Summer 2008

"The wisest mind has something yet to learn."

– George Santayana

INSIDE: THE RATES THAT DECEIVE

'Til debt do us part

WEDDINGS MIGHT BE decreasing in popularity but recent research by Fool.co.uk, the popular personal finance website, suggests that even in the current financial climate people will go further into the red to fund their big day.

While the research* indicates that 85 per cent of respondents will use savings to finance their wedding, as many as 10 per cent would take out a personal loan or use their credit card to pay for their big day. A further 3 per cent plan to remortgage or take out a second loan to cover the costs.

A typical wedding costs £4,968, but 1.4 per cent of respondents said they would spend more than £30,000, while 8 per cent would spend between £15,000 and £20,000.

**The research of 1,173 UK adults was carried out online on 15 May 2008.*

Sisters lose civil partner appeal

JOYCE AND SYBIL BURDEN, TWO ELDERLY sisters who have lived together all their lives, have lost an appeal to get the same Inheritance Tax (IHT) rights as civil partners.

They were appealing a decision by the European Court of Human Rights that they were not entitled to the same tax treatment as married couples or those in civil partnerships.

The sisters jointly own their home which was valued at £875,000 in 2006. Joyce, 89, and Sybil, 82, made wills stating that the first to die will leave her entire estate to the surviving sister. It means the survivor will face an IHT bill for 40 per cent of the inherited share which, in the current tax year, would total £50,200.

The sisters' lawyers argued that because they had lived together since birth, they warranted the same treatment for IHT purposes as married people and civil partners. However, in 2006 the European Court ruled against them. Rejecting the recent appeal, the judges said living together could not be compared with marriage or a civil partnership.

■ European Court – 'no' to Burden sisters' appeal

Bell tolls for risky shares

MANY LOWES' CLIENTS WILL have shares issued by former building societies and public utilities that have demutualised or have been privatised, such as Bradford & Bingley, Halifax (now HBOS), BT etc.

However, in the face of the rights issues being planned by a number of these organisations – notably the banks, which need to bolster their reserves as a result of the credit crunch – many investors will be asking: "Should I invest more money to take up the rights issue to avoid my shareholding being diluted, or is it time to sell?"

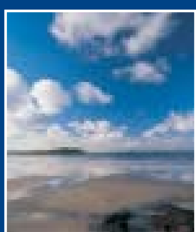
One of the key issues with relatively small shareholdings is risk. Specifically, although history proves that any medium to long-term investment portfolio should always include a degree of exposure to shares, it also shows that an undiversified, unmanaged exposure can be very risky.

Examples include the collapse of Railtrack and the recent Northern Rock debacle. Shares in Northern Rock following its demutualisation could have been sold immediately for about £2,200. Those who retained them saw their value rise to over £6,000, but they then collapsed to the point where they are now technically worthless.

At Lowes, we have typically advised clients to realise the value of such shares and to invest the proceeds in a diversified portfolio which takes into account their attitude towards risk and reward and which could benefit from stockmarket growth, but is relatively insulated from problems associated with any one particular sector.

If you have a limited number of relatively small shareholdings, then why not consider reducing the unnecessary risks of such holdings and move the funds to a potentially safer but no less rewarding investment environment.

■ *To arrange an initial, no obligation discussion, contact your Lowes' Consultant or call us on 0191 281 8811.*



Our cover shot: Polzeath Beach, Cornwall

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

Branch Based

Amount	Provider	Account	Gross Rate	Contact
£1+	Bank of Scotland	Instant Access Savings	5%	Branch[1]

Postal or Telephone

Amount	Provider	Account	Gross Rate	Contact
£1+	Anglo Irish Bank	Easy Access	6.4%	Call 0845 455 2222[2]

Internet

Amount	Provider	Account	Gross Rate	Contact
£1+	Intelligent Finance	isaver	6.4%	www.if.com[3]

Note 1: Rate guaranteed never to fall more than 0.50% below the Bank of England base rate until 1/1/2012. Note 2: Guarantees to match base rate until 1/1/2009. Note 3: Mobile phone required to set up a payment instruction using online banking. Sources: Providers' websites, www.thisismoney.com, www.moneysupermarket.com, www.moneyfacts.co.uk and www.moneyextra.com 9/7/2008. All accounts subject to terms and conditions

Tax U-turn leaves many pensioners worse off

■ No Darling of the pensioners

THE GOVERNMENT'S U-TURN TO EASE THE impact of the abolition of the 10 per cent income tax band is still likely to leave many pensioners worse off.

