LOWES

Where personal finances are cared for personally

Summer 2005

"Whether it's the best of times or the worst of times, it's the only time you've got."

Art Buchwald

INSIDE – 2005 client survey – see page 4

Form can save you £53

RECENT RESEARCH ESTIMATES THAT MORE than 6 million non-taxpayers are unnecessarily handing the taxman a staggering £318 million – an average of £53 each – because they have not filled in Form R85.

This form enables non-taxpayers to receive interest gross on their savings accounts and is available from bank and building society branches.

The research, TaxAction 2005, was produced by market research organisation RAKM and is based on a specially commissioned analysis of Inland Revenue data combined with other sources such as the Family Resource Survey.

Stamp duty changes are not working

THE RECENT INCREASE in the zero rate stamp duty threshold is failing to encourage more first-time buyers to enter the housing market.

Research by Abbey reveals that in the last three months the number of people who are confident about being able to buy their first home in the next year has remained at just 5 per cent, while 25 per cent feel that if they don't get on to the property ladder soon, they never will.

The Abbey says that 29 per cent of those surveyed said they would consider buying a shared ownership property through a housing association and 31 per cent would contemplate buying with family or friends.

The findings follow a recent survey by the BBC's Money Programme which found that one in seven parents with adult children have remortgaged or taken out a loan in an attempt to help them onto the property ladder. Finding a deposit remains a key problem and, according to the Council of Mortgage Lenders, the average deposit put down by first-time buyers is currently £16,000 compared with £5,500 in 2000.

Who manages your donations?

ACCORDING TO THE Charities Aid Foundation (CAF) Merrill Lynch has topped the charity money management league for the third year in a row. It manages £2.3 billion of charitable funds on behalf of 71 clients, giving it a 10 per cent share of this market. Next came Gerrard with £475 million for 52 clients and Newton Investment Management with £932 million for 47 clients.

CAF also says that the competition to manage charitable money has declined. Over the last year, the number of firms managing the funds of the UK's top 500 charitable trusts and fundraising charities has declined by a fifth to 116. These firms managed charitable funds worth £22.2 billion, a drop of 21 per cent in real terms over the last year.

Equity release in the news again

A COALITION OF SEVEN KEY CONSUMER groups and financial services bodies has challenged the Government to toughen up the regulation of home reversion schemes: a form of home equity release product.

In a letter to the Daily Telegraph on 26 May 2005, the seven have asked the Government to urgently introduce legislation to protect elderly people who are short of income.

Sales of equity release are growing strongly, mainly as a result of the dramatic rise in house prices in recent years. Currently, however, the only types of equity release schemes which are regulated are lifetime mortgages (the only type Lowes have promoted). These are loans on the value of a home where the interest rolls up and is paid on the homeowners death, either with the proceeds of the house sale or with other funds. In contrast, with a home reversion scheme the actual ownership of part of the house belongs to the reversion company.

At Lowes, our view is that while equity release can potentially offer a powerful financial planning tool, it can only do so in the right circumstances and with comprehensive advice. In many situations it may be more advantageous to downsize to a smaller house.

The photograph used on this issue's cover is of The Endeavour, in Whitby.

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

Branch Based

Amount	Provider	Account	Gross Rate	Contact
£1	Abbey	Flexible Saver	3.55%	Branch[1]
£2,000+	Bradford & Bingley	Premier Saver	3.8%	Branch[2]

Postal or Telephone

Amount	Provider	Account	Gross Rate	Contact
£1+	ING Direct	Savings Account	5%	**0800 376 8844** to request application form and information pack[3]
£1,000+	Britannia BS	Direct Saver	4.75%	**0800 013 4860** to request application form, or visit your local branch[4]

Internet

Amount	Provider	Account	Gross Rate	Contact
£1+	Cahoot	Savings Account	5.1%	www.cahoot.co.uk
£1,000+	Bradford & Bingley	eSavings	5.25%	www.bradford-bingley.co.uk[5]

Note 1. Guaranteed to rise in line with base rate until 1 April 2006. Note 2. Guarantees to pay no less than one percentage point below base rate. Note 3. Account holders must be aged 18 or over, be a UK resident and hold a UK current account (with a cheque book and direct debit facility). Note 4. Guarantees to at least match base rate until 31 July 2006. Note 5. Rate guaranteed to at least match base rate until 31 December 2005. Sources: www.thisismoney.com, www.moneyextra.com 05/06/2005. All accounts subject to terms and conditions.

