Spring 2007

"It's not what you look at that matters, it's what you see."

– Henry David Thoreau

INSIDE: Valuing your portfolios online

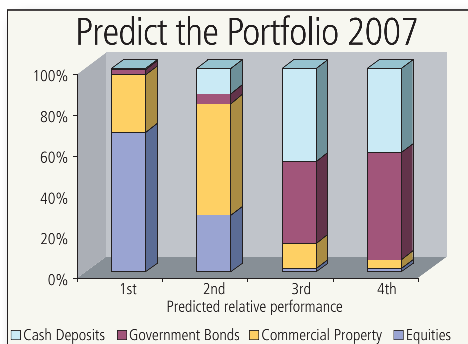
Competition – Equities get strong backing

MANY THANKS TO THOSE WHO ENTERED our 2007 competition to predict how the four main investment asset classes would perform throughout the year.

Equities have emerged as the clear favourite to be the top performer with no less than 68 per cent of entrants predicting they will outperform all other asset classes. More than half of these (just over a third of all entrants) predicted that the FTSE 100 is going to rise by 9 per cent or more over the year. One very optimistic entrant believes that the FTSE 100 will rise by 30 per cent!

However, the most optimistic prediction was that Commercial Property would be the best performing asset class and rise by a huge 44 per cent over the 12 months to 31 December 2007.

In fact, 82 per cent of entrants felt that Commercial Property would be either the top or second top performing asset class in 2007. We feel that the motivation behind this selection may well be attributable to the performance of the asset class over the last seven or so years but, as we all know, past performance is not necessarily a guide to the future. The longer-term performance of Commercial Property and the market's expectations are covered on page 7 in 'Past Performance, future expectations'. Only 1.8 per cent of entrants predicted that equities will underperform.



Predict the Portfolio – how you voted

Overall, the highlights reflect a little too much optimism for our liking. Whilst there are sound economic reasons why the stockmarket should outperform other asset classes over the long-term, it can not be expected to rise every year and corrections should be expected. Whilst there is a very real possibility that the FTSE 100 index will show another good year of growth, the possibility of it underperforming other asset classes in 2007 is higher than the 1.8 per cent chance intimated by our competition results.

The winner of the competition will receive six bottles of Moët Champagne and will, hopefully, also achieve portfolio growth which reflects the optimism of our competition entries.

Time running out for enduring power of attorney

MOST PEOPLE APPRECIATE THE need to have an up to date will to ensure that their estate is distributed as they wish and save their loved ones unnecessary anguish.

However, surprisingly few people have taken steps to save their family the cost and anguish that would result if they were unable to look after their own financial affairs because of mentally incapacity.

Whilst becoming mentally incapable to many people means dementia or Alzheimer's, an accident or other illness could result in you losing mental capability without warning – regardless of your age.

If it happens to you, your family could suffer significant inconvenience and cost because the Court of Protection will appoint a trustee to look after your affairs and oversee most of their actions.

If you prepare an enduring power of attorney (EPA), you are deciding in advance who will look after your affairs and, as such, the Court of Protection only needs to authorise its use in the event of mental incapacity. As a result, the inconvenience and cost that the family would otherwise suffer at an already distressing time will be reduced significantly.

It costs very little to prepare an EPA, but you only have until October to do so because, after that time, they will be replaced by a 'Lasting Power of Attorney' (LPA). This will do much the same thing, but it is a more extensive document and will cost significantly more to prepare.

What is an EPA?

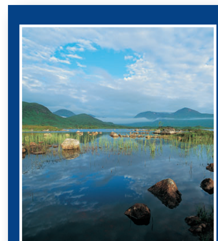
IT IS A LEGAL PROCESS WHERE you give someone known as an 'attorney' the power to deal with your financial affairs and property. The attorney can be almost anyone who is at least 18 and not bankrupt.

