LOWES

Where personal finances are cared for personally

Summer 2004

"It is more difficult to predict the future in advance than to think it 'obvious' later!"

James Dines

INSIDE – Where are house prices going?

Lowes achieves a double

ON 24 JUNE LOWES FINANCIAL Management Managing Director, Ian Lowes, and Compliance Manager, Neil McLachlan, formally graduated as Fellows of the Society of Financial Advisers at a ceremony held at the Plaisterer's Hall, one of London's most prestigious venues.

The Fellowship is the top industry accolade awarded to those who have successfully completed 10 Advanced Financial Planning examinations and Ian and Neil join a select band of less than 200 individuals who have attained this level.

Graduates: Ian Lowes and Neil McLachlan

Working side by side over three years, both have given up many evenings and weekends in a relentless effort to accomplish their joint goal which they ultimately achieved without having to re-sit a single exam.

Neil said: "Whilst we both achieved Fellowship status last year, attending the formal graduation ceremony gave me a great sense of pride. Now we have achieved what we set out to do, Ian and I are debating what other study we should undertake to keep us at the top of the profession."

Inheritance schemes reprieved

FEARS THAT DISCOUNTED Gift Schemes, which have proved popular for sheltering assets from Inheritance Tax (IHT), may no longer be useful planning vehicles have proved groundless.

These schemes use insurance based investments wrapped in Trusts to help people mitigate a potential liability to IHT, but changes announced in the March Budget initially appeared to have ruled out their use. However, advice received during May by the Association of British Insurers from the Inland Revenue has confirmed this is not the case.

Whilst these schemes can be extremely useful for people who require a regular income from their assets, their use requires professional advice and careful consideration of individual circumstances.

How Discounted Gift Schemes work

An individual makes a one off investment in the form of a 'gift' into a series of single premium insurance bonds contained in a Trust. They are designed to mature after one year, two years, three years, etc. and during the investment period any death benefit will fall outside the estate and be paid to the chosen beneficiaries free of IHT.

The underlying investment funds are normally held offshore to benefit from tax free growth during the investment term. Each year the maturing investment(s) are returned to the investor as income, but if the investor does not require income options often exist for the term of the investment to be extended. On death the investments which have not matured are available to the beneficiaries.

When the plan is started the Inland Revenue will, on the basis of mortality rates and the investor's health, estimates how much of the investment 'gift' is unlikely to be returned to the investor and will discount the inheritance taxable value accordingly.

This creates an IHT saving which equals 40 per cent of the size of the discount. e.g. If the gift equalled £200,000 and the Revenue treated this as a gift for IHT purposes of £150,000 then this would create a tax saving of 40 per cent of £50,000 or £20,000.

A key point to note is that the investor retains the right to the income and, as a trustee, can also change the beneficiaries. Providing the investor survives seven more years then all of the gift may be free of IHT.

● *For further information on Discounted Gift Schemes contact your Lowes' Consultant or call 0845 1 484848.*

The photograph used on this issue's cover was taken in Bruges, Belgium.

Make your money work

Best bank and building society instant access/no notice accounts

Branch Based

Amount	Provider	Account	Gross Rate	Contact
£1+	Alliance & Leicester	Easy Saver	3.55%	Branch (£1 charge on counter withdrawals)

Postal or Telephone

Amount	Provider	Account	Gross Rate	Contact
£1+	ING Direct	Savings Account	4.7%	0800 376 8844 to request application form and information pack[1]

Internet

Amount	Provider	Account	Gross Rate	Contact
£1+	Alliance & Leicester	Savings Account	5.1%	www.allianceandleicester.co.uk

Note 1. 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).
Sources: Various, including Institutions' websites.
All accounts subject to terms and conditions

FSA clamps down on fund adverts

FUND MANAGEMENT COMPANIES will no longer be allowed to use selective data to depict the historic performance of funds such as unit trusts in their advertising.

Since 1 June the Financial Services Authority (FSA) has required firms to use standardised data set out in a table which shows discrete annual returns for each of the previous five years.

Where less than five years performance is available firms must give information for as many 12 month periods as possible updated to the previous quarter. Where data is available for less than one 12 month period past performance information cannot be included in adverts.

