360

from AW Financial Management LLP

July 2011

Welcome to our summer edition of 360. We hope that you have received this newsletter by an email link to our website, as we continue to be as environmentally friendly as we can. Please therefore do not print this newsletter unless you really need to. If we currently send you a paper version but you are able to receive this by email, please let us know your details so we may add your email address to our records.

We have received some comments that the graphs we have included in our previous publication were too small. We believe that there is some value in continuing to include graphs particularly if you are viewing on a screen where you can enlarge the view. We have only included one graph on this occasion and this shows performance over 1 year only. We've managed to enlarge the graph so we hope its clearer for you.

We've also decided to regularise the frequency and in future, we will produce '360' on a quarterly basis. We hope you find this edition both useful and informative & we take this opportunity to wish you all a great summer!

In this issue

Global Markets and your portfolio

Equity markets have been volatile to say the least over the past 3months. Greece seems to have been the main contributor to this volatility in the last few months where we saw Equity markets slide away and then of late show some signs of a significant recovery.

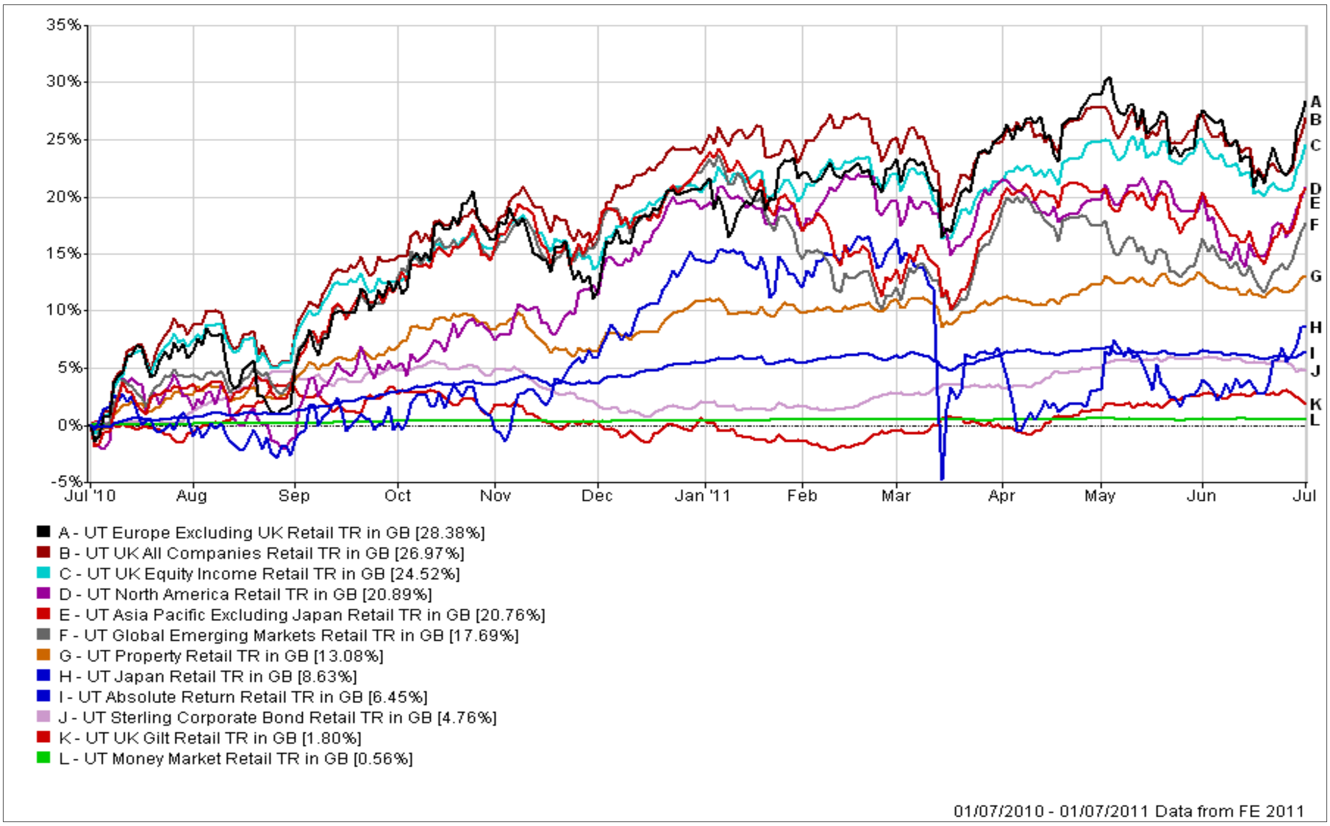
Description	AWFM risk model	3 months	1 year
Low risk	3	0.66%	8.13%
Low to medium risk	4	0.90%	12.07%
Medium risk	5	1.01%	15.17%
Medium plus risk	6	1.12%	20.41%
Medium to high risk	7	1.46%	23.99%
Adventurous risk	8	1.73%	27.65%

You can see from this table that broadly the risk level has determined the overall returns in both periods shown. The following page shows how the various asset class/sectors have performed over the past 12 months.

