360

from **AW Financial Management LLP** **January 2012**

Welcome to our New Year edition of 360. We hope that you have received this newsletter by an email link to our website, as we strive 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.

What were the highlights of 2011? The FTSE 100 index failed to flatter. Having started the year at 6,013 it closed at 5,572 losing 441 points which equates to 7.3% but with dividends reinvested, the loss was only about 2.18%. Inflation was probably the key concern in 2011 but interest rates were kept defiantly low. House prices moved sideways or marginally down. Commercial Property funds generally increased in value but the winner was the Fixed Interest sector. Corporate Bond funds were broadly flat but Gilt funds in some cases increased by over 10%.

In this issue

Global Markets and your portfolio

Once again the lower risk portfolios over the last year have produced better returns than the higher risk portfolios although as this table below demonstrates, the return from the lower risk portfolios, when things start to improve will almost certainly be lower.

Description	AWFM risk model	3 months	1 year
Low risk	3	2.94%	0.03%
Low to medium risk	4	4.30%	-1.16%
Medium risk	5	4.52%	-3.70%
Medium plus risk	6	5.33%	-7.04%
Medium to high risk	7	5.61%	-8.73%
Adventurous risk	8	4.78%	-10.46%

These portfolios provide a good indication of the levels of return each investor will have received over these terms. The questions that we are all grappling with, is what is the best strategy for going forward into 2012?

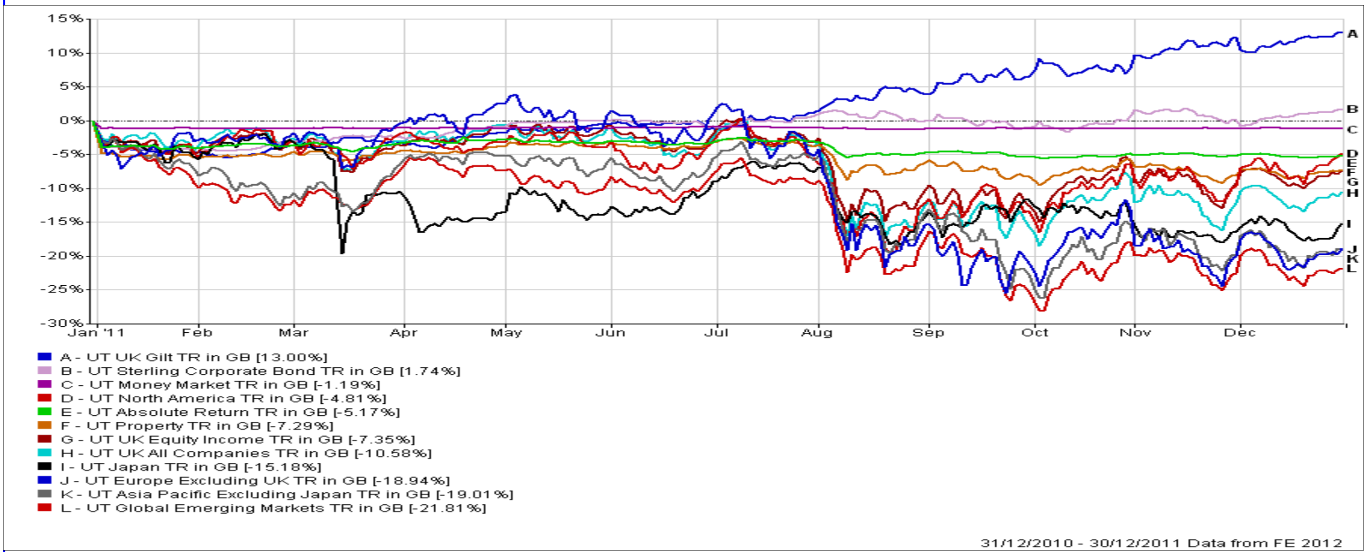
We continue to try to ensure that our clients have “risk-appropriate” portfolios for the longer term. If a client cannot afford the financial losses, we will aim to ensure that their investments are retained in lower risk portfolios. For those investing over the longer term and with significant “other assets”, they can afford to take a higher degree of risk.

On page 2, we look at each investment class in more detail and consider the outlook.

