LOWES

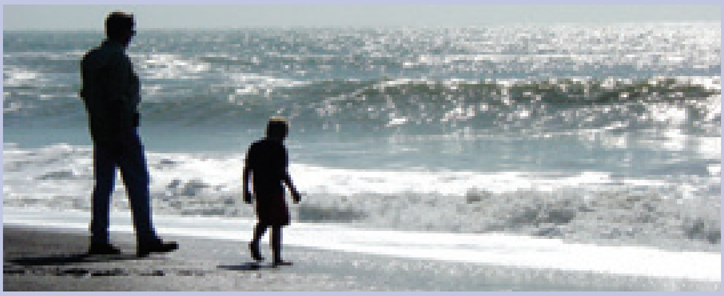
Where personal finances are cared for personally

Autumn 2005

"What lies behind us and what lies before us are small matters compared to what lies within us."

Ralph Waldo Emerson

INSIDE – Are flat taxes the way ahead? – see page 4



Too much IHT

EVIDENCE THAT PEOPLE ARE PAYING TOO MUCH TAX BECAUSE of poor inheritance planning continues to mount.

A survey of British attitudes to inheritance by the Joseph Rowntree Foundation has found that only 45 per cent of the 2,000 adults interviewed had made a will, an important inheritance planning tool. Surprisingly, the figure for those aged over 80 was 84 per cent. While people owning homes and other assets were more likely to have made a will, one in four owner-occupiers had not.

In addition, over half the respondents did not know that, although there is no Inheritance Tax (IHT) on bequests from married partners to their spouse, the exemption does not apply to cohabiting couples.

These findings reinforce research earlier this year by IFA Promotion (IFAP), which said that £1.6 billion too much IHT is paid each year because of poor planning. Aside from the absence of a will making an estate more complex and often more expensive to administer, even before any tax, IFAP highlighted several key areas where IHT is incurred unnecessarily, notably:

- **The inclusion in estates of the proceeds of life assurance policies. Where the estate is below the nil rate band or the spouse is the beneficiary, this is not taxed. But in most other cases the policy could have been written in trust so that it was not part of the estate on death.**
- **The situation where an elderly widow/er inherits a very large estate under the spouse's exemption. This creates a likelihood that in due course there will be a tax bill to be paid on that spouse's death. This could be avoided by diverting up to £275,000 out of the first estate, so cutting that same value from the second while ensuring that the surviving spouse is not left destitute.**

- *To ensure your inheritance planning is efficient and up to date, contact your Lowes' consultant or call 0845 1 484848.*

D-Day for A-Day

A SURVEY OF PROFESSIONAL partnerships comprising accountants, architects and solicitors shows a lack of knowledge of the potential impact of new pension legislation due to be introduced on A-Day, 6 April 2006.

The survey, by fund managers Baillie Gifford, shows that more than a quarter of those partners questioned knew nothing about the impending pension changes, while just 56 per cent had heard of the proposed new 'lifetime allowance'. Only 64 per cent of partners in professional practices were "vaguely familiar or not at all familiar" with the Government's new pension rules.

The findings are particularly worrying because people who fail to review their pension arrangements ahead of 6 April 2006 could suffer financially.

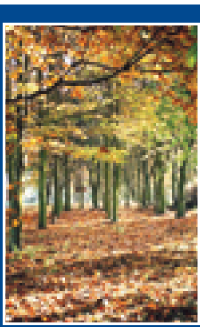
Council taxes beat inflation

THE AVERAGE COUNCIL TAX bill in Britain has increased by 121 per cent since its introduction in April 1993, well ahead of the 36 per cent rise in the headline rate of the Retail Prices Index according to the Halifax.

The bank adds that the average council tax per dwelling (exclusive of discounts and subsidies) is now above £1,000 in England for the first time.

Across Britain's local authorities there is a significant divergence in the average council tax bill per dwelling. Average council tax is highest in Richmond-upon-Thames at £1,549 and lowest in Wandsworth in London at £571 per dwelling. Halifax calculates that the average council tax bill in the 30 local authorities with the highest charges is 83 per cent more than in the 30 with the lowest charges. Outside London, average bills are highest in Chiltern in the South East at £1,484, and lowest in Newport in Wales at £665.

