

THE ADVISER.

February 2010

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

Preparing for inflation

The UK Consumer Price Index saw a 1% jump in the annual rate for December 09, from 1.9% to 2.9%. Despite the longest recession since World War II, talk has already turned to the future - and the worry that inflation could take hold if the fiscal stimuli used to try and prompt recovery stay in place too long.

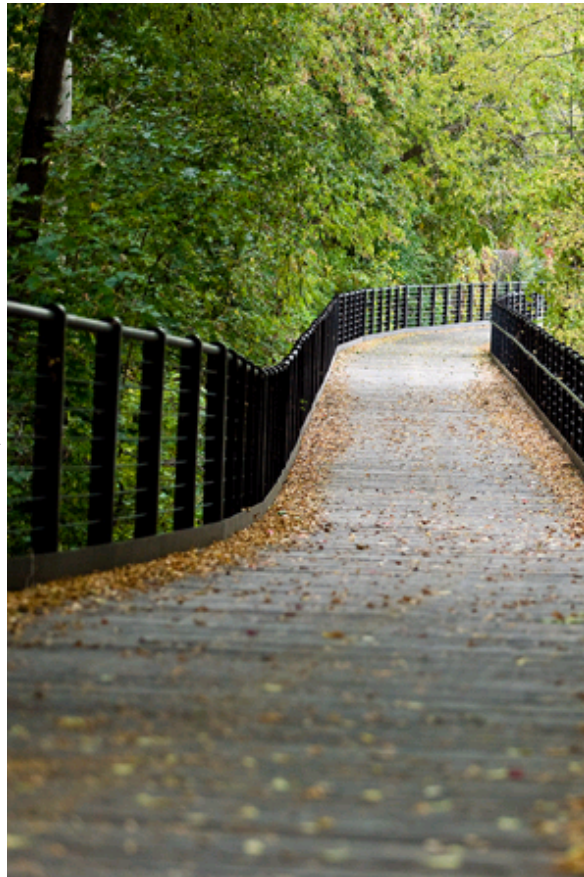
Inflation has been low for a while now. Back in the late 80s and 90s, monthly inflation figures were much higher - peaking at 8.5% in April 1991. But some will remember the economic slump of the 1970s, which was triggered by double-digit inflation - and may be nervous.

As recently as mid 2008, we saw inflation around 5%, driven by energy costs and higher prices for vegetables, furniture, and cigarettes. House prices and housing costs also impacted. This threat passed as the recession extended and the Bank of England and the Government put a lot of new money into the economy to try and encourage some growth. However, they now need to be careful how this works through or inflation could easily take hold again.

At the moment, there is probably less reason for concern than in the 1970s and early 1980s. The economic outlook is still nervous and lower than expected, growth in Q4 2009, despite confirming an end to the recession for now, could indicate that growth might halt again as consumers consider tightening up on spending after the Christmas spree. Whatever happens next, however, it is a timely reminder to review and inflation-proof your portfolio, just in case.

Contact Us:

Gregory Adam Financial Management , Portis Fields , Portishead , North Somerset , BS20 6PN



Keeping control

A discretionary trust allows the trustees to use the income of the trust at their 'discretion', making them useful for dealing with errant heirs. The trust deed may contain provisions for certain beneficiaries, but the trustees usually decide how much is paid to who, how often and what conditions might be imposed. The trustees may be allowed to accumulate income or the deed may force them to distribute all income. The trustees are liable to tax on income received, with dividends chargeable at a slightly lower rate. Beneficiaries are liable for income tax in the usual way but receive a tax credit for tax paid by trustees. They are not taxed on capital distributions.

Gregory Adam 
Financial Management Limited

The benefits of equities

When it comes to asset allocation, equities can cause investors the biggest headache. Long regarded as the top performing asset class over the long term, at times such as this - when markets are volatile and can lose (or gain) as much as 5% in a day without warning - you can be forgiven for being nervous of the whole asset class.

Volatility, however, is the price you pay for an asset class that has demonstrated greater long-term performance. For example, it took seven years* for the FTSE All Share to regain the ground it had lost since the peak in 1999/2000 so had you invested for that period, you would not have made much. However, if you had been invested for twenty years to the end of 2007*, not just seven, then, despite the seven year gloom – and despite a huge boom in property prices – your returns would have been higher from equities than either property, bonds or cash. *Source: Financial Express Analytics to end Dec 2007. Past performance is not a guide to future performance.

The answer is therefore to diversify. If you are adventurous and have a long-term outlook you might be willing to take the risk of another downturn and invest most of your money – perhaps 60% to 80% - in equities. However, if you are a cautious investor or are coming up to retirement, say, those potential downs may be too high a risk for you to take and your equity holding will therefore be much lower - perhaps 10 or 20% - with greater concentration on the more predictable asset classes.



Use it or lose it

The Individual Savings Account (ISA) is a rare opportunity which the Government offers you to shelter your money from the tax man. For every pound you put in, you pay no further personal tax on any profits earned and do not even have to declare its existence to the tax man. This year, you can invest up to £7,200 - or, if you are over 50, up to £10,200. However, as the year end - and then tax year end - start to creep up on all of us, you need to make sure you act or you lose this year's opportunity forever.

Of the £7,200 (£10,200), up to £3,600 (£5,100) can be invested into cash - on deposit with a bank or building society or via cash funds. The rest can be invested in the much more volatile world of stocks and shares - or a funds of stocks and shares, the latter of which will at least spread your risk a bit further given that the value is at risk in this area and it is possible you may not get back the amount you originally invest.

ISAs are available for lump sum investment but also for regular savings. Whatever you choose to do, however, the deadline is approaching and you therefore need to start planning to make sure you can take full advantage. Of course, you do not have to use the whole allowance - but if you can, or if you have investments elsewhere that could be transferred over, sheltering them within an ISA does provide a more tax efficient way to hold on to any gains you do make.

Please note: the exact tax benefits of ISAs vary depending on your circumstances and are subject to change.

The rules of investing

No 7: REVIEW YOUR PORTFOLIO REGULARLY

When you first invest, you take time to consider your position and set up a properly diversified portfolio to meet both your risk profile and objectives. The idea is you can then sit back and give it the time it needs to grow. This is indeed the whole point of planning. However, over time, your needs and circumstances can change - and the markets can also change. Therefore, rather than forget your portfolio completely, give it the odd check up so that tweaks can be made. A review every two or three years should be enough to keep it on track.



Issued by Gregory Adam Financial Management Ltd which is authorised and regulated by the Financial Services Authority. The contents of this newsletter do not constitute advice and should not be taken as a recommendation to purchase or invest in any of the products mentioned. Before taking any decisions, we suggest you seek advice from a professional financial adviser. All figures and data contained within this document were correct at time of writing.