



**WAVENEY  
McKENNA**  
LIMITED

*Independent Financial Advisers  
Independent Mortgage Advisers*



## Client Update

Much has happened since our last Newsletter in September 2009.

From a business perspective we have made a significant number of changes which have been and continue to be implemented. During January 2010 we merged with the Waveney Financial Services Ltd office in Lowestoft, this increased the combined number of staff to 10.

Mike Parrott is an established adviser with significant experience and has looked after clients in the Lowestoft area for over 20 years. To strengthen the corporate team, David Vincent joined us in July to help Mike service the Lowestoft office clients and to specialise in corporate planning and employee benefits. David has over 15 years experience in the industry and is very experienced in

## Inside this Issue

Budget Update	2
Whole of Life Plans	2
Don't Panic	2
Market Update	3
Investment Bonds	3
Annuities	4
Discretionary Management	4

group pension arrangements in particular. To ensure that we can continue to build on our client service proposition and improve our valuation reporting we are working in partnership with a new software system provider which is a significant investment. The aims of the new system are to:-

- Provide efficient real time valuations
- Offer more detailed analysis on portfolios
- Allow clients access to their portfolios and information online

The system is in the final testing stages and we expect this to go live from the end of July. The online functionality will be deferred and the next stage will be to provide user names and passwords to clients.

Issue 8

August 2010

# Waveney Newsletter

## Special points of interest:

### New Office Merger

We have merged with an office in Lowestoft to build on the existing team and introduce greater choice.

### New Adviser

David Vincent has joined the team in Lowestoft to build on our corporate services.

### New System

Our systems are in the process of being upgraded to offer real time valuations and eventually online access to portfolios.

## Interesting Statistics

In view of the interesting times in which we live the following statistics have made the front page of this issue:-

- RPI - 5% which seems to be easing from the high of two months ago
- CPI - 3.2% also reducing over the past two months
- National Average Earnings Index - 1.9% excluding bonuses
- Producer Prices Index (output) - 5.1%
- Producer Prices Index (input materials and fuel) - 10.5%

## Hadrian's Wall Bike Ride

Many thanks to those who sponsored Ian Burrows in the above 190 mile bike ride for charity.

Over £800 was raised to purchase play equipment for the Kings Cliffe Community Open Space project.



## Budget Update

*With further tax increases likely, diversification across different tax regimes is perhaps more important than ever to reduce risk.*



The budget was relatively kind to corporate taxation with reductions in the main rate of tax to 24% over 4 years and an immediate reduction for smaller companies to 20%.

The threshold at which employers pay NI is also being increased by £21 above indexation from April 2011.

Entrepreneurs relief is being increased to £5m throughout an individual's lifetime to reduce the level of Capital Gains Tax paid. Capital Gains Tax is increased to a top rate of 28% for higher rate tax payers with the allowance remaining at £10,100. The effective rate for trusts is now 55.5%.

The higher rate tax band looks set to remain at 50% and the loss of the personal allowance for those earning over £100,000 also remains in place.

Lower earners benefit from the £1,000 increase in the personal allowance whilst higher rate taxpayers will have the threshold reduced by £2,500 so they do

not benefit from the increased personal allowance.

Pension payments for higher earners look set to be increased and the Government is proposing to increase the annual allowance to between £30,000 and £45,000.

This means that higher rate relief may be possible for those earning over £150,000 but the ability for those earning below this amount to make larger pension payments may be reduced.

The age 75 rule whereby a decision to either purchase an annuity or move into an alternatively secured pension is being moved to 77. The pension commencement lump sum still has to be taken at 75 at the latest.

VAT is increased to 20% from the 4th January 2011.

The £10,200 annual maximum which can be invested into ISAs is to be indexed each year from April 2011.

## Whole of Life Plans

*Placing your life cover arrangements in trust can make the payment more efficient*

Many long standing clients of Waveney McKenna have whole of life assurance arrangements which were established by Read McLaren.

These plans have been in force for many years and as they were often established on a maximum cover basis we are finding that periodic reviews by the insurer are resulting in increased premiums.

It is important to review your arrangements as alternative options may be available; we have written to those involved and would welcome any queries, please do call! We have also written on the benefits of placing these arrangements in trust. We do offer this service which can offer more timely payment and save tax.