Major cities outside the south feature prominently amongst those that have experienced the smallest percentage rises in average council tax charges since 1993. Birmingham, Liverpool, Manchester and Newcastle upon Tyne all appear in the top 20 billing authorities with the smallest percentage increases since April 1993.



The photograph used on this issue's cover is of autumn trees near Helmsley

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	3.3%	Branch[1]
£2,000+	Bradford & Bingley	Premier Saver	3.55%	Branch[2]

Postal or Telephone

Amount	Provider	Account	Gross Rate	Contact
£1+	ING Direct	Savings Account	4.75%	0800 376 8844 to request application form and information pack[3]
£1,000+	Britannia BS	Direct Saver	4.5%	0800 013 4860 to request application form, or visit your local branch[4]

Internet

Amount	Provider	Account	Gross Rate	Contact
£1+	Cahoot	Savings Account	4.85%	www.cahoot.co.uk
£1,000+	Bradford & Bingley	eSavings	4.85%	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 plus 0.25% until 31 December 2005. Sources: www.thisismoney.com, www.moneyextra.com 05/10/2005. All accounts subject to terms and conditions.

Pensioners living longer

PENSIONERS' LIFE expectancy is increasing, creating significant implications for retirement planning.

While 1994 figures from the Continuous Mortality Investigation, a research organisation of the actuarial profession, showed that 181 of every 10,000 male pensioners aged 65 could be expected to die within one year, the latest figures show this has reduced to only 129, a 29 per cent improvement.

For women aged 65, the improvement is even more dramatic. Only 74 out of 10,000 are expected to die within the year, compared with 110 in 1994.

The improvement is less marked with older pensioners. Deaths of 75 year old men fall from 542 to 408 and women from 346 to 264. At aged 85, the male figure goes down from 1311 to 1115, with female mortality falling from 919 to 825 within a year.

State pension in decline

THE VALUE OF THE State Second Pension (S2P) is declining rapidly.

● Turner: Proposals in November

S2P replaced the State Earnings Related Pension Scheme (SERPS) in April 2002 and like SERPS, it is intended to provide employees with a salary-related top up pension to supplement the Basic State Pension at retirement.

However, according to figures published recently by the Government Actuaries Department, those employees who are in SERPS/S2P and have yet to retire face a big reduction in its value.

The figures show that during the 1990s SERPS accrued up to one 80th of the value of annual earnings each year. However, for those retiring around 20 years from now, its value will have shrunk to just one 245th of annual earnings.

The Pensions Commission headed by Adair Turner is due to submit its final proposals on the future of UK pension provision in November and there is speculation that this will recommend the introduction of a new top up scheme, possibly based on private savings.

Real inflation

IN THE LAST ISSUE OF OUR MAGAZINE WE DISCUSSED the huge disparity between the increases in retail prices compared to those of average earnings, which had risen by twice as much since the start of 2000. Whilst we concluded that the Average Earnings Index was therefore a better measure of real inflation for most people, Anatole Kaletsky's article in the Times of 18 August impressed upon me the justification for this.

Mr Kaletsky highlights that whilst petrol prices are 10 per cent higher than they were this time last year, water, electricity and gas are up almost 15 per cent. Council taxes are soaring, private school fees and hospital charges are totally out of control and taxis, hotels and restaurants are more expensive in our capital than in any other city in the world. Yet headline inflation is low.

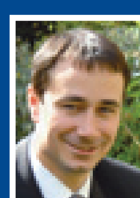
This paradox is explained by three effects, all of which relate to China's entry into the global economy. By becoming the workshop of the world, China has pushed down the costs of mass produced manufactured goods; clothes prices down by 42 per cent in a decade, shoes by 31 per cent and consumer electronics by 63 per cent. These falls obviously have a fundamental effect on the Retail Prices Index.