The aim is to enable investors to distinguish those funds which have shown consistent growth over time from the ones which have displayed volatile performance.

Below we take three funds performing in different ways to contrast the old way of depicting fund performance with the use of discrete annual data which lets you distinguish funds which perform steadily over time from more volatile performers.

This latest development by the FSA, whilst welcomed by Lowes, will have no effect on us as we have always ignored the published performance tables and completed our own analysis of distinct periods to establish a fund's consistency.

Whilst we also take into account the historic volatility of a fund it is important that qualitative as well as quantitative information is evaluated. This can take the shape of considering third party evaluations such as those provided by Standards & Poor's or Forsyth Old Broad Street, but it is also important to look deeper than that because, whilst a fund may be the best performing in its sector, its constituents may bear no resemblance to other funds in its sector.

For example the best performing bond fund may be invested in "junk bonds" with a high risk of default whilst it peers are all invested in corporate debt issued by blue chip companies.

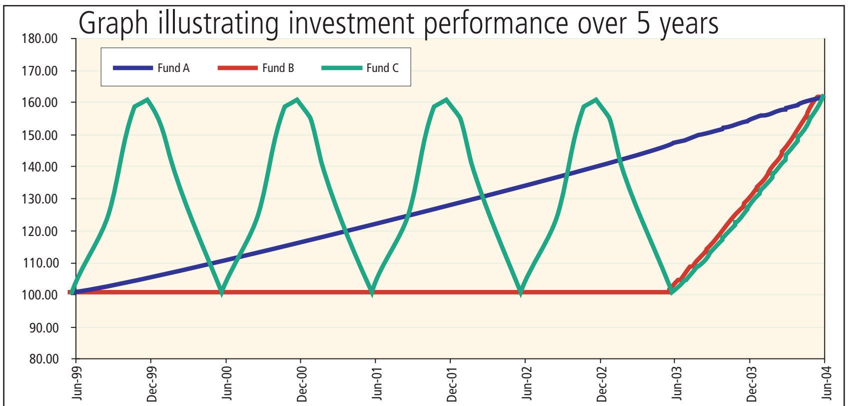
1 (a) How data was presented before

	1 Year Aug 03 to July 04	3 Years Aug 01 to July 04	5 Years Aug 99 to July 04
Fund A	10.00	33.10	61.05
Fund B	61.05	61.05	61.05
Fund C	61.05	61.05	61.05

1 (b) How data will be presented

	Year 1 Aug 99 to July 00	Year 2 Aug 00 to July 01	Year 3 Aug 01 to July 02	Year 4 Aug 02 to July 03	Year 5 Aug 03 to July 04
Fund A	10.00	10.00	10.00	10.00	10.00
Fund B	0.00	0.00	0.00	0.00	61.05
Fund C	0.00	0.00	0.00	0.00	61.05

Whilst the old style presentation may have been considered misleading in some cases, its clear that even the new style still has flaws as the following graph showing the performance of the above funds demonstrates.



Note: Our chart illustrates the performance of 3 funds over 5 years. At the end of Year 5 all 3 funds appear equal. However, Fund A grows by a steady 10% a year. Fund B is extremely volatile, growing by 61.05% in the course of a year but losing all that growth by the year end. Only in year 5 does it achieve and return its growth of 61.5%. Fund C shows no growth whatsoever until Year 5 when it grows by 61.05%.

COMMENT

Advice or DIY?

THERE STILL SEEMS TO BE A PROLIFERATION OF programmes on TV on the theme of do-it-yourself and even if you don't know your circular saw from your jigsaw and your floor boards from your plasterboards, DIY home maintenance is something anyone can do.

Some will do it to a standard that any commercial builder would be proud of, others will make a mess of it. As for those who currently employ a third party to do their home improvements, it does not matter how cheap power tools and materials get and how many DIY programmes are screened, there will be many who will not, and indeed should not undertake do-it-yourself. It is the same for car maintenance, legal work and accountancy; the option to do-it-yourself always exists, but more often than not it is prudent to bring in expert help.

