



The Wealth Management Update

August 2009

It's a question of regulation

When things go wrong, have you ever noticed how quick we are to blame everyone else? It's never our fault. Never has this been more true than at the moment.

Recently the Conservative Party announced that if they come to power they will abolish the FSA (that's the Financial Services Authority, not the Food Standards Agency!). The Conservatives believe that a great deal of the present financial crisis was caused by poor regulation from the FSA, which is now responsible for regulating all of the financial sector. The FSA was set up by the Labour Party when they came to power. The FSA took over from the PIA (Personal Investment Authority) which was set up by the Conservatives when they came to power. The PIA took over from LAUTRO (Life Assurance and Unit Trust Regulatory Authority) when ... well, you can guess when.

As each new regulator has come into place, it has taken on more responsibility for regulation, predominantly from the Bank of England which was originally the first regulator. For some reason, each time there has been a change of government there seems to be the desire to change the regulatory system. As the regulations increased in scope and complexity, the regulators grew in size. As the regulator grew, so did its costs and budgets. The FSA now employs over 2,500 staff in Canary Wharf. Many of them came from the Bank of England in 1997.

There is no doubt that the FSA has made a large number of mistakes when it comes to regulation. However, it is driven by the Treasury which in turn is driven by the Government. While we are not always fans of the FSA, it does seem a little strange to close the organisation and move its responsibilities to the Bank of England. This will no doubt result in a massive cost to the taxpayer in redundancies, moving fees and many of the costs to make the change. No doubt a future government will then make the change back again.

Perhaps it might be a stupid suggestion, but rather than closing the FSA down, would it not be more sensible simply to have them do the job right, and perhaps place the Bank of England between the Government and the FSA so that they have the final call, rather than the Chancellor as it is at the moment?

There is a story about Buck Rogers. This is not the Buck Rogers of TV science fiction fame, but the former CEO of IBM in its heyday. The story goes that one of the senior directors of IBM made a massive mistake when dealing with a client. The result of this was a \$10m loss to the organisation. Rogers called the man into his office and sat him down, looking at him in silence. After a minute or two the man said, "I suppose you want my resignation." Rogers replied, "Resignation? Why on earth would I do that when I've just spent \$10m training you?"

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Perhaps all we really need in this world is a shot of common sense. If the FSA has messed up, why not find out who did it, put it right, train them more and make sure it doesn't happen again – surely that makes more sense than closing the whole place down.

Most pensions are just not worth it

In the Sunday Telegraph a couple of weeks ago the money section announced “Tens of thousands of pension savers have put billions of pounds into pension funds that consistently under-perform.”

You will be aware of our general disrespect for the media, but in this instance they are right and it's an area that we have been working on to try to educate people over the last two years or so.

The whole problem stems from the fact that most people put money into their pension and just leave it there. The vast majority of money in pensions has been in the same fund since the pension was started. Very little of it has been managed to ensure that the most is made of it. The deep-rooted problem is that most people do not think of their pension as an investment, and yet for most people, apart from their home, it is their biggest asset. How many people do you know who have £20,000, £50,000, £100,000 or even more in a pension and yet could not tell you how it has performed so far this year, or in what asset classes it was invested, or even what the charges are? If you were investing, say, £100,000, do you not think you would look at this information and then manage the money actively? Why then should a pension be so different?

Unfortunately for most people, it is. Most people simply do not manage their pension. Most people also pay far too much in charges. For example, we reviewed a pension for a client who had over £50,000 invested in their pension. The existing pension had averaged a return of just 2.8% over the last five years. Only 2.8%. On top of that they were being charged 3.5% pa on most of the money in the pension. Any contributions being made would have incurred a 5% initial charge and any switches would have been charged at £23.95 per switch. This naturally equates to a -0.7% loss each year! By simply transferring the pension to a low-cost provider the annual costs were reduced from 3.5% to just 1.5%. A saving of 2% each year; that's 2% each and every year. Any new contributions have no initial charge and all fund switching is now free!