You can give general authority to the attorney and they will be able to do everything you could do – e.g. signing cheques, buying and selling houses and share dealing. Alternatively, you can restrict their powers.

That power can start whenever you want – while you are well, or when you become mentally incapable. If you become mentally incapable, your attorney will apply to register your EPA with the Public Guardianship office.

Providing you are capable, you can cancel the EPA at any time. But once it has been registered with the Public Guardianship Office they will need a doctor's evidence that you have recovered or are mentally able to end it yourself.

● *To find out more about making an EPA, contact your Lowes' consultant or call 0845 1 484848.*



Our cover shows the Black Mount and the wild, desolate landscape of Rannoch Moor, Scotland

Make your money work

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

Branch Based

Amount	Provider	Account	Gross Rate	Contact
£1+	Co-op Bank	Smart Saver	4.5%	Branch[1]

Postal or Telephone

Amount	Provider	Account	Gross Rate	Contact
£1+	Birmingham Midshires	Direct Telephone Savings Account	5.5%	0845 603 8027 for application form and information pack[2]

Internet

Amount	Provider	Account	Gross Rate	Contact
£1+	Yorkshire B. S.	Internet Saver	5.55%	www.ybs.co.uk
£1,000+	Icesave	Online Savings	5.7%	www.icesave.co.uk

Note 1. Account can also be accessed at your local post office. Note 2. Guarantees to pay 0.25% over the ING Direct rate until 01/08/2008.

Sources: www.thisismoney.com, 27/03/2007 All accounts subject to terms and conditions

A Prime Minister's Budget?

IN THIS LATEST 'SOMETHING FOR EVERYBODY' BUDGET, THE MOST SIGNIFICANT MEASURE announced by Gordon Brown, the Chancellor of the Exchequer and Prime Minister in waiting, was undoubtedly the headline grabbing simplification of Income Tax …

Income Tax

- 10 per cent starting rate band to be abolished from April 2008.
- Basic rate cut from 22 per cent to 20 per cent from April 2008.
- Top rate band to rise to £43,000 from April 2009.
- Personal allowances for those aged 65 or over will be increased by £1,180 above indexation in April 2008. By April 2011, no pensioner aged 75 or over will pay any tax until their income reaches £10,000.

Inheritance Tax (IHT)

- As announced in Budgets 2005 and 2006, the IHT nil-rate band allowance will be increased by more than statutory indexation to £300,000 for the tax year 2007/08, £312,000 for 2008/09, £325,000 for 2009/10 and £350,000 in 2010/11.
- The tax on estates valued over and above the nil-rate band will remain at 40 per cent.
- The estimated number of taxpaying estates in 2007-08 will be about 35,000 – around 6 in 100 deaths.

National Insurance

- Upper earnings limit raised by £75 by 2008 and aligned with higher rate threshold from April 2009.

ISAs

- ISA limits remain unchanged in 2007/08 at £3,000 for Mini Cash ISAs, £4,000 for Mini Equity ISAs and £7,000 for Maxi ISAs.
- From April 2008 the overall annual ISA investment limit will rise to £7,200 of which £3,600 can be in cash.

Capital Gains Tax

- The Capital Gains Tax (CGT) annual exempt amount is increased to £9,200 for 2007/08 for individuals.

VCT and EIS schemes

For VCTs and EIS shares issued after the date on which the Finance Bill 2007 receives Royal Assent:

- Become less attractive to investors with further restrictions being placed on the size of company that can be invested in.

Housing and Stamp Duty

- All new homes meeting the zero carbon standard costing up to £500,000 will pay no Stamp Duty.
- Zero-carbon homes costing in excess of £500,000 will receive a reduction in their Stamp Duty bill of £15,000.

COMMENT

The long-term

SINCE OUR LAST MAGAZINE, WE have seen the world's stockmarkets undergo what has been described as a 'mini-correction'.