The second effect relates to the resulting new found wealth of China which has created a huge demand for, and therefore pushed up the prices of, luxury goods and services that the Chinese want but cannot or do not produce – either because they lack the resources (e.g. oil) or the legal infrastructure (financial services) or simply because some things cannot be traded (housing and education).

The third effect explains the disparity between average earnings and retail prices. As the prices of certain services and luxury goods are pushed higher, service-producing countries such as Britain get richer. In Britain, the rich who tend to work in the high end services, that are relatively unaffected by the competition from Asia, get richer, whilst the lesser paid, who tend to work in industries more exposed to cheap labour competition, get relatively poorer. However, whilst the lucky ones benefit from new-found wealth and hence push up the Average Earnings Index, they spend a disproportionate amount of their incomes on high end services such as housing, travel and private education, the cost of which are spiralling because of the very same global trends that are making them rich.

So those who indulge in no luxuries and consume few services may well be exposed to low inflation and as such require lower wage increases. Those who have the greater effect on the Average Earnings Index, i.e. the higher paid are indeed exposed to significantly higher inflation.

As Mr Kaletsky so eloquently puts it, "Being rich has never been so expensive. And staying rich is going to get exorbitant one day."



Ian H Lowes,
Managing Director

UK could face a flat tax future

But what would it mean for the average man in the street?

INTEREST IN ONE SINGLE 'FLAT' rate of income tax has soared in recent months as Margaret Thatcher's favourite think tank, the Adam Smith Institute, and the Conservative Party she once led have called for the system to be introduced into the UK.

Together with flat tax's other supporters, they claim a single unified tax on all incomes would not only be simpler and more transparent, but would also be a fairer means of raising money which would lead to economic expansion and actually boost the Government's coffers. Because it would be easier to collect and less likely to be evaded, they also claim fewer tax advisers and civil servants would be required, so saving the taxpayer considerable sums of money.

The east goes flat

Such a system is already in use in 11 other countries including Hong Kong, Russia, plus former 'Soviet Bloc' states of Eastern Europe such as Lithuania, Latvia and Estonia. It was the subject of fierce debate in the recent German general election and there's a chance Greece will introduce the system in the near future. But is flat tax right for the UK?

View from the UK Treasury

The debate on a flat tax for the UK was stoked up on 29 July when the Treasury released internal documents on the concept under the Freedom of Information Act.

The Treasury's main argument against the flat tax was that it would cost an estimated £50 billion in lost tax revenues due to the reduction in tax rates, between 25 and 30 million people would be worse off if revenues were to be maintained at current levels. Other Treasury arguments against a flat tax included:

- There is little concrete evidence of the success of a flat tax and the gains made in flat tax economies may be the result of other reforms.
- The UK economy and taxation system was not comparable with eastern Europe.
- The flat tax would be very expensive or would require a high marginal rate of tax.
- Flat taxes benefit the rich disproportionately.

● George Osborne: Flat tax commission

According to a recently published report from the Adam Smith Institute[1]: "a single low rate of income tax in Britain would be fairer, simpler, and would raise more revenue. It would, furthermore, be the trigger for major economic expansion with new jobs and wealth being created."

The Adam Smith Institute suggests that a UK flat tax could consist of a single flat rate of 22 per cent – equal to the current basic rate of income tax in the UK – a personal allowance of £12,000, and the abolition of further tax allowances and deductions. However, the think tank does concede that this would cost £50 billion a year in lost tax revenues, but adds that the results would justify the costs in the long-term.

But what about the disadvantages?

Only one country's introduction of a flat tax – Russia – has been subject to robust evaluation by the International Monetary Fund (IMF). Russia introduced a 13 per cent flat rate tax in 2001 and in 2003 income tax revenues had risen 25 per cent in real terms. However, the IMF states: "Our analysis suggests that the strength of personal income tax in Russia over this period was largely driven by a rise in real wages unrelated to the tax reform."

As regards the likes of Estonia, Latvia etc. the situation is equally unclear. In a recent House of Lords debate, the Labour peer Lord McKenzie of Luton noted that the system in Estonia is not quite so simple as presented, and that a lot of revenue comes from social security contributions levied at a much higher rate than the UK.