The insurance **you** need!

Wealthier people are being sold insurance policies they do not really need, according to the independent market research analyst Datamonitor.

Examples include cover for stalking, road rage, car jacking, aggravated burglary and kidnap. Despite recent media coverage of burglary incidents involving wealthy, high profile individuals such as Cilla Black and Ozzy Osbourne, Datamonitor says: "Home Office statistics show no trend towards stalking, car jacking and aggravated burglary, which accounted for less than 0.5 per cent of all burglaries in England and Wales last year. Cheque and credit card fraud have displayed a downward trend since 2001 and this is set to fall further following new security measures such as chip and pin cards.

A recent report by The Home Office entitled 'Domestic Violence, Sexual Assault and Stalking' claimed that 8 per cent of women and 6 per cent of men had been the victim of stalking in 2003, but found no link between likelihood of stalking and socio-economic factors such as household income.

No matter what type of insurance you are looking for, the key is to make sure you really need it. That way you will get it at a competitive price without paying for unwanted bells and whistles.

Banking on discontent

A THIRD OF 900 PEOPLE interviewed face to face by Which? claimed they were annoyed with their bank. However, only 1 in 20 said they had switched accounts in the last two years.

Which? calculates people could save up to £400 a year by switching to better accounts such as those offered by some Internet banks.

It says a profitable area for banks is the charges on customers using bank cards abroad. It says Halifax is the 'meanest' for charging £1.50 to use a debit card abroad, in addition to the 2.75 per cent it adds to all foreign transactions.

Inefficient Regulation?

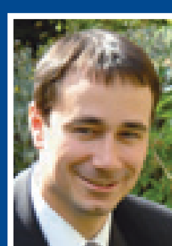
AS A COMPANY WE HAVE ALWAYS BEEN STRONG ADVOCATES of financial services regulation. In fact, when introduced back in 1986, the original Financial Services Act had very little bearing on us as, in the main, the legislation insisted on a logical approach along the lines of that which we had adopted for years. However, as the years have passed, layer upon layer of regulation has been introduced and the net effect now seems to us to be one which is detrimental to those it was intended to protect.

The red tape that now strangles our profession inevitably leads to increased costs and most of these ultimately have to be passed on to the consumer. One example is the Anti-Money Laundering Regulations which have now become a reluctantly accepted inconvenience to most. Nowadays, you can't open a bank account or make an investment without providing various pieces of documentary evidence that supposedly prove that you are not Osama Bin Laden and the £3,000 ISA investment you are making is not the proceeds of your latest drug run to Columbia.

Any client who invests via Lowes must provide us with the relevant evidence and after checking, copying and recording it we are obliged to pass it on to every company we are transacting business with and they in turn have to check it, copy and record it. Whilst having to jump through all of the necessary hoops for even the smallest investment is costly and inconvenient for all concerned, it seems somewhat incongruous that exactly the same requirements would have to be met if you were investing £100 million. In The Times (15 May 2005) Mike Adlem, an expert in financial crime, estimated the cost of Anti-Money Laundering Regulations to the financial services sector at £400 million and that a mere £46 million of ill-gotten gains have been recovered! Ultimately, this cost is passed onto the consumer.

