Autumn 2007

“He that is too secure is not safe.”

– Thomas Fuller

INSIDE: PRE-BUDGET REPORT SPECIAL

Household wealth doubled in past decade

RESEARCH FROM HALIFAX FINANCIAL Services using official data shows that the total wealth held by all UK households has risen by 127 per cent over the past 10 years.

Net household wealth – i.e. after deducting outstanding debt – increased from £2,795 billion at the end of 1996 to £6,336 billion a decade later. Over that period retail prices rose 30 per cent and average earnings 52 per cent.

The total value of household assets rose £4,343 billion between 1996 and 2006, from £3,284 billion to £7,627 billion. Household debt increased £802 billion, from £489 billion to £1,293 billion over the period.

Households' holdings of all financial assets – including bank and building society deposits, government bonds, shares in companies, life assurance and pensions – increased £1,759 billion, from £2,088 billion in 1996 to £3,847 billion in 2006.

Pensions and life assurance policy funds form the biggest proportion of households' savings, accounting for 55 per cent at the end of 2006. A further 15 per cent are held directly in equities. Housing equity (the value of homes less mortgage debt outstanding) increased £1,915 billion, from £787 billion in 1996 to £2,702 billion in 2006.

Inheritance tax and living abroad

IF YOU'RE PLANNING TO RETIRE ABROAD, then it's vital to sort out inheritance tax issues. Failure to do so can prove costly. For example, in Spain the authorities can charge up to 82 per cent estate tax on foreign-owned property, while in France it may not be possible to stipulate who inherits a property.

While the UK has double tax treaties with many countries – particularly in the EU – which ensure you do not have to pay tax twice, inheritance tax (IHT) bills can still work out substantially larger than at home.

Consequently, it's perhaps not surprising that a number of questionable schemes have surfaced, usually involving the use of a mortgage and an offshore investment bond. A typical one led to the suspension earlier this year of the Gibraltar-based company, Hamiltons Financial Services SL, by the Gibraltar Financial Services Commission.

In one instance, an English couple responded to Hamiltons' advert warning about 'Inheritance Tax – the Spanish Bombshell'. A Hamiltons representative advised them of a scheme which involved taking out a mortgage on their house and investing the proceeds in an offshore bond. The idea was that the bond would be untraceable by the Spanish Tax Authorities and the house would appear to have a substantial debt attached, so reducing the IHT liability.

The couple entered into an agreement without being told that if the value of

the bond was insufficient at maturity they could lose their house; that the lender had rights over the property and over the bond; and that the effectiveness of the arrangement was dependent on breaking the law by not declaring the arrangement to the Spanish Authorities.

- *The key to averting large IHT bills is to plan ahead using an expert and properly regulated adviser. If you are planning to move or retire abroad, then contact your Lowes' Consultant or call 0845 1 484848.*

Our cover shot: Dunstanburgh Castle in Northumberland

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	5%	Branch[1]

Postal or Telephone

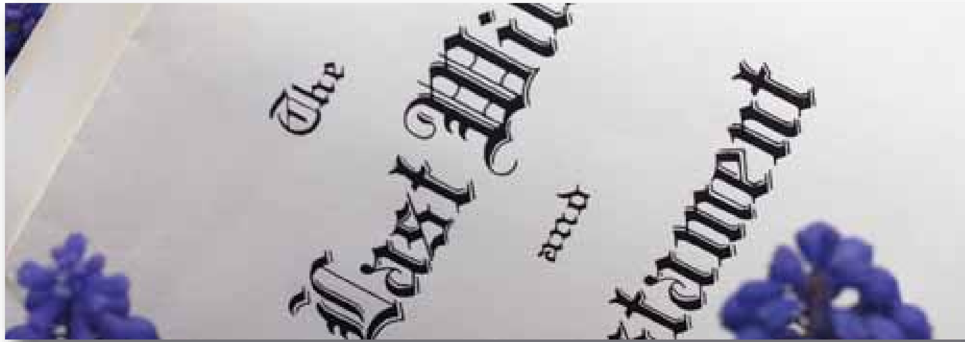
Amount	Provider	Account	Gross Rate	Contact
£1+	Birmingham Midshires	Direct Telephone Savings Account	6%	Call 0845 603 8027 for application form and information pack [2]
£500+	Anglo Irish Bank	Easy Access	6.1%	Call 0845 455 2222 or visit www.angloirishbank.co.uk for application form [3]

Internet

Amount	Provider	Account	Gross Rate	Contact
£1+	Bradford & Bingley	Internet Saver	6.4%	www.bradford-bingley.co.uk[4]

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 01/01/2010. Note 3. Guarantees to match base rate until 01/01/2008. Note 4. Rate guaranteed to at least match base rate until 01/01/2009. Sources: www.thisismoney.com 10/10/2007. All accounts subject to terms and conditions.

27 million without a will



A STAGGERING 27 MILLION PEOPLE in England and Wales do not have a will, according to the National Consumer Council (NCC).

In a survey of 2,500 people, the NCC says it is those who are most likely to need a will who lack one, including four out of five parents, many unmarried couples, plus a large number of wealthy individuals.

The NCC has produced a detailed report on will writing behaviour – Finding a Will. "Apathy is the primary cause of inaction", says author Steve Brooker: "Most people say they simply haven't got around to making a will, have never thought about it or don't want to think about dying."

Social class is the main indicator of will ownership. However, while 83 per cent of people in lower socioeconomic categories had no will, neither did 30 per cent of those in the higher categories.

