

## Why don't we do what we should?

Everyone knows we should, as a general rule, eat less and exercise more, but usually we don't do this. Why? Because it's easier not to! But ask yourself this question: When you ask people how to invest, they will always say, buy low and sell high. Why? Because it makes sense. Why is it, then, that so few people do this?



Over the last six months, investment property prices have fallen by a large degree. Equity investments fell massively in late January. Why is it then that people are not investing in investment property and equities?

Reports from investment managers show that net investment receipts have fallen considerably over the last six weeks. And yet, if the cost of assets is low, why are people not buying?

Is it that they think that the investments won't increase? Do you really think that the price of

property will not be higher in ten years' time? Do you really think that property tenants will not all pay their rents? Do you really think that equities will be less in ten years' time? Or that no dividends will be paid?

The reason why people don't invest when the markets fall is because they think with their investment heart, not their head. This is the reason why few people really make money over the long-term with their investments.

It is very difficult to be objective with your own money, because you are too emotionally involved. This is why you need someone else to help you, and to be objective. Even financial advisers should have their own financial advisers, because sometimes they are hindered by too much knowledge, as well as being emotionally involved.

And so what should you be doing? Well, investing now, of course, while the markets are down. Otherwise you will be like everyone else and wait for things to recover before you invest, and then you will have missed the boat.

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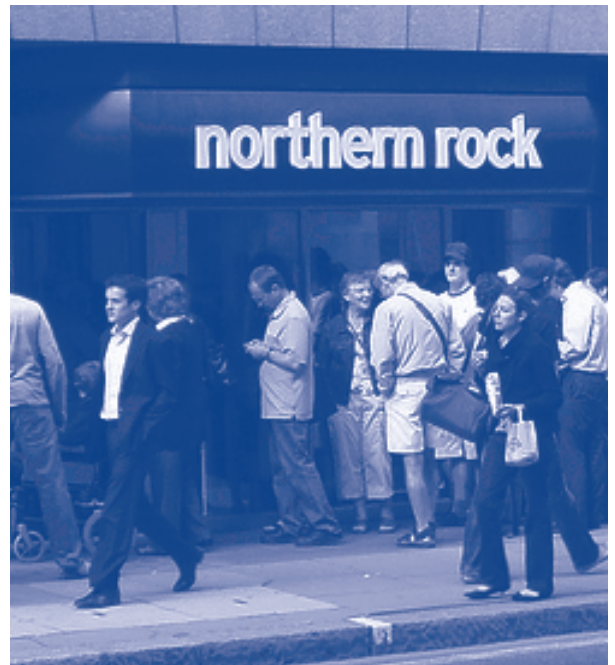
# Whose fault is Northern Rock?

I am sure you have all read everything there is to read about Northern Rock, and so we will not repeat any of the comment here. The only question we would ask is, whose fault is it?

Is it the bank's management for, effectively, borrowing short and lending long, in the expectation that short-term funds will always be available? Probably not. That business model has worked well for some time, and in the longer-term will continue to work. They should, however, have had much-greater reserves and 'last-lender' arrangements in place so that, if short-term lending dried up, they would have sources of credit open, even if the money was expensive.

Is it the Bank of England's fault? Definitely not. The role of the Bank of England as supervisor and regulator of the banking sector was removed 10 years ago, and given to the FSA. Interestingly, while the FSA's budget was increased considerably to deal with this increase in work, the Bank of England's was not.

Is it the Government's fault? Well, it was the Government that handed regulation from the Bank of



England to the FSA, and so you could blame them to some degree. However, it is not the Government's job to regulate, but to appoint the regulator.

Should the blame rest with the FSA? Yes, of course. The Financial Services Authority (FSA), (not the other FSA - the Food Standards Agency!), is the regulator of the financial services sector. As the regulator, it should have been aware of Northern Rock's borrowing strategy, and should have controlled it more.

It is a shame that the FSA did not deal with the affair effectively, and it is fortunate that the Bank of England was there to pick up the tab. However, you can't help thinking that, if the Bank of England must pick up the tab as the 'lender of last resort,' then perhaps it should have had a keener eye on things than a regulator who does not.

# ABI lobbies hard, but will it get a result?

The Association of British Insurers (ABI) is running scared. Following the confirmation in January of the change to CGT rules and rates in April, insurers around the country are in panic mode over the potential loss of future and existing business.

Nearly half of all investment business (as opposed to savings business) in the UK is made into investment bonds. Investment bonds are, strictly speaking, life insurance contracts into which you place a lump sum to buy life insurance, usually for £1 more than you are putting in. This is all a ruse to develop a tax-efficient investment. But by placing the investment in a life insurance contract, you attract different taxation rules. Over the years, many people, including some parts of the press, have come to consider these investments as tax free. However, this is not the case.

Investment bonds have internal taxation at a rate of 20% (which, in a few limited cases, can be reduced to 18%). However, you can withdraw capital from the bond at a rate of 5% of the initial amount invested without an immediate tax charge - a good thing for higher-rate taxpayers. However, this does not mean that tax is not payable, as we pointed out last month. When the investment is withdrawn, there is no further tax to a basic-rate taxpayer, because the tax has already been charged. However, a higher-rate taxpayer will have a 'top-slicing' calculation made and will pay an additional 20% on the gains.