However, a key issue is the role of the tax system. Flat tax is all about efficiency and simplicity, but in the UK a key aim is to be 'fair' to as many people as possible, and this involves compromise and trade offs, which is probably why the system is as complex as it is.

The ideal flat tax would have a generous personal allowance coupled to the lowest possible flat rate, but most advocates concede that in the UK this would be unaffordable in the short-term. An affordable scheme would require either a low personal allowance or a flat rate of tax above the current basic rate, but this would have an adverse effect on low earners.

This is because of the need for simplicity. If the claimed advantages of a flat tax are to be realised, then all allowances, reliefs, deductions and credits would have to be removed. For example, pensioners currently benefit from enhanced age-related allowances, which reduce their tax bills all the way up to an income of £19,500. Under an affordable flat tax regime, however, this would have to end and they would start to pay full tax, possibly at a rate higher than the basic rate, at an income below this figure.

Another aspect of 'fairness' is the distribution of the tax burden. The latest official statistics (for 2003-04) show the poorest fifth of UK households paid 38 per cent of their gross income in taxes compared to 35.5 per cent for the wealthiest fifth. With direct taxes, where the wealthier tend to pay more as a percentage of gross income than the less well off, while the poorest fifth paid 10.1 per cent and the wealthiest fifth paid 24.6 per cent. However, this is more than compensated for when it comes to indirect taxes, which are flat in nature. While the poorest fifth paid 28 per cent of their gross income in indirect taxes, the wealthiest fifth paid just 11 per cent.

A matter of ideology

Whatever the pros and cons, the debate looks set to rage for some time to come, particularly as the Shadow Chancellor of

● Latvia: Favours the flat tax

the Exchequer, George Osborne, has announced he is to set up a flat tax commission to produce specific proposals.

As ever, such a debate has as much to do with political ideology as objective fact. While the political right is lined up behind flat tax, opponents are mainly drawn from the more liberal and 'redistributionist' ranks of the left.

It all makes for a good knock about! But, at Lowes, we remain unconvinced about the claims made for the system, for the simple reason that no matter how simple it's claimed to be, experience suggests the reality is always more complex and we need to be very clear about the implications in terms of the potential winners and losers. Examples of other countries are welcome, but the analysis does not seem particularly thorough. Of course we all want to pay lower taxes, but at what price?

Should such a system find favour in the UK, an interesting issue will be the impact on the tax collecting bureaucracy. The merger of Customs & Excise and the Inland Revenue to form HM Revenue & Customs announced in March 2004 was heralded as a means of improving efficiency and reducing costs to the taxpayer, albeit at the cost of 40,000 civil service jobs. In practice, however, this doesn't appear to be happening.

Sources: (1) Flat Tax – The British Case, by Andrei Grecu, Adam Smith Institute.

Adam Smith's flat tax Top 10

- **Eliminates double taxation on savings and investments. All forms of income are taxed only once, leaving people to choose investments which maximise their profits rather than the tax breaks.**
- Increases government revenue as a result of a more dynamic economy and less tax evasion.
- **Reduces the time and cost of completing tax forms plus the cost of employing tax advisers who can switch to more productive forms of economic activity.**
- Eliminates reliefs and allowances, getting rid of tax lobbyists who try to get new loopholes in the system for the benefit of those they represent.
- **Exempts the poor from paying any tax by providing a generous tax-free allowance. Only rich people pay a rate close to the flat rate.**
- Offers individuals more control over their money and reduces government infringements on privacy.
- **Reduces interest rates as a result of the tax-free status of interest. Without an interest tax, lenders are satisfied with lower payments.**
- Reduces the incentive to evade taxes and means government spends less money on chasing tax evaders.
- **Makes the British tax system more attractive to foreign investment.**
- Achieves simplicity, economic efficiency and fairness.

CORPORATE BONDS

The bond in your portfolio

PENSION FUNDS AND OLDER INVESTORS HAVE one thing in common – they both demand investments which provide them with a regular stream of income.