“The earth is the Lord’s, and everything in it, the world and all who live in it.”
Psalm 24 verse 1

Investment Returns & Outlook

You can see from the chart below that over the last year the range of returns was from minus 21% to plus 13% - a total range of 34%.Only 2 funds produced positive returns. The worst return was from Global Emerging Markets followed closely by Asia Pacific. European Equities were in amongst the major losers again, unsurprisingly.



Europe continues to dominate the headlines of course and the sentiment. It is likely that the Eurozone debt crisis will continue throughout 2012 with the European leaders failing to bring unity and a credible response to dealing with the crisis. This likely to exacerbate the economic problems of the heavily indebted southern Eurozone countries and will probably be the key driver of volatility in markets.

Elsewhere, the US is still struggling with the slump in their property prices, the Chinese economy appears to be losing momentum although still perhaps expecting economic growth to be in the region of 7% to 8% for 2012. This compares with the anticipated Eurozone forecast of well under 1% and for the UK the Office of Budget Responsibility (OBR) is forecasting 0.7% in 2012 but a more healthy 2.1% in 2013.

A key theme running through all this is over-extended debt and the requirement for “balance sheet repair”. Borrow cautiously is one of our watchwords, because of the requirement to repay—if you don’t repay, you default and lose your standing and credibility. Useful words for us as a nation and also for us individually.

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.	Maintained as areas of positivity are UK and US Equities, although UK Smaller Companies have been downgraded. Emerging Markets including BRIC (Brazil, Russia, India & China) are also positive. UK Corporate Bonds are also positive.
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.	In this category are UK (& Global) Property, Japanese Equities, US and UK Smaller Companies and Asia Pacific.
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.	As with last time the consensus view of fund managers is negative on Europe and UK Government Securities (Gilts) for perhaps very different reasons. Global Bonds also have a negative outlook.

Comparing these two information sources therefore, an investor should perhaps be looking to avoid the one asset class that delivered a good return over the last year, when focussing on the year ahead. What was the winner last year is unlikely to be the winner this year! In other words, what goes up ....!

Saving/Investing for Children

What is the best way to save/invest money for children, grand-children or nieces and nephews? It is a question we are often asked. Junior ISAs were launched on 1st November—is it now a relatively simple decision process?

More detail regarding Junior ISAs (JISAs) and Child Trust Funds (CTFs) as well as other options are available as a download from our web-site www.awfm.co.uk (Fact Files & Downloads)

Essentially, with either option, up to £3,600 can be saved or invested per child. There is no tax to pay on the interest or investment gains and anyone can pay into the child's fund. Once the child reaches the age of 18, they are automatically entitled to the funds.

And here is the rub; it is clear that with either regime, a child could potentially accrue a sum of £65,000 plus by the time they are 18. This assumes no growth at all. So what would you do with £65,000 if you were 18? Perhaps more importantly, think of a *nearly-18-year-old* who you know – how sensible are they? How likely are they to buy a *modest* car, pay out the year's insurance (as much if not more than the car) and then put the remaining balance away on deposit, without touching the capital or interest, so that they can either pay off their student debts or even put the money towards a deposit for a house or to help fund starting a business? You *might* be lucky!

> *"I spent my 30s fixing everything I broke in my 20s"*
> **Eddie Murphy**
>
> *"I'm not 40, I'm eighteen with 22 years experience"*
> **Author Unknown**

Whilst we are always looking for ways in which clients can maximise tax-free allowances, there are situations where the tax advantages can mask hidden snares and pit-falls – and this is a case in point. The parent (or grand-parent) can exercise no control over how the child uses the money once they reach the (exceptionally mature?) age of 18. They will only be able to exercise *influence;* will the 18 year old be mature enough to listen or will the advice fall on deaf ears?

There is also the issue of ensuring that children grow up with a good work ethic. In the parable of the Prodigal Son in the Bible, the Father gives the inheritance to his youngest son and the boy goes off to party and soon finds he is penniless. Would he have been so careless with the money if he had earned every penny of it through hard work?

It is however quite clear to most of us, that children growing up are going to find it increasingly difficult to establish themselves financially. House prices are still sky-high and the cost of further education could land children with £30,000 plus debts by the time they are in their early 20's. And whether or not they go onto further education, when they finally come to need/want a job, it is very likely that they will have real difficulty landing their first full-time job and keeping it.