It is comforting to note that some at the top of the UK Government have suddenly sat up and noticed there are problems afoot. In his speech to the Institute for Public Policy Research on 26 May, Tony Blair said: "Something is seriously awry when … the Financial Services Authority, that was established to provide clear guidelines and rules for the financial services sector and to protect the consumer against the fraudulent, is seen as hugely inhibiting of efficient business by perfectly respectable companies that have never defrauded anyone."

Whilst the FSA has challenged the Prime Minister over the speech, such comments will hopefully not be ignored.

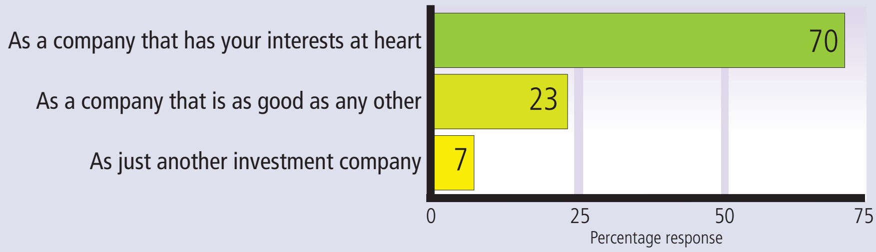


Ian H Lowes,
Managing Director

Our clients speak…

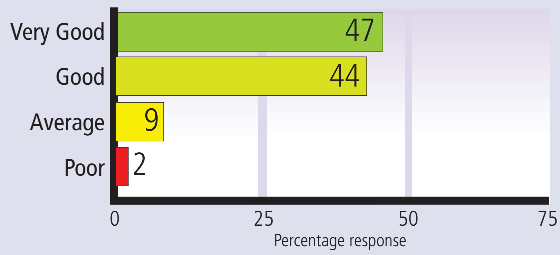
We have now compiled the results of our 2005 biennial client survey and would like to thank all those who responded. We have been carrying out surveys of this nature since 1991, aiming to identify those areas where we are getting things right and those where improvements need to be made. A staggering 33.4 per cent of all our advice based clients responded and for this we are very grateful. The main results are as follows:

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

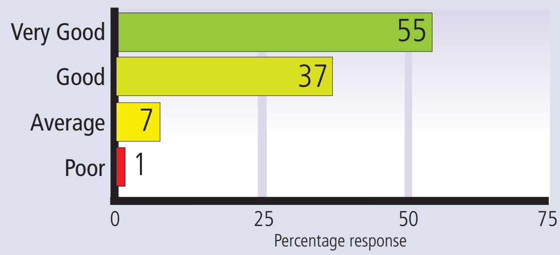


2) Bearing in mind, if appropriate, your experiences with other advisers and investment groups, how would you rate Lowes Financial Management:-

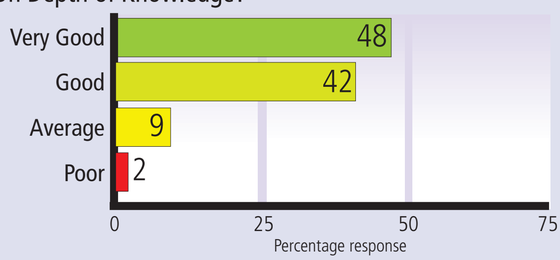
On Client Service?



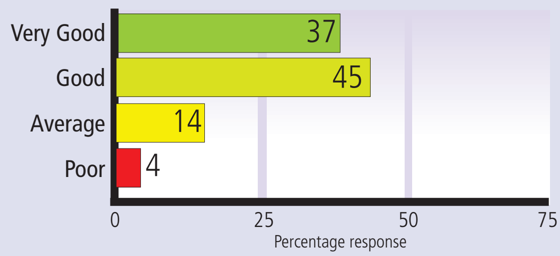
On Professionalism?