We urge you to speak with friends and family who have pensions on which no benefits are being taken, and ask them to have their fund and its management reviewed. This review process could lead to a significant improvement in the ultimate value of their pension pot.

If you wish to send someone to our pension seminar, the final two dates for this year are the 29th of September and the 6th of October, held in the Village Hotel, Cardiff, and they start at 7.30pm. Please contact Sophie at the office to reserve any spaces, or request an invite to be sent to someone.

The move from security to risk

Do you remember about 18 months ago when we published the list of who owned who from a savings point of view? Do you remember when Northern Rock “went bust” and was saved by the Bank of England? Do you remember when Iceland went bust and the savings protection scheme came to the rescue of savers? Do you remember the concern over HBOS when it was quickly sold to Lloyds TSB? Yes? Then what conclusions do they lead you to?

All too often people rush to make conclusions without some real thought. Remember those lines outside Northern Rock?

On the whole, too many people do not think through what is happening financially, and too many people act almost on impulse. Yet if you think things through a little, then you can come to some very simple and accurate conclusions on what should be done with your savings (not your investments). Follow these rules to make sensible investment decisions:

Rule 1

If it looks too good to be true, it probably is.

Too often people fall for a good headline and don't read the small print. Look at all the high interest rate offers in the press, and then look at the small print. You must always ask yourself, why can one bank pay more than double anyone else? It's usually because they need your money – and why do they need it? Because they don't have enough; it is just simple supply and demand.

Rule 2

Provided it's UK registered, everything is safe up to £50,000. The rates may look overly good, but if the amount of your savings is less than £50,000 it's guaranteed by the Government, so who cares if they go bust trying to attract extra money. The important point here is to make sure that you know who owns who. For example, if you have money with both Bradford & Bingley and Abbey, then your protection level falls because as far as compensation registration is concerned they are the same bank.

Rule 3

Only National Savings (NS&I) is totally safe.

There is a reason why NS&I generally pays lower rates than everyone else. It's because the money is totally secure and safe. You see, the £50,000 can be taken away at any time, but NS&I is totally Government backed. This means that it doesn't just have their guarantee, it is the Government. And so unless UK plc goes bust, then your money is totally safe.

How long will you live (actuarially)?

Life expectancy is increasing and it's increasing fast. The Government Actuary's Department says that the average life expectancy for a man in 1940 was just 57.33 years. By 1949 it had increased to 66.14. As a general rule, women can add a little over four years to this figure. Today the figure is even greater. Now the average life expectancy for a man is 84.7, and for a woman 88.5.

So what does this mean for you?

It means that for most people, you must stop thinking short term and start thinking long term. If you are investing, it really is no use thinking about the next year from an investment point of view. You need to think about your entire life as an investment horizon. Therefore, if you are a man aged 60, you have an investment horizon of 24.7 years, your remaining life expectancy. It really doesn't matter about the next couple of years, what matters is what will happen over the next 23!

New court case changes everything for IHT

One of the biggest reasons various planners give for not putting inheritance tax (IHT) planning in place prior to death is that a “deed of variation” can always be made following death. This, they often say, will then allow them to put right anything that isn’t correctly structured in the Will.

We have always argued against this, predominantly because there is no guarantee that deeds of variation will be around when you die, but also, why leave things to chance, why not do them in advance?

Well, now a new precedent has been set with the Werner Lau case. In 2004 Werner Lau died leaving his £7m to his stepson and legacies to his daughters. However, the estate was not effectively structured and the Will was poorly written. The result of this was significant levels of IHT being payable, a great deal of which could have been avoided with a little pre-planning.

In an attempt to reduce the IHT liability the family solicitors used a deed of variation to change the Will. Understandably, HMRC was not very happy with this and challenged the deed, and after five years of legal battle and some rather large legal bills, HMRC won, effectively setting a precedent that a deed of variation that is used to deliberately deprive HMRC of tax payable will no longer be accepted.

