Polestar
Guiding you towards financial security

Financial Health

MONTHLY UPDATE JANUARY 2010

The outlook for

Throughout 2010 we believe that interest rates will remain low – and by low, we mean very low – and we believe they will stay this way for some time to come. It is likely that there will be no increase in interest rates until the employment market improves. We believe that the current programme of quantitative easing (QE) will cease in the first half of the year, and that core inflation will continue to be low for the whole of the year. In addition, the UK growth rate will also be lower than the government and markets are predicting.

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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.

The actions of central banks around the world mean that the "depression" that the world was expecting has been avoided, albeit at a great increase to government debt around the world. The UK will probably be out of "technical" recession in the last quarter of 2009.

The depreciation in the value of the pound over the last year has helped exports, and will continue to do so as we can see no real sign ahead of the pound increasing.

As we have said before, economics is a game of psychology, and this is evident again in what is happening in the economy. Spending is generally down; this is interesting, as net income for those in work has actually risen, primarily due to falls in mortgage payments. However, saving has increased, as a result of the uncertainty that people are feeling. While this is likely to continue for some time, we believe that this reluctance to spend will reduce as we get deeper into the year, probably in late summer. This will probably tie in with the settling down of the new government following a general election, which is likely to be in early summer following the chancellor's notice that he plans to hold a budget before the next election.

The uncertainty of the political future and its effect on the economy will make 2010 a difficult year for all investors. Interest rate returns will be low for the whole year. To obtain a return of greater than 3% you will need to lock your money away, something that most people, quite rightly, will not want to do. Savings products that are linked to inflation will produce very small returns as the headline rate of inflation will continue to be low. The effect of quantitative easing means that gilt returns will be lower this year as their supply increases to meet the level of bank debt. Equity returns will be lower than last year as the bounce from the previous falls has now run its course, and we are in a situation where growth must be represented by actual value generated by companies, and is not simply the result of them selling off their excess stock holdings.

All of this will make this a year of low absolute returns. However, against a background of low inflation and low interest rates, this is not a particularly bad thing. For too many years we have expected high returns on investments, but this was when both inflation and interest rates were higher.

Low-risk portfolios, which are those that contain little or no equity investments, should produce returns above those of savings rates. A return of 3-6% should be expected, which is considerably above bank rates and inflation. To achieve this the balance within lower-risk portfolios needs to be watched over the course of the year, with a probable increase in property holdings and reductions in gilts.

Medium-risk portfolios will probably show small returns for the first half of the year, but will pick up in the second half, following the election. It would make sense for there to be a slight bias to equities outside of the UK until the second half of the year.

High-risk portfolios are likely to perform better than the lower and medium-risk areas, although it will be a bumpy ride through the year.

Lock in those losses

Tax is a curious thing, but sometimes can be of help to those of us in the investment world. When investments make a loss, provided that they are chargeable to CGT, they can be used to reduce future taxation.

It is important to remember that when investments make a loss, you can not benefit from them unless you record them on your tax returns. Many people make a point of reviewing their investments at the end of the calendar year, but then forget to note any losses on the return in May so that they can be used in the future. Of course, also remember that it is only realised losses that count, not paper losses.

So make a note to yourself, to record any losses for the tax year and add them to your return in order to "bank" future tax savings.

James Hay gets sold again!

James Hay is a company that provides SIPPs (self invested personal pensions) to many people in the UK. Having been built up over the last 15 years, it was sold by the original owners, and has been sold several times since.

The present owners, Santander, have decided to sell the company to IFG Group. It is unlikely that you would have heard of the IFG group, as the majority of their business is done with financial advisers rather than with members of the public.

It is unlikely that the sale will change anything within the company in the short term, but clearly its sale suggests that it is not profitable enough for Santander to keep. Profitable companies are rarely sold by organisations that are in expansion mode, as Santander is, and so we would expect that those people who have James Hay SIPPs will see changes in the service they receive in the coming year or so.

The case with SIPPs is that the most important thing is their management. If you are managing your SIPP yourself, make sure that this sale does not adversely affect the levels of service that you receive or damage the confidence you have in the company. If your adviser uses James Hay, then make sure that they are still happy to use them, because if not, there is no reason why you can not change providers.

Amnesty passes

Last week the amnesty on offshore accounts passed. The amnesty limited fines on unpaid income tax in the last 10 years to 10%. Now the fines increase to a minimum of 30%, but can be as high as 100%.

The fines are only on those people who are due to pay UK income tax, but who "hide" money and investments abroad in locations that do not report to the UK. The new reporting structures around the world mean that virtually all investments now will be advised to HMRC.

For the vast majority of people who invest offshore this is of little effect, because they do advise HMRC when interest is generated or when the relevant amount is returned to the UK and subsequently taxed. In particular, investors with offshore bonds are not affected, as the tax is paid when the money is returned to the UK because the bonds are simply tax deferral tools.

It does mean that a large number of people will now be paying the tax which they already should have been doing, which is good news for the rest of us.

Pension rules set to change again

You will recall from previous newsletter updates, that in 2012 the government will be bringing in a new compulsory additional pension scheme. This is because there is concern that people are not saving enough, and that there will be insufficient earners in the population to pay for the retired.