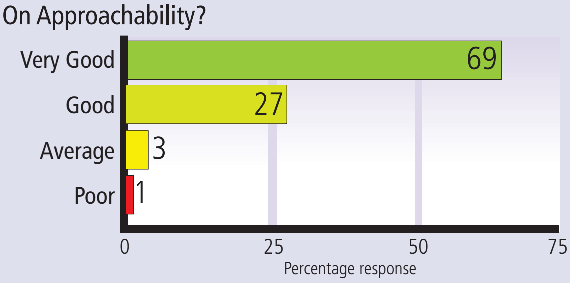
On Depth of Knowledge?



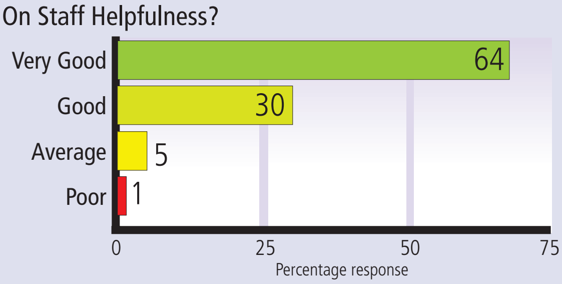
On Investment Advice?



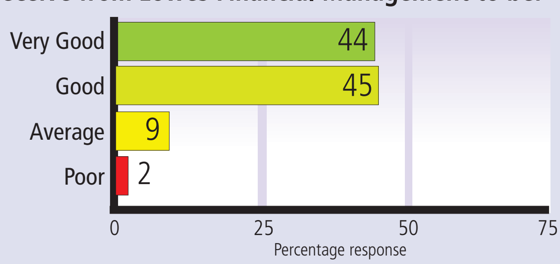
On Approachability?



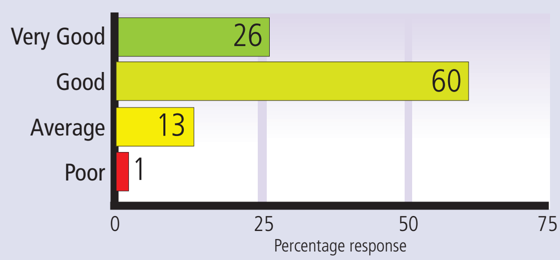
On Staff Helpfulness?



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



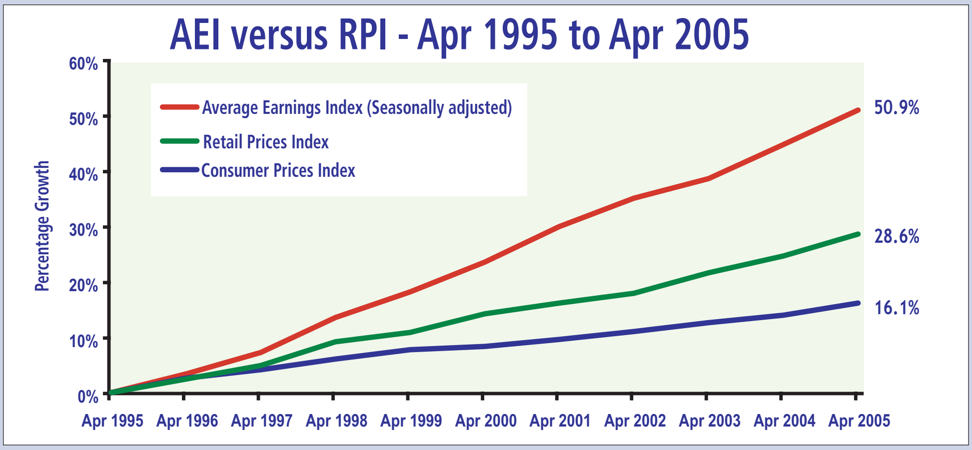
4) How would you rate the Lowes Magazine?



Real inflation and your income

Even if your income rises with prices, your quality of life relative to the rest of the population may be declining…

MANY READERS RELY ON THEIR savings, investments and pensions to provide an income they can comfortably live on. As such, it is essential to structure them effectively to ensure income outpaces inflation. To achieve this, however, may require more income than the Government's official inflation figures actually suggest.