'You have been faithful and trustworthy with a few things; I will put you in charge of many things.'
Matthew Ch 25 v 21

Investment Returns

Over the past year, the best returns have somewhat surprisingly come from the European Equity sector, followed closely by the UK. America lagged a bit further behind , as did Asia and Emerging Markets. The Property sector has faired well although it does also include global property funds and property shares which are inherently more volatile. Our preference for clients within our model portfolios is to utilise UK funds which have less volatility and are designed to produce relatively stable returns. Despite the huge earthquake disruption in March, Japanese markets have moved to recover at least half of their losses. Even Corporate Bond funds performed well over the year although they have been relatively flat over the last 3 months or so. Cash funds continue to deliver little enough return to be described as negligible.



Turning now to what is in front of us, we consider what are likely to be the key themes. The amount of debt that is being racked up continues to be one of the key factors. Individuals disposable income is likely to continue to be squeezed by tax and inflation. We could go on about the shape of the economy, but in terms of investments, we have found the Sentiment Indicator produced by Skandia to be very useful. The indicator seeks the views of 26 fund managers on various investment themes. Their latest publication included the following analysis which we have summarised below:

Positive sectors across the fund managers range include UK and US Equities, Emerging Markets, Far East excluding Japan.

Neutral sectors include Europe, Japan, BRIC, UK Property, UK Corporate Bond, Global Bonds

Negative sectors focus primarily on UK Government Securities (Gilts).

This analysis is very much in keeping with our own views that Equity investments are likely to offer the best returns over the mid term but we continue to anticipate volatility being a worrying factor in the overall net return.

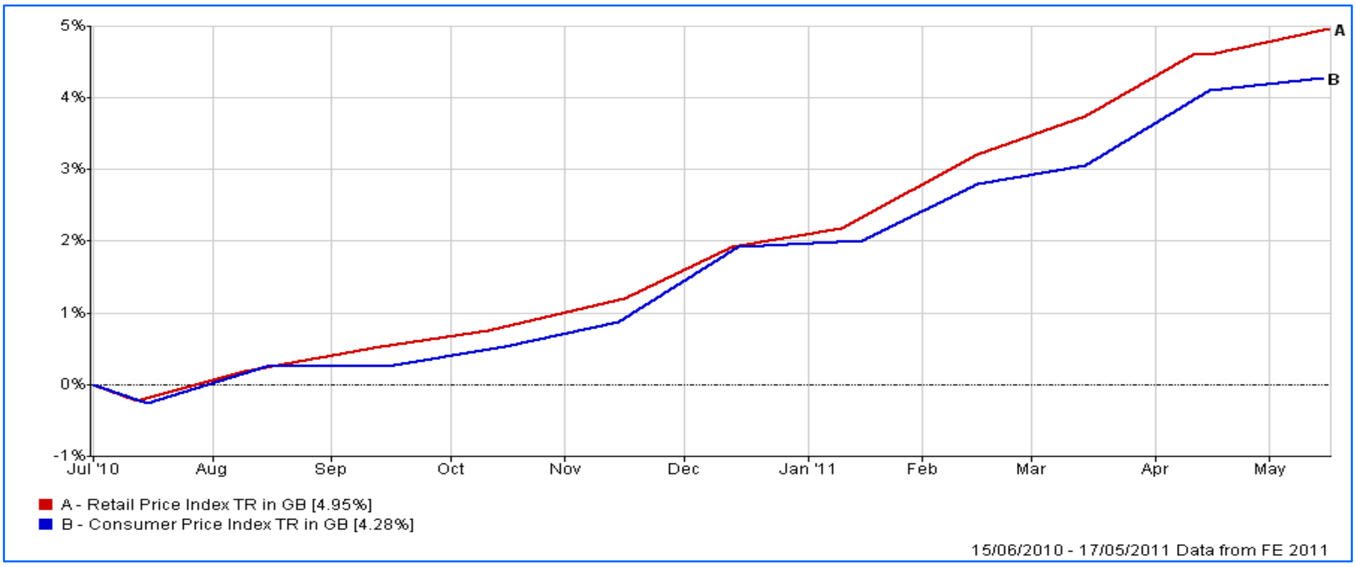
	POS	A POSITIVE outlook – the fund group believes the index they are using as a benchmark will rise in excess of 5% over the next 12 months.
	NEU	A NEUTRAL outlook – the fund group believes the index they are using as a benchmark will have either a positive or negative movement of between 0% and 5% over the next 12 months.
	NEG	A NEGATIVE outlook – the fund group believes the index they are using as a benchmark will fall in excess of 5% over the next 12 months.