Financial Advice is no different. After the failure that was and is Stakeholder Pensions in terms of their disappointing take-up it is surprising to note that the Government is proceeding with Ron Sandler's recommendations to launch other low charged, simple financial products to the market place so that people can buy with confidence without the need for advice (see page 6). The misguided theory is that this move will encourage private saving, but just because something is cheap doesn't mean that people will, or indeed should, buy it.

The purchase of financial products involving any hint of stockmarket investment or life cover should always take into account the needs and circumstances of the investor. To do this requires professional advice and the question is – what value do you place on this?

It may not cost you dearly if you undertake home maintenance without knowing your carpet tacks from your brass tacks but things may be somewhat different if you undertake personal financial planning without knowing your income tax from your capital gains tax.

Ian H Lowes,
Managing Director

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

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Is a house price correction

No one likes to see the value of their house fall …

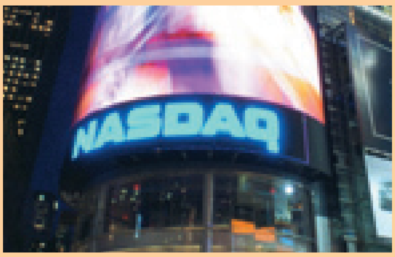
GIVEN THE CURRENT HIGH LEVEL OF property prices, the craze for buy to let, and the difficulty facing first time buyers trying to get onto the property ladder, few people would argue that the recent rate of property price increases is sustainable.

But how likely is a crash? Prices are an average 73.8 per cent up on three years ago and 17.5 per cent higher than a year ago according to the Halifax House Price Index.

It all means that prices are now a record five times average earnings, but many experts say houses are still affordable to many people because of low interest rates which are only predicted to rise slowly. Even if prices slumped 17.5 per cent the effect would be to wipe out only last year's price rises.

Is such a fall possible? Many experts feel this would only happen as a result of a massive external shock to the economy – such as a tripling or quadrupling of oil prices.

Whilst within Lowes we have differing views as to the extent of any housing market correction, the one thing we agree on is that there will be one and, for those considering investing in property, we advocate caution. In this special report we highlight some of the key issues facing the housing market.



Sentiment price bubble

IN LATE 1999/EARLY 2000, WHEREVER YOU WENT IT SEEMED EVERYONE WAS talking about which technology or dotcom shares they were going to buy. Now they're talking about property. The experts say there's little or no relationship between share prices and house prices, but usually when everyone has climbed aboard the bandwagon then it's time to get off.

First time buyers

RESEARCH PUBLISHED IN FEBRUARY BY ROOF (the publication of the housing charity Shelter) said getting a foot on the property ladder is now 33 per cent less affordable than 10 years ago and if house prices and interest rates rise as expected this will rise to 46 per cent by the end of the 2004. Roof said the number of first time buyers entering the market had slumped from 569,000 in 2001 to 359,000 in 2003 – the lowest since records began 30 years ago.

The Council of Mortgage Lenders said the number of first time buyers fell from 50 per cent in 2001 to 29 per cent in 2003 and that they were paying an average of £96,000 for their first property compared to £42,000 10 years ago.

The Halifax said in March 2004 that first timers are now priced out of the market in 531 of the UK's 667 postal towns and that first time buyers paid an average of 17 per cent more in 2003 than in 2002.

The Bradford & Bingley said in March that a quarter of first time buyers take four to six years to save for their first property and 16 per cent take seven years or more, while research from National Savings & Investments published in June said first time buyers have to save for an average of almost four years before they have enough money for a 5 per cent deposit.

Buy to let business

BUY TO LET HAS HELPED PUSH UP the cost of the average house by £24,000 in the past 12 months while 43 per cent of homes put up for rent between February and April this year belonged to landlords new to the buy to let business, according to the latest lettings survey by the Royal Institution of Chartered Surveyors (RICS).

A recent rental report by Cluttons indicates landlords in most parts of the country are now getting returns of less than 5 per cent from rental income after costs. With the cheapest buy to let loans carrying interest rates of about 5 per cent, the rental income is barely covering the mortgage.

