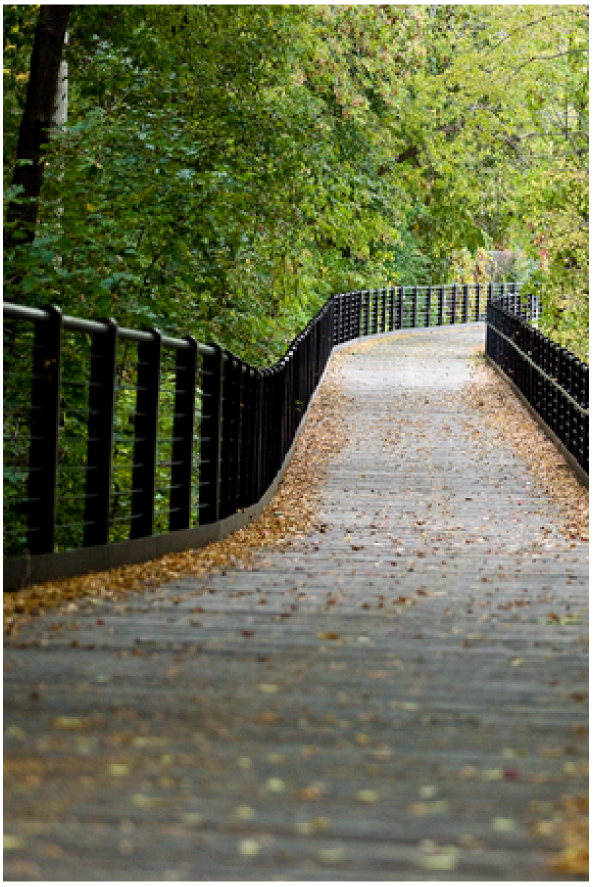
THE ADVISER.

March 2010

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

Protecting your share



When you are setting up a business, there are so many things to think about, not least how you are going to support yourself, your family and other business partners until profits start to flow. It is a highly stressful, but enjoyable time, looking forward to the opportunities which your ideas are opening up for you. The last thing on your mind will be your health and, more particularly, that of your partners.

It may therefore be considered morbid to think about at the time but, if you were to lose the contributions of a key partner to ill health, or worse, the impact on the workings of your business, particularly a small business, would be enormous. Not only would you lose the companionship of a business partner and friend but you also lose their valuable expertise - and potentially also a share of your company to spouses or beneficiaries who are interested in its value but have little or no interest in your vision for its future.

The answer therefore, for every entrepreneur, is to think seriously about setting up some level of shareholder or partnership protection. Such an arrangement will safeguard you against such pitfalls by enabling existing company directors to purchase business shares from a fellow director’s family in the event that they die or suffer a critical illness which stops them working. It is available to individuals in either a limited company or a partnership arrangement and, combined with a good shareholder agreement, will help ensure that you and your partners retain control of your firm should the worst happen.

Start early

The Government Actuary's estimates put life expectancy at 91 for a female born today. As we are living longer, it therefore makes sense to maximise your pension, and the earlier you start saving, the more money you’re likely to have. Indeed, the money saved into a pension between the ages of 25 and 35 can account for up to half your final amount. The main reason is the effect of compound interest, where the interest on money you save earns interest on itself over time. Start a pension at 25, say, and at 6% pa, £50 a month would provide £100,000 at retirement (age 65). Delay the start until the age of 35 and that same £50 per month produces just £50,000.

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How much in equities?

Asset allocation is a very individual science and it is difficult to say how much you should invest in equities by just looking at a table or punching figures into a computer. There are a number of different considerations – your age, your attitude to risk and your objectives, your family set-up, your immediate plans and the current conditions in the market - all of which need a bit of thought.

However, there are some guidelines which might at least help to get you started. At its most simple, for example, some experts start with 100 minus your age. So if you were 40, you might aim to have 60% in equities - and at 60, aim for 40%. Certainly it is true that a lower allocation is more appropriate as you get older - it takes you a long time to build up a pension and it would be a serious waste to have the whole lot eroded by a last minute downturn, just as you were about to retire. However, if you are younger, having too little in equities could mean you miss out on the longer-term growth opportunities which they can offer.

The type of equities is important too. Larger companies tend to work globally and are therefore not limited to the fortunes of one economy. Smaller companies, on the other hand, may concentrate on one particular sector or be based in an emerging market, and could move against the trend of global markets. However, all equities can go down as well as up and smaller companies carry an even higher risk. Make sure you are fully informed before you make any decision.

Introducing income protection

Income protection is an insurance policy that provides you with a monthly tax-free income if you are unable to work as a result of accident or illness. Most policies pay a regular monthly amount until a full recovery is made although shorter-term plans are also available.

Income protection can be useful as a supplement to state benefits, such as statutory sick pay, as these could prove insufficient to maintain your lifestyle compared with what you may currently be earning. It is traditionally used to cover your salary and the maximum amount you can earn will enable you to broadly match the after-tax earnings you would lose.

Costs vary depending on your circumstances, your medical history, the time for which you defer payments but also on the provider. The more you are covered for, the higher the premium. However, cheaper is not necessarily better and therefore, as with all forms of insurance and protection, it is imperative you read the small print on your income protection policy to ensure you know what is covered.

Finally, it is also essential that you are open about any previous medical conditions, regardless of whether or not you think they are significant. Non-disclosure remains one of the most common reasons for claims being declined by providers and come right at the moment you need the money. Financial advice is therefore highly recommended to help ensure you find the plan most suitable for you.

The rules of investing

No 8: DON'T BELIEVE EVERYTHING YOU READ

Headlines in newspaper finance sections and throwaway lines from friends can be just as misleading as any front-page story about celebrities if you do not check them out properly. Further investigation is therefore highly recommended before you act on third party opinion. Investment decisions require a clear head and a focus on your objectives. Seeking help from a qualified professional can help you take a step back from all the hype, get feedback from across the market and make the most appropriate investment decisions for the long term.