360°

Your Autumn Update from AW Financial Management LLP

Welcome to our October 2012 edition of 360 – Issue 7

This is our quarterly update on all things Financial. As ever, we hope you find the articles, reports and commentary both useful and informative.

NEST & Auto-enrolment

If you're retired already, hopefully you will be enjoying the fruits of having put money away during your working years into a pension (amongst other things) so that you can now live, without working. Automatic enrolment into pension schemes has become less and less popular however. Given the choice, with all the bad publicity surrounding pensions, younger people have opted out in their droves, creating a pension time-bomb particularly as the population in the UK gradually ages.

This month sees the start of the new initiative of pension reform known in the market as auto-enrolment. Employees and the self-employed will automatically become members of a pension scheme in to which they (and if applicable their employer) will need to contribute. Whilst they can then opt out before actually becoming a member of the scheme, the hope is that they will stay in – inertia taking over.

By October 2018 the Employee will need to be paying 5% of their salary into the pension scheme (4% after tax relief) and the Employer will need to be paying 3% of an Employee's salary into the scheme although before 2018 the figures gradually increase from a total of 2% contribution.

This is BIG news. Retired readers of this article will probably on the whole say that this is a good idea. Younger folk who are affected by this may be looking ahead to 2018 trying to see how they will stretch their budgets to accommodate 5% of their gross income being taken. What will they have to give up in order to fund this? And lastly Employers are likely to be counting the cost of this additional burden placed upon them both administratively and financially.

On the whole, as a firm we are positive about this move because if given the choice, people generally choose not to save. We believe in saving and investing and so we broadly support the concept. We will watch with interest as first the larger companies and then gradually the smaller and smaller companies become affected.

"In the house of the wise are stores of choice food and oil, but a foolish man devours all he has."
Proverbs 21:20

Global Markets and your portfolio ...

Despite the obvious doom and gloom (which may yet come back to bite us) the returns from portfolios as a whole across the board have been exceptionally positive both since our last newsletter analysis and over the last 12 months. As with our last newsletter, for the table below, we have included all 5 of our risk based portfolios on both the shortest term and longest term basis to give you an indication of the sorts of returns that you might expect to have received:

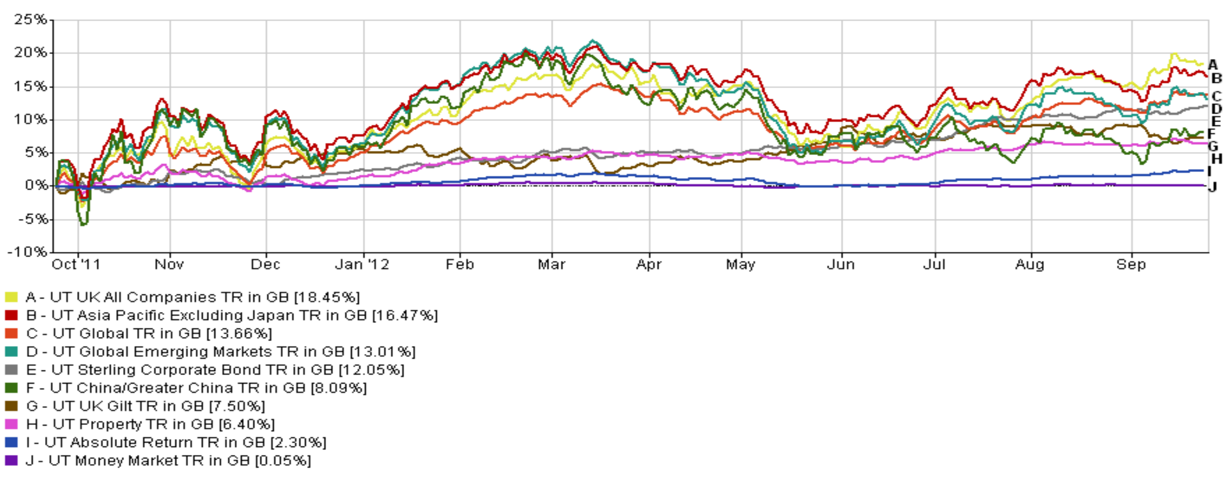
Equity funds in particular have performed very strongly of late, although this return for any diversified portfolio has also been helped by strong performance in the Fixed Interest sector too.

As ever, these figures provide useful insight into what has happened over the last 12 months but they do not tell you what will happen over the coming 12 months. We deal with this more thoroughly in the next section.

Description	NEW AWFM risk model	3 to 5 year Portfolio (shortest term)		21 year + Portfolio (longest term)	
		3 months	1 year	3 months	1 year
Cautious risk	1	1.17%	3.50%	2.76%	11.34%
Cautious to moderate risk	2	2.09%	5.65%	6.27%	15.55%
Moderate risk	3	3.19%	7.22%	7.49%	17.03%
Moderate to adventurous risk	4	4.67%	10.36%	7.17%	13.76%
Adventurous risk	5	7.58%	16.49%	7.01%	15.64%

Investment Returns & Outlook ...

