360

from AW Financial Management LLP

May 2011

Welcome to the latest edition of our newsletter. It's a different feel again this time as we aim to settle on a version that is good to read, is informative and clear. Our last newsletter was towards the end of March.

In the AWFM news, we are delighted to have welcomed quite a few new clients to the business over the last 6 months or so. The business is therefore doing very well since the merger and we are particularly indebted to those of you who have recommended friends, family and personal contacts to us for financial advice over the years.

Thank you.

In this issue

Global Markets and your portfolio

The many contradictory reactions to the austerity spending cuts and the divided opinions regarding interest rates indicate that most people cannot really tell which way the economy will turn in the short term.

As an investor, you could be forgiven for not knowing how to position your portfolio whilst we wait to see what transpires. However, some fundamental rules of portfolio construction never change and the first: making sure your holdings are well diversified, is exactly for times like this. Over expose yourself to a single asset class – say, equities – and its performance will mirror only the fortunes of the equity market. This might be a very good strategy for the right type of investor, but for most it will be too much exposure to one market. However, if you choose a range of asset classes diversified across different countries and currencies, you achieve a level of diversification which should help to deliver the sort of returns you will be comfortable with, within your chosen risk profile.

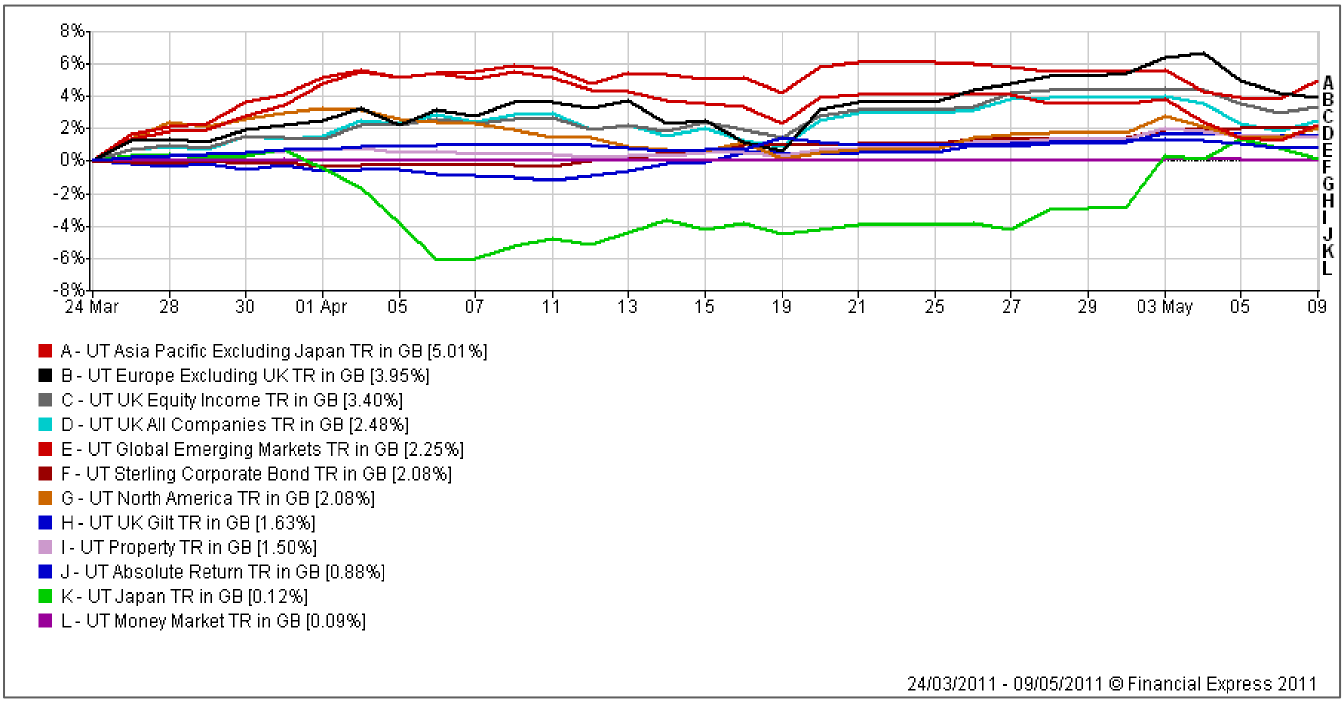
This is a large part of what we aim to do for you as well of course, to recommend financial products that best suit you and your circumstances. We also believe in continuing to monitor the asset spread to ensure that any one asset class does not become over or underweight.

