Polestar
Guiding you towards financial security

Financial Health

Independent Financial Advice — APRIL 2010

This year's Budget was a real disappointment in that it changed very little. Of course, the idea of not changing things is rather unique to politicians, and so in one way it could be thought of as quite progressive.

For those of you who have not had the chance or the inclination to read through the detail, here are the main points as we see them:

1 Stamp Duty Land Tax (SDLT) threshold to increase for two years from £125,000 to £250,000 – but only for first-time buyers (this seems to work by requiring that the buyer has not previously purchased a major interest in land anywhere in the world). But SDLT will increase to 5% from 6 April 2011 for residential properties where the consideration is more than £1m.

2 No changes announced to VAT, income tax, national insurance or rates of corporation tax.

3 CGT to remain at 18%. Entrepreneurs' relief (10% CGT rate on certain disposals) will apply to first £2m of lifetime gains from 6 April 2010, up from £1m.

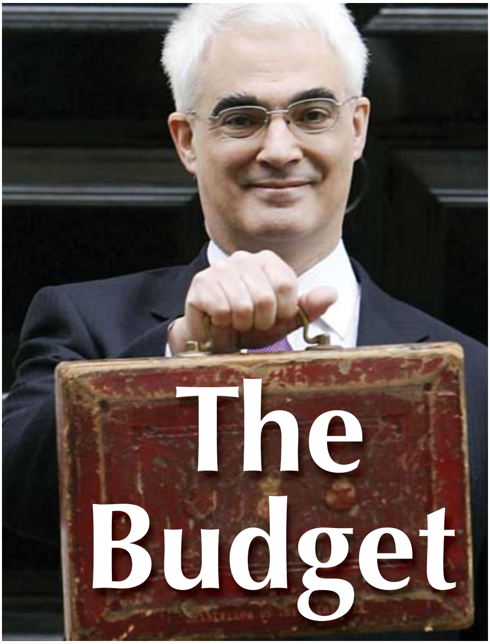
4 Inheritance tax threshold to be frozen for the next four (!) years.

5 Business rates for small businesses to be reduced for one year from 1 October 2010.

6 Alcohol, fuel and tobacco duties up across the board.

7 Annual ISA limits to start increasing annually in line with inflation.

8 Various anti-avoidance and anti-evasion measures, as usual. We are awaiting details, but these seem to include new anti-avoidance rules for share schemes, IPT and partnerships and SDLT. In particular, a consultation is to be announced on "the taxation of returns from geared growth arrangements connected with employment-related securities, to ensure that income from employment is taxed correctly." The end of flowering/growth share arrangements?



9 Annual investment allowance for plant and machinery to double to £100,000.

10 Non-specific talk about wanting to introduce some form of "Robin Hood" tax on banks as soon as possible.

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Don't lock into low rates

With interest rates still at the lowest level for close to 300 years, many people who save rather than invest are earning virtually nothing on their savings.

The difference between saving and investing is the link to "asset backed" investments. If you put your money into a bank savings account, then the bank will pay you a set amount as agreed at the time of the deposit. This amount can increase or decrease according to the terms of the account. However, the "capital" is only as secure as the company in which you save. Therefore, if you save with Nationwide, and Nationwide goes bust, you lose your money. This is why the government deposit protection scheme was brought in so that, now, up to £50,000 is protected from the company going bust.

When you invest money, the capital value will vary depending on the value of the underlying asset. Therefore, if you invest in property, the value of the capital will go up and down depending on the value of the property. Likewise, the return to the investor will depend on the actual return from the investment, which in the case of property is the income from rents plus capital growth. The risk, therefore, lies 100% with the investor. And so, to encourage the investor to take this risk, there must be greater potential for growth than with deposits.

Savings made now will produce a low return because interest rates are very low. Therefore, it makes no sense to "lock into" low-rate savings bonds right now. For example, as I write, the best interest rate on the market is 4.8% AER. However, to earn this you must tie your money up for five years. The question must be, therefore, what will happen to interest rates over the next five years? While I can not guarantee it, I believe there is a very good chance that they will increase in the next five years. If that's the case, will the returns you would get from saving for a shorter period beat the five-year fixed rate over that five-year period?

The answer to this is simple. The banks are in business to make money. They are not going to give you a return which will be better than they believe they will get over the set term of the savings account. For this reason alone, think very carefully before entering into a fixed savings account for any period longer than 12 months.

New ISA Limits

From 6 April 2010, all ISA subscribers can contribute £10,200 into a Stocks and Shares ISA or £5,100 into a Cash ISA plus £5,100 into a Stocks and Shares ISA.

Care fees clarification

One of the biggest areas of estate protection that we are approached for is to protect a home from seizure by a local authority if long-term care is needed. So much so, in fact, that we have completed work with our consulting barrister to make sure that our views are entirely consistent with what is happening in real life.