## Don't Panic and Don't Follow the Herd

We are all human and we all make mistakes. But for investors those mistakes cost money. However, knowing the most common pitfalls can help you learn from the mistakes of others and avoid losing out. For example, following the herd can be a recipe for disaster – remember when people piled into dotcoms in the late 1990s?

Also, don't panic on a downturn. Selling out without serious reason will crystallise a loss and you may miss out on a rebound.

Finally, never chase a quick profit, thinking you can time the market – this is no different to gambling on horses.

Investment is a long-term game and requires planning. Any other approach only increases the risk. Portfolio reviews are essential and are a method of addressing concerns, if you would like to discuss any aspect of your existing investment then we would like to hear from you.

*"Following the herd can be a recipe for disaster"*



## Market Update

The Government has announced cuts in expenditure and no doubt you will all have seen the headlines regarding the job losses and economic stagnation which will result. Sadly this is probably true, certainly the former. However, the cuts are unlikely to be enough with only about £7 billion expected to be raised in spending cuts and tax increases. The current difference between what the Government “earns” in revenues and what it spends is c.£150 billion per annum. Okay the receipts are at a low point following a 6.4% fall in economic activity due to the recession (and this is a significant fall). The fact remains that successive Governments have overspent and over the past decade (boom years in the main) the Government has increased taxes and recruited over 1m onto the public payroll and borrowed at the same time. The point being made here is that there is worse to come in terms of spending cuts and the situation where the country pays more to finance its debt that it spends on defence or education is untenable.

*...the budget was relatively business friendly with corporate tax being reduced and the entrepreneurs relief being extended.*

Presently the Government owes a total of c.62% of gross domestic product or £35,000 per family in the UK, add the public private finance initiative to this and the amount per family is c.£90,000 (these debts are not currently included in the national debt figures). There are also continued fears that the government debt problems in countries such as Greece will spill over into other European countries and potentially affect the UK. European Governments have passed a significant bailout package to demonstrate their determination to tackle the issues at the same time as imposing austerity

measures on a number of countries to bring their spending under control. This is the bad news, on a more positive front the budget was relatively business friendly with corporate tax being reduced and the entrepreneurs relief being extended. In addition the signs of a US recovery continue and UK corporate results have been generally good. Corporate balance sheets continue to improve and banks seem to be increasing lending. Markets are not looking expensive historically. Commercial property in London and the South East is providing some competitive yields and compared to cash there are better potential income yields elsewhere. Cash rates are likely to remain low, sterling has strengthened against other countries, commodity prices have eased and the spike in inflation appears to be reducing, both RPI and CPI having fallen in June. This is poor news for cash savers (although other options are available) but should be reasonably good news for those servicing debt as interest rates rises if any should be quite small. There was a genuine fear of inflation taking hold and the Government’s ability to increase rates without completely derailing the economy is cause for concern. In summary, whilst there are some very significant continued problems within many developed nations the worst news in the economy appears to be behind us. Going forward any strong upturn in markets is unlikely and investors may like to look at good value high yield assets and regular income may prove to offer more potential than growth orientated stocks. Commercial property has recovered from lows of c.50% and remains 35% down, yields are attractive in some sectors and this offers an alternative asset class with a good yield—once again do not expect much capital growth over the short term.

## Investment Bonds

### Shelter Higher Rate Liabilities

Investment bonds are investment products offered by life companies and are usually made available for lump sum investments.

Within the bond, investors are offered a range of investment funds into which they can invest, the most popular of which have traditionally been with-profits, managed and distribution funds as each combines a number of different asset classes within the one fund. Today, however, the fund choice is much wider, with life companies offering links to fund management houses alongside their internal range.

When you take out an onshore investment bond, your income and gains within the fund are subject to tax, which is then deemed equivalent to you paying basic rate income tax. So, if you are a basic rate taxpayer, you will pay no further tax on gains at any time.

If you are a higher rate taxpayer, however, you will pay another 20% on the total profit you make when the bond is cashed in. There are, however, ways to mitigate this. For example, you can withdraw up to 5% of the initial value of the investment every year for up to 20 years - ie: up to 100% of the initial investment - without immediately becoming liable for additional tax. You can in some cases also assign the bond to a non or basic rate taxpayer prior to encashment.

