

## THE CRASH IS COMING *says the Financial Times*

**In the editorial of the Financial Times at the beginning of December the claim of a pending economic crash was made very strongly. The writers claimed:**

- The housing market will crash, as badly as it did in 1988-1991
- Credit restrictions will hold back expenditure
- Increased interest rates will increase costs to borrowers
- The increase in the cost of oil will increase inflation

All of these comments are valid and to conclude that there will be an economic crash may be a sensible conclusion, certainly if you are a journalist who would relish the idea. So what is likely to happen in the next year or so? Is the doom and gloom warranted, or is it just newspaper spin?

### Property

There is no doubt that property prices are higher than ever before and that we have had significant growth over the last ten years. But does this in itself mean there will be a crash?

We have all become very short sighted and always focus on instant results and forget the way the world really works. Warren Buffet, the most successful investor in the world (who last year gave \$30bn to the richest man in the world on the grounds that while he knows how to make it, Gates, knew better how to spend it!) always ignored short term results, and focused on long term trends and value. As an investor he always did the opposite of what everyone else did.

Investing, in property, or indeed in any other investment sector is a long term game. It is always



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impossible to time the markets and asset allocation is the only proven long term way to make gains.

So how does this affect property, and what should you do about it? There is no doubt that property prices are high, and interest rates increase over the last 18 months will restrict further growth. However, we believe that there will not be a crash. There will be a slowdown of some sort as we have seen this month, but not a crash. The crash in the late 80's was caused

by the removal of double MIRAS tax relief. This caused, an artificial boom in the market. This is because those people who would have been buying over the coming years, bought sooner than they should to obtain the tax relief. Unless Mr Darling does something very stupid, this will not be repeated, and so the artificial boom in the market has not happened. Without the artificial boom there will not be the artificial bust of the late 80's.

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## Credit Restrictions

The problems that we outlined last month credit restrictions caused by poor lending in the US will affect the credit market, but in the longer term, not the shorter term. In the press there is talk of people spending on store cards because they can not get credit cards due to the credit restrictions. Fortunately or unfortunately, the world does not work that quickly. Present consumer spending will not be

affected by any credit squeeze for a long time to come. Those who spend on credit already have access to that credit, and so will not be affected.

However, over the next 18 months, we will see not credit restrictions, but sensible lending. This, while an attempt to protect the lenders, will ultimately protect the borrowers, and thus the economy. In the long term this is a good thing.

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## Increased Interest Rates

It is true that increased interest rates restrict borrowing and thus spending, however, the effect of increased rates has already been felt across the UK. It is unlikely that rates will increase again and we along with most commentators expect reductions in the next 12 months.

With inflation increasing, restrictions in spending caused by increased interest rates is a good thing, and will be good for the economy in the long term. It does, of course, mean that bond and gilt returns will be relatively low for a while, but as rates fall, bond returns will pick up.

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## Increase in Oil Prices

This is the biggest risk to the world and UK economy. Everything runs on oil. Virtually every commodity in the world needs oil either to make it or transport it, and increasing oil prices will always affect prices and thus demand.

It is very difficult to predict what will happen with oil prices and what OPEC will do next. And so if there is a risk to the world economy, this is it.

## What can you do?

There is only one protection against a potential crash caused by any of the above. That is a sound asset allocation process. No matter how good we are, no one can really predict things correctly 100% of the time. All we can do is to get it right more than we get it wrong, and so asset allocation is crucial to protect gains made.

This year despite what the press said at the beginning of the year equities have done well. Bonds and property have not. Through correct asset allocation the gains of the equities have balanced the poor returns on property. If someone had listened to the press in February, they would have sold equities, which we can now see would have been the wrong thing to do.

### ISA Changes

Many people have asked about what is happening to ISA's next year, and so in anticipation of the new tax year here is a short summary:

- Investments into a cash ISA will be allowed up to the new limit of £3,600
- Investments into a stocks and shares ISA (which curiously allows gilts, bonds and property!) will be allowed up to £7,200
- The total savings limit into ISA's will be £7,200. This means that you can not have £3,600 in a cash ISA and £7,200 in a stocks and shares ISA, but that the two must not exceed £7,200
- Mini & Maxi ISA's will be abolished, and there will just be ISA's. This is probably on the grounds that even the chancellors didn't understand the difference and how they worked.
- All PEP's will become Stocks & Shares ISA's

### Transitional Rules Coming to an End

When the chancellor made changes in March 2006 to the taxation of trusts and introduced the term "relevant property" trusts, interest in possession trusts fall under the same tax regime as discretionary trusts. However, a transitional period was introduced to allow relevant amendments to the trusts in the period March 2006 to April 2008.

There will, no doubt, be a rush to make any required changes to trusts now in place. And so if you have an interest in position trust or are a trustee or beneficiary of an interest in possession trust please seek legal and tax advice.

# 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

Name	Contact	£1 Gross %	£500 Gross %	£1,000 Gross %
Anglo Irish Bank	0845 455 2222	6.30	6.30	6.30
AA	0845 603 2295	N/A	6.30	6.30
Bradford & Bingley	0845 600 8885	N/A	N/A	6.30

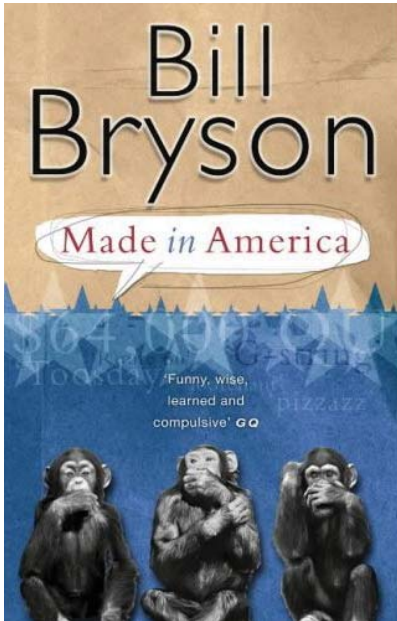
## Top Three Monthly Interest Accounts

Name	Contact	£1 Gross %	£500 Gross %	£1,000 Gross %
Dunfermline BS	www.dunfermline.com	6.50	6.50	6.50
Chelsea BS	0800 272505	6.31	6.31	6.31
ICICI Bank UK	www.icicibank.co.uk	6.23	6.23	6.23

## Top Three Cash ISA's

Name	Contact	£1 Gross %	£500 Gross %	£3,000 Gross %
National Savings & Investments	www.nsandi.com	N/A	N/A	6.30 (minimum £1,000)
Tipton & Coseley BS	0845 757 3749	N/A	N/A	6.30
Saffron BS	0800 072 1100	N/A	N/A	6.30 (minimum £1,000)

*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

Made in America, by Bill Bryson

This month's book was recommended to me by a client following our conversation about favourite authors.

Bill Bryson, is a prolific author, of entertaining and informative books, often following his travels of the world. Three years ago we recommended his book "A brief history of nearly every" and this month we are recommending "Made in America".

Made in America, is meant to be a history of the US language, but is really a treatment and history of how the USA came to be the way it is. This is an excellent Christmas present and will be enjoyed by anyone who enjoys learning. Treat yourself to an enjoyable read for the Christmas break.

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