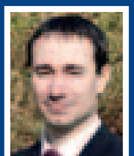
In terms of the FTSE 100 index, this meant a fall of 7.2 per cent from a high of 6451 reached on the 19 February, to a low of 5986.6 on the 5 March. This was followed by a subsequent recovery to 6400 at the time of writing.

This was by no means as severe as the correction witnessed last year, which saw the same index lose 9.88 per cent in eight days, only to subsequently recover all of those losses.

It is important to appreciate that markets do not rise in straight lines and it is my belief that this sort of volatility – and worse – is to be expected over the coming years. Please bear this in mind the next time the market falls and ensure that you are not one of the clients who rings us asking to encash your investments just because the stockmarket has fallen. Those who invest for the long-term are, typically, those who reap the benefits.

I would like to offer my sincere thanks to all those clients who participated in our client satisfaction survey. We have been delighted with the response rate with over 36 per cent of all questionnaires having been returned to date. We are equally delighted with the results which are shown on page 6. Where comments or suggestions were made via the survey, we will be considering these in due course.

Many thanks once again for your feedback.



Ian H Lowes,
Managing Director

If you would like to receive further information on any of the subjects featured in this issue of LOWES please call 0845 1 484848, fax 0191 281 8365 e-mail client@lowes.co.uk. Or write to us at: Lowes Group PLC, FREEPOST NT197, Holmwood House, Clayton Road, Newcastle upon Tyne NE2 1BR.

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A public or a privat

Lowes' Consultant, Andrew Gardiner, offers an insight into employer pensions in the public and private sectors ...

WHEN IT COMES TO PAY AND PENSIONS, just how do the public and private sectors stack up?

In the past it has often been said that a good pension is compensation for the poor pay levels of public sector employment, while the better pay enjoyed in the private sector compensates for inferior retirement benefits. But is this the case?

The cost of pensions

Research from the right wing think tank, The Institute of Economic Affairs*, shows the cost of inflation-linked schemes for nearly six million state employees, including doctors, nurses, teachers and policemen, is over £22 billion a year. This means that each of the UK's 25 million households must pay £900 to meet this bill which may increase further given the expansion of public sector employment by an estimated 650,000 jobs that has taken place since 1997.

Unlike private sector schemes – where regular contributions are invested in a fund which is typically invested in equities, bonds and commercial property – public sector pensions are generally 'unfunded', i.e. financed by current Government tax receipts. They are also almost entirely of the final salary type. That is, the benefits on retirement are linked to the number of years worked and the salary at retirement. These schemes cover around 90 per cent of the six million public sector employees.

In the private sector, the National Association of Pension Funds says that two thirds of employers (employing an estimated 15 per cent of the UK workforce) offer what are called 'defined contribution' schemes, where the retirement benefits are not guaranteed but depend on the investment performance of the contributions.

The number of private sector final salary (or defined benefit) schemes has dropped dramatically in recent years and around 75 per cent are now closed to new members. This has happened in the face of large pension scheme deficits, estimated to exceed £45 billion for 200 of the UK's top private sector schemes. One recent high profile closure to new members was the consumer goods giant Unilever, which is asking existing employees to up their contributions by 40 per cent if they wish to remain within the scheme.

The announcement by Royal Mail in February that it is to close its final salary pension to new members was the first such development in the public sector. However, over the past few years, all the main public sector pension schemes have been reviewed. This was partly prompted by the Government's commitment to raise the normal public sector retirement age to 65, although these proposals have been diluted. While new public sector recruits must work until 65, existing ones will continue to retire at 60.

In contrast, last year's Pensions Commission Report, by Lord Turner, a former CBI chairman, warned that millions of private sector employees faced having to work until they were 68 or even 69 because of funding shortfalls.

Meeting the cost of pensions

The costs of pensions in the private sector are met by the employer, the employees, or a combination of both. With final salary schemes the risks of meeting the salary-linked benefits are borne largely by employers, while with defined contribution schemes the employees bear the risks.

