THREE COUNTIES

PROFESSIONAL BRIEFING

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Market Review

It seems, at times, that financial institutions never learn from past experience. Residential property prices have gone through the roof driven by easy credit and high lending multiples being offered with little focus on the applicants' ability to service the loan. Money on credit has been easily obtained resulting in the damage now being experienced by these financial institutions through their exposure to the sub-prime sector. Their answer is to withdraw easy credit and to prepare to write off huge debts now known as the "Credit Crunch" in which the USA has the largest exposure.

Stock markets are coming off a four year bull run following which a period of re-pricing risk is in fact healthy for their longer term stability. Equities remain the favoured long term asset class for most asset managers with good value still to be found in the right companies. Since late 2006 we have been recommending that portfolios are adjusted to increase exposure to the large and mega cap companies. For the last six or seven years we have been recommending fund managers who pick stock on individual merit.

Currently, many see good value for investors in holding large and mega cap companies that have low levels of debt and stable and reliable cash flows in sectors such as oil, pharmaceutical, Tobacco, utilities and telecoms.

Clients who invested throughout 2007 in our Advisory Portfolio Service will see it as a year when their portfolios have achieved small gains, perhaps in line with the return on cash. It is quite impossible to react to short term factors and the strategy in place will always be for the medium to long term. In the four years up to the end of 2006 our Advisory Portfolios achieved very good returns for clients whilst remaining within their relevant risk profile (cautious, balanced, growth etc.). The current turmoil is based on real problems which need to be resolved but we expect that the strategies in force will continue to yield good returns for clients as soon as the market again focuses on valuation, cash-flow and dividend stability.

RETIREMENT INCOME CAN INCREASE WITH SIPPS

Baby boomers should look at their existing savings or liquid assets and consider moving these proceeds into a self-invested personal pension or personal pension plan to increase their income at retirement.

As a basic calculation, £60,000 from PEPs, ISAs or life assurance bonds becomes £100,000 for a higher rate tax payer or £76,000 for a basic rate taxpayer.

From 2010, tax rules allow investors to take 25 per cent of a SIPP as a tax free lump sum. The effect of this is to produce an increase of 114 per cent of cas,h not including any investment return, for a higher rate tax payer. However, the remaining £75,000 will produce an income that is taxable.

TRANSACT – What is it?

Transact is a wealth management tool and is one of very few true wrap vehicles.

- Transact is a **concept** not a product
- It is a means of managing a balanced and diversified investment portfolio to reflect the client's attitude to risk.
- Transact has access to all the major OEIC and Unit Trust investment funds together with Investment Trusts.
- Transact is able to hold direct equity investments and can deal on a client's behalf in the buying and selling of equities within a portfolio.

How we use it

- To consolidate PEPs snd ISAs which may have accumulated over the years and may not now reflect the current attitude to risk and may provide a large exposure to a small number of funds.
- To utilise clients ISA allowances for 2007/08 and beyond.
- General Investment Accounts are used for the balance of funds and as a cash account or for funds held in a nominee account for the benefit of children and grandchildren.
- To provide a controlled income stream allowing the client to elect a level of income (minimum of £100) which can be altered at any time.
- Clients can use Transact for their pensions including transfers, drawdown and regular premiums.
- Transact can be used for onshore and offshore bond investments.

As a general rule Transact is the wrap platform of our choice and we tend to use it for the consolidation of PEPs and ISAs and also for Unit Trusts and OEIC's. The reason we use OEIC's and Unit Trusts is:

- they are easily and readily transferable across into ISA wrappers each tax year;
- they are flexible i.e. no penalty access at any time;
- tax efficient as growth is not taxed, only income;
- if cashed in, clients can use their CGT allowances to provide tax free withdrawal.

Guaranteed Income for Life – 5% tax-free.

As a nation, we are living longer, healthier lives. Today, a 60 year old man has a 50% chance of living to age 88 and a woman to age 90. Living longer, however, puts more strain on retirement finances. There is a risk of running out of money, or being unable to leave as much as an ainheritance.

Example: a 60 year old man, investing, typically, 50% in equities and 50% in fixed interest through an investment bond and taking annual withdrawals of 5% of his original investment.

Recent analysis shows that this investor should be concerned as to how long his money will last. In 1990, the chance of running out of money was 1 in 100 – now it is just 1 in 3. People are living longer and interest rates are lower.

On retirement many expenses still have to be met e.g.: - electricity, gas, water bills, council tax, food, phone bills, running the car and insurance premiums. These could be classed as fixed costs because, no matter how many live in the house, they still need to be met.

At Three Counties we have been looking for new ways to give clients the benefits they need today. New products available offer:

- **5% tax-free income – guaranteed for life.**
- Insurance against falls in the stock-market
- The ability to stay in control of assets
- Flexibility to access investments when needed
- The possibility of benefiting from any future growth and locking in the income
- Potential death benefits for family

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