Dying intestate (without a will) can create major headaches for those left behind. In particular, delays can be significant and the estate can only be distributed in accordance with clear legal guidelines which could completely contradict the wishes of the deceased.

The NCC has called on the Ministry of Justice to target and encourage vulnerable groups to make a will and is also asking the Ministry to review whether current inheritance laws remain fit for purpose.

- *Lowes offers a comprehensive Will Writing service which includes a free simple will writing facility via the Lowes website at: www.lowes.co.uk. For anything other than the most basic of wills, for example where there are IHT or potential long term care issues, contact your usual consultant, or call 0845 1 484848.*

Card fees on the up

THERE IS MOUNTING EVIDENCE that credit card firms are raising their fees following an instruction from the Office of Fair Trading last year that they must cut the penalty fees they charged customers to a maximum of £12.

According to Which? other fees and charges levied on customers have "notably increased". Its researchers listed 10 major changes. In particular, that providers advertising low APRs do not necessarily have the cheapest interest rates, as there is no standard method for calculating an APR. Also, that cardholders can be hit by 'cheeky' charges – e.g. for failing to tell the lender that they have moved house, or for not using their cards enough.

Lloyds TSB announced in February that it was imposing a £35 annual charge on 'low-useage' credit card customers and on those who don't use their cards at all. Recently, card provider MBNA said it is to charge a £10 fee on accounts which have a positive balance.

COMMENT

A lesson in investment

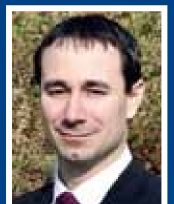
IT STARTED TO GO WRONG when it became obvious to the institutional investors that Northern Rock's business model would suffer as banks became more reluctant to lend to each other. The share value started to fall and with it so did confidence. It didn't take long before certain elements of the media questioned the bank's viability and whilst much of the scaremongering was, in my opinion wholly unfounded, it started the panic.

Northern Rock continues to fight on but its reputation is seriously damaged. Whilst insolvency is highly unlikely, I believe we will see the bank disappear from the high street within a year.

From an all time high of £12.58 a share in February this year to a price of £1.50 in October Northern Rock is a lesson in investment that none of us should forget.

No matter if you were a shareholder or a saver you would have been affected. Lesson one, never be overexposed to one share or one sector and lesson two, even the strongest institutions can be brought down by negative action.

On this occasion those that have suffered significant financial loss from this crisis number relatively few but hopefully the lessons are learned by many.



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. Lowes® Financial Management Limited. Registered in England No: 1115681. Authorised and Regulated by the Financial Services Authority

The 2007 Pre-Budget Report

We suspended **the printing of this issue of Lowes Magazine** literally an hour **before it was due to commence to bring you** our analysis of **the Chancellor's Pre-Budget Report of 9** October.

As far as our clients are concerned, this is the most significant Pre-Budget Report or Budget of the last 10 or so years.

The announcements make sweeping changes to Inheritance Tax and Capital Gains Tax legislation which could potentially affect every client.

These sweeping changes are, in our view, a knee-jerk reaction to the announcement only days earlier by George Osborne, the Shadow Chancellor of the Exchequer, that the Conservative Party proposes to increase the Inheritance Tax nil rate band threshold to £1 million.

This move precipitated one of the most rapid swings in political popularity since the Falklands War and is regarded as having averted a snap General Election call by Prime Minister Gordon Brown. Whilst the Conservative Party proposals were, in our opinion, badly thought through, at the time of writing we are not convinced that the announcement by Chancellor of the Exchequer Alastair Darling deserves any more credit.

That said, we have no doubt that, at least initially, they will have the desired affect of recovering for the government some of the ground lost in the wake of the Conservative announcement. The government has a reputation for making announcements without considering their full consequences to the extent that U-turns and subsequent legislation to modify earlier decisions are commonplace *(see 'Recent government U-turns', below)*. We would not be surprised to see 'clarification' of the proposals over the coming months. Whilst to the man in the street the changes announced may seem positive or, at worst, neutral, we believe that by the time the full implications of the effect of the legislation are clarified, the ultimate effect may actually be an increased tax burden!

A word of warning

This Special Report is intended to offer our clients an initial analysis of what are, without any doubt, extremely significant proposals which may well have a profound impact on estate planning. However, it is vital to stress that we cannot at this stage be certain that our interpretation is wholly correct. As such, what follows should not be taken as personal advice and guidance, or a definitive explanation of the proposed new rules.

