Equity Release Redesigned

Equity Release has a very mixed reputation. A number of miss-selling scandals based on equity release products sold in the 80's and 90's have damaged the industry in the eyes of consumers.

The reality today is very different. The Equity Release products available on the market, Lifetime Mortgages and Reversion Products are regulated by the FSA. This regulation gives customers considerable protection.

Providers are required to provide compliant product literature and product design has changed to provide many safe guards for clients. No negative equity guarantees are standard and all members of SHIP insist that clients take independent legal advice.

Advisors such as Three Counties are now required to be authorised to sell Equity Release products and guidelines have been developed to ensure a compliant advice process.

Pricing has also reduced to the point where Equity Release loans compare favourably with many other options.

Three Counties Ltd has recently been holding an Equity Release Meet and Greet Day, where clients or friends of clients have had the opportunity to discuss any queries or concerns they may need answering. The days have always been well received and if you would like to attend the next meeting please contact us for future dates and venues.

New-style Property Trusts

The arrival of the real estate investment trust, or REIT follows a change in the law. Britain's biggest commercial property owners can now change their corporate status and turn themselves into investment trusts. This allows them to own property and distribute the gains tax-free.

The end of this 'double taxation' will allow dividends to be paid out of untaxed income provided at least 90 per cent is distributed to investors.

To convert, a trust company must pay a one off charge to the Treasury equivalent to 2 per cent of the value of its property portfolio. After that, it will be free to expand its portfolio with little hindrance from tax authorities. The new REITs are also expected to attract investors in residential property. The rules for holding residential property within the new trusts are complicated, but still likely to prove enticing to some investors.

Fixed Rates Hit Record

The amount of borrowers taking out fixed-rate mortgages is at the highest level on record.

The number of people opting for fixed-rate loans has been rising steadily for the past two years, but a poll by a lender showed the increase in the last six months was by far the most dramatic. Since September 2006, fixed rate mortgages have grown to make up more than 60 per cent of the market, up from the 48 per cent before the Bank of England began its recent spate of rate hikes.

Research shows that an even higher proportion of landlords are opting for fixed-rate mortgages, with 78 per cent of landlords opting for fixed rate mortgages in recent months.

Bank Rates Up Again

Homeowners are facing more misery after the Bank of England decided to raise interest rates by a quarter point to 5.75%

They are now at a six year high having risen dramatically from 4.5% just 12 months ago, adding hundreds of pounds to household costs.

This rise could mean those who are not in a fixed rate, or discounted period are going to struggle to deal with higher mortgage repayments.

Homeowners with a £100,000 mortgage have already seen a repayment rise of over £60.00 since August 2006.

The biggest shock is for those people whose fixed rate deals are about to come to an end after two years, as the typical rate being offered back then was 4.0% and 4.5%, so reverting to a lenders variable rate of 7.5% to 7.75% could actually increase repayments by as much as £215.00 per month, an equivalent fixed rate at 5.5% could reduce the payment shock to £90.00

The importance of looking at other lenders has never been more paramount, there are still some good rates available from certain lenders

Many industry experts are also expecting another increase at the end of the year as the Monetary Policy Committee battle to bring inflation under control.

For further information please contact:-

Peter West (Chairman) pww@three-counties.co.uk
John Baxter (Managing Director) John.Baxter@three-counties.co.uk
Steve Cann (Director) sec@three-counties.co.uk
Mark West (Associate Director) mjw@three-counties.co.uk
Peter Braisby (Client Services Manager) pab@three-counties.co.uk
Les Cain (Office Manager) Leslie.Cain@three-counties.co.uk

THREE COUNTIES LIMITED Cale Cross House, 156 Pilgrim Street, Newcastle upon Tyne, NE1 6SU
Telephone (0191) 230 3034 Facsimile (0191) 230 3035 Email info@three-counties.co.uk www.three-counties.co.uk

THREE COUNTIES

CLIENT BRIEFING

August 2007

Putting Property in perspective

I thought it would be appropriate to make comment on some of the nonsense which has being written in the press about investment into commercial property in the UK. Commercial property should always be a part of a well diversified portfolio. Its negative correlation to equities helps provide long term stability at times when equity markets are undergoing a significant shorter term correction. The primary reason for holding property in the portfolio is for the income stream provided by the rental yield. Leaseholders pay their rent and this in turn is usually subject to upward only reviews over the duration of the lease. The tenant must also continue to pay the agreed rent even if the UK economy or its own sector of the market is going through a bad spell. The key ingredients for the portfolio manager to keep in place are the sector, a decent average lease duration and the quality of the tenant.