Double digit headline rates of inflation were commonplace 30 years ago and no one doubted the impact on their standard of living. Based on the Retail Prices Index (RPI), the current spending power of £100 thirty years ago is £14!*.

At present inflation is low, but the threat it poses to your standard of living has not disappeared. Again, using the RPI measure, £100 in April 1995 is now worth only £78.

The reality of inflation, however, is that RPI, or the headline rate of inflation, is only part of the story.

The RPI is calculated by reference to what's called 'the shopping basket of goods and services'. The price of this shopping basket is calculated by collecting around 120,000 separate price quotations every month covering 650 representative consumer goods and services from 150 areas across the UK. These items are then weighted to reflect their use by the average consumer.

In reality, though, your shopping basket may comprise more of some items than others, making it quite different to that used to calculate the RPI. For example, the rate of inflation you're exposed to could be higher than RPI if you consume fewer of those items in the basket which tend to fall in value, like hi-fi systems and DVD players, and more of those items which tend to rise in value, such as food and wine, recreation and culture, and restaurants and hotels.

To further confuse matters, in December 2003, ostensibly to bring the UK in line with the rest of Europe, the Government replaced RPI as the main measure of inflation with the less comprehensive Consumer Price Index (CPI). If you rely on savings and investments for your income, there is a crucial difference between the two. While RPI covers owner-occupied costs and council tax, the CPI doesn't although it does cover new cars, personal computers and air fares which the RPI omits. While RPI has risen 14.35 per cent since January 2000, CPI has increased only 7.85 per cent!

Your standard of living

Assume the prices of the items in your basket rise by RPI and also that you're retired and your pension increases annually in line with RPI. Does your income keep pace with inflation? The answer is no because 'real' inflation covers increases in standards of living generally, not just items in the shopping basket.

A potentially more accurate measure of true inflation is the Average Earnings Index which reflects the fact the people demand wage rises (a) to keep pace with inflation and (b) to keep up with the Jones's. Average earnings have risen by 28.79 per cent between the start of 2000 and the end of the first quarter of 2005 – more than twice RPI.

Conclusion

If your income is keeping pace with headline inflation but isn't keeping pace with average earnings, then your relative quality of life will decline. Given that it is your savings and investments that ultimately provide your income, you must invest appropriately to maintain your living standards.

**Source: The UK Government National Statistics Website (www.statistics.gov.uk).*

Mining shares can be fools gold

LOW INTEREST RATES AND the realisation that the stockmarket returns of the 1990s have given way to more sedate growth are encouraging many investors to consider more speculative investments.

Examples include the Alternative Investment Market-listed companies Regal Petroleum, Central African Gold and White Nile. Shares in Regal plunged 60 per cent in May, leaving investors nursing paper losses of £200 million after the company, which claimed to have substantial oil reserves in Greece, admitted that one well was "non-commercial". Shares in Central African Gold surged to 10 times their value on flotation in March 2004 despite negligible assets, while shares in White Nile, issued at 10p in February, were suspended a week later at 138p on speculation of an oil deal in Sudan and only resumed trading again in May.

Such bubbles, which are being fuelled by extraordinary optimism and the insatiable demand for raw materials of China and India, have prompted the London Stock Exchange to set up a special committee to look at the mining industry because of concerns about the impact on AIM's reputation.

While still high risk, a potentially far safer option for investors seeking higher returns are Venture Capital Trusts (VCTs) or a professionally managed portfolio of AIM stocks. Both may offer tax advantages and the genuine potential for solid growth.

- *To find out more, contact your Lowes' consultant or call 0845 1 484848.*

No hiding place

ON 1 JULY THE EU SAVINGS Directive came into force in a bid to cut tax evasion by EU residents with savings and investments outside their home state.