Recent government U-turns

Personal Term Assurance

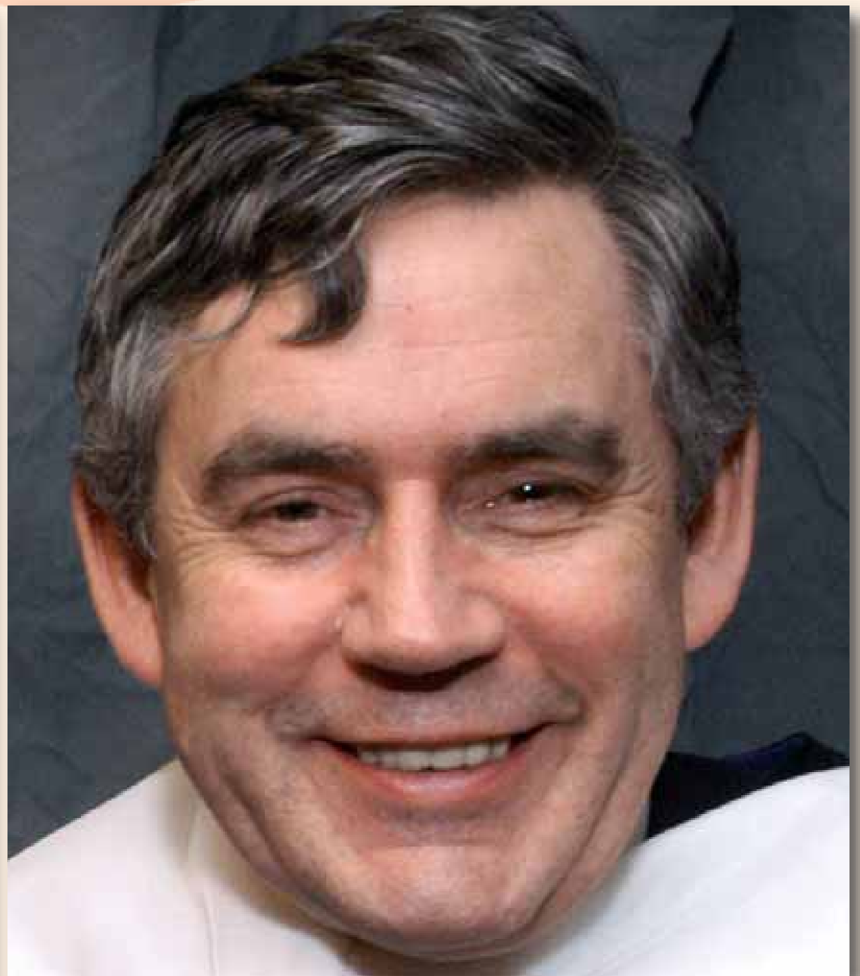
New rules that simplified Pensions legislation meant that once again life assurance policies held within pensions qualified for income tax relief. Eight months later the government removed the benefit.

Holding residential property in Pensions

New Pension rules meant that individuals would be able to hold residential property within their Self Invested Personal Pensions (SIPPs) as part of the Government's proposals to expand the range of assets eligible for pension fund investment. Again however, some months later the Government clarified the 'error' saying that this would not be allowed.

Inheritance tax planning using Alternatively Secured Pension (ASP)

Many saw these as 'intergenerational pension plans' due to their IHT advantages. It took two years before an official statement correcting the oversight, by limiting the IHT benefits was issued.



● Prime Minister Brown: Did Tory IHT move avert snap election?

Headline-grabbing proposals

The most significant changes in the 9 October announcement affect the Inheritance Tax and Capital Gains Tax regimes and we will look at these in turn…

Inheritance Tax

INHERITANCE TAX OR IHT HAS BECOME A SIGNIFICANT VOTER issue over recent years:

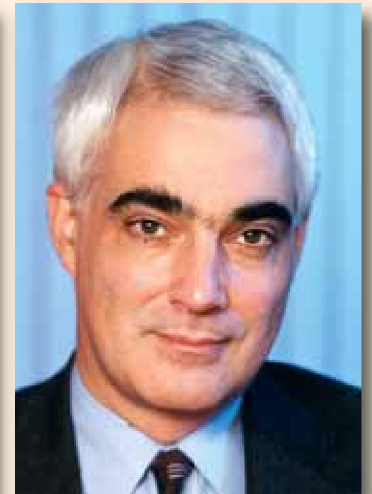
- IHT revenue raised in 2006/07 was a record £3.6 billion, up £300 million (9 per cent) on 2005/06.

- In 2006/07, 33,000 estates are estimated to have paid inheritance tax, while in 1997/98 only 18,000 estates paid the tax.

Given these figures, IHT is clearly a tax which has a significant impact on middle Britain. Faced with the strong possibility of a snap General Election, Shadow Chancellor George Osborne pulled what was considered a master stroke when at the recent Conservative Party conference he announced that the Conservatives proposed an increase in the IHT nil rate band from £300,000 to £1 million – although he didn't specify when this would apply. Chancellor of the Exchequer Alistair Darling has now responded to this by announcing an increase in the IHT nil rate band for couples and civil partners to £600,000.

Whilst there are some significant winners in this political announcement, we need to establish if it is a case of smoke and mirrors, as with the recent changes to income tax bands.

Shadow Chancellor Osborne: £1 million IHT nil rate band



Chancellor Darling: Response was £600,000 nil rate band for couples

Until now, each individual has had an IHT nil rate band which is currently £300,000. However, if an individual simply left all of their estate to their surviving spouse then that individual's nil rate IHT band was effectively wasted. The new rules allow a surviving spouse to take advantage of any part of the IHT nil rate band that their spouse did not use to mitigate tax on their estate by adding it to their own nil rate band.

The real winners

For many couples who have used Discretionary Wills and Family Trusts to ensure that their nil rate band was used on the first death, *the new rules will have no effect or benefit*. So who are the real winners? The new rules are retrospective, so a widow or widower who dies after 9 October 2007 whose deceased partner did not utilise their nil rate band (i.e. because they passed all of their assets to the survivor) has the use of their deceased spouse's current equivalant nil rate band.

Example 1:

Mr Jones died four years ago when the IHT nil rate band was £250,000. The joint estate of Mr & Mrs Jones at the time was £500,000 and all of it passed to Mrs Jones. Assuming that Mrs Jones' estate has increased in value to £620,000, then:

If she died on 8 October:

Estate value	£620,000
Mrs Jones' nil rate band	(£300,000)
Taxable estate	£320,000
IHT @ 40%	£128,000

If she died after 9 October:

Estate value	£620,000
Mrs Jones' nil rate band	(£300,000)
Nil rate band for Mr Jones	(£300,000)
Taxable estate	£20,000
IHT @ 40%	£8,000

So, the new rules mean Mrs Jones' estate saves a whopping £120,000 in IHT!