Over the past few years commercial property has been a very rewarding asset class as property values in some sectors of the market, office and industrial, have continued to rise in value. Annual returns have often been well into double figures as managers have quite rightly consolidated higher valuations on behalf of their investors. Some investors have been encouraged to move into these markets because of this shorter term outperformance and not for the long term income stream benefits and diversification which this type of investment offers.

Certain elements of our media are now talking down the UK market. As a result many investors, either of their own accord, or on the erroneous advice of an adviser, pull their money out of the property market. Except it's not that easy! Property is not a short term investment. The knock on effect of this short termism is that the manager may have to sell a property at a time when conditions are not favourable. This may be a property which could have long term benefit for the investors wanting to remain in the fund. At such times managers quite rightly use the regulations to protect the interests of genuine long term investors by reducing the bid price of the units in their fund. This severely penalises investors wanting to exit and protects the interests of the long term investors. The income stream however remains in place and untouched. In due course the manager will again move the value of a unit to reflect the true market value of the asset once short term punters have either exited or changed there attitude and become sensible long term investors.

We remain content to advise our clients to continue to hold property as a long term asset class in their portfolios as a means of securing an income stream which is stable and should outperform alternative asset classes such as cash. The current press comment applies predominantly to the UK market. Other parts of the world are at a different point in their economic cycle; these include Germany and the former communist states that have recently joined the European Union where the opportunity for growth value should exist for some time to come. In time the UK will once again go through a period of increased valuations. Property is a long term hold not a short term punt and is primarily held for its income stream and diversification qualities.

Peter W West

IS THE $2 POUND HERE TO STAY?

On the 3rd of July the pound hit a 26-year high against the dollar, bringing it within striking distance of $2.02 and dealers say a two-dollar pound will be a fixture for months to come.

The pound was surging ahead of the Bank of England's monetary policy committee meeting on 5th of July 2007 where interest rates were once again increased by 0.25% which resulted in a widening of the sterling's yield advantage?

At the same time, concerns about the US sub-prime mortgage crisis and security threats have hit the dollar.

A rising interest rate bias and stronger fundamentals in the UK however, have seen sterling shake off the terror attacks in Britain to push the pound to the highest since 1981.

The euro is also at a two month high against the dollar, coming close to its all-time high amid buoyant manufacturing data in the eurozone. Those figures are set against the expectation that US rates have peaked and fears that global credit markets have peaked.

The pound has become the darling of central banks round the world. The International Monetary Fund says that holdings in sterling, particularly by developing countries, have more than trebled since 2003.

MARKET COMMENT

The bull market in equities has continued to run but the volatility in markets has increased in recent weeks thanks to the uncertainty in bond markets, the future for interest rates and the Bank of England's concern over inflation. In the short term it seems likely that the FTSE 100 will test its all time high of 6900 achieved in early 2000. It is likely that this will be followed by a significant correction of fairly short term duration.

Despite this, equities remain the favoured asset class for portfolio managers rather than cash bonds or property. Although each asset class can have a part to play in a risk profile diversified portfolio. Our Advisory Portfolios have been constructed with this scenario in mind. We have continued with our strategy, which we began in the second half of 2006, to move portfolios away from mid cap by increasing the holdings in equity income funds, particularly those investing in the mega cap companies (HSBC, Shell, BP etc.) that have for so long been in the doldrums.

Saving for your Children

Parents and Grandparents often think about setting aside a sum of money, or starting a regular savings plan for young children, so that when the young person is older they have a capital sum to start them off in life.

This might be used, for example, to pay for further education or as a deposit for a first home.

The first savings for a child are usually cash deposits. These can be in accounts specifically set up with banks and building societies for children.

Children's savings accounts have a maximum age limit for the account holder, which can be as high as 21 for some accounts.

Many parents choose to save their child benefit. Currently this is paid at a rate of £18.10. Assuming savings at this rate and ignoring any obvious increases for now, this could amount to almost £24,000 by the time the child reaches age 18.

