group of consumers!

This double whammy of food and fuel price increases is compounded by rising council tax bills. The average Band D bill rose by 4 per cent to £1,374* this month. However, Council Tax and other housing costs are excluded from the government's Pensioner Price Index.

How investment can help

The key to beating inflation is to invest so as to preserve the real value of your assets – i.e. their value after taking inflation into account. The most comprehensive research on the performance over time of the key asset classes – equities, gilts and cash – is the recently published 2008 Equity Gilt Study from Barclays Capital. Based on this research, Barclays Capital says that over 10 years there is a 93 per cent probability that equities will outperform gilts and cash.

Lowes advocates the importance of combining different asset classes to create an investment portfolio which satisfies your attitude to risk and has a chance of meeting your objectives. With inflation poised to move ahead at a faster rate than for many years, it is more important than ever to ensure your assets are working as hard as they possibly can to maintain your standard of living.

**Daily Mail, 28/2/2008*

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

Calculate your own inflation rate

THE OFFICE OF NATIONAL STATISTICS (ONS) PUBLISHES A personal inflation calculator on its website.

This gives a broad indication of your own personal inflation rate taking into account what you spend your money on. This is different from the official figures which are national averages.

The calculator lets you to enter your own estimates of what you spend your money on and makes use of national average prices which are collected every month by the ONS.

- ***To use the calculator, visit: www.statistics.gov.uk/pic/***

Welcome boost for ISAs

REMOVAL OF UNCERTAINTY OVER THE FUTURE OF ISAS HAS BEEN coupled with simplification of the rules with effect from 6 April.

- **Future now certain:** When ISAs were set up in 1999 they were scheduled to finish in 2010, but they are to continue indefinitely.
- **Contribution limit up:** The investment limit for ISAs has risen to £7,200 a year, of which up to £3,600 may be invested in a cash ISA.
- **Mini and maxi ISA distinction removed:** There are now just two types of ISA – cash ISA and stocks and shares ISA. You can mix and match the two, providing you only arrange one ISA of each type in a tax year and stay within the contribution limits. For example, you could arrange a £6,000 stocks and shares ISA with company A and a £1,200 cash ISA with company B.
- **Cash ISAs can become stocks and shares ISAs:** You can convert a cash ISA into a stocks and shares ISA without affecting your annual ISA allowance. Previously you had to close the cash ISA and then resubscribe to a stocks and shares ISA, losing previous entitlements.
- **PEPs become stocks and shares ISAs:** As PEPs no longer officially exist, PEP statements will become ISA statements. However, whereas interest paid on cash in a PEP was only subject to a 20 per cent tax if more than £180 interest was withdrawn in a tax year, all interest now paid on such cash is treated in the same way as ISAs and faces a 20 per cent tax charge.
- **TESSA-only ISAs:** Existing TESSA-only ISAs (TOISAs) have been re-designated as cash ISAs.

Tax advantages of ISAs

ISAs let you shelter some of your savings and investments from Income and Capital Gains Tax. Since 1999 they have helped investors save £1.8 billion in tax relief, while if you had put the maximum into PEPs, TESSAs, and ISAs since they began you could have invested £167,200.

- **All capital gains are tax free, whether you are switching between holdings or cashing them in.**
- **No further tax to pay on income, while tax paid on income from gilts and corporate bonds (or funds invested at least 60 per cent in gilts and corporate bonds) is automatically reclaimed.**
- **You can put your annual allowance into a stocks and shares ISA as cash and invest it when you wish. However, interest earned on that cash is paid net of tax (unless it's in a cash ISA).**
- **If you move abroad you can keep existing ISAs and PEPs and switch managers, but you cannot make further investments.**
- **If you have an ISA or PEP there is no limit to the amount you can transfer between managers. Transfers have no effect on your ISA allowance for the current tax year.**

By Melvyn Bell, Lowes' Investment Manager

Consistency is the key

THE FOLLOWING FUND MANAGERS and funds have something in common – Andrew Green (GAM) Stephen Snowdon (Old Mutual), Richard Pease (New Star) and Andy Brough (Schroder).

It is that they are all AAA rated by Old Broad Street Research (OBSR), one of the UK's leading independent rating agencies. OBSR describes its analysis as based on a proven process that looks at fund performance and how it was achieved. Its ratings range from A to AAA. About 250 out of a universe of 2,500 funds are rated as AAA – which OBSR says describes a fund as 'Exceptional of its type'.

However, this is not all that these funds have in common. Unfortunately, they all feature in the fourth performance quartile for the year to the end of February 2008. This begs the questions – have all these managers become bad, and has the 'proven' OBSR process ceased to work? I should point out that these are not the only highly rated examples to have underperformed over the last year.

I believe the answer to both these questions is a resounding no. Fund managers with a track record of consistent returns over time do not turn bad overnight.

The recent underperformance of many well regarded fund managers has a historical precedent. In 1999 at the height of the dot.com/tech boom, several managers experienced a similar period of underperformance. They included Neil Woodford (Invesco Perpetual) and Anthony Bolton (Fidelity). History shows that their decisions not to follow the herd were the correct ones and subsequently led to their funds outperforming the market.

The stockmarket's current woes are undoubtedly the result of the uncertainty created by the collapse in the US property market. However, I believe that the selling of equities has been indiscriminate and has not distinguished between good and bad.