Inheritance Tax *– continued*

The end of IHT nil rate band planning?

On the face of it, because a spouse's unused nil rate band can now be passed on to the surviving spouse, it might appear that all existing Family Trusts, Tenancy in Common Will and Discretionary Will Trust type arrangements have no future benefit. Whilst nothing can be certain until the legislation is finalised and the full implications become clear, our initial reaction is that these arrangements will continue to have some valuable benefits. So don't tear up your Will Trust just yet!

Example 2:

Don't tear up your trusts

Let's consider the example of Mr & Mrs Smith who have a joint estate valued at £600,000. Mrs Smith dies today passing all of their estate to Mr Smith who survives another five years. When he dies the IHT nil rate band has increased to £375,000 and his estate has increased to £850,000.

On his death:

Estate value	£850,000
less Mr Smith's nil rate band	(£375,000)
less nil rate band for Mrs Smith	(£375,000)
Taxable estate	£100,000
IHT liability	(£40,000)

Net inheritance available to children £810,000

Now consider the situation where Mr Smith utilised a nil rate band planning arrangement on the death of Mrs Smith. On her death, £300,000 is placed into a Family Trust(s) either by way of IOU or assets and these assets / the loan increase at the same rate as Mr Smith's other assets.

On his death having utilised nil rate band planning for Mrs Smith:

Mr Smith's estate value is	£425,000
less Mr Smith's nil rate band	(£375,000)
Taxable estate	£50,000
Inheritance Tax liability	(£20,000)
Plus the Trust's value	£425,000

Net inheritance available to children £830,000

So, by taking advantage of a Family Trust, Mr Smith ultimately saved IHT of £20,000. This is because while Mrs Smith's IHT nil rate band threshold increased by inflation, the Trust's assets could increase in value at a greater rate.

What's more, the money sheltered in Trust following Mrs Smith's death would be protected from the Local Authority should Mr Smith subsequently have to go into long term care.

But, perhaps more importantly, the benefits of second and third generation IHT planning should not be overlooked. If the Smith's children are themselves reasonably affluent to the extent that they do not need access to (or believe they will not need access to) the monies in Trust, it could be maintained for the benefit of their children or for their grandchildren, sheltering the money from any further IHT liability.

Lowes Family Trust arrangements provide flexibility for executors or the surviving spouse to decide whether to utilise the nil rate band planning trust arrangements and, if so, to what extent. We therefore feel that these arrangements remain somewhat effective and continue to provide the flexibility to facilitate efficient tax and estate planning on both first and second death of a couple.

- *To establish the effect of the new changes on you and for advice relating to your specific circumstances, contact your usual Lowes' consultant or call us on 0845 1 484848.*

The new Capital Gains Tax regime

FOR EVERY PENNY THAT MAY BE GIVEN AWAY BY THE proposed IHT rule changes, it appears that the government will aim to recover a few more with its proposed changes to the Capital Gains Tax (CGT) regime.

These changes have significant implications for some people and may result in individuals being put in a position where, if they do not sell assets prior to 6 April 2008, their CGT liability on those assets will increase significantly overnight.

Currently, any gains made on the sale of investments and/or assets that would be subject to CGT can be reduced by:

- Indexation relief (inflation-proofing) for the period of ownership from April 1982 through to 5 April 1998, and
- Taper relief based on the number of years the investment had been held since 1998.

Any element of the net gain in the value of the assets after this calculation that exceeds the individual's CGT allowance for the year of disposal will be chargeable at 10 per cent, 20 per cent or 40 per cent, depending on the individual's total taxable income. The Chancellor of the Exchequer has now abolished both indexation relief and taper relief (the latter was introduced by Gordon Brown) and has set the rate of tax at a flat 18 per cent.

What do the CGT changes mean?

Example 1:
John made an investment in 1985 for £10,000. Its value today is £50,000 and he has an annual pension of £25,000, making him a basic rate taxpayer.

If he sold his investment today:

Selling Price	£50,000
Less Indexed Purchase price	(£17,829)
Indexed Gain prior to Taper Relief	£32,171
Less Taper relief for the period 6/4/1998 Plus bonus year as owned prior to 17/3/1998 (10 years at 40%)	(£12,868)
Gain after Indexation allowance and Taper Relief	£19,303
Less Personal Allowance (2007/08)	(£9,200)
Taxable gain	£10,103
Tax at 20 per cent	£2,020

[If he was a higher rate taxpayer, tax would be.............£4,040]

Under the new regime assuming he waits until April 2008 to sell and that the selling price remains at £50,000:

Selling Price	£50,000
Less purchase price	(£10,000)
Chargeable Gain	£40,000
Less Personal Allowance (assumed for 2008/09 to be £9,500)	(£9,500)
Taxable gain	£30,500
Tax at 18 per cent	£5,490

[If he was a higher rate taxpayer, tax would also be......£5,490]

CGT winners and losers

In the above example, the changes result in an increase in the tax due of more than 170 per cent. However, the new CGT rules may actually prove more favourable for some, particularly for higher rate taxpayers who have made gains in a short period of time.

Take the example of Bob who in 2002 purchased a property for £100,000 and then sells it today for £200,000. Under the old rules, after taking account of his annual CGT allowance, the tax would have been £30,320, whereas from April 2008 the tax charge would be less than £16,500.