The Child Trust Fund (CTF) encourages saving for children.

The CTF provides a government-funded endowment of a minimum of £250.00 per child at birth and up to £500.00 for those children from lower income families.

Parents as well as friends and relatives are able to add to the fund.

The fund will be used when the child reaches 18 and there will be no restriction on how the proceeds are used.

As we know, over the long term, stock market funds have outperformed other types of investment. One of the benefits of saving for children is that investment is generally for the longer term- more than 10 years, and very often on a regular basis.

When saving smaller regular amounts, the best way to invest in the stock market is through unit or investment trusts. These are pooled investment funds which give access to a wide spread of shares and other securities such as bonds.

The main objective in investing in the stock market is capital growth, this will help to protect your children's savings against the affects of inflation.

There are many schemes available if you would like additional information on how you can help your children then please contact your Three Counties Client Manager.

New Website

In line with the new corporate design we have developed a new website.

We have added some additional features that allow our Silver and Gold Programme clients to access their own portfolio by using their own security and identity numbers. A designated advisor will automatically deal with a new client query and the client will immediately be given the advisors name, thus giving an immediate point of contact.

We feel that the new website features are going to help us deal with all enquiries in a more efficient manner, but also more importantly let our clients take a more active interest in their portfolios.

The website address is unchanged and can be accessed at www.three-counties.co.uk

Protection Protection Protection

Few people protect themselves and their families from death and illness even though the loss of a parent, spouse or partner can cause huge financial and emotional stress.

Here we offer some examples of some of the policies that are available.

LIFE INSURANCE

This is the simplest form of protection, paying out a lump sum on the policyholder's death. Policies can run 'whole of life' or for a set term, such as 25 years. Level term insurance pays the same whenever you claim. A decreasing term policy sees the benefit reduce and the premiums are slightly less. For couples, life policies can pay out on the party who dies first.

FAMILY INCOME BENEFIT

For many families without insurance, the loss of income after a death can be the biggest burden. Family Income Benefit insurance pays dependants a regular monthly or annual amount.

Policies are taken out for a set term, for example, 15years. If a claim is made after five years, the policy will provide an income for the remaining ten years.

CRITICAL INSURANCE COVER

One in four women and one in five men will suffer a serious illness, such as cancer, before retirement age. We are also more than twice as likely to suffer a serious illness than die before the age of 60.

Critical Illness insurance pays out a tax-free lump sum on diagnosis of a range of conditions. All insurers must cover seven core illnesses, including cancer, heart attacks, and multiple sclerosis.

Injuries that leave people permanently disabled are also covered.

INCOME PROTECTION

This pays a tax free income if you are unable to work due to illness or unemployment. Up to 70% of income can be covered, depending on the insurer. And unlike Accident-Sickness and Unemployment insurance, there is no limit on the number of claims that can be made and it will also pay out until retirement, if necessary. Again, policies can be taken out as whole of life or for a set term.

Whether our clients should opt for Critical Illness, Life Insurance, Family Income Benefit, Income Protection, or a combination, will depend on their circumstances and finances.

If you're concerned about protecting your family, if you have cover and are concerned that it no longer sufficient, then please give us a call. As life expectancy increases a majority of these products are becoming less expensive and a lot of clients who have sufficient cover are benefiting financially from a review as the premiums can often decrease.

Is your IHT plan watertight?

People who have taken steps to avoid large bills for inheritance tax are being advised to check that their tax planning is watertight, with warnings that HM Revenue and Customs is increasingly investigating IHT avoidance schemes.

Some people could leave themselves at risk if they do not take professional advice or keep evidence of their tax planning.

The Revenue appears to be actively targeting IHT, as it is a negotiable tax, so if the taxman can find any chink in the planning, it could mean hundreds of thousands of pounds of extra tax per case for him.

Further evidence the Government has its eye on IHT mitigation appeared in the changes to tax treatment of certain trusts over and above the IHT nil-rate band threshold (£300,000 at present) in last years budget.

We suggest people get professional advice about the suitability of any tax planning they have done. Also, check your wills are up to date. Tax laws can change at anytime which is why our review service has been so well received as it gives our clients that added peace of mind.