Planning for success

CONSIDER ALL EVENTUALITIES

Treated with respect, money can help you to achieve something of the life that you want. However, when considering your financial plan, you should take time to consider not only what you want to happen, but also what might happen whether you like it or not! If you are planning to retire soon, start a family, take a career break or to change your home, this is likely to affect the strategy that you choose. You also need to think who depends on you and might suffer were you no longer around. Whatever your circumstances, a little extra work in planning can help make sure you and your family are well equipped to deal with all eventualities.

RPI to CPI



Last June, the coalition government announced that, in future, state and public service pensions would increase in line with the Consumer Price Index (CPI) rather than the Retail Prices Index (RPI). The change, announced in an Emergency Budget, aims to help the government cut the UK's sizeable budget deficit.

CPI does not include housing-related costs such as mortgage interest payments, buildings insurance and council tax. The rate of CPI has therefore tended to run below that of RPI in recent years and the government contends that CPI is a more appropriate measure of inflation because it strips out these costs (which are considered less relevant to pensioners who arguably, should have by retirement, repaid any mortgage they took out by the time they retire). To ensure consistency, the government subsequently applied this ruling to occupational pensions. However, this triggered a complex debate over whether all private pension schemes would be able to move to CPI as, according to a survey by the National Association of Pension Funds (NAPF), 61% of pension schemes have small print specifically embedding their link in to RPI.

The NAPF warned against any ensuing uncertainty, suggesting pension funds might find it difficult to plan ahead. The association believes that a switch to CPI could increase flexibility for pension funds, but suggested the implications for current and future pensioners needed to be carefully considered to make sure the full facts were understood. Movement among pension funds was swift however, and KPMG's 2011 Pensions Accounting Survey showed that many companies have already benefited from the switch from RPI to CPI.

Henderson and Gartmore update

You may remember from previous communications that Henderson Group PLC acquired Gartmore back in April 2011. From the 11th July the Gartmore brand will disappear to be replaced with the Henderson Global investors branding.

Henderson
GLOBAL INVESTORS

The fund names will now simply be prefixed as Henderson XYZ fund and (where held) these will be shown in your future valuation statements.

Long Term Care

Many of our clients will have a major concern about the future cost of long term care (now renamed Social Care) and the impact this may have on their finances. Many therefore will have read the Dilnot report or at least looked at some of the headlines, which we have lifted directly from the report:

- **To protect people from extreme care costs we recommend capping the lifetime contribution to adult social care costs that any individual needs to make at between £25,000 and £50,000. We think that £35,000 is an appropriate and fair figure**
- **Means-tested support should continue for those of lower means, and the asset threshold for those in residential care beyond which no means-tested help is given should increase from £23,250 to £100,000**
- **People should contribute a standard amount to cover their general living costs, such as food and accommodation, in residential care.** We (Dilnot) believe a figure in the range of £7,000 to £10,000 a year is appropriate.

We will need to see what transpires over the next months and years on this, but on the face of it, if these reforms are brought in, it will be very comforting to many of our clients as they will essentially be able to segregate the amount of money they need for their care. They will then be able to get on with living the rest of their lives without the unknown future care fees burden – in theory anyway. However there are very many questions about how this will actually be introduced, if at all and therefore we need to keep a watching brief on how discussions proceed. Our first impressions, this is perhaps a little too good to be true when compared with the current system!

Other News

On the 9th July, history will be made with the birth of a new country – South Sudan.

We wish South Sudan a Happy Birthday but remember too, the extreme poverty of this country which has been ravaged by decades of conflict which have left many homeless.

Tearfund are a charity bringing much needed relief to this part of the world, including life saving supplies, safe water and nutrition to projects in the region.

If you would like to know more about Tearfund and the very important work they do, please log on to their website www.tearfund.org

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