"Give portions to seven, yes to eight, for you do not know what disaster may come upon the land"

Ecclesiastes Chapter 11 verse 2

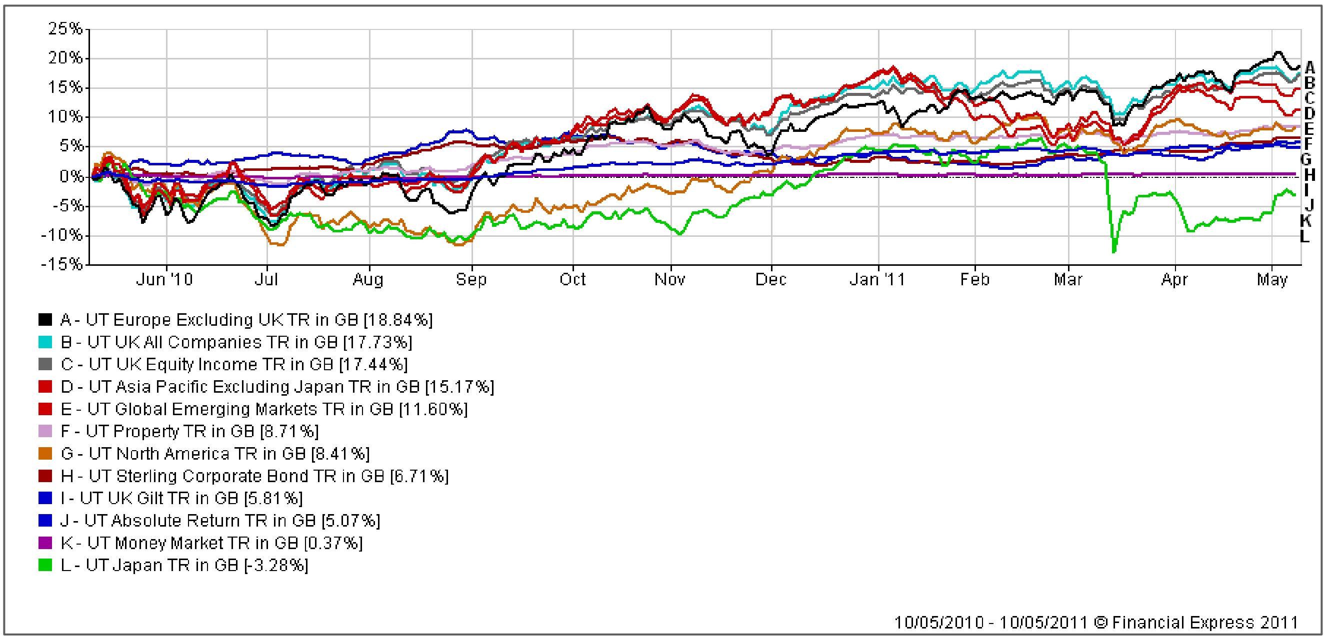
Investment Returns 1

Over the last 2 months since we last wrote to you, the chart below shows the performance of each of the main Unit Trust sectors. Just to remind you, the funds are listed in the order of best return to worst return over the period. Perhaps the main surprises for us would be the strong performance of the Fixed Interest sectors (both Corporate Bonds and Gilts) bearing in mind the threat of higher interest rates:



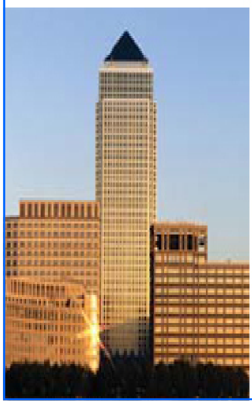
Investment Returns 2

This next graph shows the same fund sectors over the last 12 months. It is very interesting to note that European Equities and UK Equities performed far better than any other sector over the last year. Again that would be a surprise if we were to listen to all of the doom and gloom that seems to pervade every area of our lives. The fact that North America has not performed so well is perhaps a slight concern. We haven't included China in the graph specifically but the return from the China sector average over the last year was 11.15% which would have put it into 5th place, marginally behind the Global Emerging Markets sector.



The wider landscape

It is also worth focussing on the wider landscape which is that, as we had predicted, Equity returns have been significantly better than lower risk fixed interest or cash returns over the last year. If you are invested in Equity funds therefore you should have seen at least low digit double figures return on your investment over the last year, whereas from a Fixed Interest fund you might have achieved around 5% and from Cash possibly less than 1%. As we have been commenting of late, Property funds too have made a sustained come-back, although still within certain wrappers, we would be cautious about recommending exposure to this sector.