However, it appears the new CGT rules will create some certain losers – specifically those people who are selling business assets. This is because the taper relief that applied after two years of ownership was significantly more generous. Under current rules the effective chargeable tax on business assets was 10 per cent for higher rate taxpayers and 5 per cent for basic rate taxpayers. But under the new rules everyone will pay 18 per cent.

Whilst the new CGT rules will undoubtedly bring in more tax revenue for the government, we speculate that the full implications could be far wider reaching.

Need to act quickly?

As we can see, from a CGT perspective, there could be winners and losers. The big surprise is that some potential losers have been given nearly six months notice to avoid the trap. For some, realising gains after 6 April 2008 could mean a tax liability more than double that which would have arisen had the gain been realised before.

You may therefore need to act quickly with a view to establishing whether it is appropriate to sell some investments before the end of the current tax year, even if it means buying them back a month later.

- *To establish whether the CGT changes could impact you and for advice relating to your specific circumstances, contact your usual Lowes' consultant or call us on 0845 1 484848.*

In conclusion – where are the benefits?

THERE HAVE IN THE PAST BEEN MANY CALLS TO REDUCE THE potential IHT burden. But what we need to appreciate is that unless there are effective cuts in government expenditure, £1 of tax burden relieved needs to be replaced by £1 of tax from elsewhere. So, for those who feel that the seeming reduction in IHT is a battle won, it may turn out to be a Pyrrhic victory.

The changes to the IHT regime are heralded as helping middle Britain. Ultimately, however, except for some widows and widowers, the changes give away nothing that could not have been achieved already. The changes to the CGT regime will have little effect on the less affluent, will benefit the high net worth, but are likely to be detrimental to middle Britain – the very people who sought to benefit from IHT cuts.

The new rules will wipe out in one fell swoop the system previously implemented by Gordon Brown to promote entrepreneurship and encourage longer-term investing by private individuals. In a protest letter to the Chancellor, Britain's four main business groups warn that the plan risks: "serious damage to this country's entrepreneurial culture". It says the move on CGT threatens small business owners, the 1.7 million ordinary employees with company share schemes and business angels and venture capital funds.

You and your pension annuity

Buying a traditional pension annuity is one route to a pension income. But there are others, explains Lowes' Consultant, Gary Summers …

IF YOU HAVE A PRIVATE PENSION, THEN THE likelihood is that when you retire you will use your accumulated pension fund to purchase a pension income.

There are several ways of doing this (see below) but by far the most common is the traditional 'lifetime pension annuity'. This provides a guaranteed income that will be paid on a periodic basis for the rest of your life. However, while this approach is probably the simplest route to a pension income, it may not be the most cost effective one for many people.

According to research commissioned by a leading pension company, Skandia, the traditional pension annuity is becoming less popular. Based on a survey of 1,000 people, Skandia says that while in 2001 57 per cent of people thought having to buy an annuity with their pension fund was acceptable, only 30 per cent do so now.

Skandia's research found that the popularity of what is called 'income drawdown' had increased dramatically. This enables you to keep your pension fund invested and so maintain greater control, but it is more complicated and is not suitable for everybody (see right). However, it does suggest growing dissatisfaction with the traditional method of providing retirement income.

Your pension income options explained…

The traditional approach – the pension annuity

There are several types of traditional pension annuity. For example, index-linked (where your pension rises over time to compensate for inflation), and joint-life (your spouse receives a pension if you predecease them).

Their big advantages are their guarantees and simplicity. If the traditional annuity is the preferred route for you, it is vital to ensure that you get the best value for money. To do this, you must use what's called the 'Open Market Option' or 'OMO'.

When looking to purchase a pension annuity, you don't have to buy it from your pension provider, but can exercise the OMO which enables you to select the most attractive annuity from the entire market. In some circumstances, use of the OMO could add a third or more to your pension income each year for the rest of your life!

Impaired life and enhanced annuities

This is a variation on the traditional pension annuity. However, if you have health problems, e.g. heart disease, cancer, or stroke, some providers may offer an impaired life annuity which would provide a higher than normal income.

Even if you are overweight, or smoke regularly, some companies may provide an enhanced annuity. Some providers also offer higher rates to people who have worked in certain occupations or who live in certain areas of the country, so shop around for the best deal.

- *To find out more about your pension income options, contact your usual Lowes' Consultant, or call us on 0845 1 484848.*

Alternatives to traditional annuities

There are a number of alternatives to traditional pension annuities. Although they may involve additional costs and investment risk, they may be advantageous if you have a large pension fund or if you have other assets and sources of income to fall back on. The main alternatives include:

1. Phased retirement

Most personal pensions can be arranged either as a single plan, or as a cluster of plans called 'segments'. By using these segments at different times to generate tax free cash and to buy a traditional annuity – called 'phased retirement' – you have a more flexible approach to providing an income. Your remaining fund will still be invested and your future income can be more tax efficient as it is part tax free cash.

Advantages:

- You may be able to benefit from future increases in annuity rates as not all of the fund purchases an annuity at outset.
- Flexible income can be provided and income can be tax efficient.
- Your pension funds continue to be invested.
- Significant IHT mitigation potential.

Disadvantages:

- Annuity rates could go down in future.
- Future investment performance could be poor.

2. Income withdrawal

Here you withdraw a taxable income direct from your pension fund while the balance remains invested. The amount you withdraw must be reviewed every five years to make sure it is in line with HM Revenue & Customs limits. You can stop income withdrawal at any time and use your remaining fund to buy a short-term or lifetime annuity.

Advantages:

- The balance of your fund remains invested and so may benefit from future investment growth.
- Potential mitigation of IHT.