One of the most popular forms of investments of this type is a form of 'fixed interest security' known as bonds, which is issued by governments and companies to raise money for investment. In effect, by buying a bond you are lending money to the issuing government or company.

Demand for these investments has boomed in the UK in recent years, mainly due to the growing proportion of older people in the population and demand from pension funds. This fact is borne out by statistics released by the Investment Management Association, which indicate that investors believe there is still value in the UK corporate bonds sector.

However, despite delivering strong performance in recent years, there is some concern that the corporate bond sector may struggle in the future. As the popularity of corporate bonds has increased, more companies have issued them, particularly ones which are less financially secure and have a lower credit rating. This means that the overall quality of the bonds in issue has reduced, which presents a higher risk to investors.

In the short to medium term, Lowes's view is that the corporate bond sector will not perform as strongly as in the past. Our reasoning is based largely on our belief that the yields available on many corporate bonds are insufficient to justify the risks.

We believe shares now offer a better opportunity for good investment returns and for income. However, this does not mean that we would recommend selling existing corporate bond holdings as they form an integral component of a diversified investment portfolio.

The concept of a diversified portfolio is an important one, which aims to balance the properties of carefully selected but different asset classes over time to provide steady long-term investment growth.

This strategy can frustrate those investors who believe a better approach is to sell investments which appear to have underperformed. However, compared to a strategy based on investment fundamentals, this approach can considerably increase risk, as it requires skill and luck in outguessing the market.

IHT PLANNING

Equity release can cut tax

OWNING A LARGE HOUSE IN OLD AGE can be a costly exercise as well as a headache to manage. Then there is Inheritance Tax (IHT) to take into account, as the beneficiaries will face a 40 per cent tax bill on the value of an estate in excess of £275,000 in the current tax year.

In a situation like this, some form of equity release can prove to be a key estate planning tool and there are a number of options, including:

IHT-exempt insurance

A lifetime mortgage equity release loan is taken out on the property and this is withdrawn gradually as regular monthly sums. This creates a debt on the estate comprising the rolled up interest on the money borrowed plus the total capital borrowed, which is re-paid by the estate when the property owner dies. In the meantime the property owner uses the regular monthly sums to fund the purchase of a Whole of Life insurance policy equal in value to the estimated IHT liability. This is written in trust for the beneficiaries and on the death of the property owner, its value falls outside the estate for IHT purposes.

IHT-exempt investment

This time, a conventional interest only mortgage is taken out on the property to produce a large cash lump sum. This is invested in a suitable IHT-sheltered investment plan, such as Discounted Gift Scheme, which allows a regular income to be withdrawn that is used to meet the regular interest payments on the loan. On the death of the property owner after a few years, all or part of the value of the investment falls outside the estate. Given favourable investment conditions, it is possible that the sheltered investment could maintain its value and cover the interest payments on the loan and if this happens, the estate owner could be up to 40 per cent better off overall.

● Equity withdrawal: Valuable tool with large estates

● *For more information on how mortgages can help fund or reduce potential IHT liabilities, talk to your Lowes' consultant or call 0845 1 484848.*

LONG TERM CARE

Keeping authority at bay

HAVING ONE RELATIVE going into a long term care home can be worrying and potentially very costly. Having two relatives facing this situation could be financially devastating.

In England, individuals in local authority care are expected to pay towards the cost of their non-nursing care from their own capital and income. Currently, anyone with assets of £20,500 or more must pay all their own costs. Where assets are between £12,500 and £20,500 they must pay £1 a week for every £250 of assets they have above the lower limit. Only if their assets are £12,500 or less will the full cost of their care be paid for them. Another point to consider is that their home will be included in the calculation of assets unless a spouse or other dependants continue to live there.

Husbands and wives often have mirror wills where the first to die leaves their share of the estate to the other. So, if the husband entered a care home, his assets in excess of £12,500 would be used to fund his care. But what if his wife, who stands to inherit his estate, also entered a care home at some point in the future?

Given the possibility of this happening, it's hardly surprising that people ask what can be done to reduce the costs of a place in a care home?