Full details of the concessions may not be available until the Pre-Budget Report in the autumn, but the National Pensioners Convention (NPC) believes the package will be too little to reimburse many women who have seen their tax bills rise since April. Based on recent legislation changes, women pensioners aged 60 to 64 are expected to be limited to the basic personal allowance of £6,035 in the current tax year and do not benefit from the higher age-related income tax personal allowances for women and men aged 65 and over.

NPC vice president Dot Gibson said: "Up to 1 million women aged 60 to 64 will still suffer as a result of the abolition of the 10p tax rate. A 63-year-old widow with an NHS pension on top of her state pension and a total income of £11,000 will see her pension rise but her overall income fall as a result."

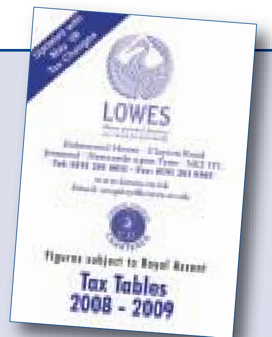
While the 10 per cent tax band still exists for interest from savings and income from shares, you can't choose which part of your earned or savings and pension income is taxed at which rate. HMRC uses a tax 'pyramid' to determine this. At the bottom and first in line for tax are any earnings and your pension, which will be taxed at 20 per cent. Income from your savings is at the top of the pyramid and can only qualify for 10 per cent tax if your other income does not place you into a higher tax bracket.

For example, if your pension is worth more than your tax-free personal allowance (£6,035 for the under 65s), plus the starting rate 10 per cent tax rate band of £2,320 – a total of £8,355 – you must pay 20 per cent on anything over the £6,035 – including all your savings income. If your pension uses up only some of the starting rate band, some of your savings will be taxed at 10 per cent.

■ *Turn to page 7 to read 'The perils of too much income'.*

Lowes' tax cards updated

Lowes' tax cards have been changed to reflect the post-Budget amendments. To request an updated copy, please contact us on: 0191 281 8811 or e-mail: client@lowes.co.uk



Standing order payments get faster

APACS, THE UK BANK PAYMENTS Association, has started the Faster Payments Service for standing orders.

Instead of taking three days to clear, some standing orders can now reach the recipient on the same day, providing it is a bank working day and the payment is under £100,000.

APACS says that payments can currently be sent via Alliance & Leicester, Barclays, Citi, Clydesdale, HBOS, HSBC, Lloyds TSB, Nationwide, Northern Bank, Northern Rock, Royal Bank of Scotland (including NatWest and Ulster Bank) and Yorkshire Bank. Except for Alliance & Leicester, HBOS, Nationwide and Northern Rock, these can also receive payments. Other APACS members are expected to have introduced the service by the end of the year. Until then, their payments will be processed through the existing BACS three-day service.

APACS says that customers don't need to do anything, but that if they have a regular standing order payment, for instance to a landlord which needs to arrive on a set date, they may wish to change it so that the funds remain in their own account for a couple of days longer.

■ *You can download a guide explaining the new service at www.apacs.org.uk.*

COMMENT

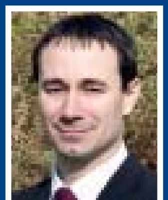
Standing firm

THERE IS NO DOUBT THAT WE face difficult times ahead, with volatility in the investment markets likely to continue for a while. Those that sell will crystallise their losses and then have the difficult task of timing the market to get back in.

As I have said on previous occasions, if you had missed the best 10 days in the last 5 years your profits would be reduced by two thirds. So it is better to take a more pragmatic approach and let the market take its course in order to see your capital grow over the years ahead. Like the good times, bad times also come to an end and for those who buy and hold, there are many more good days than bad.

As global uncertainty persists, the media will continue to report doom and gloom – it was ever thus. For example, in 1998/99 when, on the back of the technology boom, most of the media were talking the markets up only to report how foolish it was to buy once the market fell. The same was true in 1928/29, 1972/73 and 1986/87. Markets are about sentiment and the wise investor buys when others are selling.