Most people will be aware that if your assets exceed £23,500 and you need long-term care, a local authority providing this care can seize assets over this level for the payment of the care. There are many companies that are selling trusts into which a house can be transferred, to "protect" it from the local authority. However, this doesn't tell the real story.

The first thing to understand is that you are only personally responsible for the costs of residential and non-medical support. This means that if you need nursing care, then the NHS, and not the local authority, is responsible for the costs. Of course, they will both argue with each other as to who will pay, but the separation is quite clear. If the NHS is responsible, then there will be no claim against your assets. Therefore, it is only the costs of residential care that you need to concern yourself with.

If you own a home, and residential and non-medical care is needed, if the local authority pays for that care, then, after a waiting period (usually 12 – 26 weeks), you will be responsible for the costs of that care, and will need to reimburse the local authority. While the authority can not make you sell your home, they can "attach" the costs to your home so that when it is sold their money must be repaid from the proceeds. If there is a spouse aged over 60, or a dependent minor, in the property, then they can not force the sale of the property.

But if care is needed, and the local authority pays for it, you will need to repay those costs from the estate if the estate is over £23,500.

To avoid this, many companies are now selling trust arrangements into which they are advising people to transfer their house to protect them from the local authority. It has been said that if this action is taken at least six months before the need for care, the house is protected. However, this is not the case. You can not protect your house by transferring it into a trust to shield it from the local authority. In the case of Yule v South Lanarkshire, the precedent was set which means that as soon as you transfer a property with the intention of depriving the local authority, then the arrangement will fail as the mere action of attempting to deprive, deprives!

The only arrangement we know of that definitely works is where a loan/charge arrangement is used when one spouse dies. In this case, up to half of the property is protected. Many people with Discretionary Trust arrangements in place have this protection, and in some cases the protection can be increased to 100%, but we stress this is the only arrangement that we know to work, so do not fall into the trap of being sold any other arrangement.

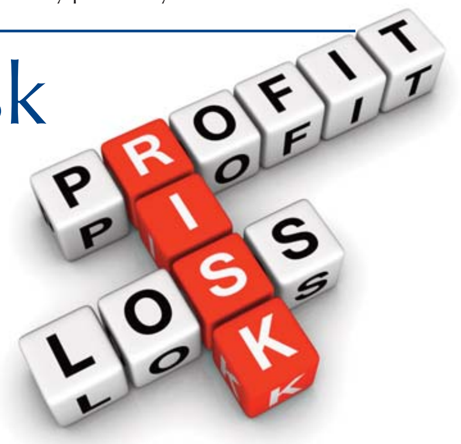
Banks fail the advice test

Which?, the consumer group, has announced that in a blind test of banks and building societies, 90% of the advice given to people on how to invest a lump sum was inappropriate.

Thirty-seven branches of banks and building societies were visited, and were asked for advice on lump sum investments. Only four gave appropriate advice, explaining all the risks involved. Twenty-one advisers recommended so-called "guaranteed" investments that were not actually guaranteed. Interestingly, these were also the highest commission paying products available.

While everyone can make a mistake, it is important to remember that when working for a bank or a building society, the sale of financial products will always be based around targets and commissions. After all, when did you ever go back to the bank and see the same person and put them on the spot about something they sold you? Perhaps more importantly, how many of the things that the bank adviser sells you, do they personally have and invest in?

Be careful of risk



With interest rates being low, as mentioned above many savers have turned to corporate bonds and gilts for a better return. Most of these people are not used to selecting or managing investments, and unfortunately many of the advertisements in the papers seem a little misleading.

From experience I know that many people follow the "advice" in newspaper articles, and end up in investments that they do not really understand. This point was brought home to me when reading the financial papers recently. In the paper, the journalist referred to the "smart money being invested for high yield". The article then went on to talk about high-yield bonds – these are bonds where the yield (interest) is higher than normal. What seems to be missing here is that there was no talk about the higher levels of risk being taken. You may remember the whole "junk bond" scandal from a few years ago. Well, for many people they will be walking into an investment time-bomb of a similar nature. High-yield bonds pay a higher yield because the companies that issue them are not as stable as many "investment grade" bonds. This means that there is a much greater risk. Unfortunately, many people investing in these high-yield bonds do not know how to select them, and are not using an adviser who knows how to select bonds based on risk correlation which reduces the risk inherent in the bonds, and so they end up with a much higher level of risk than they are anticipating.

Therefore, it is very important for those thinking of investing in high-yielding bonds to fully understand the risk that is being taken with their money. If in any doubt at all, advice should be taken.

Common sense, please?

Have you noticed that how every time there is a political row, someone calls for an independent review or changes to the system? The MPs' expenses row is a prime example of this. From the published information, the excess on expenses claims made by MPs totalled just over £1m. However, the new body put in place to deal with the expenses is costing £3m!

An obituary printed in the London Times – interesting and sadly very true.