Last week the government made an announcement that the new scheme will be called the National Employment Savings Trust (NEST - catchy name!). The scheme will now be delayed by another year until 2013, with full implementation not until 2016, although it is still not clear how this phasing in will work.

The scheme will require compulsory contributions by employees of 5%, and 3% by employers. Effectively this will be an additional cost to employers, and enforced saving for employees by which they will lose 5% of disposable pay. The problem is that if you have sufficient pension income (which this scheme is designed to provide), you will lose out on means tested benefits in retirement. Can you imagine what would happen if a financial adviser sold a pension that produced £100 of income in retirement, but which meant that the person lost £100 in benefits? Would that be mis-selling?

When should you trust politicians? APPARENTLY NEVER!

In the Labour Party election manifestos of 1997, 2001 and 2005, a commitment was given not to increase the higher rate of tax from 40%. In three months' time Labour will be breaking that election pledge and increasing the higher rate to 50% for those people earning over £150,000. But, more importantly, because of the cunning way Mr Darling is introducing a reduction and elimination of the personal allowance, the actual rate is going to be 60% for those earning between £100,000 and £112,950.

"Where is the problem in that?" I can hear some of you say. *"If you earn over £100,000 then you should pay more."* Well, it depends on why we have taxation. *"Why we have taxation?"* I hear some of you cry! Yes, why?

Taxation is there for one reason, and one reason only – to bring in money for the greater good, so that things that we can't achieve on our own (building roads, paying for a police force, helping the less well off) can be done. Its purpose is not just to be a form of punishment for those who earn more. Now, of course, the press makes a great deal of those people who get paid a lot, but who seemingly don't deserve it - pop stars, footballers, City bank types - whereas the reality is that there are many who work very hard and take a great deal of risk, and who should be rewarded for their hard work. One of our clients is a renal surgeon who studied for eight years and now, because he is a transplant specialist, works over 60 hours a week, and is on call 24 hours a day, 7 days a week. He makes about £125,000, and I don't think this is unreasonable. However, if the point of tax is to bring in money, then increasing the top rate actually reduces the amount of tax collected.

- In the 78/79 tax year the top rate of tax was 83% (taking into account the tax on both earned and unearned income) and the highest earning 1% of the population contributed 11% to government tax income
- In 86/87 the top rate was reduced to 60%, and the top 1% then produced 14% of tax revenue
- In 90/91 when the top rate was reduce to 40%, the top 1% generated 15% of the revenue
- In 08/09 the top 1% generated 24.1% of tax revenue.

If taxation is increased on higher incomes, it acts as a disincentive for those who earn them. The pop stars, footballers and the like are never really affected and are a very small portion of the tax take. It's the majority of the "ordinary" high earners who end up being affected. I can be sure that our renal surgeon client will not reduce his hours just because on the top £25,000 he earns he pays tax of £15,000! But would you work those extra hours just to pay that much tax?

By responding to the media and increasing the higher rate of tax, the total amount of tax collected will actually reduce. This increase in the higher rate is a political decision, and not an economic one. In times when we need to be smarter about the tax we collect, and what we pay out to cover the increased national debt that we find ourselves in, the chancellor is doing exactly the wrong thing.

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

Name	Contact	£1 Gross %	£500 Gross %	£1,000 Gross %
West Bromwich BS	Via branch	n/a	n/a	2.85
West Bromwich BS	0845 3300622	n/a	n/a	2.80
S'boro Investment Dir	0845 4584522	n/a	n/a	2.76

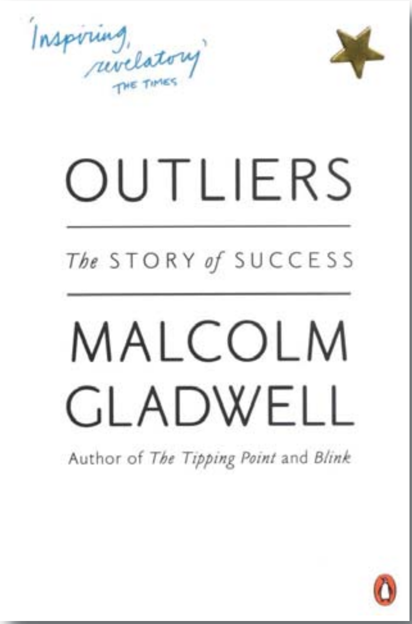
Top Three Monthly Interest Accounts

Name	Contact	£1K Gross %	£2.5K Gross %	£5K Gross %
Chelsea BS	0800 1951514	3.20	n/a	n/a
Firstsave	www.firstsave.co.uk	n/a	n/a	3.20
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	08000 302010	4.5 Fixed		
Newcastle BS	0845 6050022		3.00 Introductory offer for 6 mths	
Chesham BS	08000 186214		3.00 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.



Outliers:
The Story of Success

by Malcolm Gladwell ISBN 0141036257

This month's book is the excellent.

Gladwell is also the author of The Tipping Point and Blink, both excellent books, and with Outliers he again takes a look at the world in a very different way to the rest of us. In this book he looks at success and what makes success, and the results are very interesting and totally believable. If you think skill, talent and hard work generate success, you are wrong, according to the book. I will not spoil the conclusions here as I really would like you to get hold of a copy and find out for yourself. The book is very easy to read and is very enjoyable – the perfect partner for this horrible weather.

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."

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