The Directive requires automatic disclosure of information between all EU members states as well as other jurisdictions such as Jersey, Guernsey and the Isle of Man.

Countries can opt out of this requirement but instead they must deduct a 'withholding tax' from savings and investment income. As we went to press, Austria, Belgium and Luxembourg as well as the Channel Islands and the Isle of Man have opted for the withholding tax route.

How does this affect you? Assume you have £20,000 on deposit in a Jersey bank. In the past you will have received your interest gross and declared the interest in your annual self-assessment tax return. However, from 1 July your bank must deduct withholding tax at source as follows:

- 15 per cent from 1 July 2005
- 20 per cent from 1 July 2008
- 35 per cent from 1 July 2011

The tax deducted will be paid to the Jersey fiscal authorities and then passed to the Inland Revenue. Your bank is not obliged to inform you in advance and you will receive a tax credit for the amount deducted which will be refundable if it exceeds your tax liability. If you are a non-taxpayer you must give your bank a certificate from the Revenue which confirms your tax status and you will receive interest gross.

Your bank may offer you the option of electing for automatic transfer of information. If it does – and it is not obliged to – interest will continue to be paid gross but the bank will report your details to the Jersey fiscal authorities who will forward them to the Revenue.

If you have savings and investments in other EU states or affected jurisdictions which have opted for exchange of information, then the Revenue will be given your details automatically.

The new rules apply to bank interest and interest from cash and cash-like unit trusts and OEICs. They do not apply to dividend income or earned income, including pensions. Nor do they apply to 'income' from single premium bonds. This is because such 'income' actually comprises payments made out of capital.

- *For further information and detailed advice, talk to your Lowes' consultant or call 0845 1 484848.*

Good investment … if you live

STAKEHOLDER PENSIONS are being marketed as a means of providing a guaranteed return of nearly 9 per cent. But is there a catch?

The arrangement involves what's called an 'immediate vesting' stakeholder pension plan into which you pay a net premium of £2,808. The Government immediately adds a further £792* by way of basic rate tax uplift taking the total contribution to £3,600.

By immediately vesting the pension plan (the process of taking an income), you can take 25 per cent of its total value, or £900, as tax-free cash. The remaining £2,700 purchases a guaranteed annuity which would give you an annual gross income of £155.98** with the first payment being paid immediately.
The annuity would be taxed as income giving £121.66* net to a basic rate taxpayer. Once the first payment is received, your net 'out of pocket cost' would be £1,786.34* – i.e. your original £2,808 less the tax free cash of £900 and the annuity income of £121.66.
A year later and on each anniversary you will receive £155.98 gross or 8.73 per cent of your effective 'out of pocket cost'.
However, this scheme has drawbacks and professional advice is crucial.

Capital is not guaranteed

The main drawback is that while your income is guaranteed, your capital is not. The annuity is an investment for life and once you've bought it you can't change your mind. When you die, your spouse or estate will receive nothing because the annuity used to produce the high rate of return is a single life annuity that will cease when you die.

You could purchase a joint life annuity, where the income would go to your spouse on your death, but the return will be far less attractive. Consequently, the value of the Stakeholder arrangement to you or your estate depends on how many years you're around to draw the income.

Other investments may be better

Let's assume the following:
- Instead of taking the stakeholder option at age 65 you invest the net 'out of pocket cost' of £1,786.34 into a building society deposit account paying 4.5 per cent gross (4 per cent net).
- You withdraw £121.66 a year – i.e. the same after tax income you would have received from the stakeholder annuity.

to be 90

- If the interest paid doesn't change, it will be 21 years before your capital runs out, which is your effective break even point for the stakeholder arrangement. In short, if you die before you're 86 it will have been a bad investment! (The prospects for higher rate taxpayers are a little better but would still take 16 years before a break even point is reached).

Look on the bright side

Even assuming you live until 90, does the stakeholder arrangement make sense?