In the public sector, where final salary schemes are the norm, the cost is borne by the taxpayer – either centrally through income tax or via local authority taxation. According to Douglas Anderson, a partner at actuaries Hymans Robertson: "Effectively, the police, fire and education costs are met by central government i.e. the Income Tax payer. The 'controllable' pension costs (i.e. the Local Government Pension Scheme) are around 5 per cent of the 'controllable income' i.e. Council Tax."

e retirement?

Pensions at the top

The public sector

RESEARCH CARRIED OUT IN FEBRUARY 2007 FOR THE LIBERAL DEMOCRATS BY the consulting actuary, Watson Wyatt shows that Britain's top 300 civil servants have combined pensions worth £250m – an average of £833,333 per top civil servant.

Stephen Yeo, a partner at the actuaries Watson Wyatt, said: "While these numbers look enormous to the average taxpayer, they don't give the whole picture. These figures take account of the transfer value of civil servants' pensions, but if a private individual wanted to save and buy a pension of this size, it would cost 30 per cent more."

A transfer value is the amount paid from one pension scheme to another if a member moves all their accrued benefits across to the new scheme.

The private sector

The TUC tracks directors' pension provision and its latest report covered 362 directors with final salary pensions and 82 with defined contribution pensions.

Overall, the average transfer value for a director's accrued pension entitlement is just under £2.7m. For the directors with the biggest accrued entitlements at each company, it is £4.9m. The largest single transfer value was £19.98m at BP. The total transfer values of all the directors' defined benefit schemes analysed was over £950m.

Pension costs may also be met from business rates, support grants from central government, and other local authority income.

Compensation for low pay?

A common argument in the past has been that the lower pay rates in the public sector compared to the private sector justify the more generous pension provision. However, official figures show the average salary for a full-time public sector worker is now £25,102, compared to £22,873 in the private sector.

While public sector pension arrangements are being reviewed, Hymans Robertson** says: "The changes are not dramatic: more evolutionary than revolutionary. The Government has rightly resisted the erosion of occupational pensions that have been common in the private sector. This will not help pension envy dissipate. Whilst the public-private pension imbalance persists, it will be important that the different values are taken into account in pay comparisons."

NOTES:
**Sir Humphrey's Legacy, Institute of Economic Affairs, September 2006.*
***Fit for Purpose: Modernising Public Servants' Pensions, Hymans Robertson Briefing Note, September 2006.*

Home ownership and IHT

If you buy a house jointly with someone else (e.g. your spouse or friend) then it is important to consider that the way you own it can affect any Inheritance Tax liability.

- As joint tenants you each jointly own the house and on the death of one party their interest in the property passes automatically to the survivor. It is therefore usual for married couples to buy a property as joint tenants.
- As tenants in common, each owner has a distinct share in the property – usually half if there are two owners. Alternatively you can decide between yourselves what share of the property belongs to each owner. If one owner dies, then their share does not automatically pass to the other owner(s).

The impact on IHT

One spouse can pass all their assets to the other on their death without triggering an IHT charge. However, when the other spouse dies, the children or other beneficiaries can face a huge tax bill.

One way of avoiding this is to make use of each spouse's IHT nil-rate band by bequeathing some of the assets elsewhere on the death of the first spouse. Given that the family home now represents a very significant part of most people's estates, to facilitate this tax saving methodology it is often essential for spouses to own their home as tenants in common. Then, on the death of the first spouse, it facilitates the deceased spouse using their nil-rate band by transferring assets to a family trust that the survivor could, at the discretion of the trustees, derive a benefit from.

That said, we no longer believe that it is appropriate to recommend wills that place half of a house into trust because it may be open to attack and there are now easier, more flexible ways of achieving the same outcome.

