

Focused Newsletter

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Issued by Ian Pealin CFP, Focused Financial Planning Ltd

Staying Focused

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Staying Focused

In his master's footsteps

One thing that is clear from the pre-Budget report is that Alistair Darling has learned much from his predecessor when it comes to pulling what appear to be rabbits from a hat. Unfortunately, as usual, we later find that what looked to be a rabbit turns out to be a skunk in a rabbit suit but by now the attention has turned somewhere else.

The apparent doubling of the inheritance tax band is nothing of the sort. The move does not give away anything that could not have already been achieved by nil-rate-band trusts and deeds of variation. What it does mean is that the nil-rate-band of the first to die of a married couple or civil partnership will no longer be lost even if no planning has taken place, and the retrospective

rules are a welcome benefit for families where there is already a surviving spouse and no planning took place.

If you have made a will, and included a nil-rate-band will trust, check with your solicitor as to whether or not any action needs to be taken. It might be a good time to review your will in any case.

Overnight, experts had identified that the apparent give away of £1.5bn in tax breaks actually amounted to a higher tax take to the tune of £1.45bn. Since then we have had news of the increase in National Insurance contributions effective from 6th April 2008, news that was cunningly delayed until after the tax experts had all issued their pre-Budget summaries.

The change to capital gains tax rates has left experts baffled. Ten years ago Brown introduced taper relief, but Darling, in his attempt to hit private equity firms, has abandoned it and has introduced a blanket rate of 18% from 6th April 2008. For most business owners and holders of assets currently qualifying for business asset taper relief this is an 80% increase in capital gains tax if they sell after that date, but a few will benefit from delaying a sale.

It will be interesting to see how Darling responds to recent protests but in the meantime business owners considering a sale should speak to their accountant now.

Take AIM at IHT

The changes to inheritance tax rules alleviate the problem to a degree but many estates will still be caught. One area worth considering is the use of AIM shares as an investment. By their very nature AIM shares are high risk, but if you are already holding part of your investment portfolio in high risk areas, why not consider AIM shares as an alternative.

Currently, once AIM shares have been held for at least two years, they will not form part of your estate for inheritance tax purposes.

It is also possible to have a 100% guarantee against the value on death being below the original amount invested. The guarantee is provided by a life insurance policy so there is some

underwriting involved which means cover cannot be guaranteed for all applicants.

The dividends from the investment are sacrificed to cover the cost of the life insurance so this obviously has an adverse effect on the growth potential of the investment.

There isn't much of a secondary market for AIM shares and this can impact on values when it comes to selling. If a gain is made on selling a holding, currently there is 40% capital gains tax to pay if the shares have been held for less than one year and 10% if they have been held for longer than two years. The proposed changes from next April will mean an 18% capital gains tax charge no matter how long they have been held.

Needless to say there are charges involved and this type of investment is not suitable for everyone.

If you have an estate large enough for high risk to be taken with a relatively small portion of the total and feel comfortable investing in smaller companies and a more volatile market, then this kind of investment might be worth finding out more about.

Giving hope, not gifts

"Give a man a fish and he will eat for a day. Teach him how to fish and he will eat for a lifetime."
Chinese Proverb

Kiva (www.kiva.org) is an interesting idea. It can be seen as a charity or lending facility depending on your point of view. Charity is sometimes misplaced when all it does is temporarily plug a gap.

Kiva operates differently and donors can choose individuals who are to benefit from their generosity and follow the progress of their "investment". Not only does it provide the recipient with funds that would otherwise not be available locally, it offers real hope. You will be able to share in the excitement and thrill of seeing someone lift themselves to self sufficiency through your generosity.

The knock-on effect must also help those around the recipient and eventually benefit whole communities. In the previous Newsletter I brought to your attention another socially responsible outfit at www.zopa.com. If you are aware of any other organisations such as Zopa and Kiva, please let me know and I will give them space in future Newsletters.

Ian Pealin CFP

Focused Financial Planning Ltd

30 Mallard Close
Shefford
Bedfordshire
SG17 5YS

01462 888126

5 Wormwood Street
London
EC2M 1RQ

020 7099 5674



www.focusedfp.co.uk

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Taking on a new dimension

I recently attended a seminar hosted by Dimensional Fund Advisers (www.dfauk.com) and they produced some interesting figures. Looking at the FTSE All Share Index performance between January 1986 and December 2006 the different returns that might have been achieved give cause for reflection. Had an investor remained fully invested throughout, the compound annual return would have been 11.74%. Over that 20 year period, had the investor missed the best 15 days, the compound annual return drops to 8.37% and missing the best 25 days reduced the compound annual return to just 6.72%.

This is the reason that I recommend a buy and hold strategy. You will suffer when the markets go down but will benefit fully when they recover. Trying to guess which way the market is going to go next and moving in and out is a sure fire way to lose money. Not only do you risk missing the best individual days, you end up paying more in dealing costs. The proposed changes to capital gains tax will remove one advantage of holding investments for longer periods but you still have the capital gains tax annual allowance to help you. Where possible you might want to invest regular amounts rather than lump sums to help

spread investment timing risk. As a result of careful portfolio construction in the first place, which took into account your attitude to investment risk, you are unlikely to be ever exposed to the market to a level that makes you uncomfortable. It is however prudent to review your investments at least annually and rebalance if necessary, to make sure that you have not become over exposed to risk through the growth in any one particular sector of your portfolio. Another reason to rebalance is the possibility that your attitude to risk has changed because of changes in your circumstances.

FSA review

The Financial Services Authority (FSA) is carrying out a Retail Distribution Review (RDR) to improve the quality of product distribution. There is a big debate over the term "Independent". Some want to keep the definition as now whereby it indicates that an adviser can advise on products from the whole market, no matter how they are remunerated. Others think that the term "Independent" should mean that the adviser is remunerated

by way of fees agreed with the client and not commission from product providers. However this would allow fee based advisers tied to one company to call themselves "Independent". My view is that "Independent" should mean that the adviser is both free to advise on the whole market *and* be remunerated by fees. But then I would wouldn't I? If you have a view on this I would like to hear it.

Please note

Levels and the bases of taxation and any reliefs are based on current understanding of legislation and are subject to change. Past performance is not a guide to future performance. The value of investments and income derived from them can go down as well as up. You are recommended to seek advice before taking any action on any issue referred to in this Newsletter. No responsibility can be taken for any loss arising from any action arising from action taken or refrained from on the basis of this Newsletter.