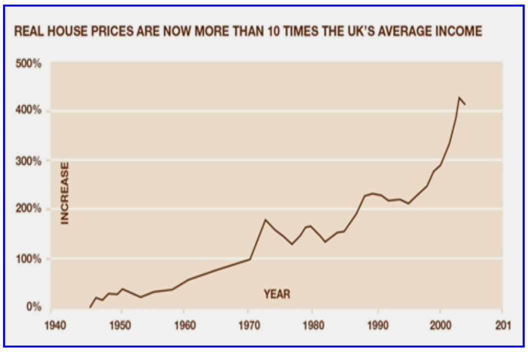
For those parents and grand-parents who are in a position to be able to put money aside for the child all of this brings countless and unanswerable questions. What is the right thing to do? Only you can decide. As with any financial decision, you need to weigh up the pros and cons of each option and then decide which are the most important issues for you. This will almost certainly need to fit comfortably into any long term financial plan.

Finally, when advising parents of children who are going off to university, we generally advise the parents to ensure that the student looks after their own finances (they have to start somewhere!) as much as possible. This will include setting and then trying to live within a budget and, to try to ensure that the student doesn't overspend carelessly, that the parent(s) agree to pay off a certain level of the debt or the fees directly, with any excess spending being down to the student to repay.

If you have any comments about this article—things that have worked for you or even tales of woe either first-hand or otherwise, do please consider adding to the blog posting on our website at www.awfm.co.uk (Blog)

Mind the gap…

Back when the national retirement age was first set, life expectancy was 72 and retirement was expected to be a few years of well-earned rest. Nowadays, however, retirement can last up to a third of our lives – and this figure is still rising. According to a study in The Lancet, half of all people born in rich nations since the year 2000 can now expect to reach the age of 100.



For many developed nations, the challenge of an ageing population is made more acute by the so-called 'baby boomers'. However, the important change for the nation's finances started in the 1970s, when the boomers were ready to buy their first home. At the time, a house cost £5,000 on average. This was slightly more than twice the average income and meant houses were comparatively affordable. Today, the average family home costs £325,000, which is more than 10 times the current average income. As a result of this long-running housing boom, the property-owning baby boomers have become the richest generation this country has ever produced.

Unfortunately, this has also meant that following generations have had to pay much more for their homes and, as a result, they have had to get themselves more heavily into debt. Even the baby boomers themselves are now facing challenges. Many will not want to use their savings purely to generate an income as some feel they need to preserve their capital for their children or grandchildren. As a society, we have to hope that when we arrive at that future, there will be enough money left to pay for the retirement of the ageing population. This is a challenge that is likely to be faced by countries around the world over the next 20 to 30 years. So what could be the solution for the UK? One option could be to find ways to encourage people to save for their old age. We could incentivise people to opt out of the state pension system through tax allowances, rather than forcing them to have their incomes means-tested. Now there's a thought….!

In other news…

The Ultimate Guide to Penny Pinching

On the 1st December, Channel 4's Cutting Edge documentary featured old (young) friends of Martin & Andrea in a piece called "The Ultimate Guide to Penny Pinching". Judith focussed on the use of vouchers to bring her weekly shop down to almost nothing each week. But she also explained that she and her husband had paid off their mortgage early by scrimping and saving but are now reaping the benefits of living mortgage-free. Quite a contrast to today's society. Well done Judith (& Steve).

It doesn't appear that you can still get the programme on 4OD but you can read some of the essence of Judith's approach by following this link: http://www.channel4.com/programmes/the-ultimate-guide-to-penny-pinching/articles/judiths-story-and-top-tips

But even Judith's antics were over-shadowed by "Jonathan" whose idea of penny-pinching was to feast on road-kill. Now that's a bit extreme!

A year on with AWFM

We have now completed our first year as AW Financial Management LLP. There are big changes to the Financial Advice arena coming in on 1st January 2013, under the FSA regime "RDR" (Retail Distribution Review). The key requirements for RDR are that firms need to agree fees with clients (which we have done for many years) and to achieve a certain level of qualification—known as QCA level 4.

Gary and Martin both decided to re-take these (6) examinations and are well on their way to completing these. They have helped us to help Jon who is also taking these same exams and progressing well.

We hope that the changes we implemented when we merged the businesses have not hampered our services to you in any way. In fact, we hope that the client experience is enhanced by the beefing up of our team. We look forward to seeing you over the coming year!

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