Disadvantages:

- There is no flexible way to take your tax free cash lump sum. This must be taken at outset.
- Future investment performance could be poor.

3. Pension deferral

You can defer touching your accumulated pension fund until age 75.

Advantages:

- Your fund remains invested and so may benefit from future investment growth.
- If you die before you buy an annuity, then the whole of your fund should pass to your estate.
- Significant IHT mitigation potential.

Disadvantages:

- You cannot take a tax free lump sum. If you do, it triggers the need to purchase a traditional annuity.
- Future investment performance could be poor.

In a number of cases the best advice is to utilise a combination of all three of these methods. At age 75 however, a change in strategy will be forced upon you and you will be obliged to purchase an annuity which could well be uncompetitive. The alternatives to buying a conventional pension annuity immediately on retirement can involve extra costs and investment risk. While they may not be suitable for everyone, they can in the right circumstances offer important advantages.

How did it perform?

NDF Income & Growth Plan 3

IN OUR ONGOING SERIES examining the progress of investment products we featured in Lowes Magazine five years ago, we report on the NDF Income & Growth Plan 3 and compare this with similar NDF products available before it.

The NDF Income & Growth Plan 3, featured in the October 2002 issue of Lowes Magazine, was a stockmarket bond designed to offer up to 30 per cent growth or 9 per cent annual income or 0.7 per cent monthly income over three years. It also offered full repayment of capital provided the FTSE 100 index did not fall over the term. The investment performed admirably paying the specified income and returning 100 per cent of capital at maturity on 13 January 2006.

NDF had launched 15 income products up to late Autumn 2002, of which we only felt confident in endorsing three. By the time of the Income & Growth Plan 3 launch we were confident that, unlike many of the previous NDF contracts, the terms of the plan were attractive and made it potentially suitable for many of our clients. We feel that this demonstrates that we have no loyalty or preference to any one investment provider, but rather endorse only those investments which we believe offer good value and fair terms. Of those not endorsed, all but three lost money and in some cases lost more than 75 per cent of investors' capital. We are delighted that all of the NDF contracts endorsed by us produced positive returns over the term.

NDF stockmarket bonds endorsed and rejected by Lowes

Investment	Lowes original opinion	Return
Income & Growth Plan 3	Endorsed	✔ Positive return
Income & Growth Plan 2	Endorsed	✔ Positive return
Income & Growth Plan 1	Endorsed	✔ Positive return
Extra Income & Growth Plan 11	Not Endorsed	✔ Positive return
Extra Income & Growth Plan 10	Not Endorsed	✘ Lost capital
Extra Income & Growth Plan 9	Not Endorsed	✘ Lost capital
Extra Income & Growth Plan 8	Not Endorsed	✘ Lost capital
Extra Income & Growth Plan 7	Not Endorsed	✘ Lost capital
Extra Income & Growth Plan 6	Not Endorsed	✔ Positive return
Extra Income & Growth Plan 5	Not Endorsed	✘ Lost capital
Extra Income & Growth Plan 4	Not Endorsed	✘ Lost capital
Extra Income & Growth Plan 3	Not Endorsed	✘ Lost capital
Extra Income & Growth Plan 2	Not Endorsed	✘ Lost capital
Extra Income & Growth Plan 1	Not Endorsed	✘ Lost capital
Higher Income & Growth Plan	Not Endorsed	✔ Positive return

northern rock

The Northern Rock affair

Now the dust has settled somewhat in the aftermath of the Northern Rock situation, we take a look at some of the key points that have been raised ...

What was the Northern Rock panic about?

It was a crisis of confidence that led to fears that savers could lose their deposits. The problems faced by the Northern Rock stem from its mortgage business. It does a large amount of mortgage business, and the vast majority of this is funded by short-term loans from other banks, not from its savers' deposits. Consequently, the shortage of global credit hit the Northern Rock hard forcing it to call on the Bank of England for short-term funds. This action attracted considerable publicity and led to the suggestion by certain elements of the media that the Northern Rock was "going bust" and would not be able to meet its liabilities to savers; and then the panic set in.

Are other banks affected?

The Northern Rock relies more on borrowing from other banks to fund its mortgage business than do other UK banks and building societies. As such, while a similar situation is not impossible with other banks and building societies, it is less likely.

Was the Northern Rock panic necessary?

Strictly speaking, no. The main problem the Northern Rock faced was the publicity it received when the news it had asked the Bank of England for help was released. Certain elements of the media sensationalised the issue and created unnecessary panic leading to a lot of people wanting to get their money out of the bank. But there was very little chance of savers ever losing out.

The Government guarantee to Northern Rock savers

This guarantee covers future interest payments, movements of funds between existing accounts, and new deposits into existing accounts. It also covers accounts re-opened in the future by those who closed them between 13 and 19 September inclusive. This guarantee does not apply to other banks and building societies.

Security of deposits

Prior to the crisis the Financial Services Compensation Scheme (FSCS) provided protection for deposits in UK regulated banks and building societies to a maximum limit of £31,700, being 100 per cent of the first £2,000 and 90 per cent of the next £33,000. The limits were increased at the beginning of October and now 100 per cent of the first £35,000 is guaranteed. This applies to each depositor and covers the total of all their deposits held with one firm. With joint accounts each individual is eligible to receive compensation up to the maximum limit in respect of their share of the deposits. It is important to note that the limits apply to connected companies so, if for example you had £35,000 in Halifax, and the same amount in Birmingham Midshires and Bank of Scotland and they all went bust your protection would be limited to the first £35,000 as they are all connected.