How does this affect you? Simply, that you must do any tax planning and estate planning prior to death, and no longer rely on the “we’ll fix it later” route.

Financial Education Seminars

As you are probably aware, we only accept new clients into our practice if they are referred to us by existing clients or our professional partners, or if they attend one of our Financial Education Seminars. A great way for someone to find out about Financial Services and what we do, is by attending one of our Seminars.

If you know anyone you think would benefit from attending one of our Seminars, so they can meet us in a relaxed atmosphere, and learn about what we do, I would be delighted if you would care to invite them to one of our upcoming events. We have our final three events, that cover Inheritance Tax, Investment & Long Term Care, coming up in the Autumn (dates below) If you would like to send someone along, please do, but also please let us know for catering purposes. Alternatively, if you would like them to receive our invite, please ring or email Sophie with the details ,and she will be happy to arrange this. Our Pension Seminar dates have been covered on Page 2 of this newsletter.

15th September—Village Hotel

30th September— Vale Hotel & Country Club

15th October—Vale Hotel & Country Club

These all start at 11am. If you would like to attend for the first time, or again as a refresher, or on behalf of a relative, please do so, but again, please let us know in advance.

BEST SAVING SELECTION

To get the best from your deposit based savings you often need to move the money around. Use these rates to help you with your arrangements.

Top Three No Notice Accounts without Bonus

Name	Contact	£1 Gross %	£500 Gross %	£1,000 Gross %
Chelsea BS	0800 4320088	2.00b	2.00	2.00
West Bromwich BS	0845 3300622	n/a	n/a	2.80
S'boro Investment Dir	0845 4584522	n/a	n/a	2.76

Top Three Monthly Interest Accounts

Name	Contact	£1 Gross %	£500 Gross %	£1,000 Gross %
Principality BS	0845 0450452	n/a	n/a	2.86
West Bromwich BS	0845 3300622	n/a	n/a	2.76
n/a	n/a	n/a	n/a	n/a

Top Three Cash ISA's

Name	Contact	£1 Gross %	£500 Gross %	£3,600 Gross %
Nationwide BS	0800 302010	4.50Fixed		
Manchester BS	0161 9238015	3.26 Introductory offer for 6 mths		
Newcastle BS	0845 6050022	3.00 Introductory offer for 6 mths		

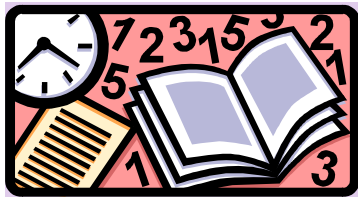
Source: <http://www.moneyextra.com>, July 2009

Please check with the terms and conditions before opening any account. If in doubt consult with your financial adviser directly as the above are for information only.

Book of the month

This month's book is the excellent, *The Post-American World*, by Fareed Zakaria (ISBN 978-0141038056). Zakaria is the editor of *Newsweek* magazine and has a remarkable understanding of world politics and economics. In this book he analyses the future of economic demand and supply with the rise of Asia and South America as economic engines in the world. You may not agree with all of his conclusions, but you will certainly gain a much better understanding of how politics and economics will affect the world going forward. For anyone who runs their own investment portfolios, this is a must-read.

Office News



We have three of our Inheritance Tax seminars coming up. The first being on the 15th of September 2009 in the Village hotel, then on the 30th of September and also the 15th of October both at the Vale hotel. If you would like to attend or feel you would like us to invite one of your friends or family who would benefit from the presentation contact Sophie (see opposite).

Craig & Gayle will be away on a short family break from Wednesday the 12th of August until Tuesday the 18th of August. If you have any queries during this time, please do not hesitate to contact Sophie at the office.

Lisa will be going away on a 2 week break to Turkey on Friday the 21st of August. Lisa will be back in the office on the 7th of September.

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Note

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