It is important to remember that news, by definition, is information about recent events or happenings rather than prophecies about the future. History has shown time and time again that when it is easy and comfortable to invest it is invariably the worst time to do so. The converse is also true.



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

Top savers rates can be deceptive

Lowes' Senior Technician Barry O'Sullivan enters the Harry Potter world of savings accounts and finds things are not quite what they seem ...

SAVINGS ACCOUNTS OFFERING MOUTH WATERING DEALS with excellent headline rates of interest exert a strong pull.

However, some may politely be described as 'manipulative'. They look excellent, but have strings attached and complex terms and conditions which, at worst, deceive and, at best, make it hard to determine how much interest your money will earn.

Others, like the recently launched Halifax Regular Saver, which offers 10 per cent, only does so on regular savings of up to £500 per month.

To help guide you through the savings account maze, we've set out to identify the key points to watch out for and using examples of some of the accounts from top lenders, show you how they work out in practice.

10% – but for regular savers only

In June, Halifax launched the Regular Saver Account which offers up to 12 per cent interest gross. This may be ideal if you need a regular savings facility and the discipline of knowing you'll be penalised if you touch your money, but if you have a lump sum to save look elsewhere.

With the Regular Saver Account, you can save between £25 and £500 every month for 12 months and get 10 per cent gross fixed for a year but no withdrawals are allowed. If you have at least £5,000 to invest into a 'nominated' Halifax account you can get another 2 per cent, but only on the regular savings, not the £5,000.

The catches:

- Interest paid annually at end of 12 month term on the money you have deposited – there is no compound interest.
- If you save the maximum each month and reach £6,000 by the end of the year, interest should be £325 before tax – only the first monthly payment will return 10 per cent at the end of the term.
- After 12 months your cash and interest are moved to another Halifax account.
- If you withdraw money in the first year the rate falls to between 4.36 and 4.45 per cent gross.

Key points to note

These are just some of the main points to watch out for:

- **Minimum balances** – with some savings accounts there is a minimum amount you have to put in to open the account.
- **Deposit and interest limits** – these accounts pay a high rate of interest on deposits up to a certain limit. The rate paid on amounts above this limit can be very small.
- **Withdrawals** – some accounts include conditional bonuses in their interest rate calculation and a single small withdrawal can trigger the loss of this bonus.
- **Limited bonuses** – some accounts include a bonus rate of interest offered only for a limited period. The return at the outset may be very attractive, but it can reduce considerably once the bonus period ends.
- **Rate guarantees** – some accounts guarantee the rate of interest you receive, despite being a variable rate account. But these guarantees can expire after a limited period, rather like the bonus.
- **Twinning deals** (Connected accounts/Conditional bonuses) – Here you get a higher rate of interest or a bonus if you hold another product with the same or a related provider, e.g. another savings account, an investment account, or an insurance product which, ultimately, may be poor value.

Of all the tricks used to make accounts appear more attractive, the use of bonuses is becoming more popular. A recent survey by Investec Private Bank says that the number of accounts using 'bonus' rates to attract new customers has increased by a third since October 2007. What's more, the average lifespan of the bonus has shortened to 265 days now from 284 days in October 2007. As a result, it is more important than ever to ensure that cash isn't left languishing in underperforming savings accounts once the initial 'bonus' rate expires.

Examples of crafty accounts

1. Minimum balances, deposit limits and bonuses

Alliance & Leicester Premier Direct Current Account To qualify you must pay in at least £500 a month with cheques, cash, or salary. You get 8.5 per cent AER (fixed for 1 year from the date the account is opened) on balances up to £2,500, but only 0.1 per cent AER (variable) beyond that amount.

Abbey Current Account The Preferred In Credit Rate option offers 8 per cent AER when you transfer your current account to Abbey from another provider and pay in at least £1,000 a month. The 8 per cent applies on balances up to £2,500 for 12 months, but falls to 2.5 per cent gross above £2,500.