The key issue to contend with is 'deliberate deprivation of assets'. If the local authority believes you have deliberately given away your assets to reduce or avoid care costs, then they can treat you as still having those assets or claim them back from whoever you gave them to.

Important situations you should consider

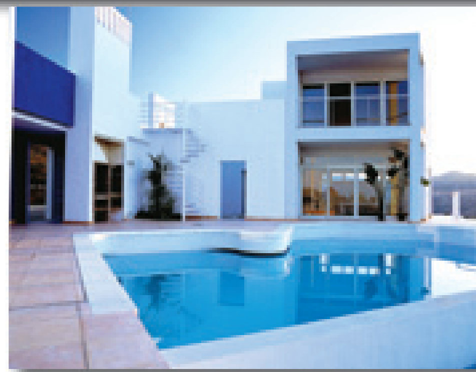
Firstly, on her husband's death, the wife could consider disclaiming her entitlement under her husband's will by effecting a deed of variation to change the beneficiary to someone else. Unfortunately, this approach is unlikely to work, as the local authority will view the arrangement as one where the wife deliberately deprives herself of assets. As such, it is likely to call on her to pay care fees.

Secondly, if the husband is not of sound mind whilst in care, then it is possible to execute a 'statutory will' on his behalf removing the wife as a beneficiary. On her husband's death, while the local authority will request a copy of the will to clarify the extent of the wife's interest, there is a good chance it will not be able to establish that there has been a deliberate deprivation of assets. Of course, if the husband was of sound mind, he could change his will himself to remove his wife as a beneficiary and a similar situation would apply. Unfortunately, when it comes to local authority care, there can be no certainty in any of these situations. Should a local authority believe there is any evidence that action has been taken to deprive it of money, then they will do all in their power to gain access to it, e.g. by claiming that the deceased failed to make adequate provision for his spouse.

Most people accept that from a financial planning point of view, it's essential to take appropriate action to keep any potential Inheritance Tax liability to an absolute minimum. If, at the same time, you can reduce the chances of having to pay fees should you enter a nursing home, then all well and good.

● *Lowes can advise on possible strategies and trust-based planning arrangements to suit your requirements and circumstances. For further information, contact your Lowes' consultant or call 0845 1 484848.*

Your house as your pension?



● Holiday home or pension?

ON 6 APRIL 2006 – KNOWN as Pensions A-Day – the much publicised ability to invest your pension in residential property will become a reality.

According to Savills, one of the country's leading estate agents, as much as £6 billion could be invested in this way. This has provoked fears that it could destabilise the housing market and push up prices, particularly for first time buyers.

Currently, if you have some form of individual pension plan, your investment options are generally limited to insurance funds, stocks and shares, and collective investments. However, post-A-Day, pension rule changes will make it possible to invest in many types of assets, notably UK and overseas residential property. To take advantage of these new rules the simplest route will be to use a form of personal pension called a Self Invested Personal Pension or SIPP.

Investors will be able to buy a new property using either existing SIPP funds, or their annual contribution limit (the lower of £215,000 or your 2006/07 earnings). The property could be one you own already (e.g. a buy-to-let or holiday home) although to put this in your pension you'll have to sell it first then buy it back using the pension fund. This will involve stamp duty, plus valuation and conveyancing fees. There could also be Capital Gains Tax (CGT) to pay on the sale.

The SIPP will be able to borrow up to 50 per cent of its assets. So, if it is worth £200,000, it could borrow another £100,000. This can be used to help buy the property and the loan interest and repayments would be costs on the SIPP. Users of the property (whether buy-to-let tenants or the SIPP-plan holder living in their own home or visiting a holiday home) pay a commercial rent which goes into the SIPP as non-taxable income.

