Polestar
Guiding you towards financial security
Financial Health
MONTHLY UPDATE FEBRUARY 2010

So we're out of recession. NOW WHAT?

Figures produced last week show that the UK economy is now out of recession. Of course, as we have said many times before, the technical definition of recession has little to do with how our lives are actually affected. That said, what probably is important is that people are clearly affected by what they are told is happening by the media.

TAX YEAR END

IMPORTANT

Use it or lose it – See p4 for details

Polestar
Guiding you towards financial security

E ianrussell@thinkpositive.co.uk
T 01276 505614 F 01793 879163
A 26 Tower Road, Peatmoor, Swindon, Wiltshire. SN5 5BG.

Polestar is a trading style of Positive Solutions a large (community of 1,700 advisers), truly Independent, Financial Advice company, supporting it's advisors clients across the UK. To be truly independent means we look at the whole market working on your behalf. We are not limited to a small number of product providers and you decide how you pay for our services either by direct fee or product commission or both.

With quantitative easing (QE) ending soon, what will happen to the economy? How will it affect you? And what should you do about it?

The whole point of QE was to flood the country with money in order to push spending up and push the country (and the world) out of recession. This appears to have worked, although it is not clear if we would have come out of recession without QE anyway.

The problem comes when QE stops. If it pushed the economy out of recession, will QE stopping cause the economy to fall back into recession?

The answer to this, we believe, is probably. However, psychology will probably maintain the push on the economy. There is no doubt in our minds that as QE stops, this in itself will have a detrimental effect on the economy. However, provided that people are feeling good about themselves and the world, then the economy could avoid a second dip. It probably has as much to do with timing as with anything else.

The economy does well when people feel they are doing well. Investments do well when people feel good about things. Winter is always a depressing time, especially with the wet and snow-covered winter that we have had, but spring will be upon us before we know it. The nights will be shorter, and with any luck the sun will be seen again. As this happens, and if house prices continue to rise, people will feel good about themselves, and so the economy will benefit from this. We believe that this may be enough to keep the economy moving. The only real issue, then, is the pending election.

Unlike a year ago, the Conservatives do not seem to have the support that would lead to a clear win and a big majority. Therefore, the results are difficult to call, as indeed are people's responses to it. Never before has so much rested on people's expectations for an election.

From an investment point of view, we believe that, towards an election, some form of movement out of UK investment equity would be sensible, with the intention to return to those assets later in the year once the political environment is better known.

Who's to blame?

When you complete an insurance application form, it must be correct in order for a future claim to be successful. But who's responsible if something goes wrong?

This has been an issue for many years, and so the English and Scottish Law Commissions have now published a joint report that sets out what must be disclosed when making applications. This draft bill would replace the present duty of care to volunteer information.

Interestingly, the bill puts most of the responsibility on the intermediary (the person selling the insurance) as well as the insurer! If the intermediary is independent of the insurer, they will have responsibility for correct completion of applications. If the intermediary works for, or is owned by, the insurer, much of the responsibility will rest with the insurer.

One of the things that people complain about with insurance companies is how they will do anything to wriggle out of a claim. If this bill goes through, then it is sure to stop some of the existing problems.

Another bad year for annuity rates?

When you take retirement, one of the options open to you with your pension is to take the cash and buy an annuity. The annuity will then give you an income for life. The amount of income will vary depending on various factors such as your age and if you want indexation. However, the biggest influencing factor is the annuity rate.

Annuity rates set out how much income you will receive. They are calculated by actuaries, who estimate how long you will live and how much they can earn on the money you give them. Most annuity companies do not like risk and so will put most of the money that you give them into government gilts. And because they really don't like risk, the companies tend to hold those gilts until maturity. This way they know exactly what return they will get.

Unfortunately, as interest rates have fallen so have gilt yields. With interest rates likely to be low for some time, the relevant annuity rates also will be low.

Looking ahead, this means that people need to lower their expectations of their pension income if they take retirement in the next couple of years. Of course, buying an annuity now whilst rates are low, means having to rely on income at that level possibly for the next 20 years or so. It is important, therefore, to consider whether or not to defer taking the pension for a year or so going forward, or even looking into if another arrangement such as an Unsecured Pension - which is an alternative to annuities - might be more appropriate.

Co-op & Britannia

At the end of last year the Co-op Bank merged with Britannia Building Society. Following the merger, account holders who have accounts with both the Britannia and the Co-op or Smile, will only be covered by the £50,000 deposit guarantee as a single, total amount. Previously they would have had the full £50,000 guarantee for their accounts with each company separately.