Are there any plans to further increase the security of deposits?

Despite the recent changes the FSCS compensation limit is widely regarded as being out of date and there is talk of further increases. The Government has suggested it could raise current limits to as much as £100,000, but has so far given no further details.

However, this would present the banking industry with a large funding charge and could cost customers more, possibly through higher mortgage rates, lower interest rates or higher banking charges. In addition, the Government may take a hard look at how banks raise funds by borrowing from each other and impose tighter controls to help reduce the likelihood of such situations arising in the future.

So where is the safest place for your deposit capital?

Given that regardless of the amount, all retail savings in new and existing Northern Rock accounts have a Bank of England guarantee, Northern Rock could be the safest place, especially as they pay a competitive rate on their online accounts. But if you don't trust Northern Rock and you want arguably better security, the government-owned National Savings & Investments is the only other government guaranteed institution. Interest rates on their Easy Access Savings Account aren't the highest available but with rates at over 4 per cent on balances over £1,000 they're certainly not the worst. If you want a higher rate with maximum security then limit your deposit to £35,000 per unconnected UK institution so as to obtain as much protection as possible from the FSCS. However, be aware that the suggested increased protection limit of £100,000 may apply to individuals and not in respect of each institution.

INHERITANCE TAX

Gift red tape to be reduced

CHANGES INTRODUCED IN THE 2006 Budget to the Inheritance Tax (IHT) treatment of trusts led to many more taxpayers being caught by regulations requiring them to file special forms to report gifts to trusts, even when no IHT was due. However, HM Revenue & Customs (HMRC) is intending to simplify this process.

The 2006 Budget changes meant that from 22 March 2006 gifts to certain types of trusts had their IHT treatment changed from being a potentially exempt transfer (a PET) to being a chargeable transfer and so caught by the new regulations. The changes put commonly used IHT planning trusts known as 'accumulation & maintenance trusts' and 'interest in possession trusts' on the same tax footing as 'discretionary trusts'.

The upshot was that gifts to trusts exceeding £10,000 required a form to be completed, even if no IHT was due. Such forms might also have been required at the 10 year anniversary of the trust, again even if no IHT was due at that time.

However, the proposed rules could mean that for tax year 2007/08, any person making a gift which is a chargeable transfer of less than £210,000 will not need to file a form, unless they have made other chargeable transfers in the last seven years which in total take them over the current £255,000 threshold.

The compliance requirements at 10 year anniversaries of trusts are also proposed to be reduced.

- *For more information on how these changes may affect you, contact your usual Lowes Consultant, or call 0845 1 484848.*

Probate the first step to inheritance

THE CRUCIAL FIRST STEP BEFORE ANY inheritance can be distributed is to obtain a grant of probate.

It may not always be straightforward, however. A poorly written will, or no will at all, can cause delays, while the existence of foreign assets – such as a house abroad – can bring added complications.

Recent research by Brewin Dolphin shows that six million people expect to receive an inheritance within six months of the death of the person bequeathing them assets, while more than a third expect probate to take just three months. In reality it can take up to three years to process.

A probate delay may not be a problem for many people. But the research suggests that many Britons are planning to use an inheritance to fund retirement or repay debts, while many others see it as a way of funding a deposit for a child's first home or for paying education fees.

Probate and Inheritance Tax

Probate is the court's authority given to a person to administer a deceased's estate and it cannot be issued until any outstanding Inheritance Tax (IHT) on an estate has been settled. This tax falls due six months after the end of the month in which the deceased died, and interest is charged on unpaid tax from and including the due date – whatever the reason for late payment.

In some cases it may be possible to pay IHT by instalments, although interest may be payable. IHT instalments can be paid on certain types of assets, notably a deceased's house. The instalments are of 10 equal yearly amounts with interest payable on tax outstanding. To pay by instalments, you must give HM Revenue & Customs written notice and the tax debt can be repaid in whole or in part at any time.

The big problems come when the IHT is due on those assets where instalments are not permitted. The executors are personally responsible for the payment of all debts and taxes on an estate, and consequently they must be satisfied that sufficient funds are available within the estate to meet those liabilities before paying out any bequests.

In these situations, payment of IHT may necessitate taking out a costly short-term loan. One alternative would have been for the deceased to have purchased a Whole of Life insurance policy written in trust to ensure it falls outside their estate for IHT purposes and which could be used to fund the IHT liability. This is a common IHT planning tool, but it requires financial planning in advance rather than being seen as a quick fix in later years.

- *For more information on financial planning to avoid probate delays, and the use of Whole of Life insurance in IHT planning, contact your usual Lowes' Consultant or call 0845 1 484848.*

After the bull market – the correction

By Melvyn Bell, Lowes' Investment Manager

SINCE THE LAST ISSUE OF LOWES, global stockmarkets declined in July and August. In the UK, the FTSE 100 Index fell by over 13 per cent from a 2007 high of 6,754 on 13 July to a year to date low of 5,821 on 17 August.

Behind this were concerns about the collapse of the so-called 'sub-prime' mortgage market in the US. This had expanded rapidly in the previous five years with historically low US interest rates encouraging banks and others to lend substantial sums to people with poor or no credit histories.

The once booming property market gave lenders a high degree of security, because if borrowers couldn't repay the lenders believed they could repossess the properties and sell at a higher price.

However, as the US Federal Reserve increased its lending rate and interest payments on these loans rose, more borrowers defaulted and had their homes repossessed. Also, US property prices collapsed leaving the banks with hard to sell property and bad debts.