The Nationwide's Chief Economist, Alex Bannister, quoted in The Times on 28 May, warned new property investors that with prices rising much faster than rents, the figures no longer added up. But he added that there was no major reason at the moment why existing landlords should have to sell – one of the potential triggers cited by some economists for a market crash. Only 12 per cent of landlords whose properties became vacant in the three months to April chose to sell, a rise of 1 per cent on last October.

Despite this huge influx of landlords, average rents are still rising slightly says RICS. The average monthly rent in Britain, excluding London, is £527. In the capital the average one bedroom flat costs £1,000 a month and the average three bedroom house commands £2,000 a month.

n on the cards?

The Bank of England's view

BANK OF ENGLAND GOVERNOR, MERVYN KING, WARNED ON 14 JUNE that house prices may start to fall and people should be wary of buying property.

He said: "Demographic factors, a shortage of housing supply and low levels of inflation and interest rates, all mean that the sustainable ratio has probably risen somewhat over the past decade. Nevertheless, it is now at levels which are well above what most people would regard as sustainable in the longer term. There are some early signs, from surveys, of a slowdown in the housing market. After the hectic pace of price rises over the past four years it is clear that the chances of falls in house prices are greater than they were. So anyone entering or moving within the housing market should consider carefully the possible future paths of both house prices and interest rates."

His warning came just days after the Bank's Monetary Policy Committee increased interest rates by 0.25 per cent for the second month in succession bringing the base rate to the current level of 4.5 per cent.

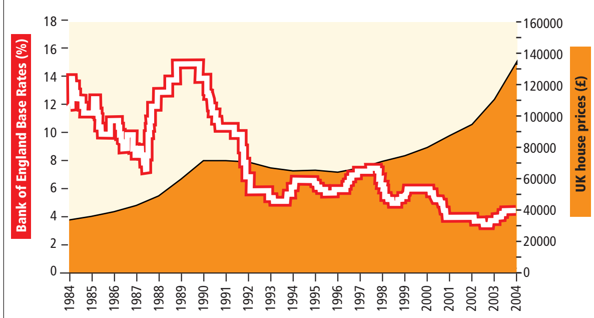
Although he later stressed that while he was not predicting a housing market crash, he added: "Anyone who stretches themselves to the limit by taking out a very large mortgage needs to be aware both that it's possible interest rates might go up further and that house prices do not inexorably always go upwards."

House building

EXPERTS SAY THAT THE HOUSE PRICE RISES since 1998 cannot be attributed to the lack of new housing. A report published in March by the Campaign to Protect Rural England says that while new housing represents about 10 per cent of the UK's traded housing stock, short-term house price volatility is mainly driven by people's changing expectations of their future wage or employment prospects. The report does concede that an increased supply of new housing could have a significant effect on price long-term.

Mortgages, debt and interest

UK house prices and Bank of England Base Rates 1984-2004



Source: UK house prices are those reported by the Halifax House Price Index.

INDIVIDUAL LENDING IN APRIL 2004 INCREASED to record levels, taking the total amount of outstanding loans and mortgages to almost £1,000 billion, according to Bank of England figures published in June.

Total lending increased by £11.1bn or 1.1 per cent in April, of which secured lending accounted for £9.8bn. Net mortgage borrowing in April was 27 per cent up on April 2003, 60 per cent up on April 2002 and 131 per cent up on April 2001.

According to Martin McMahon of Lombard Street Research: "Bank of England (interest) policy has so far failed to have any noticeable impact on households' borrowing patterns or the ongoing housing boom."

Is there a problem? May's Bank of England inflation report said new borrowers were less vulnerable than at the end of the 1980s and that interest rates would need to double from current levels to create a problem.

However, research published in June 2004 by Capital Economics said households are in a far more precarious position than assumed by Gordon Brown and Bank of England Governor, Mervyn King.

This research concluded:

- While interest payments as a percentage of income (income gearing) are, at 7.1 per cent, less than half the 1990 peak of 15 per cent, the picture is worrying when the amount households spend on repaying mortgage debt is included.
- This increases income gearing to 12.7 per cent and when repayments of unsecured debt (credit cards, personal loans and overdrafts) is included it is 19 per cent.
- This is near the 1990 peak of 21.8 per cent. If interest rates rise in line with market expectations to 5.25 per cent by the end of 2005 – even if debt and income remain at their end-2003 levels – it will be 21 per cent by the end of 2005.
- If interest rates rose to 5.25 per cent and household debt continues rising at its recent rate then income gearing could reach 24.5 per cent.
- Interest rates might not have to rise much further to trigger a household spending and borrowing slowdown.