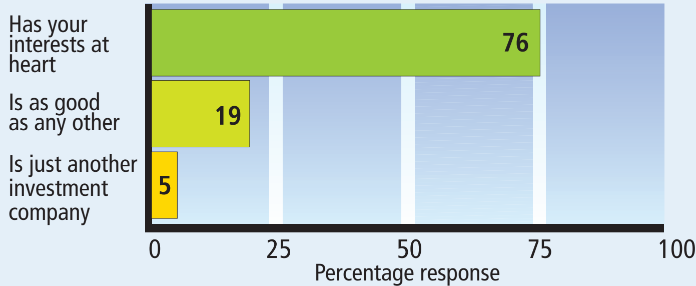
- *To find out more about the potential for significantly reducing your Inheritance Tax Liability through the use of wills, family trusts and changed property ownership methodology, contact your Lowes' consultant or call on 0845 1 484848.*

CLIENT SURVEY

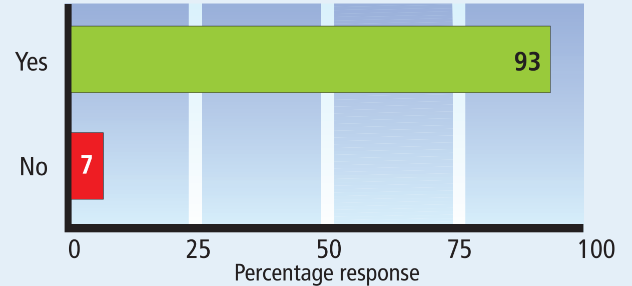
‘Letting the Client Speak’

Results of the biennial Lowes Financial Management Client Survey 2007 (full results available at www.lowes.co.uk)

1) How would you describe Lowes Financial Management to a friend? As a company that:

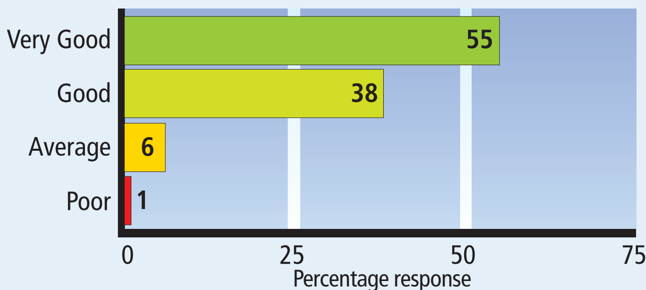


2) Does the service we provide live up to the claim “Where personal finances are cared for personally”?

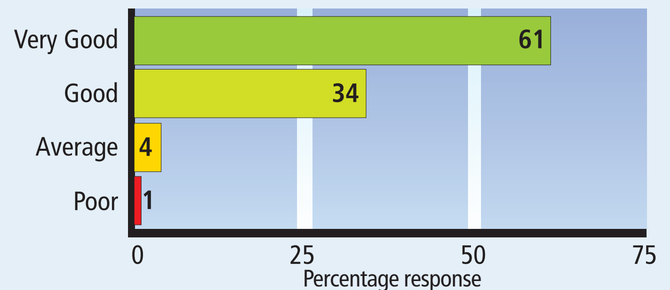


3) Bearing in mind, if appropriate, your experiences with other advisors and investment groups, how would you rate Lowes Financial Management:

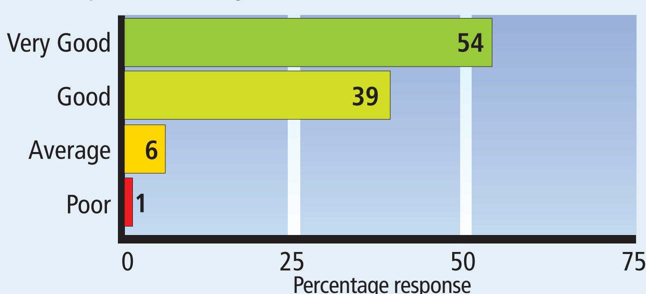
On Client Service?



