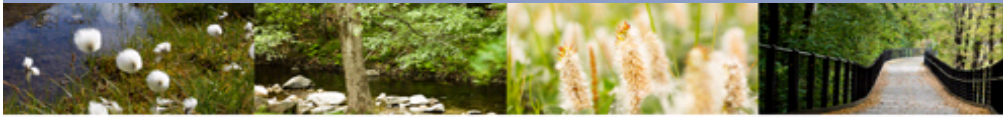


News & Views



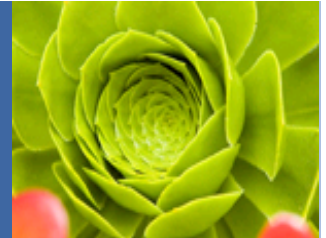
January 2012 Q1

Retiring unhurt?

Since 2004, the number of Britons aged over 85 has risen by two-thirds, and demand for care has outstripped supply. The UK's elderly population will continue to expand. In response, the coalition government set up the Commission on Funding of Care & Support – headed by economist Andrew Dilnot – to undertake an independent review of the cost and funding of social care in England.

The Dilnot Report found that the current system is “unfair and unsustainable”, and called instead for a form of collaboration between the state and the individual. It recommended that the means-tested threshold – above which individuals are liable for the cost of residential care – should be. The system should be national and portable, in order to ensure that those who move house are not disadvantaged. In addition, the Dilnot Report proposes that the value of the person's home should only become a factor if they move into a residential care home.

At present, according to the Dilnot Commission, one in four people will spend little or nothing on social care. Half will spend more than £20,000, and one-quarter will spend more than £50,000. One in 10 will spend more than £100,000. Looking ahead, insurance companies are expected to step into the breach and offer solutions to help individuals and advisers to plan ahead. It is difficult for individuals to forecast the cost of their future needs, but it is important to consider how you are going to fund the cost of any care that falls below the recommended cap.



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

If you have any questions about the issues raised in this issue, please do not hesitate to contact us.



Avoid surprises

The investment decisions you make about how to invest your pension could have a significant impact on your final income in retirement. Regardless of how wide the fund choice, however, the fundamental decision is the same: how do you blend the four main asset classes – equities, property, bonds and cash – to fit your risk versus reward balance. Equities have provided the best return over the long term, but are also the most volatile, whereas at the other end, cash preserves capital but does little to protect against inflation and offers no capital gain. It is common therefore to start with more in equities, to maximise the growth potential long term, but then switch those gains into less volatile assets as your retirement date gets closer.

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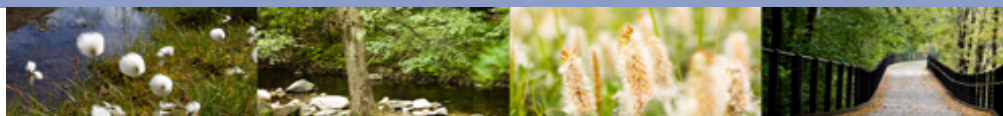
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All the options

On retirement, the choice of annuities may seem overwhelming. You can simply buy a level annuity, offering a fixed amount of income every year for life. However, current life expectancy means this may have to last 20 years and over such a period inflation could significantly impact its buying power. So you have a choice. First, there are index-linked annuities, which increase with inflation, protecting your income's worth. Or there are escalating annuities, increasing at a pre-set rate (say 5% a year). Finally, for the adventurous, there are investment-linked annuities, where income is based on asset performance, or even no annuity at all. Each option has its merits but, as you can't change your annuity once you've bought, it is sensible to take a careful look at them all before buying.



UK update

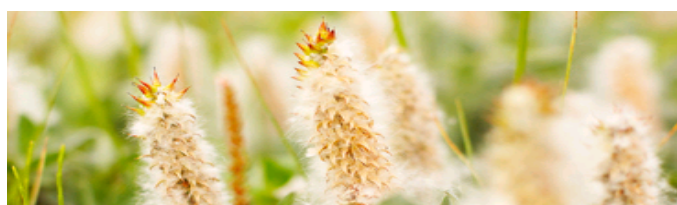
The UK equity market rose relatively strongly during October as a whole, and the FTSE 100 index posted an increase of 8.1% over the month. Nevertheless, the index has fallen 6% since the start of the year amid increasing consternation about the eurozone's debt crisis and fears the global economy might be heading back into recession – and October was characterised by significant levels of volatility. The FTSE 250 index rose 6.7% during the month and the FTSE SmallCap index rose 1.9%.

At the end of October, the UK equity market yielded 3.3%, compared with a yield of 3.5% at the end of September. In contrast, the benchmark 10-year gilt yielded 2.4% at the end of October. According to a recent study conducted by Capita Registrars, property is the only asset class whose yield outstrips that of equities – however, Capita points out that property investment incurs additional costs such as maintenance and transaction costs.

Dividend payouts in the UK rose at an annualised rate of 15.9% during the third quarter, according to Capita Registrars. 228 companies paid a dividend during the three-month period – compared with 201 during the equivalent quarter in 2010 – and 196 of these companies raised or restored their payouts. Only five companies opted to cancel their dividend during the third quarter.

Companies increasing their dividend payments outnumbered those cutting their payouts by a record margin of 8.5 to one. Dividend growth in the FTSE 100 outstripped that of the FTSE 250 for the first time since the final three months of 2009 and indeed companies in the FTSE 100 accounted for almost 90% of dividends paid over the first nine months of 2011.

Capita expects UK dividend payouts to reach £67bn during 2011 as a whole – a rise of 18% compared with 2010. Meanwhile, underlying dividend growth in 2011 is forecast to reach 11%. However, looking ahead, economic uncertainty is likely to undermine dividend growth in 2012. Mounting concerns over the possibility of another economic recession might deter companies from growing their dividends significantly and instead encourage them to hold on to their cash until the outlook becomes clearer. According to recent data from the Investment Management Association (IMA), the UK Equity Income sector was the most popular equity fund grouping during September – despite a modest overall outflow from equities – and the second most popular IMA sector overall.



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