What price advice?

IN APRIL 2005 THE GOVERNMENT IS TO LAUNCH A NEW RANGE OF CHEAP AND simplified savings and stockmarket linked investment products with prescribed features and charges.

The aim of these so-called 'Sandler Products' (named after Ron Sandler who was commissioned by the Treasury to devise them) is to stamp out alleged mis-selling and, for many mass market products, eliminate the need for advice. Consumers who believe advice would be a good idea must pay for it separately as it will no longer be included in the price of the product.

However, in the absence of advice, might these 'Sandler products' be mis-bought?

With the possible exception of straight forward bank accounts, the purchase of financial products involving any hint of stockmarket investment or life cover should always take into account the needs and circumstances of the purchaser. To do this requires professional advice and the question is – what value do you place on this?

Take these two examples where professional advice may be a good idea but may not be taken. Firstly, if you have earnings in addition to those from your full time job you might employ an accountant to ensure you use all possible allowances and so minimise your tax bill. However, self certification has led many people to do it themselves and possibly pay more tax than necessary because they don't fully understand how their allowances work in practice.

Similarly, if you have a legal claim against another person you may choose the low cost small claims court route. In many situations this may work out fine, but in as many others the d-i-y approach can fail miserably.

Financial advice is no different except that without it the consequences can be very expensive and much longer term. If you applied the time and effort you could probably learn some of the idiosyncrasies and stand a chance of successfully matching products to your needs and circumstances as well as to those of your nearest and dearest. In the absence of this it would be very easy to buy products which have little chance of meeting your real needs – no matter how carefully prescribed are their terms, conditions and charges.

The Sandler Product range

1. A cash deposit account	**● This will have a rate of interest within 1 per cent of the Bank of England Base Rate.**
2. Two medium-term investment products	**● These will have annual management charges capped at 1.5 per cent of fund value for the first 10 years and 1 per cent thereafter. ● The first will be a pooled investment product similar to a unit trust. ● The second will be a with-profits type investment for the more risk averse.**
3. A pension product	**● A form of Stakeholder Pension. ● Charges capped in same way as investment products. ● Have a 'default' investment fund where assets are moved from equities to fixed income as policyholder nears retirement.**

A shift in regulatory approach

THE TRADITIONAL APPROACH TO REGULATION OF UK financial services has been to police how products are marketed and sold. The arrival of Sandler Products will mark a significant shift away from this approach and the products themselves – that is, their structure, conditions and charges – will themselves be regulated.

Why this new approach? The government says it is concerned that too few people are saving adequately for their retirement. This is seen as a big problem because people are living longer which may mean that an increasing amount of tax money has to go into the payment of state pensions unless people make private provision.

The Government believes that by providing financial products which are easily understood and cheaper to buy it can encourage private saving.

However, this new approach raises two issues. Firstly, will the public buy these products simply because they have a government seal of approval? Secondly, will the products be appropriate to an individual's specific needs and circumstances?

The role of advice

THE CHANGES THE GOVERNMENT IS PLANNING WILL SHIFT the responsibility for product choice on to consumers.

While this may help eliminate product mis-selling by ensuring that there are no major differences between the various products, it may create another situation – where investors mis-buy products!

Such concerns may be well founded. Surveys carried out by the Financial Services Authority (FSA) have found that a significant number of people believe the government would guarantee any losses resulting from stockmarket falls. The FSA's own Consumer Panel has also said that it considers advice to be important in helping people understand the products they are purchasing.

Consider how advice can affect product choice. All financial products have implications when it comes to tax. While tax should never be the main reason for choosing a product, it can be very influential particularly in respect of retirement and inheritance planning.

At Lowes, because of the relative complexity of individual financial requirements, we believe that advice is crucial to the selection of medium to long-term investments.