It sounds almost too good to be true! But there are significant drawbacks which must be very carefully considered, including:

- There are likely to be considerable SIPP charges, including property valuation fees.
- SIPP holders using a property for their own purposes must pay a commercial rent. If they don't then they will be taxed at between 40 and 55 per cent of the commercial rent (even if they are not taxpayers). This will make owning your own home through a SIPP unattractive for many people.
- Most buy-to-let investors want to benefit from the income from their portfolio. But if the properties are held in a SIPP all rental income plus any gains will be accumulated and would ultimately have to be taken as a pension.
- While there would be Inheritance Tax (IHT) relief if the SIPP-holder died before retirement, new Inland Revenue rules are likely to tax such properties at 35 per cent (a small saving on the 40 per cent IHT rate) if the SIPP-holder dies after retirement with his or her main residence in a SIPP.
- Trusts are not recognised in many countries outside the UK so using a SIPP to buy a property abroad could prove problematic.

In summary, SIPPs may be suited to professional landlords prepared to lock away gains and income on part of their portfolio until they reach retirement. However, they may be less than ideal for people looking to 'pension up' their own home or a buy-to-let property. If you are considering such a move, contact your Lowes' consultant for advice, or call 0845 1 484848.

Outguess the markets at your peril

Melvyn Bell, Lowes' Investment Manager, states the case for staying fully invested…

FEW PROFESSIONAL investors can dispute the fact that, over the longer-term, stockmarket investments have significantly outperformed bank and building society deposit accounts or that, in the longer-term, this is likely to continue.

On the other hand, it is equally true that stockmarkets are susceptible to periods of underperformance which, not unnaturally, investors would prefer to do without. With equity markets now well into the third year of recovery from the bear market, a correction cannot be discounted. In fact, we believe a correction should be expected, although when it will happen and by how much no one knows for certain.

Over recent months equity market movements suggest that investors remain relatively positive despite being offered excuses to step onto the sidelines. For instance, the rise in the oil price, the deteriorating Iraq situation, the terrorist attacks on London, Hurricane Katrina and most recently, Hurricane Rita.

Katrina in particular illustrates the markets apparent indifference to bad news, although its impact on US petroleum refining capacity at a time when supplies were already under pressure might have been expected to lead to equity markets falling. However, the actual impact has been more or less nil.

The lack of market response to a series of apparently very bearish events confirms our belief that second guessing the markets on a consistent basis is impossible. While we accept that a correction at some point is inevitable, deciding on what should instigate a market exit relies more on luck than skill.

This view is supported by research earlier this year by Fidelity International. This showed that returns from the FTSE UK All Share Index from 31 December 1989 to 31 December 2004 averaged 8.6 per cent a year if you'd remained fully invested, but would have been an average 1.3 per cent less a year if you'd missed the best 30 days of that period.

In short, while there's always the possibility of an abrupt market correction, our belief is that to make gains, you have to be prepared to take risks and by that we mean you need to be invested. Furthermore, whilst we anticipate a correction of some of the rise since March 2003, we believe it will be short lived and anyone who does time an exit correctly could find that they miss out on a subsequent rise that would take the market way above the pre-correction price.

It's not possible to eliminate risks completely. But they can be reduced by investing in a diversified portfolio of funds invested across a range of assets appropriate to your attitude to risk and managed by experts who have demonstrated their ability to meet their objectives.

Something completely different!

WE ARE ALWAYS SEEKING LOW RISK investment opportunities likely to interest our clients and in our considered view the Dawnay Day Quantum Protected Commodities plan meets this criteria.

Why invest in commodities?

Commodity prices are basically driven by supply and demand.

On the demand side, China, India, Brazil and Russia have emerged as major commodity consumers. China's economic growth rate, running into double figures, has made the country the world's largest importer of copper and aluminium and the second largest oil importer. Since 1995, China's oil demand has more than doubled to over 6 million barrels a day and it has overtaken both Germany and Japan as an oil consumer.

However, following years of falling commodity prices, investment in extracting and refining them has been woefully inadequate and supply is lagging demand. Because the lead time between investing in new capacity and its actual delivery is measured in years, the only factor that can bring demand and supply into line is price.

Overall, the fundamentals indicate that the demand and supply situation for commodities and minerals that need to be extracted from the earth are looking very positive indeed for investors.