Outlook

Much of what we do and where we are likely to be still hinges on the Bank of England's MPC and whether or not they start to raise interest rates, it seems to us. The latest inflation predictions are that inflation will rise to 5% but it seems to us that the MPC are not raising interest rates at the moment because they believe that the inflation is rising from products not necessarily within their control, mainly energy and commodity prices. However, from those in front-line businesses, such as those in the building trade and those in retail, we understand that things continue to be very slow and difficult. We continue to see redundancies rising as well as commodity prices (despite short term volatility) and we have again seen indications that residential property prices are coming under pressure. It is these fundamentals that cause us to retain a high degree of caution.

We do expect interest rates to rise, and when they do, we expect that this will cause pain in the fixed interest sector but we do not advise changing strategy completely – instead, hold the asset allocation. We continue to believe that investing in Equity funds will generate probably the best returns over the coming years – we have not changed on this view for some time.

Living to 100?

It has long been accepted that improvements in medicine and lifestyle means life expectancy is increasing. People will tend to enjoy much longer and healthier lives on average than their predecessors.

However, figures released in April 2011 by the Department of Work & Pensions illustrate exactly what that means. These figures suggest, of the under 16s already alive today, over a quarter are going to reach the age of 100 – and already, the average new-born female is going to live to over 90.

As Steve Webb, Minister for Pensions, commented at the time, this means that millions of people will potentially spend over a third of their life in retirement. However, as the DWP were quick to point out, this news also coincides with a period during which pension savings are in serious decline.

We find this to be a generally worrying trend in that we can add anecdotal evidence to the fact that many younger people are either not willing or able to save for their retirement. When we say younger people, we cannot be too specific but it probably incorporates all those with more than 15 years to go to normal retirement, but might certainly include those closer to this deadline too. An ageing population is putting our welfare system under significant pressure as more people need not only pension income but also healthcare, incapacity support and help within the home.

We can only really encourage our clients and perhaps their grown-up children to take this issue very seriously. There may well be cascaded wealth being passed down from generation to generation but to rely on this is dangerous to say the least.

Reviewing Cash ISA's

As we have pointed out before low interest rates are great news for borrowers but for savers, they can mean derisory returns on investment. With inflation currently running far in excess of base rates, even though the value of your capital may be safe, you need to keep a close eye on the interest rates you are earning to stop, or at least limit the rate at which the buying power of your money is being eroded.

Nowhere is this more apparent than with Cash ISAs. In a recent survey for watchdog, Consumer Focus, over 80% of Cash ISA holders were found to be earning **less than just 0.5%** a year on their savings. In most cases, the attractive introductory rates which lured savers in had come to and end and been replaced by very low "standard" rates. In some cases this change had even gone unnoticed.

This whole issue is so frustrating. Changing providers can be a headache of paperwork and money laundering checks as well as periods of lost interest, only for the rate to be sliced away no sooner than you have moved your funds there. Oh for a provider who seeks to keep their rate towards the top end of rates and doesn't keep offering short term attractive bonus rates!

If you would like us to email you a list of the best savings rates available from our subscription to Moneyfacts, please do email us or speak to Jon (jon@awfm.co.uk) or Nicola (nicola@awfm.co.uk) here who can run off a report of the best buys fairly quickly for you. You will need to tell us:

1) whether you want to invest in ISA or ordinary deposit account
2) how much you have to put away,
3) whether you are prepared and able to tie the money up for a period of time

In other news:

ISA Allowances

Just to put you in touch with the latest ISA allowances effective from 6th April. The annual overall ISA limit has risen to £10,680 with a maximum of £5,340 for a cash only ISA.

Pension Drawdown Changes

A reminder that the rules for Income Drawdown have changed too. The key elements worth noting are:

Maximum Drawdown is reduced to 100% of the single life annuity rate.

Pensioners with other pension in excess of £20,000 do not have to comply with the limit above and can withdraw larger sums.

On death the fund can be used for the spouses benefit first, and then has the ability to be passed onto children with a 55% tax charge but not IHT.

NS&I Inflation-Linked Bonds (5 Year 48th Issue)

NS&I have just re-launched the latest issue of this product which could again prove to be very popular. The key elements are:

Return is inflation (RPI) plus 0.5% - current return of 5.8%.
Maximum investment £15,000 per person, minimum is £100.
Tax Free Return but no Income option.

The NS&I web-site is very easy to follow and you can apply for this online if you think it would suit you.

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