"Today we mourn the passing of a beloved old friend, Common Sense, who has been with us for many years. No one knows for sure how old he was, since his birth records were long ago lost in bureaucratic red tape.

He will be remembered as having cultivated such valuable lessons as:

- knowing when to come in out of the rain;
- why the early bird gets the worm;
- life isn't always fair; and
- maybe it was my fault.

Common Sense lived by simple, sound financial policies (don't spend more than you can earn) and reliable strategies (adults, not children, are in charge).

His health began to deteriorate rapidly when well-intentioned but overbearing regulations were set in place. Reports of a six-year-old boy charged with sexual harassment for kissing a classmate; teens suspended from school for using mouthwash after lunch; and a teacher fired for reprimanding an unruly student, only worsened his condition.

Common Sense lost ground when parents attacked teachers for doing the job that they themselves had failed to do in disciplining their unruly children. It declined even further when schools were required to get parental consent to administer sun lotion or an aspirin to a student; but could not inform parents when a student became pregnant and wanted to have an abortion.

Common Sense lost the will to live as the churches became businesses; and criminals received better treatment than their victims. Common Sense took a beating when you couldn't defend yourself from a burglar in your own home and the burglar could sue you for assault.

Common Sense finally gave up the will to live, after a woman failed to realise that a steaming cup of coffee was hot. She spilled a little in her lap, and was promptly awarded a huge settlement. Common Sense was preceded in death by his parents, Truth and Trust; by his wife, Discretion; by his daughter, Responsibility; and by his son, Reason.

He is survived by his four step-brothers: I Know My Rights; I Want It Now; Someone Else Is To Blame; and I'm A Victim.

Not many attended his funeral because so few realised he was gone. If you still remember him, pass this on. If not, join the majority and do nothing."

Best Savings 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 %
Birminham Mids	0845 6022828	2.75	2.75	2.75
Sainsbury Finance	0500 405060	2.50	2.50	2.50
West Bromwich BS	Via Branch	n/a	n/a	3.00

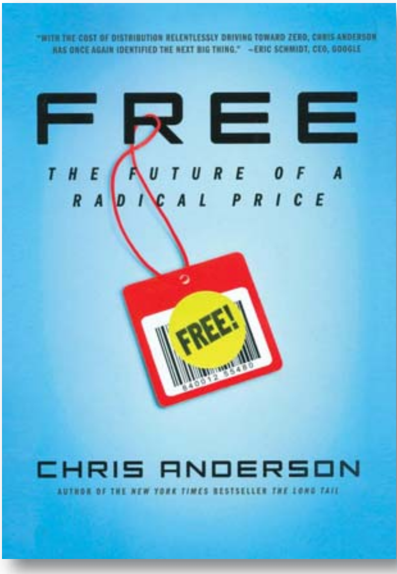
Top Three Monthly Interest Accounts

Name	Contact	£1K Gross %	£2.5K Gross %	£5K Gross %
Buckinhamshire BS	01494 879500	N/A	N/A	2.82
Firstsave	www.firstsave.co.uk	n/a	n/a	2.96
Principality BS	0845 0450452	2.86	2.86	2.86

Top Three Cash ISA's

Name	Contact	£1 Gross %	£500 Gross %	£1,000 Gross %
Clydesdale Bank	Via Branch	n/a	n/a	5.00 min investment £2,000 Fixed 5yrs
Alliance & Leicester	0800 2346065	3.20	3.20	3.20
Santander	www.santander.co.uk	3.20	3.20	3.20

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.



Free: The Future of a Radical Price

by Chris Anderson ISBN 1905211473

Free: The Future of a Radical Price is a riveting read about how giving things away leads to business. The book looks at how the use of free gifts and free products is leading to a change in the way that products are both priced and sold. The book goes back to the origins of free products, when Gillette first gave away disposable razor blades to encourage the use of this ground-breaking product. It looks at how easyJet can sell plane tickets so cheaply, and why so much software is given away for free on the iPhone.

If you have any interest in marketing with new technology, or perhaps more importantly, how you may be being persuaded with these new techniques, read this entertaining book now.

Chris Anderson is also author of *The Long Tail* a previous book of the month.

Ian Russell CERT DIP

Ian is the owner and principal of Polestar, a trading style of Positive Solutions.

Ian has over 10 years experience in financial services and is qualified to an advanced level in taxation and trusts (G10) and Pensions (AF3).

He works principally with private clients addressing their concerns around inheritance tax, investment (for growth or income) and retirement planning. Ian also completes a significant amount of Continued Professional Development each year, attending various seminars and conferences, on his client's behalf, so that they are always kept abreast of latest developments.

"We are proud to be a small, focused firm, because this means that we provide higher levels of personal care and attention to detail. This is why many of our clients, who previously dealt with Banks and larger advisory firms, have come to us. Our clients want to be treated as individuals, not numbers, to have a closer working relationship and to have someone they trust be available to them at all times."