The situation has been exacerbated by the growth in so-called 'Collateralised Debt Obligations'. These are pooled mortgage loans sold on by financial institutions as high yielding investments. This pooling was intended to reduce the risks of mortgage repayment defaults. But rising interest rates, the sheer number of defaults and the collapse of the US property market had the opposite effect. There has been growing uncertainty as to who these debts should be attributed to and this has reduced market liquidity as lenders pull back or only lend at higher rates of interest. This has squeezed credit around the globe.

The US sub-prime fallout should not be dismissed, and the re-rating of asset prices to more accurately reflect their risk was probably overdue. However, the sub-prime mortgage market is only about a sixth of the US housing market and so far there have only been relatively few defaults. As such, current volatility owes more to uncertainty about the extent of the fallout. And while it will take time for this uncertainty to subside, the fact is that companies are experiencing solid earnings growth; they are not weighed down with debt, and they are not overvalued by historical standards.

In conclusion, the comments of Fidelity International guru, Anthony Bolton, best sum up our view that investing in a diversified portfolio whose managers have demonstrated they can add value over the economic cycle offers the best prospects for successful long-term growth: "When markets fall, understandably investors may lose confidence and either stop investing or redeem their holdings. But if investors hold firm and persevere, history shows that they will be rewarded if they are willing to take a long-term view."

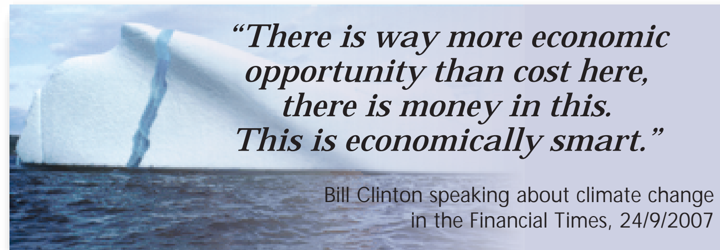
Investment to benefit from climate change

ALMOST DAILY WE'RE bombarded with news about climate change – new temperature records, extreme events such as Katrina, and the shrinking Arctic ice cap.

For the convinced, these events support reports such as the 2001 report by the Intergovernmental Panel on Climate Change (IPCC)*, which stated unequivocally "that the consensus of scientific opinion is that the Earth's climate is being affected by human activities" and that "most of the observed warming over the last 50 years is likely to have been due to the increase in greenhouse gas concentrations".

The sceptics, who maintain it's impossible to be certain about how our climate will change, say you can't attribute these changes purely to human activity.

Whichever camp you're in, what isn't disputed is that whether climate change from human activities is real or imagined, Governments around the globe are agreeing binding targets in an attempt to reduce carbon emissions and increase the use of renewable energy. In March for instance, European leaders agreed on a 10 per cent minimum target for the use of bio-fuels in transport by 2020, a cut in carbon dioxide emissions by 20 per cent from their 1990 levels by 2020, and a possible ban on incandescent bulbs by the end of this decade.



"There is way more economic opportunity than cost here, there is money in this. This is economically smart."

Bill Clinton speaking about climate change in the Financial Times, 24/9/2007

Not everyone considers this to be negative. The leading UK investment house, Schroders, says climate change is going to be one of the biggest investment themes for the next 20 years and beyond and believes there are considerable opportunities for capital growth. With this in mind, they have launched the Schroder Global Climate Change Fund which will invest in companies poised to benefit from climate change trends. This is not a 'Green' or 'Socially Responsible' fund. While it does invest in companies helping to combat climate change, the reason for investing in them is the belief that they are likely to outperform the market because their products and services face increased demand as the global economy attempts to deal with climate change.

A very important point to note is that the Global Climate Change Fund is not a 'blue sky fund' which invests solely in start up companies. It will hold a diversified portfolio of global stocks – some large (like the four examples below), some small, some well established, and some relatively new to the market, covering all parts of the global economy.

In every case, stock selection will be based on the view of the Schroder fund managers that they will prosper from the global economy adapting to climate change.

At Lowes Financial Management we believe change creates opportunities and that Climate Change is no different. Schroders have over the years built up a deserved reputation as being one of the more astute investment groups in the world. We therefore believe this fund offers tremendous potential for participating in the opportunities that are being created. As with all equity based investments, however, it must be appreciated that the value of investments can go down as well as up and that your capital is not guaranteed.

**NOTE: The IPCC was created in 1988 by the World Meteorological Organization and the United Nations Environmental Programme to evaluate human impact on the climate.*

Examples of companies poised to benefit from climate change:

- Philips. Thanks to massive Research & Development spending they are a leading manufacturer of low energy consumption lighting. They should benefit massively from phasing out of the incandescent light bulb.
- BG (British Gas). A world leader in the exploration and production of natural gas which will benefit from the move away from the higher carbon dioxide producing energy sources such as coal and oil.
- Toyota. Toyota has more than 80 per cent of global production of hybrid fuel cars. Hybrid sales grew 30 per cent worldwide in 2006 and account for 3.5 per cent of Toyota's turnover.
- Agco. One of the largest manufacturers of agricultural machinery in the US, it is a likely beneficiary of increased demand for new agricultural machinery as production of bio-fuels increases.

If you would like to invest in the Global Climate Change Fund, please read the accompanying documentation which gives full details of the fund, including details of the risks to which you should pay particular attention.

Once you are satisfied with your investment choice please complete the application form and return it to our office at: Lowes Financial Management, Freepost NT197, Newcastle, NE2 1BR – or use the pre-paid envelope provided.

If you have any doubts about its suitability for you, contact this office on 0845 1 484848 or your usual Lowes' Consultant.