When the investment bond is finally cashed in, you would then be liable for the higher rate tax bill. However, if you postpone this encashment until you are a basic rate taxpayer - perhaps after retirement or when you are simply earning less - you could actually end up with no further liability at all.



# Annuities

An annuity is simply an income which is guaranteed for life in exchange for a lump sum. This can either be purchased from an accrued pension fund or from your own capital, the tax situation of the latter is different and more favourable. Whilst the age at which you must either purchase an annuity from a pension fund or effect alternatively secured pension (ASP) has been deferred to 77 from 75, annuities are still a good option for many. Going forward the requirement to purchase an annuity (or ASP) at any age could well be removed. For those where an annuity remains

appropriate, low appetite for risk for example, it is important to purchase the correct type and get the best value for money.

It is possible to enhance the annuity return significantly for those in ill health or simply by shopping around. The difference between the rate offered by your existing pension provider and that available elsewhere is often surprising. If you are planning on retirement or have any questions on annuities then do call.

**Please note that the minimum age at which benefits can be taken from pensions has increased from 50 to 55.**



### **What did the Romans ever do for us?**

*Well, they introduced the concept of annuities, called annua. In exchange for a lump sum, Roman citizens would receive an annual payment from the Emperor for life.*

# Discretionary Management

Waveney McKenna have worked closely with Brooks Macdonald Asset Management (who are a discretionary fund manager with offices in London, Manchester and Edinburgh) for many years.

Discretionary fund management offers the opportunity for passing the day to day management of a portfolio to your own fund manager who will use their discretion to select funds and stocks to suit your risk profile.

Brooks Macdonald focuses on their core business which is that of managing assets for their private clients, charities and trusts. BMAM's clear acknowledgement and understanding of the importance of their relationship with their clients is reassuring and undisputed. Whilst many larger asset management firms may rely on their high profile image they are often restricted in their investment and research by control at a corporate level. In comparison Brooks Macdonald thrive on their modern, sophisticated, personal and innovative approach to investment

management.

Each of BMAM's Investment Managers specialise in and take responsibility for researching a specific investment sector, supported by a secondary manager who adds depth of knowledge and continuity in their investment decisions. They are independent, ensuring no outside pressures to buy, sell or hold funds like many other investment houses. Their investment managers follow sector guidelines rather than Model Portfolios, thereby allowing them to make faster more efficient decisions than those investment houses that follow a model with slower chains of command. Additionally, the tolerance limits of the sector guidelines allow the managers to add an important element of original and innovative thought enabling the opportunity for added value at all levels. As well as full discretionary management, the Brooks Macdonald Managed Portfolio Service is aimed at providing access to their service for smaller portfolios of c.£20,000. The Managed Portfolio Service is available via a self

invested personal pension (where Brooks Macdonald will meet the SIPP charges) or via the Brooks Macdonald ISA, or even directly as a direct investment vehicle.

The portfolios available are designed to meet a variety of risk profiles and income or growth requirements.

Key to BMAM's success is their ability to identify opportunities in all asset classes across all investment media. BMAM have been pioneers in their market, utilising a number of structured products and hedge funds which some of the largest institutions are only now awakening to. The benefit of including such products is that this provides greater opportunity for the highest possible risk adjusted returns, which, when incorporated with transparent fees and institutional dealing ensure an extremely competitive client offering that few (if any) investment houses are able to match.

If you are interested in learning more about this type of service then do call your usual consultant on 01733 425818 or 01502 538536.



69 Park Road  
Peterborough  
Cambs  
PE1 2TN  
01733 425818

1st Floor Seaward House  
12 Waveney Road  
Lowestoft  
NR32 1BT  
01502 538536

*The contents of this newsletter are for guidance only and represent our understanding of current legislation. Specific and personal advice should be obtained before any action is taken relating to matters covered in this newsletter. In particular please note that your home may be repossessed if you do not keep up repayments on your mortgage. Waveney McKenna Ltd is authorised and regulated by the Financial Services Authority, but not all of the products and services mentioned in this leaflet may be so regulated.*