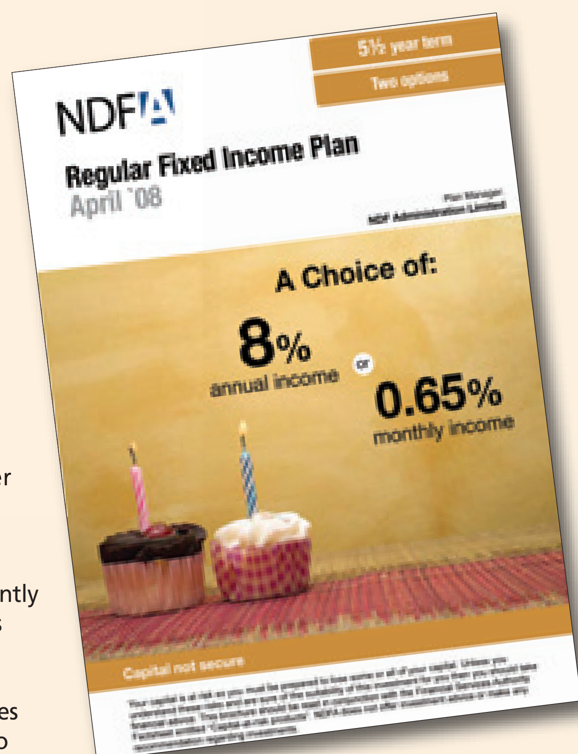
While the problems in the financial markets have inevitably afflicted some companies, they have also created excellent long-term investment opportunities.

For example, Richard Pease of New Star states: "At the risk of sounding like a broken record, the message being received from company managements is different from that being broadcast by the economists."

Currently, uncertainty is obscuring value, but the speed and extent of the market decline in the last year has undoubtedly created a significant number of long-term investment opportunities.

Fund managers like those mentioned above have built a career on recognising the long-term value created when investors have rushed to the sidelines in times of uncertainty. In my view, the current situation is likely to be no different and when the markets settle down I expect these highly regarded fund managers to lead the field again.

Anyone for income?



FOR THOSE WHO RELY ON THEIR investments and savings for their income, rising inflation can ultimately prove devastating, particularly when, as we have seen recently, rising inflation is coupled with the prospect of falling interest rates.

Recent stockmarket volatility has enabled NDFA (one of the leading providers of this type of plan) to structure an income plan we think is extremely attractive and very appealing in the current climate.

The NDFA Regular Fixed Income Plan has a five and a half year investment term that pays either 8 per cent income each year or 0.65 per cent each month. Investment capital will be returned in full provided the FTSE 100 Index of Britain's leading companies does not fall by more than 50 per cent during the investment term.

If we assume a FTSE 100 starting point of 6,000 (the actual level could be higher or lower than this), the plan is designed to return your original capital provided the FTSE 100 Index does not fall below 3,000 during the term. The last time the FTSE 100 was at 3,000 was in 1995. If the FTSE 100 does fall by more than 50 per cent during the term and fails to recover by the Plan's maturity, your capital would be reduced by 1 per cent for every 1 per cent the final index level is below the starting point. The income already paid, however, will be yours to keep regardless.

Full details of your potential return under various market conditions are contained within the accompanying brochure.

The FTSE 100 Index represents a significantly diversified basket of shares of companies which operate across the whole marketplace, including pharmaceuticals, mining, banking, oils and retail. It includes such companies as Barclays, BP, Glaxo, Rio Tinto and Marks & Spencer. It should be noted that the FTSE 100 and similar indices do not take into account an allowance for any return or reinvestment of dividend income as would be the case for an investment direct into the underlying shares.

The income for a direct investment will be paid gross. Higher rate taxpayers will be liable to dividend tax of just 32 per cent and basic rate taxpayers will only have to pay 10 per cent. If you invest via an ISA you will receive the full income with no tax to pay.

As with all investments of this nature, income payments and return of capital depend on the ability of the financial institutions backing the plan to meet their obligations, but those backing the NDFA Regular Fixed Income Plan are issued by institutions rated as AA- by credit rating agency Standard and Poor's.

Standard & Poor's long-term credit ratings range from the lower 'CC' rating (which indicates the financial institution is 'currently highly vulnerable' in terms of its financial commitments) through to the highest 'AAA' rating (which denotes the financial institution has 'extremely strong capacity to meet its financial commitments'). These ratings may be modified by adding a '+' or '-' sign to show relative standing within the major rating categories.

The AA- rating means that Standard and Poor's believe the institutions backing the plan have a very strong capacity to meet their financial commitments. Institutions rated as AA- include Lloyds TSB, HSBC, ING and Royal Bank of Scotland.

The investment is designed to be held for five and a half years. The return of your capital is not guaranteed under this plan and should you cash it in during the term your investment may not be returned in full, even if the index is higher. This investment is, therefore, only suitable for those clients prepared to expose their capital to a degree of risk.

Please read the accompanying brochure which gives full details of the contract including the risks, to which you should pay particular attention. Please also read the enclosed FSA factsheet entitled 'Capital-at-risk products'.

Tax assumptions are based on our understanding of current legislation and practice, which may be subject to change.

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 written recommendations. That said, if having read the product literature you are satisfied the investment is right for you and would like to forgo the offer of a consultation, **please complete the application form and return it together with your cheque to our office: 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 and that you will not therefore benefit from the protection of the rules assessing suitability.

If you are in any doubt 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: 0191 281 8811.