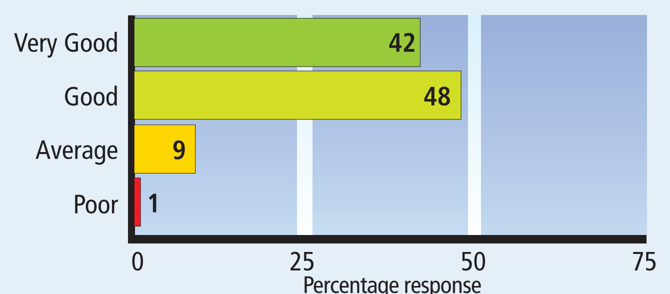
On Professionalism?



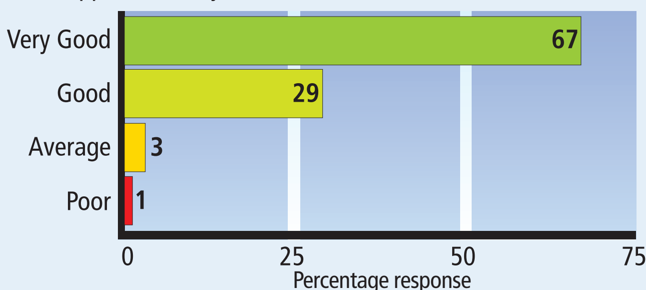
On Depth of Knowledge?



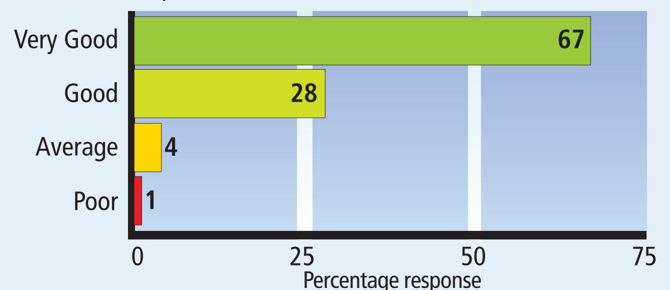
On Investment Advice?



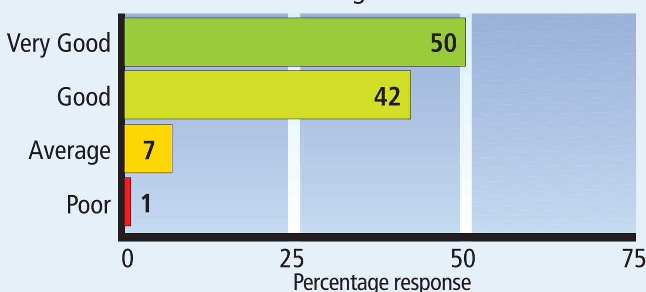
On Approachability?



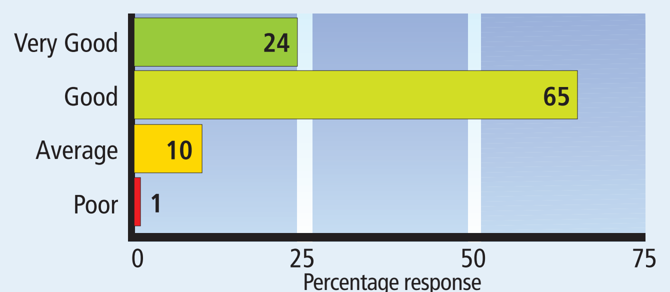
On Staff Helpfulness?



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:



PROPERTY

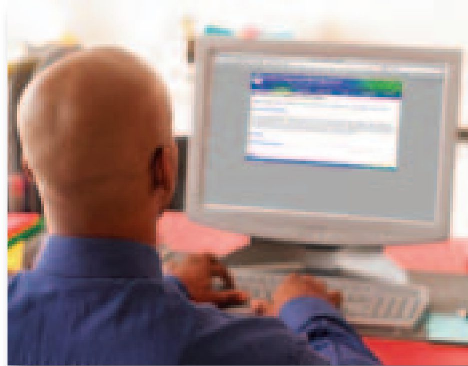
Portfolio valuations now available online

Those clients who have been with us for some years will know that every six months we send out personal valuations of their investment portfolios.