No panic on the oil front

OIL PRICES HAVE RISEN SIGNIFICANTLY recently prompting fears of global recession and a collapse of the stockmarkets.

However, most experts believe that such a scenario due to high oil prices is unrealistic and unlikely. In real terms (i.e. taking into account inflation) oil prices are well below the levels seen in the early 1970s when the price of a barrel of crude climbed 300 per cent to reach US$100 in 2004 prices. In contrast, oil prices rose from US$28 in September 2003 to around US$40 in May 2004 – an increase of less than 50 per cent.

Although uncertainties in the Middle East have had some impact on prices, the main driving force is increased demand – most notably from the rapidly industrialising economies of China and India which are now the world's 2nd and 6th largest oil consumers. According to the International Energy Agency (IEA) global oil consumption increased by 3.6 million barrels a day between 2002 and 2004 and China accounted for about 36 per cent of this increase.

While the countries of the Middle East contain the largest proven reserves, in recent years there have been significant discoveries in other areas, notably Russia, the Caspian areas of the old Soviet Union, and in China itself.

Looking ahead, experts believe oil prices will decline as output is apparently growing faster than demand. The US Department of Energy has forecast that oil will cost between US$18 and US$33 a barrel by 2010 and not much higher than that by 2025. [1]

NOTES:
(1) US Energy Information Administration, International Energy Outlook 2004.

Some oil facts

- The Middle East states of Saudi Arabia, Iraq, Iran, Kuwait and the UAE account for 75 per cent of the reserves of the top 10 oil rich countries.
- The other 25 per cent is in Russia, Venezuela, Nigeria, Libya and China.
- The US gets only 17 per cent of its oil from the Middle East (Saudi Arabia) – nearly half comes from Mexico, Canada and Venezuela.
- The world economy consumes oil more efficiently than ever before, so making oil a smaller proportion of inflation measures.

Source: US Energy Information Administration and Insight Investment.

MARKET COMMENT

Growth on the agenda

INTEREST RATE RISES BODE WELL for the global economy, says Lowes' Investment Manager, Melvyn Bell.

It is 15 months since the world's equity markets started their recovery and it's fascinating to contrast the mood now with then. In March 2003 the Iraq war was a reality and many pundits were speculating about its consequences. The US – still the engine of the global economy – was perceived to be running out of steam, interest rates were at their lowest levels for decades and unemployment was rising.

The media, as usual, focused on the negative. Quotes like this from The Guardian of 19 May 2003 were typical: "With US inflation at it lowest for years, coupled with persistently weak growth, the threat of deflation is stalking the American economy". However, unemployment in the US peaked one month later at 6.3 per cent and is currently 5.6 per cent. Gross Domestic Product (GDP) grew by 3.1 per cent during 2003 and in the first quarter of 2004 grew at an annual equivalent rate of 4.1 per cent.

This pick up in economic growth was not confined to the US. Recently released figures show unemployment in the UK at the lowest levels since 1975 while GDP is near the long term trend 3 per cent. Even Japan is showing signs of recovery and in the last two quarters has grown faster than the US and, while some prices are still falling, the term 'inflation' is returning to the Japanese vocabulary. Of the major economies only those of continental Europe have struggled with unemployment still stubbornly high. However, the latest trade data – although showing some caution among European consumers – shows exporters are benefiting from the growth in global trade.

> *" … Figures show unemployment in the UK at the lowest levels since 1975 … Even Japan is showing signs of recovery … the term 'inflation' is returning to the Japanese vocabulary …"*

With the prospects for deflation receding, the pundits appear more upbeat – though it seems you just can't win! The markets are now preoccupied with the prospect of rising interest rates, a trend started by the Bank of England last November which is likely to be followed in the near future by the US Federal Reserve. But let's be positive – over the past 20 years rising US rates have seldom been negative for US equities. On average the S&P 500 Index rose 12 per cent in the 12 months following the beginning of a tightening cycle [1].

The Middle East remains a problem of course. But it is in the interest of the oil producing nations to maintain a healthy global economy, hence the recent agreement to boost production to curb the rise in crude oil prices. Elsewhere, fears that the Chinese economy is overheating have been overstated, especially as inflation is still below 5 per cent following government action to slowing investment and maintain economic growth.

