

# THE ADVISER.

January 2010

Welcome to the latest edition of The Adviser, our update on developments in the world of financial services. We would like to wish you a Happy and Prosperous New Year, and hope that you have not been too inconvenienced by the current snowy conditions.

## Further tinkering

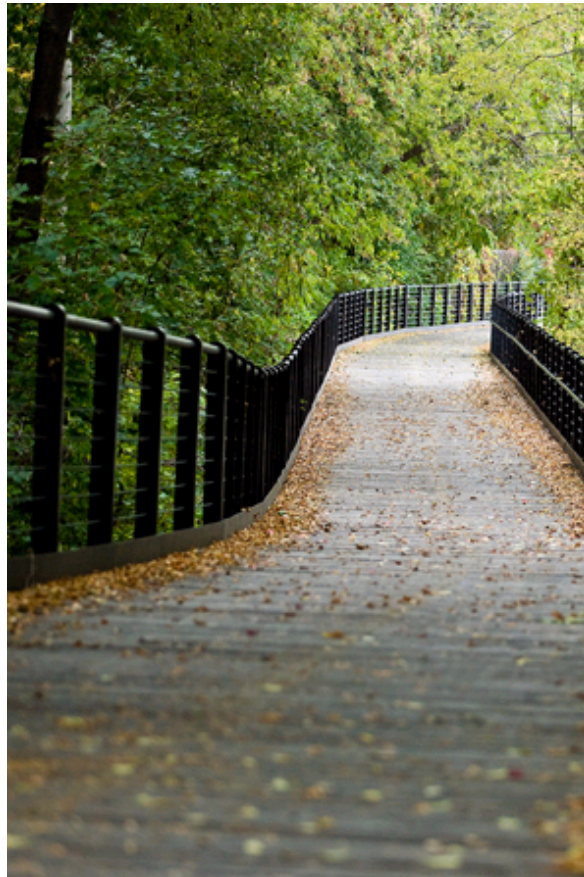
The Pre-Budget Report saw further tinkering with the pensions' regime, meaning true 'pensions simplification' remains elusive. It also proved, in the short term at least, boosting pension provision would come second to balancing the Government's books.

High earners were under attack. The Chancellor extended the restriction of tax relief from 2011 to all those with gross incomes of £150,000 and over. 'Gross income' includes employers' pension contributions and so catches a number of people who had previously thought themselves exempt. The income floor is set at £130,000 excluding employer pension contributions though, below this, people will be unaffected. This also means more people drawn into the anti-forestalling measures introduced at the last Budget to stop the loading up of pensions prior to 2011. Unless a 'normal pattern of contributions' can be proved, the higher earners affected will be subject to a clawback of higher rate tax relief if their contributions exceed £30,000 a year.

Salary sacrifice is caught by the inclusion of employer pension contributions in the gross salary calculation, but is still likely to be popular. That said, the Treasury may have these schemes in its sights so it is worth looking to maximise any tax planning opportunities while they still exist. Wider pension provision was also hit. The Government said employers would not have to pay the full 3% contribution into personal accounts until October 2017.

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## What is an MVA?

Market value adjustments (MVAs) are, for many, the devil in the detail of with-profits investing – particularly following their seemingly prolific use in recent years. The reason for their introduction was to help protect existing investors in the fund from shorter-term investors seeking to take advantage of the annual bonus and then selling out - they do not hold their investment long enough to earn the bonuses that are allocated to them. Because the unit price does not move directly with asset prices (as it would in a unitised fund), a specific adjustment needs to be made - or these investors would be walking off with existing holders' profits.

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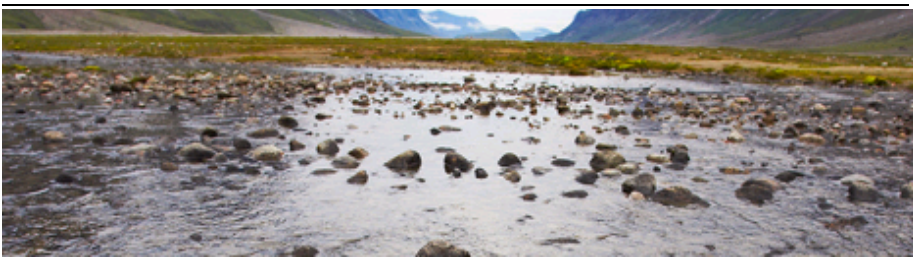
## A time to buy?

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Latest figures from the Land Registry suggest house prices rose another 0.6% in October 09, making that the 5th positive monthly move in a row. There have been similar indications from the widely-watched Nationwide and Halifax data – with the Halifax suggesting prices are now up 4% in eleven months. Have we reached a turning point in the UK housing market?

The statistics have constantly wrong-footed economists. Few predicted the severity of the initial downturn – the Land Registry suggests prices are still 3.4% lower than a year ago. But, equally, few predicted the recovery would develop as quickly as it appears. But now, experts are in a quandary. There are some encouraging economic figures, but unemployment is still rising. Mortgage rates are low, but the availability of mortgage finance remains tight. This means there is as yet no clear picture emerging. Pessimists put the recent surge in price down to seasonal variation and believe that there may be more properties hitting the market, which could depress prices. The optimists, however, suggest supply is still limited (despite a small shift upwards) and that mortgage finance is cheap enough for those who carry a deposit and clean credit.

However, much is going to depend on whether this positive news can be sustained and whether there are any signs of organic growth – as opposed to this simply being a response to the stimulus package. There is also the prospect of inflation taking over from the current deflationary forces as the stimulus works itself out.



## Don't put off the will

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It is understandable that so many of us put off the task of making a will. After all, it makes us think about our mortality and consider things which we hope will never happen. However, without one, you might be surprised to find out how easy it is for your assets to be distributed out the wrong way.

The exact rules of distribution depend where in the British Isles you live as some details differ between Scotland, Ireland and England & Wales. However, if you are not married, for example, the law is united in saying your partner may get nothing. Without a marriage certificate, your children and parents will benefit instead.

Even if you are married, there are many good reasons for making a will. First and foremost, it allows you to take positive decisions over who gets what - including friends, friends' children, charities and local societies who are entitled to nothing without your say. You can also decide if ex-partners - or perhaps more importantly, ex-partner's children - should be helped out. And, if your estate is greater than £325,000 (£650,000 for married couples), a will can help you plan to reduce your Inheritance Tax liabilities.

In thinking like this, making a will can actually become a very positive, rather than negative experience. Considering these things in advance can actually help your peace of mind and ensure that all you family and friends will be looked after in exactly the way you want them to be.

## The rules of investing

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### No 6: DON'T GET TOO ATTACHED

When a holding performs particularly badly relative to its peers, it is time to consider cutting your losses and selling it. It could prove more profitable to sell and reinvest the proceeds elsewhere rather than sit back, hoping it will recoup your loss. But very few do sell. Instead, they get attached, feel sorry for it, almost, and wait for it to get back on its feet. Remember, you don't have to feel grateful - you need to review every holding with the same objectivity as you did when you first invested and, when it's time to sell, do so with a clear conscience.



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