Coventry Building Society – Coventry First
A rate of 5.6 per cent AER (5.46 per cent gross p.a.) variable, is paid monthly and includes a first year bonus of 0.85 per cent AER. This rate applies to the whole account balance, but you must pay at least £1,000 into the account each month (excluding transfers from other Coventry accounts). Otherwise, the interest rate on the entire balance is currently just 0.95 per cent AER/gross p.a. paid monthly, which includes a 0.85 per cent AER/gross p.a. interest rate bonus for the first year.

2. Twinned or linked deals
The rates may look good – but only if you take out other products which may not offer good value.

Abbey Super ISA (issue 2) or the Super Saver/Guaranteed Growth Plan
- The Super ISA offers 9.75 per cent AER tax free on your savings when you put the same amount or more into a Guaranteed Growth Plan.
- Super Saver pays a rate of 9.1 per cent gross p.a./AER fixed for 12 months when you put the same amount or more into a Guaranteed Growth Plan.
- The Guaranteed Growth Plan returns your capital if held until the end of its 3.5 or 6 year term and there is the potential for higher returns depending on the performance of the FTSE 100 Index. The minimum investment is £1,500 and there are early withdrawal penalties. However, this is by no means the most competitive investment of its type.

Alliance & Leicester Premier Regular Saver/Premier Current Account
- The Premier Regular Saver offers 12 per cent gross p.a./AER fixed for 12 months and you must save a fixed monthly amount between £10 and only £250, up to a total of £3,000, noting that you will only get 12 per cent for a year on your first £250.
- You must also open a Premier Current Account and fund this with your main income, with a minimum of £500 a month. This account pays only 1 per cent AER (variable) on balances up to £2,500 and 0.1 per cent AER (variable) beyond that amount.

Alliance & Leicester Save & Protect
- Existing Premier Account customers can earn 12 per cent gross p.a./AER fixed for 12 months. You must make fixed monthly payments of £10–£250 which are automatically transferred from your linked Premier Direct or Premier current account. However, you must take out a protection product from Legal & General (choose from life cover, critical illness cover, life and critical illness cover, or family and personal income plan).

HSBC Regular Saver/Bank Account Plus
- The HSBC Regular Saver offers 10 per cent AER/gross fixed for 12 months on deposits of £25–£250 saved each month by standing order from an HSBC Bank current account. It is only available to existing customers who have their monthly salary or retirement income paid into HSBC Bank Account Plus. No partial withdrawals are allowed. If you close your account before the end of the 12 month term, you will receive interest at the much lower flexible saver rate.
- The HSBC Bank Account Plus accounts opened between 2 June and 3 August 2008 attract 8 per cent AER (7.72 per cent gross) variable on balances up to £1,000, falling to 2.5 per cent AER (2.47 per cent gross) variable up to £2,500 and 0.1 per cent gross/AER thereafter. There is a monthly fee of £12.95 (minimum 12 month contract, renewable monthly thereafter).

Some twinned or linked accounts may offer good value, but unless you analyse the package as a whole, you cannot be sure.

Same account, different rates
Some accounts look similar but are not. The Halifax Web Saver internet-based account offers three different rates depending on how you use the account and the interest can vary from 5.08 per cent net of basic rate tax (6.35 per cent gross) to 3.49 per cent net (4.36 per cent gross).

The ING Direct Savings Account actually penalises loyal customers. Newcomers get the best deal of 6 per cent, including a 1.19 per cent bonus fixed for 12 months. Those who opened an account as recently as 1 May get only 5.7 per cent, including 0.91 per cent bonus. But loyal savers with older accounts have already had their bonus and only get the variable rate of 4.75 per cent AER.

NOTES: AER stands for annual equivalent rate and illustrates the interest rate if it was paid and compounded once each year.

5 YEARS AGO

How did it perform?

The Keydata FTSE Growthbuilder

PORTFOLIO

Innovation produces excellent investment opportunities

IN OUR ONGOING SERIES EXAMINING THE progress of investment products we featured in Lowes Magazine five years ago, we report on the Keydata FTSE 100 Growthbuilder Plan ...

The Keydata product aimed to capture the growth in the FTSE 100 and, while it doesn't actually mature until 28 August 2009, the outlook for the future looks positive.