However, if an account holder had accounts with both prior to the merger, the £50,000 cover will be provided on each until the end of 2010.

TAX YEAR END – 5th April

Important – Use it or lose it!

HEADS UP – the end of the tax year is fast approaching, if you are thinking of taking advantage of a particular allowance then NOW is the time to act!! Don't leave it to late as you might miss out.

If you need information on the following then please contact Ian

- Pension Contributions for Higher Rate Income Tax Relief
- Capital Gains Tax Allowances
- Venture Capital Tax Credits
- Enterprise Investment Scheme Tax Credits

New ISA Limits

From 6 October 2009, the ISA subscription limit will increase to £10,200 for anyone eligible to invest in an ISA who was born on or before 5 April 1960 (that is, who will be aged 50 or over during the current tax year). Up to £5,100 of the new ISA allowance can be saved in a cash ISA with one provider. The remainder of the £10,200 can be invested in a stocks and shares ISA with either the same or another provider. Alternatively, the full £10,200 can be invested in a stocks and shares ISA with one provider.

These higher limits will apply to all eligible ISA investors with effect from 6 April 2010.

Example 1

An individual is aged 65. He has not opened an ISA in tax year 2009-10. From 6 October 2009 his ISA allowance will be £10,200. Up to £5,100 of his allowance can be saved in a cash ISA with one provider. The remainder of the £10,200 can be invested in a stocks and shares ISA with either the same or another provider. Alternatively, the full £10,200 can be invested in a stocks and shares ISA with one provider.

Example 2

An individual is aged 70. She has opened a cash ISA in 2009-10 in which she has subscribed £3,600. From 6 October 2009 she will have an ISA allowance of £10,200. She could save up to another £6,600 in ISAs. This could be up to £1,500 in the same cash ISA, or up to £6600 in a stocks and shares ISA with either the same or another provider, or a combination of both.

Example 3

An individual's fiftieth birthday falls on 15 March 2010. He has opened up a stocks and shares ISA in 2009-10 in which he has subscribed £7,200. From 6 October 2009 he could save up to another £3,000 in ISAs. This could be up to £3,000 in the same stocks and shares ISA, or up to £3,000 in a cash ISA with either the same or another provider, or a combination of both.

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 %
S'boro Investment	0845 4584522	n/a	n/a	2.76
West Bromwich BS	via branch	n/a	n/a	2.65
West Bromwich BS	0845 3300622	n/a	n/a	2.60

Top Three Monthly Interest Accounts

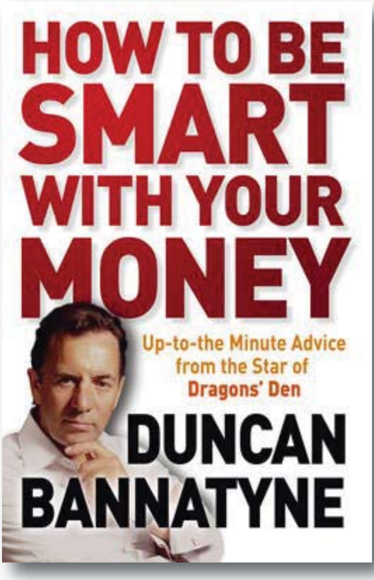
Name	Contact	£1K Gross %	£2.5K Gross %	£5K Gross %
Chelsea BS	0800 1951514	3.20	n/a	n/a
Coventry BS	0845 7665522	3.11	n/a	n/a
n/a	n/a	n/a	n/a	n/a

Top Three Cash ISA's

Name	Contact	£1 Gross %	£500 Gross %	£1,000 Gross %
Leeds BS	0845 0454048	4.60 Fixed		
Newcastle BS	0845 6050022		3.00 Introductory offer for 6 mths	
Manchester BS	0161 9238015			3.01 Introductory offer for 6 mths

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.

"How to be smart with your money"



by Duncan Bannatyne's ISBN 1409112861

This month's book of the month, which is interesting simply for showing what happens when books don't agree. The year before last, we recommended Bannatyne's first book as a book of the month. That book talked about how he made his money and the lessons he learned, whereas in this book he talks about how to make, save, budget and invest money. However, while there is a great deal of common sense in this latest book, most of it does not tie in with his first one. It is almost as though someone else wrote the second book and Bannatyne simply put his name to it.

For someone who is starting out in the world of employment or investing, this is a good and sometimes entertaining book to get you on your way. I just get the feeling that it was produced more for Bannatyne's benefit than for the reader's.

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."