Add together your initial tax-free cash lump sum and 25 years of regular income payments and you will have made a clear profit of approximately £577 compared to the more flexible building society deposit account which you could have withdrawn at any time. After taking into account the effects of inflation over the next 25 years, this might just cover the cost of your birthday champagne!

To conclude, the problem with this scheme is that it only makes financial sense if you live long enough. If you don't then you (or more accurately, your estate) will lose all of your capital. The key point is that the apparent yield from an immediate vesting stakeholder plan should not be confused with the yield from other investments which provide continued access to your capital.

* *Assumes a basic rate taxpayer.*
** *Assumes a male aged 65 at current annuity rates.*

Has the EU ground to a standstill?

Lowes' Investment Manager, Melvyn Bell, believes the rejection of the EU constitution in France and the Netherlands will have little long-term impact …

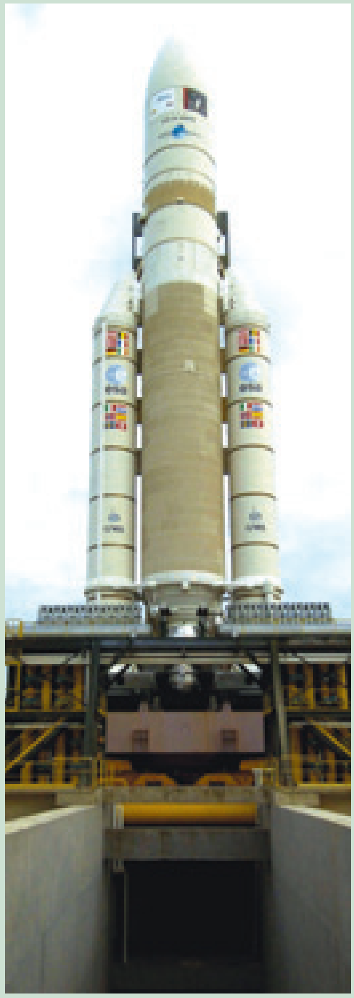
IN MARCH 1957 THE representatives of the Federal Republic of Germany, Belgium, France, Italy, Luxembourg and the Netherlands signed the treaties which gave birth to the European Economic Community (EEC).

While the apparent aim was to create a customs union, the preface to the treaties suggested a deeper intent by affirming that the signatories were "determined to lay the foundations of an ever closer union among the peoples of Europe". Now, 48 years on, the EEC has become the 25 member EU and the more fervent devotees are seeking further expansion and closer ties.

However, while the recent 'no' given to the EU constitution by French and Netherlands' voters appears to question the future of this grand vision, this isn't the first time the French have chosen to say 'Non'. In 1966, for instance, De Gaulle's nationalism brought about the Empty Chair Crisis by refusing to participate in EEC council meetings, paralysing the community for seven months. This dispute was only resolved when it was agreed that each member had the right of veto when major interests were at stake.

For the present, though, the EU constitution is all but dead and the integration of those countries which joined in 2004 looks problematic. So it's understandable that there are questions about the impact on European investment markets.

On the surface, the short-term effect appears minimal and most markets are slightly higher than before the



- EU – lost in space?

referendums. This suggests that the rejection of the constitution was anticipated and had already been factored in by most investors. For example, while the closing value of the French blue chip index, the CAC 40, on the last trading day before the referendum was 4,131.83, its closing value on the 20 June was 1.49 per cent higher at 4,193.4.

Unfortunately the euro fell over the same period from 1.4535 to 1.5028 to the pound, leaving sterling investments in the CAC 40 nursing a 1.84 per cent fall. This weakening of the euro is possibly the most significant effect of the constitution no vote, and the European Central Bank (ECB) voiced its concerns by highlighting the divergence between eurozone countries and indicating that the six year monetary union is not working as well as hoped.