While such a service is by no means unique, we do believe that we are one of a relatively small number of independent financial advisers with the resources necessary to provide such a service.

But now we have gone a stage further with the development of a facility which enables you to access an up to date Portfolio Valuation Report via the Lowes website at **www.lowes.co.uk**.

This is available to all clients who have unitised investments held through us. What's more, the



website also enables you to initiate a 'change of agency' procedure whereby you can add to your Lowes account any other investments which were not arranged by us. This service is offered completely free of charge. These holdings can then be featured in future Portfolio Valuation Reports.

To access the new online valuation service, all you need do is visit **www.lowes.co.uk** and click ***'Online Valuations'***. If you know your Lowes client number, then you can gain access within 24 hours. If you don't know it a registration code is required, but this will only delay access by a day or so.

- *For those clients who do not have Internet access, but would like to have their other investments shown in their six monthly Portfolio Valuation Report, then please contact your Lowes' Consultant, who will make all the necessary arrangements, or call 0845 1 484848.*

MARKET COMMENT

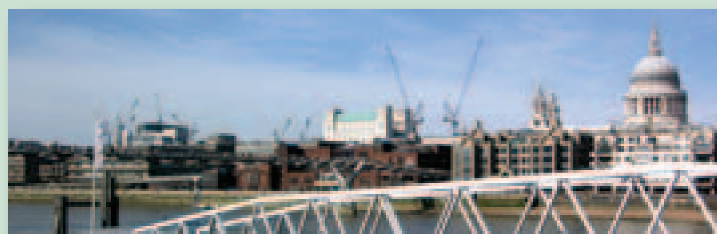
Past Performance, future expectations

By Melvyn Bell, Lowes' Investment Manager

WHEN WE RECEIVED THE first predictions for our 'Predict the Portfolio Competition' it was apparent that Commercial Property was to be one of the hot favourites of the four asset classes – Equities, Commercial Property, Bonds and Cash.

This raised a number of eyebrows as it confirmed our suspicions that recent performance tends to translate into future expectations. Perhaps this isn't surprising given the average return for the last three calendar years of the Investment Property Databank (IPD) UK Monthly Index was 18.61 per cent*, compared to the 17.21 per cent achieved by the FTSE All Share index *.

As it happens equities eventually came out as the



- 'London's commercial property prospects looking very rosy'?

asset class most competition entrants thought would offer the best return for the year. However, commercial property finished a strong second with 28 per cent of the vote predicting it would be top performer and 54 per cent of all entrants predicting it would finish in second spot. The support for equities and commercial property is hardly surprising. In the 20 calendar years since the introduction of the IPD UK Monthly Index, the average annual return of equities and commercial property has been neck and neck – 11.97 per cent for FTSE All Share Index and 11.92 per cent for IPD UK Monthly Index*.

Bonds – the least favoured asset class in our competition – returned only 10.02 per cent per annum over the same period. Indeed, over the last three calendar years bonds have barely outperformed deposits, by averaging just 4.94 per cent – well adrift of equities and commercial property.

Such underperformance is understandable given the strength of the economy and rising interest rates. However, the big question is when will the returns on equities and commercial property compared to bonds revert to a more normal level?

A Sunday Times article of 5/2/2006 – 'Why the outlook is bleak for commercial property' – suggested that because commercial property had risen by over 18 per cent in 2004 and 2005 it was overstretched and that the woes of the retail sector would inevitably lead to a correction. In the event, it rose 18 per cent in 2006. A Daily Telegraph article of 1/3/2007 – 'London's commercial property prospects looking very rosy' – reported comments by the UK's richest landowner, the Duke of Westminster. Coming after a third year of above trend performance, is it more or less likely that this prediction will be more accurate than the first?

