

# THE ADVISER.

December 2009

Welcome to the latest edition of The Adviser, our update on developments in the world of financial services.

## Maintaining your lifestyle

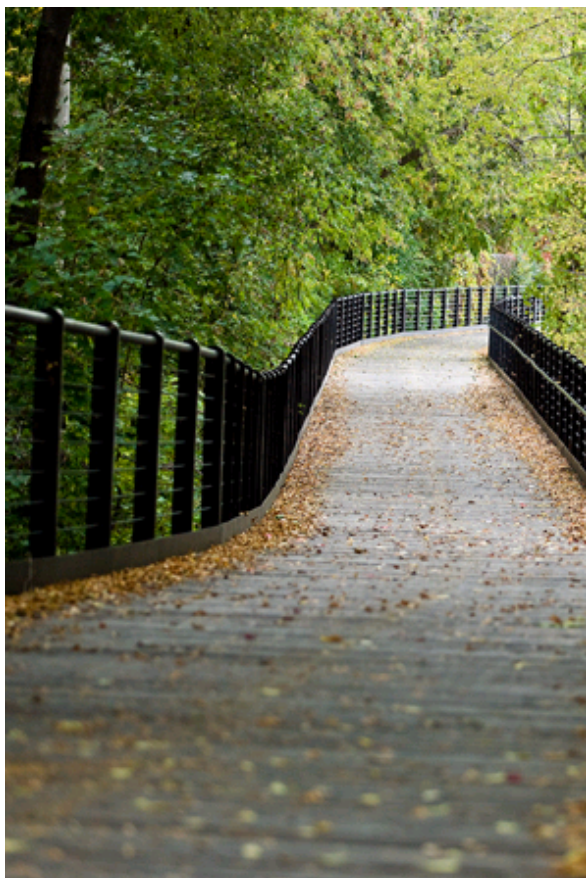
A recent report from The Pension Policy Institute ([pensionspolicyinstitute.org.uk](http://pensionspolicyinstitute.org.uk)) suggests few retired people are able to replicate the living standards they enjoyed at work through pension savings alone. Part of a wider study, the report looked at income needs during retirement and how they change over time. It found that not only are pensions seldom sufficient, but also that pensioners suffer later in retirement as their income fails to hold its value in real terms.

The study also highlights changes in people's spending patterns over the course of retirement. For example, pensioners tend to spend most in the early years as they make the most of their new-found leisure. Between 75 and 85, however, mobility issues can reduce this amount. Income then ticks back up at 85 as health-related spending begins to climb before it dips once more at 90. Most importantly, however, the study shows that our current 'one-size-fits-all' approach to pension planning is inadequate. New retirement products, with greater flexibility and choice, are becoming available to address this need but even simple things like considering inflation-protection can help ensure retirement income retains some of its real value.

If you are saving for retirement, you might also consider supplementing your plans with other tax-efficient products, rather than relying just on a pension plan. Although the tax advantages differ, depending on your circumstances, the different rules about how you can take income and capital might provide more flexibility within your wider plans.

### Contact Us:

Mrs , Trish , Bloodworth , Gregory Adam Financial Management Ltd , Portis Fields , , Portishead , North Somerset , BS20 6PN



## Chinese promise

China has one of the world's fastest growing economies, making it one of the most influential investment regions. As it develops, the appetite for commodities grows – indeed, alongside the weak dollar, its demand for oil has consistently helped to push up oil prices. Yet, China's outstanding economic progress has taken a long time to be reflected in the performance of the stockmarket which, until only last year, remained in line with the world average. However, there is still a lack of transparency in business and shareholders are not given the same rights as in Western markets. There could be opportunities, but you need to be very careful of the risks.

Gregory Adam   
Financial Management Limited

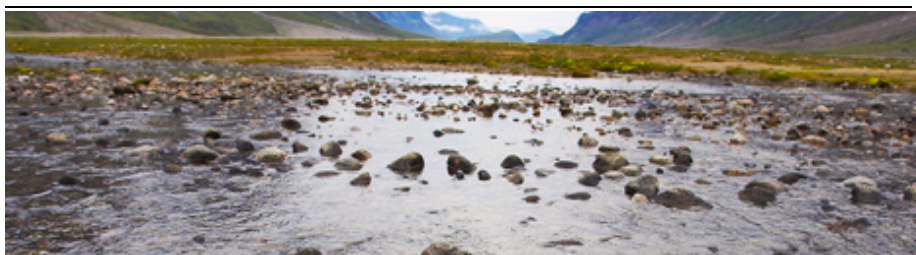
# Simplifying the rules

---

The 2008/09 tax year brought with it a simplified regime for dealing with capital gains. Indexation and taper relief were abolished and in their place came a lower, flat rate of 18%.

For growth investors, there is still an annual allowance - which in 2009/10 has been raised to £10,100. In addition, to help small businesses, there is an 'entrepreneur's relief', which allows directors, business owners and employees with a 'material stake' (5% or more) to dispose of their business holdings at a rate of just 10% (subject to a total lifetime gain of £1m). All other business and non-business assets, however, are now taxed at 18%. There is no longer any link to your marginal income tax rate so, subject to the effects of the abolition of indexation and taper relief, the majority of higher rate tax payers are probably better off than they were, particularly on non-business assets such as rental properties.

There are some downsides. Basic rate tax payers who held shares in their employer's company for 2 years or more under the Save As You Earn scheme (SAYE) were previously only subject to a 5% charge. For higher rate taxpayers, the attraction of investment bonds as a way of writing off gains to income tax and then deferring payment of such to a future date has waned. With the CGT rate now lower than even basic rate tax, alternative products make for a more tax efficient route. However, as with everything, it depends on your situation and the make up of your portfolio as to the best way forward. Speak to an adviser before you take any decisions.



# Little and often for a big reward

---

In the world of investment, timing is everything. But, despite claims to the contrary, no one can predict what the market will do and when. This makes it difficult to decide, not only when to invest, but also when to pull out. However, by saving regularly, investors can benefit from what is known as 'pound cost averaging'.

Compared with putting a large lump sum in the market at a single price - which may or may not be the top of the market - regular saving mitigates the risk by putting in smaller sums at a variety of prices.

In a rising market, regular savings would underperform the growth of a single lump sum as the later investments would miss out on the early growth. However, in a volatile or falling market, the opposite is true. Later investments buy in at lower or alternating prices and therefore gain more when the market finally rises.

Regular saving can also be a deceptively easy way to build up a lump sum. Putting aside £50 or £100 a month can be achieved with a minimum of sacrifice – and will quickly grow as the months pass without you even noticing what is going on. It can also be a convenient way to dip your toe into equities.

With only smaller amounts going in each month, the short-term ups and downs of markets will have less impact on your portfolio overall.

# The rules of investing

---

## No 5: DIVERSIFY TO SPREAD YOUR RISK.

You can spread the risk in your portfolio by investing across a mixture of different areas. This might be different asset classes, different industry sectors or different areas of the world but if you mix your portfolio up then, when one area is going down, chances are another area could be going up and can therefore help compensate. However, if you put all your money into just a single asset class, sector or company, you are tied to their fortunes alone - and performance could be highly volatile. As the saying goes, never put all your eggs in one basket.