All in all, the rise in interest rates is a positive as it indicates a return to global economic growth – an excellent scenario for equities longer term.

NOTES
(1) Source: Fidelity Investment Services Limited.

Eclipse goes for growth

THE LAST TIME WE PROMOTED A Venture Capital Trust (VCT) was in the January 2003 Magazine. The Trust in question, Phoenix VCT managed by Octopus Asset Management, was launched at 100 pence per share and the net asset value of these shares now stands at 111.7 pence*. Whilst not exceptional, this performance is very good for a VCT in its early years and we're sure that no investor will be disappointed, especially when you bear in mind that they will have received a 20 per cent tax refund on their initial investment.

> *"you dont have to be a higher rate tax payer to recieve 40 per cent relief"*

In the last issue of Lowes we reported on the changes to VCTs introduced in the March Budget. These changes made VCTs even more attractive by increasing the amount of tax relief an individual can claim from 20 per cent to 40 per cent. What makes this relief especially attractive is that **you don't have to be a higher rate tax payer to receive 40 per cent relief**. If you invest £5,000 then you will receive tax relief of £2,000 providing you have paid that much in tax.

> *"all gains and dividends from VCTs are tax-free"*

Add to this the fact that **all gains and dividends from VCTs are tax-free** and it is clear why there has been a significant revival in interest in the sector. As such, we felt it was time to promote another VCT and having assessed all those currently on the market we have opted for Eclipse VCT which is also managed by Octopus Asset Management. **A prospectus for Eclipse VCT accompanies this issue of Lowes.**

*Source: Financial Times 13 July 2004.

A strong team with a strong track record

OCTOPUS IS A RELATIVELY NEW ENTRANT to the VCT market but one that has made a significant impact and is committed to shareholder communications. It takes a personalised and educational approach, sending out regular investment updates and encouraging investors to speak directly to the fund managers investing their money.

Octopus has built a team with substantial experience and a strong track record to help to ensure that they achieve the best possible returns for investors. The lead manager, Chris Allner, has over 20 years of venture capital experience and has one of the best track records in the industry, having generated an average annual return of over 35 per cent from 1990 to 2003 (see full details on page 7 of the prospectus).

Maximise returns, minimise risk

Eclipse is a new VCT that will invest in a diversified portfolio of primarily unlisted UK companies with the aim of maximising tax-free capital and income returns for investors. Eclipse has one simple goal – to maximise returns and minimise risk.

The management aim to pay out a series of tax-free dividends consisting of earned income and realised gains, and to make this dividend stream consistant year on year from year three onwards.

Whilst a higher risk investment, venture capital backed companies have in general consistently produced superior returns over the longer term than investing in the broader equity market. Eclipse VCT offers individuals access to what has arguably been the UK's best performing asset class historically, whilst securing up to 40 per cent tax relief to provide an enhanced potential for significant profits as well as a degree of insulation from the risk to investors' capital of investing in small companies.

The management team believes that the next few years will be a particularly good time to invest in this area. The poor performance of the UK stock market between 2000 and 2003, combined with the problems many venture capitalists have had in selling their investments in portfolio companies, are two factors that have caused a sharp decline in valuation levels over the last three years. The team believes that these valuations have now bottomed out, and that returns for investors from these levels will be significant.

To invest in the Eclipse VCT read the prospectus fully to ensure that you understand the investment and the risks, and once satisfied complete and return the application form to us in the reply paid envelope provided. The minimum investment is £3,000 and the maximum investment which attracts Tax Relief is £200,000 per investor. Please note that the closing date for applications is 30 September 2004, but we would urge you to ensure that your application is with us no later than Monday 27 September. If you have any questions about the suitability of the Eclipse VCT for you then please call your Lowes' consultant or this office on 0845 1 484848.

Important Notice: Past performance is not necessarily a guide to the future. This investment is not guaranteed and if you need to sell it you may get back less than you invested particularly in the early years and you may also lose any tax reliefs. Venture Capital is considered a high risk investment area and as such you should only invest for the longer term. Levels and bases of reliefs from taxation are based on our understanding of current tax legislation and are subject to change.