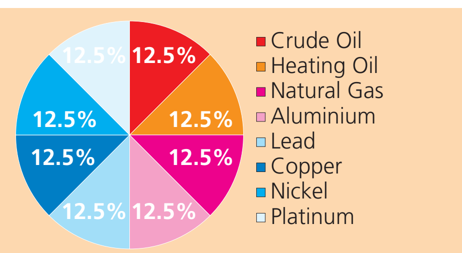
This investment offers an excellent opportunity to profit from the surging demand for oil and other key raw materials being generated by the rapid economic growth of such powerhouse economies as China and India.

Most investors appreciate the need to diversify – firstly, to reduce risk and secondly, to ensure a degree of exposure to the best performing asset classes. Most portfolios will contain some exposure to shares, bonds or gilts, cash and possibly property. Few have some exposure to commodities, mainly because of the difficulties of ownership.

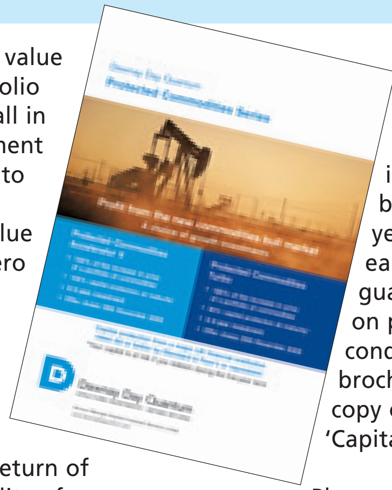
However, the Dawnay Day Quantum Protected Commodities plan not only provides access to a diversified basket of commodities, it does so with limited downside investment risk and accelerated growth potential.

How it works

The investment provides exposure to an equally weighted portfolio of commodities comprising Crude Oil, Heating Oil, Natural Gas, Aluminium, Lead, Copper, Nickel and Platinum (see chart below).
Full details accompany this issue of our magazine and we favour the 'Turbo' version. This is a five year investment which offers:



- 180 per cent of the capital growth of the commodity portfolio with no upper limit on investment returns.
- 90 per cent of your capital protected at maturity should the portfolio's average price fall.
- The capital protection works such that a 10 per cent fall in the value of the commodity portfolio results in a 1 per cent fall in the value of the Investment at maturity, i.e. for you to lose 10 per cent of your capital, the portfolio value would have to fall to zero – all the commodities would have to be free.



As with all investments of this type, the benefits payable under the plan and indeed, the ultimate return of capital, depend on the ability of companies backing the plan to meet their obligations. The assets within the plan will be issued by one or more major financial institutions which have been rated by leading research agency Standard & Poor's as 'AA' or above, defined as having 'very strong financial security characteristics'.

Further information

The accompanying brochure contains the relevant information about the Protected Commodities Portfolio including risk factors (p8), key features (p10 - 12) and terms and conditions (p19 - 21). We are required to restate the following risk warnings:

Past performance is not a guide to the future and may not be repeated. The value of the investment can fall as well as rise and investors may get back less than they invested. All risk and tax implications should be carefully considered before proceeding with any investment. The investment is designed to be held for the full five years and if you surrender early the cash value is not guaranteed and will depend on prevailing market conditions. At the back of the brochure you will also find a copy of the FSA Factsheet 'Capital-at-risk products'.

Please read the complete brochure carefully to ensure that you understand the investment. If you require any assistance or are unsure as to whether the investment is suitable for you, then please do not hesitate to contact our office on 0845 1 484848. We will be happy to answer any questions and if required, provide you with personalised advice and a recommendation, if appropriate. If you choose to invest in the absence of a personal recommendation, this will be on a 'Direct Offer' basis i.e. no advice being sought or given.

Once you are satisfied that the investment is right for you please complete the relevant application form and return it to us together with your cheque payable to 'Keydata Investment Services DDQ PCA Client A/C Ref: <Your Name>'. A reply paid envelope is included for your convenience. We will confirm receipt of your application by return.

IMPORTANT NOTICE: Lowes may be required to approach a third party in order to verify the identity of a client or any person providing funds on behalf of an investment made in a client's name. Where further information is required to verify identity, Lowes reserves the right to delay applications or withhold settlement until sufficient identification has been provided.

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.