The product locks in 20 per cent for every 20 per cent that the FTSE 100 Index rises from the strike level established at the commencement of the plan on 29 August 2003. This was 4,161.1 and the highest daily close for the FTSE 100 Index so far was on 15/6/2007 when it closed at 6,732.4, representing a rise of 61.79 per cent.

Consequently a return of at least 60 per cent plus the return of the initial capital is expected at maturity as long as the FTSE 100 Index doesn't fall below 2,080.55. The Index is currently at 5426.3 (close of business on 2/7/2008), a rise of 30.41 per cent. To reach the next lock in point the FTSE 100 would have to close above 7,489.98 before 28/8/2009.

PENSIONS

Pension choices need independent advice

UNPUBLISHED RESEARCH BY the Financial Services Authority[1] shows that 40 per cent of the 'wake up letters' sent by insurers to people approaching retirement failed to tell them how to get the best retirement income from their pension fund.

The most common way to convert a personal pension into income at retirement is to buy an annuity.

The FSA has, in the past, instructed insurers to tell their customers of the 'Open Market Option', which entitles them to shop around for the best annuity rate rather than accept what is offered by their existing provider.

Unfortunately, this is a good example of what can happen to people who fail to take independent financial advice. Few people would buy car insurance without first getting two or three quotes. However, when it comes to an annuity purchase – which is one of the biggest and most important insurance purchases you can make – too many people are failing to exercise their right to check out what sort of annuity deal they can get on the open market.

We have discussed the type and suitability of the different types of pension annuities in previous issues of Lowes Magazine, together with the more flexible options for people with large pension funds.

However, before even contemplating annuity purchase, there are several points to consider:

- **Firstly, you can normally take up to 25 per cent of your pension fund as a tax free cash lump sum. Your pension itself will be taxed at your marginal rate of Income Tax.**
- **Secondly, if you have more than one pension fund, rather than buy an annuity with each of them you should consider consolidating them into a single fund to take advantage of potentially higher annuity rates with the larger fund.**
- **Thirdly, if the value of your pension rights is below a certain level, it may be possible to give up those rights in exchange for a cash sum. For the tax year 2008/09, you can do this if the total of all your pension rights does not exceed £16,500.**

NOTE (1): The Guardian, Thursday May 15 2008

■ *For more information on pension fund consolidation, taking a pension cash lump sum and annuity purchase, contact your Lowes' Consultant or call us on 0191 281 8811.*

FRAUD RISK

You can beat the scammers

ACCORDING TO THE OFFICE OF FAIR Trading, UK consumers are losing a staggering £3.5 billion each year to scams which make use of spam e-mails, texts and internet pop-ups.

A scam is a scheme designed to con you out of your cash and the scammers are becoming increasingly sophisticated. Among the most popular – and successful – scams are:

- **Fake foreign lotteries** – consumers receive a letter, phone call or e-mail telling them they have won a major payout in an overseas lottery, but must first send money to cover administration or taxes.
- **Bogus holiday clubs** – UK holidaymakers are invited to a presentation to collect a prize and are pressurised into joining an exclusive holiday club which does not deliver what it promises.
- **Prize draw and sweepstake scams** – most are notifications of a cash prize in return for a fee. Respondents pay out the money but get no return.
- **Miracle health and slimming cure scams** – consumers receive a mailing or email promising a health 'miracle'. These pills, lotions, creams and other products are useless and might even cause harm.

OFFICE OF FAIR TRADING

The key to reducing your chances of being swindled is to know who you are dealing with. Always ask the name of the person you are speaking to and who they represent; ask for an explanation of anything you don't understand and read letters carefully and seek professional help if significant money, time or responsibilities are involved. In all situations, the old maxim applies: If it sounds too good to be true, it probably is.

You can find details on the different types of scams and learn how to protect yourself by visiting Consumer Direct, the telephone and online service (*www.consumerdirect.gov.uk/*) offering information and advice on consumer issues, or see the FSA site, *www.moneymadeclear.fsa.gov.uk*.

■ *For scams in general – Call Consumer Direct on: 08454 04 05 06.*

■ *For investment scams – Call the Financial Services Authority on: 0845 606 1234.*

PROPERTY

Where will it end for house prices?