We have thinned this chart out a bit to hopefully make it more readable. Looking at the individual sectors, you can see from the chart below that over the last year the range of returns was from plus 0.05% from Cash/Money Market to plus 18.45% from UK Equities. We have replaced America, Europe, Japan etc with the Global Equity sector. I think perhaps the worry, is that China, which we have included in the chart has only produced mid-table returns. I read that factories in China are closing or reducing production due to the lack of demand from the West. This could be a very significant factor.



Gilts and Corporate Bonds have continued to provide excellent returns over the last year although we continue to be concerned about the outlook for these asset classes over the short term. For longer term model portfolios we have chosen to seek out Strategic Bond funds for the Fixed Interest exposure as these will be able to strategically move between Gilts and Corporate Bond funds as well as an option to hold some Equity funds, as they feel is appropriate.

Getting the consensus view of a range of fund managers as to which asset classes they are positive about and those that they are not so positive about, we include an extract from Skandia's latest publication (we use this table regularly) which we have summarised below:

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.	All Equity sectors now feature in the positive outlook sector. Coming into the sector from neutral are Japan, Asia Pacific & Emerging Markets. The sector also includes UK Corporate Bonds.
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.	Held in this neutral space is UK & Global Property.
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.	Negative sentiment now relates solely to UK Government stocks (Gilts).

As ever, it will be interesting to see what actually transpires.

Financial Adviser Changes 1st January 2013

1st January next year for most people will be about New Years' Resolutions, thinking about getting back to work after the festivities and scraping the car early in the morning from frost, or even possibly snow. In the Financial Advisory world however, we will be shaping up for the first few days under the FSA's new RDR regime.

RDR has been in the planning stage for probably about 10 years. Its aim, in our opinion is to try to stamp out issues of mis-selling, to aim to increase professionalism in the industry and to try to ensure that customers get a fair deal from their financial adviser. We wholeheartedly support these aims and we are pleased to say that we have been working towards and perhaps beyond the standards required of us by RDR for many years now. So what are some of the key changes?

The first and perhaps the biggest is to understand which status a Financial Adviser will adopt. There are essentially two main options although other sub-options exist:

1. **Independent Adviser** – needs to review the whole of the market-place for every product recommendation. This is the option that we will be proceeding with as it is an extension of everything we have stood for, for many years.
2. **Restricted Adviser** – only needs to review a limited product range and offer a product from a limited range of companies or products. We believe that this option, if taken will not provide clients with the best outcome in all situations and is why we wish to retain our independence. It is more complicated than this however, in that a Restricted Adviser may in certain situations still offer what is known as whole of market advice but they are restricted because they specialise in a certain area of advice – pensions only for example, or only investments. There is therefore some significant scope for consumer confusion here.

However, because of our stance, this is not a significant change in the way we at AWFM do business, but still have to make comprehensive amendments to some of our client facing literature to facilitate these new definitions.

Another huge issue for many advisory firms will be the banning of commission linked to product sales for new products. This ban applies, whether the adviser is restricted or independent. Of course, financial advice has never been free but sometimes it has been dressed up to be free and sometimes commissions have far exceeded the level of work involved. We tackled this many years ago as individual firms, then carried this through into AWFM. We have asked our clients to sign fee agreements setting out what we will do for them, and the costs involved. In that respect, there is not a huge amount of change for us and our clients. Existing business can remain unaffected.

However, any new business placed even for existing clients will require more explanation over fees charging and options as to how the payment for the advice will be made. Again, this is not a problem for us, apart from perhaps being marginally more time consuming.

Pension & Investment products will also be subject to some change with regard to the charges levied. New "clean" or "unbundled" charging structures will almost certainly come to the fore. We have produced a Fact-File on this issue which provides more information on the inevitable changes. You can read more about this by going onto our website.

Finally we have all been busy here increasing our qualifications count as the minimum threshold bar has been raised. This has been a helpful exercise for each of us. Each of us are going to be looking forward to furthering our qualifications to enhance the service that we provide to our clients and to ensure that we keep up to date with all aspects of the changing world of financial services.

The family of AWFM

We were delighted to hear the news that Jon and his wife Helen are expecting their first child in March next year. We're sure you will join us in wishing them every blessing as they start a new chapter of their lives together.

Jon has fitted in incredibly well with the firm and he has excelled in his study and exams. He has one final exam to complete shortly and then he will be fully qualified. Our plan is that starting from July next year, Jon will gradually start developing clients of his own, whilst providing ongoing back-up support to the Partners. This process is likely to gradually develop over the years. We are confident that Jon will become an excellent Financial Adviser.

If you have any questions about this newsletter or your existing investments, please contact us to discuss your situation further.