In our view, although the failure to adopt the new constitution appears to have weakened the euro, we think it's highly unlikely that it will be abandoned. The euro has in fact already fallen back from its peaks of the beginning of the year and with commodity prices, especially oil, remaining at record levels and valued in US Dollars, inflationary pressures are a growing threat to the already weak larger eurozone economies. The prospects for these economies is likely to remain difficult with unemployment remaining stubbornly high, at a time when GDP growth is the slowest of the major economies.

For the new EU members the failure to adopt the constitution probably means a delay in adopting the euro and consequently the convergence of their interest rates to those in the eurozone. However, they still offer a significantly lower cost base when compared to established eurozone members, while their labour laws remain more flexible than those the EU constitution would have imposed.

Consequently they should continue to enjoy the benefits of global free trade and although there is likely to be some erosion of gains should their currencies track a potentially weaker euro, this should be more than offset by economic expansion.

Looking for income?

IF YOUR PRIORITY IS A HIGH AND STABLE income with the potential for capital growth, then the Barclay's Global Distribution Bond offers an excellent means of complementing existing investments.

> The Global Distribution Bond aims to provide a reasonably stable income … with the potential for some capital growth.

This new investment includes the following features:

- A target yield of 7% a year or 2.5% above UK base rate if higher. Current yield of 7.25%.
- Income paid quarterly.
- Investment can be topped up at any time and income can be reinvested.
- Withdrawals can be made at any time.
- Additional capital growth prospects.
- Innovative investment strategy to meet the above objectives.
- ISA investment options to improve returns.
- Pension investment options.
- Underlying portfolio managed by a top fund manager.

Why invest?

The demand for a high and stable income has usually been met by investments in Gilts and corporate bonds which, in the last 10 years, have benefited from reduced inflation and falling interest rates. More recently, structured investment products have also offered higher levels of income.

However, for bond investors to achieve income significantly above official bank base rate, the amount invested in lower quality corporate bonds has had to be increased, which can mean greater risk to your capital. At the same time, improved economic prospects make it likely that interest rates will return to more normal levels which will erode the capital value of these bonds.

In contrast, improved economic prospects can boost the performance of stockmarket investments.

Global Distribution Bond

The Global Distribution Bond aims to provide a reasonably stable income, currently anticipated at around seven per cent, with the potential for some capital growth.

The Bond's value and income are linked to a specially created fund containing a diversified portfolio of shares and bonds which is managed by one of the largest fund managers in Europe, Morley Fund Management.

To achieve the Bond's income targets, Morley's experienced managers use financial management techniques to convert some of the growth potential of the fund's assets into immediate income. However, while this will reduce the growth potential of these assets, it means that investments into the Bond are less sensitive to negative stockmarket movements.

This approach should also mean that the Bond is less sensitive to interest rate changes than conventional bond funds. This is important as interest rates are still at historically low levels, despite the increases over 2003/04. Consequently, investors currently investing in corporate bond funds could see their capital eroded as interest rates revert to more normal levels.

Lowes' view

This investment should not be seen as an alternative home for all corporate bond and Gilt investments, but as a complement to such a portfolio. It is designed as an additional tool to help create a diversified portfolio, hopefully generating a high and stable income with the potential for some capital growth.

The Bond should perform well in a flat equity market and produce limited losses in a falling market, although it will underperform an equity fund if equity returns are high. In our view it is well suited to those investors who have a strong preference for a high and stable income and some capital growth.

The Global Distribution Bond can be bought as a direct investment or within a tax-efficient ISA, using some or all of your 2005/06 tax year allowance of £7,000 for Maxi or £4,000 for a Mini ISA. You can also transfer existing PEP and ISA arrangements into the Global Distribution Bond. If you have a self-invested personal pension it may be possible to include the Global Distribution Bond within your pension investments.

Further information

For more information on the Barclays Global Distribution Bond please either call us on 0845 1484848 or return the tear off slip on the accompanying leaflet – a prepaid envelope is also included for your convenience.