JUST HOW FAR MIGHT UK RESIDENTIAL property prices fall? According to the major mortgage lenders, the decline could be by about 10 per cent from the average UK house price of around £230,000 as recorded by the land registry. Other voices, however, predict a far greater fall.

James Ferguson, analyst and economist with Pali International and regular columnist with Money Week, says property prices could fall by 35 per cent or more.

Key to his argument is the house price to income multiple, in particular first time buyer prices. In assessing a mortgage loan, many lenders took total household income instead of average salary (£24,800) because many people need to combine two incomes to afford a property. Also, some lenders use an average of their customers' incomes rather than the national average to assess affordability. For example – by doing this HBOS can say that their average first time buyer house costs £146,882 and that this is just 3.5 times the first time buyer's salary. This puts the average first time buyer's salary at £42,000, 70 per cent above the national average wage! To encourage the typical first time buyers back in, Ferguson says house prices must drop substantially.

The perils of too much income

TAX PLAYS A KEY ROLE IN your savings and investment decisions, but your objective should always be to manipulate your investments in such a way that the tax you pay and the returns you make are 'optimised'.

A case in hand is age related allowance. If you're retired, then it's crucial to keep a close eye on how much income you are receiving from your savings and investments. If this income is taxable and exceeds a certain level, then it can have a detrimental impact on your age-related personal tax allowances.

Following the decision by the Chancellor of the Exchequer to abolish the 10 per cent Income Tax band, pensioners have, by way of compensation, received increases in their tax free age-related allowances.

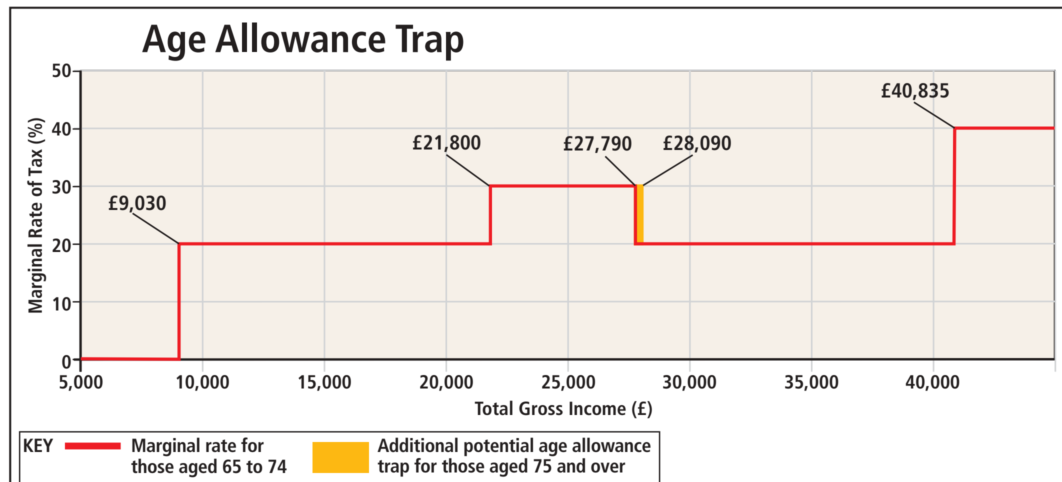
People aged 65 to 74 with income up to £21,800 now pay no tax on the first £9,030 of their income, while those aged 75 and over pay no tax on the first £9,180.

However, because the age related part of your personal tax allowance is cut by £1 for every £2 of income above £21,800, this results in a band of income where you face an effective income tax rate of 30 per cent rather than 20 per cent. This band is from £21,800 to £27,790 if you are aged 65 to 74, and from £21,800 to £28,090 if you are aged 75 or above.

This situation is illustrated in the chart above, which shows the marginal rate of income tax a person aged over 65 faces on their total gross income.

In view of this, it is imperative to review your sources of income so as to minimise or potentially eliminate this effect. For example, to keep your taxable income to a maximum of £21,800, you could consider making regular withdrawals from investment bonds or switching some of your assets into investments which generate capital gains instead of income. The advantage is that, in the current tax year, the first £9,600 of any capital gains are tax free.

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



MARKET COMMENT

Is stagflation back?