Our competition is just a bit of fun. Get it wrong and you lose nothing but the chance to win some bubbly. However, if you're investing your hard earned cash, trying to second guess the markets can be very costly if you get it wrong. So we make no apology for reiterating our view that a diversified investment portfolio which blends different assets classes and is managed by proven managers offers the best prospects for stable long-term growth.

* *Source: Lipper Hindsight, total return income reinvested.*

PORTFOLIO

A 10% European opportunity

WHEN LOOKING AT INVESTMENT opportunities, one of our key roles as advisors is to assess potential risk and relate it to potential reward. As an art, rather than a science, this is usually by no means a simple process and relies very much on our subjective judgement.

Sometimes the process is simple, as to us the risk of a particular offer far outweighs the potential reward. On rare occasions, the opposite is true.

The behind the scenes pricing of 'structured investment products' is such that, given certain market conditions, some exceptional offers can come to the market, although only months later they may be impossible to replicate. As an example, back in 2002, the same depressing stockmarket conditions that made the Keydata Dynamic Growth plan a possibility also meant that it was an extremely attractive contract. Consequently, it was one of the best selling structured products for years, and investors are anticipating a significant gain when it matures this December. But just a month or so after this product's launch, changed stockmarket conditions made it impossible to replicate the product's terms.

Recent market conditions have made a breed of 'Kick-Out Plans' linked to the UK FTSE and Japanese Nikkei extremely attractive and we were very tempted to dedicate this page to promoting the latest such contract, which is the best of its type yet. However, at the last minute, we were advised of the Premier European Growth Plan. This plan is linked to a single index – the Dow Jones Eurostoxx 50 – which arguably lowers the risk when compared to utilising two indices, but also provides a diversification option for those who took advantage of the earlier offers.

The Dow Jones Eurostoxx 50 Index is Europe's leading blue-chip index for the Eurozone, and provides an excellent representation of supersector leaders in the Eurozone. The Index covers 50 stocks from 12 Eurozone countries: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain.

- **The Premier European Growth Plan is a six year plan but will mature on the first anniversary the Index is higher than its level on 15 June this year. In the event of this occurrence, the plan will repay the original capital plus 10 per cent simple growth for each year it has been held.**

- **If the Index is not higher on any of the six anniversaries, no gain will be achieved and the return of capital will depend on how far the Index fell during the term and how much lower it is at the end of the six years. If, during the life of the Plan, the Index did not fall by more than 50 per cent below its value on 15 June this year then you will receive your original capital back. If, however, such a fall did occur then your investment capital will be reduced by 1 per cent for each 1 per cent the index is below its 15 June level at the end of the term.**

The success of this investment depends on the performance of the Eurozone equity markets. Whilst we could of course be wrong, we believe the likelihood of an early maturity during the six year life of the plan is high. In any event, there is comfort in knowing that for any of the original capital to be lost, the Index must have fallen by more than 50 per cent during the lifetime of the investment and failed to recover to its 15 June 2007 level by 14 June 2013.

- **As with all contracts of this type, the benefits payable and the ultimate return of capital depend on the financial strength of the issuer. The assets within the Plan will be issued by a financial institution rated as AA (i.e. having "very strong financial security characteristics") by Standard & Poor's, the leading ratings agency.**

The product literature accompanying this magazine includes all of the terms and details of the Plan, including all the risk factors on page 12. Please read the brochure thoroughly before you invest. When you are satisfied that this investment is right for you, please complete your application and send it with your cheque (unless it is an ISA or PEP transfer) to us at Freepost NT197, Newcastle upon Tyne, NE2 1BR, or use the pre-paid envelope provided.

The investment is, of course, not right for everyone and if you have any doubts about its suitability for you, contact this office on 0845 1 484848 or your usual Lowes' Consultant who will be happy to recommend an appropriate course of action.