The change in CGT rules, to a flat rate of 18% for everyone, seriously questions the validity of an investment bond for a higher-rate taxpayer. Why pay 20% ongoing tax, and then a further 20% on encashment, when you could get the first £9,200 of growth tax free (the 07/08 allowance), then only pay 18% tax on the growth of the rest? If you withdraw carefully, and manage the investment carefully, you could avoid almost all of the tax if the gains each year were 'washed' to use the annual allowance. In addition to that, CGT dies with you, unlike income

tax on a bond. Therefore, if you are not going to encash the investment during your lifetime, you could avoid all of the tax!

Even for a basic rate taxpayer, the CGT allowance advantages can seriously outweigh the internal taxation on an investment bond.

This is what has got the insurers upset. In 2007, £30bn of investment bond business was done by the insurance companies, and they can see this disappearing overnight. What's more, they can see the existing bonds that they hold being moved away from them.

And so the ABI is lobbying the Treasury heavily in an attempt to get some form of preferential tax treatment for investment bonds. At the moment, it is lobbying for income to be taxed at 40% and capital gains at 18%, giving a hybrid rate of around 30%.

There have always been winners and losers when tax rules are changed. In this case, the insurers will lose out and the investment houses will benefit. However, the ABI has a lot of friends in the Treasury, and in Parliament, and so it remains to be seen what it can do.

So what should you do? We will know on Budget day, but we are reasonably confident that the ABI will be unsuccessful. And so, if you hold any investment bonds, and they do not have any penalties attached, you must perform the tax calculation to see if you should change the investment wrapper.

We will be contacting all clients between March and May to analyse their investments and arrange the changes that need to be made. From those that we have completed so far, 90% need changes to be made, and in all cases, the cost of the changes is recovered by tax savings within 6 to 12 months of the change.

# 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
Birmingham Mids	0845 603 2286	5.75	5.75	5.75
Bradford & Bingley	0845 724 7247	N/A	N/A	6.20

## Top Three Monthly Interest Accounts

Name	Contact	£1 Gross %	£500 Gross %	£1,000 Gross %
Alliance & Leicester	www.alliance-leicester	6.31	6.31	6.31
Bradford & Bingley	www.bradfordandbingley.co.uk	6.22	6.22	6.22
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 %
Barclays Bank	0800 400100	6.31	6.31	6.31
Scarborough BS	0845 634 3760	N/A	N/A	6.30 (minimum £1,000)
Alliance & Leicester	Alliance-leicester.co.uk	6.25	6.25	6.25

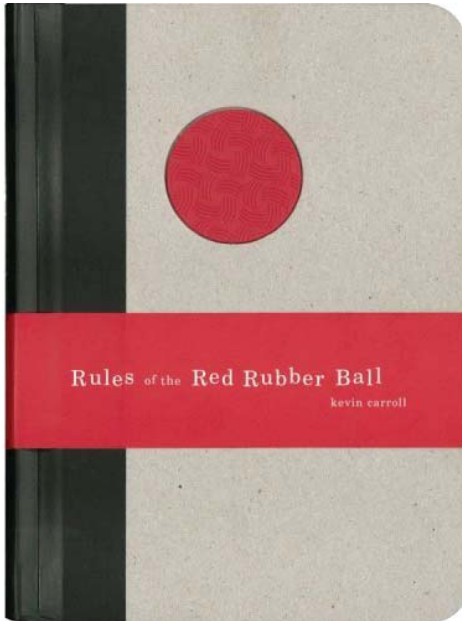
*Please check with the terms and conditions before opening any account. If in doubt consult with your financial adviser directly as the above are for information only.*

## Book of the month

Rules of the Red Rubber Ball, *by Kevin Carroll*  
(ISBN 1-933060-02-6)

This month's book really is something different. It has been described by Newsweek as an adults' version of Dr Seuss's *Oh, the places you'll go*, and that's about as good a description as you will get.

This little book is very easy to read, but should not be read in one go. It is more a book to read in bite-sized chunks, to savour the message. As a guidebook to life, it has interesting and strange, but also wonderful, ideas. Well worth a different kind of read.



## A step back in the right direction

In the 2006 Finance Act, HMRC changed a great deal regarding the taxation of trusts. One of the results of this was the compulsory accounting for trusts with values of £10,000 or more. What HMRC did not appreciate was the floodgate that they had opened. The new ruling has meant that HMRC are literally flooded with registrations and accounts, and simply can not handle the workload.

In February, a new consultation for draft documentation was issued to change these rules again. Reading the draft legislation (which we do not recommend unless you really have trouble getting to sleep), it seems that the registration limit has been raised to 80% of the Nil Rate Band. This means that if you set up a trust, and the amount that you put

## Norwich Union payout

1.1m policy holders in Norwich Union's CGNU Life and CULAC with-profits fund will share £2.1bn in special bonuses. These bonuses will be payable in three annual instalments, starting with a backdate on January 1st 2008. The payments are from the insurer's inherited estate.

into it is below £240,000 as it stands today, no accounting is required. Why 80% of the NRB has been used we really can not understand, but that is the level. This is good news, and it is good to see that HMRC are taking some commonsense views on real day-to-day issues.

It is proposed that the new rule will be backdated one year. It's not often we say it, but, Well done to HMRC.

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