By Melvyn Bell, Lowes' Investment Manager

"IS THE ECONOMIC NIGHTMARE OF the 1970s making a comeback? It is called 'stagflation', and a number of economists and politicians are suggesting that economies around the world are heading in that direction.

"The UK in particular has a lot to worry about. In the '70s it suffered from a nasty case of stagflation, and now that the country's economy is ending a period of high growth there are worries that it will not manage a 'soft landing', a gentle economic slowdown that keeps the economy above water while inflation cools.

"Among the doubters are Eddie George, Governor of the Bank of England, who is in charge of interest rates, and Doug McWilliams of the Centre for Economics and Business Research, who predicts that economic growth will be cut in half this year, while inflation will stay above the government's 2.5 per cent target."

Ian Lowes raised the matter of stagflation in his Comment in the January issue of Lowes and it is now being widely discussed. But the first three paragraphs above actually come from a BBC business article of July 1998.The article continues: "The problem for the government is that stagflation poses an economic policy dilemma: should the government try to tackle the recession, cutting interest rates and taxes, or should it try to keep inflation low, raising interest rates and taxes?" Who says history doesn't repeat itself!

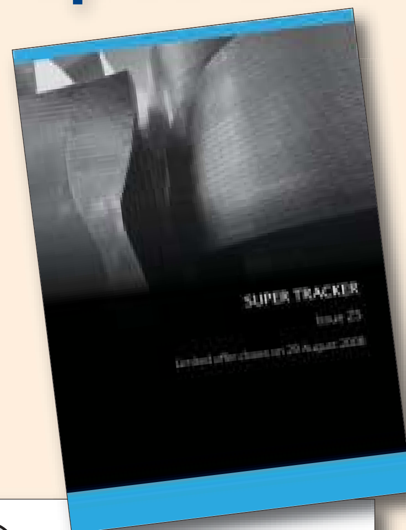
The message I think we should take from this quotation is that worst fears don't always materialise as, despite Eddie George's doubts, the subsequent nine years offered the longest period of growth and the lowest period of inflation in living memory. Consequently, the resurgence of stagflation fears should be treated as possible, not certain. If the CBI's forecast for growth of 1.7 per cent in 2008 and 1.3 per cent in 2009 is correct, then a UK recession is not on the cards.

However, the fall in most UK shares suggests a recession may be probable. The FTSE 100, dominated by mining and oil companies, fell 18 per cent between 1 June 2007 and 1 July 2008, while the FTSE 250 fell 27 per cent and the FTSE Small Cap Index 32 per cent. However, indices can cover wide performance variations as over 54 of the FTSE 100 constituents in 2007 have fallen more than 20 per cent, and 20 of those stocks have fallen by more than 50 per cent. Stocks like Barratt Developments (down 95 per cent) have fallen further.

I am therefore drawn to the conclusion that while many stocks are pricing in a recession, a recession is unlikely and that, on the basis of past experience, the best time to invest is when stocks are out of favour. To quote the legendary Warren Buffet: "Most people get interested in stocks when everyone else is. The time to get interested is when no one else is. You can't buy what is popular and do well."

Super Tracker is attractive proposition

Barclays Super Tracker Issue Z5 is a three year term investment designed to provide a full return of capital unless the FTSE 100 index falls by more than 50 per cent during the term and up to 45 per cent gain if it rises.



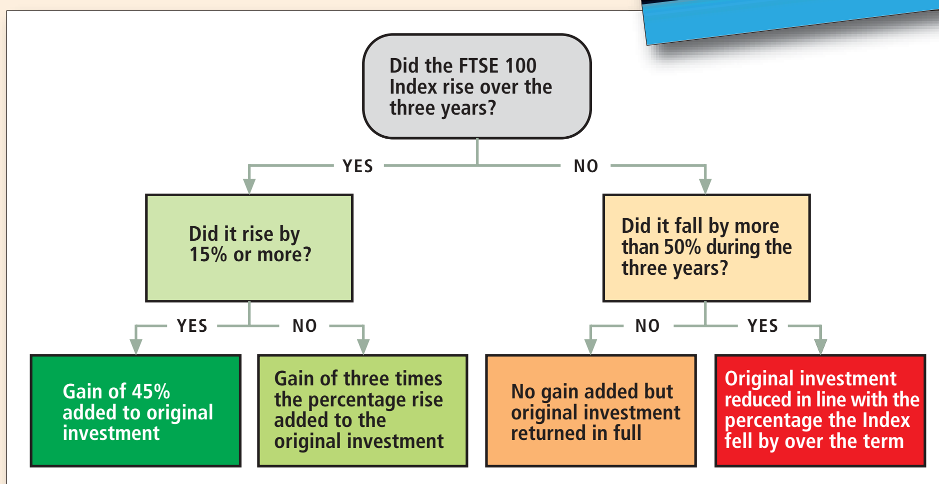
WHEN WE FEATURE INVESTMENTS ON THE back page of this magazine they are usually attractive opportunities where we believe the ratio between potential reward and risk is favourable.

The current investment climate has allowed Barclays Wealth to create the Super Tracker and, whilst it will not be suitable for everyone, this is another investment we are very excited about. Like most investments there is a risk to investors' capital and gains are in no way guaranteed but we think that, for those who are prepared to expose their capital to a defined risk, this is a very attractive proposition in the current climate.

Except in the unlikely event of Barclays Bank being unable to meet its financial obligations in three years time, then if the FTSE 100 Index rises over the three year term, the investment will repay the original capital plus a return equal to three times the rise in the Index, subject to a maximum bonus of 45 per cent. In the event that the Index falls over the term, your capital could be reduced by 1 per cent for each 1 per cent the Index is down at maturity – but only if the Index falls by more than 50 per cent at some point during the term.

To put this into perspective, whilst we will not know the starting level of the FTSE 100 Index until commencement of the investment, if it was as high as 5,685, the Index would still need to fall to levels last seen in 1993 before this capital reduction was a potential reality. Conversely, based on the same starting level of 5,685, the Index would not even need to rise above this year's high, let alone last years or its 1999 level, in order for the investment to return the original capital plus the maximum gain of 45 per cent.

Despite the recent uncertainty in some areas of the banking sector, Barclays has maintained a credit rating of AA from rating agency Standard and Poor's, which means it believes Barclays has a very strong capacity to meet its financial commitments. Other credit rating agencies also rate Barclays highly, with Moody's giving it a rating of Aa1 (high quality and subject to very low credit risk), DBRS awarding it AA(high) (superior credit quality with high protection of interest and principal), and Fitch giving an AA rating which, by their definition, means they believe Barclays to be of very high credit quality with a very low expectation of credit risk. This rating indicates a very strong capacity for timely payment of financial commitments, with this capacity not being significantly vulnerable to foreseeable events.



Under current tax rules, gains achieved under the investment will be subject to Capital Gains Tax, but this will only be payable if your total taxable gains in the year of maturity exceed the annual Capital Gains Tax allowance. The current allowance is £9,600 per individual. In addition, any gains in excess of this would be subject to tax of only 18 per cent.

The three year term is likely to appeal to many investors who do not want to commit to a longer period. However, it should be appreciated that the relatively short investment term will mean that, when compared to the typical five or six year term investment of this type, there is less time for the stockmarket to recover in the event of a fall. The full explanation of the investment opportunity, including details of all of the risks, is contained within the product literature and it is very important that you read the literature carefully to ensure that you understand the terms and all of the risks. We are obliged to point out that, whilst we are endorsing the Barclays Super Tracker, this endorsement should not be construed as personal advice for you. We would of course welcome the opportunity to conduct a review of your financial affairs to allow us to determine whether we believe this investment is suitable for you. That said, if having read and understood the investment literature you are satisfied that the Super Tracker is right for you, please complete the application form and return it to our office at the address shown below or use the reply paid envelope provided.

If you have questions relating to the investment terms, or any doubts about the suitability of the investment for you, please do not hesitate to contact your usual Lowes' Consultant or this office on 0191 281 8811. If the investment is applied for in the absence of a personal written recommendation and you subsequently decide that it is not suitable for you, naturally we cannot be held responsible or liable.

■ *Applications for the Super Tracker Issue Z5 should be sent to: Lowes Financial Management Limited, FREEPOST NT197, Newcastle Upon Tyne NE2 1BR.*