



## WISE WORDS FOR AUTUMN



Welcome to the first edition of our new look newsletter.

The aim of the quarterly newsletter is to provide informative articles that relate to all of our clients.

This means there should be something for everyone in each newsletter.

I have added a feature to the newsletter, *At home with the Whittingtons*. As most of you are aware, my husband Francis is a professional event rider with a string of around 15 horses currently in to compete. Our weekends are often spent travelling around the country, with myself and our son Max as chief gofers for much needed bacon sandwiches and coffee! I thought it would be a good idea to regularly update you on our adventures and Francis' progress as he aims towards London 2012.

As valued clients you will know how strongly I feel about reviewing your investments regularly to make sure they are on track for your goals. If you do ever have any concerns before I contact you for your regular review then please use the contact details on the back page to get in touch.

If there are any future articles or opinions you would like to see in the newsletter then please email [enquiries@wisefinancialmanagement.co.uk](mailto:enquiries@wisefinancialmanagement.co.uk)

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## MARKET OVERVIEW

July saw a huge re-embracing of risk assets after the weakness in June. This was prompted at first by better economic news – though this had started to wane by the end of the month – and there were also some high-profile corporate earnings announcements, which gave equity markets a boost.

Equities were the top-performing asset class in July, with the UK the place to be. US equities also did well, while European equities performed roughly in line and Japanese equities saw a weaker performance. Corporate bonds were largely flat and government bonds fell slightly on the month.

Equities were initially given a boost by an International Monetary Fund report that raised global growth forecasts from 4.2% to 4.6%. The UK was one of the few countries where growth prospects were downgraded, but the change had been largely expected on the back of the ‘austerity’ Budget in June.

But the good economic news did not hold up. Mid-month, Federal Reserve chairman Ben Bernanke said economic conditions were “unusually uncertain” and the struggling banking sector and near-collapse in the Greek economy were delaying a US recovery.

There was also bad news from China as the announcement that the country’s growth had slowed to ‘just’ 10.3% – from its previous level of 11.9% – spooked economists. The more optimistic pointed out this was a natural consequence of Beijing’s strategy of withdrawing its stimulus packages and tightening monetary policy, but it still raised fears of a double-dip.

Back in Europe, the much-anticipated banking stress tests proved something of a damp squib. There were few surprises and most analysts thought them insufficiently rigorous, which means they essentially failed in their primary aim – of restoring confidence in the sector.

So why did equities hold up? Principally, the strength of corporate profits continued to support prices. July saw the start of the second-quarter reporting season and early signs were promising. Shell and Exxon, for example, saw a near-doubling of profits, which helped ride out the worsening economic news.

## EMERGENCY BUDGET OVERVIEW – CGT

A rise in capital gains tax (CGT) was a key tenet of Liberal Democrat policy. To address the discrepancy between the top rate of CGT (18%) and the top rate of income tax (50%), a rise to 40% or even 50% had been mooted.

In the end, CGT was raised to 28% for higher rate tax-payers and maintained at 18% for everyone else. Osborne suggested any further hike would reduce the yield to the Exchequer from CGT rather than increase it. The annual exemption at £10,100 was maintained, adding this would continue to rise with inflation. Although this was a smaller increase than expected, many were disappointed the Chancellor did nothing for assets held for the longer term. However, he specifically noted that a reintroduction of taper relief and/or indexation would prove too complicated. The Chancellor did, however, retain business reliefs and, in some cases, extend them.

The property and equity markets may have slowed, but those investors who have held assets for a long time may still face a large bill. As such, many of the tax planning measures important pre-Budget will now be even more so: Using the annual exemption each year, plus that of a spouse, rather than crystallising a single, large gain can help mitigate CGT. Now is a good time to review, just in case the changes offer new opportunities.

## LITTLE TREASURES...

### Paying for your dear little things

It is as if children have become a luxury item. From their first squeal through to the age of 21, you will pay out more than £200,000\* in their name. This can be a hefty chunk of your after-tax income and it is therefore worth planning ahead where you can, to minimise the burden of some of the more predictable expenses.

However much you have available, you will find an option which is suitable. Some will be specifically designed for children – and some will even have tax benefits thrown in.

### Choosing the right option

In the latest emergency budget, the government announced plans to reduce and eventually stop the Child Trust Fund vouchers of £250. So what are your options now for saving for your children?

There are friendly society children’s bonds, with low minimum investment levels, available to anyone connected with you, including friends and godparents as well as close relatives.

These options come with tax breaks. However, the list does not end there. With many generic products also now offering



minimum investment levels of just £20 or £30 a month, a standard fund may be just as suitable. Taking costs, your tax position and your attitude to risk into account, some could be used instead of – or perhaps as a top up to – the more tax efficient options.

### Planning for your children’s future

With such a large range of options available, making the right choice can be difficult – and take a significant amount of your time as you search through the different offerings.

Alternatively, we can help. Not only can we quickly outline what the different options mean for your child’s future, we can also assess your needs in the context of your situation, with full knowledge of the wide range of products available.

For more information on how you can make the most of the money available to your child, please give us a call.

\* Source: Liverpool Victoria, Annual Cost of a Child survey 2010, Published Feb 2010

## GUIDE TO ISAs

ISAs are well known for being tax-efficient, choosing the right investment to make sure you make the most of this is actually quite important. Using your ISA allocation wisely does not just mean picking the right ISA provider, but also carefully considering the assets themselves.

Within an ISA wrapper, not all asset classes are treated equally. For example, the interest paid on cash ISAs is free of income tax – as are ISAs invested into corporate bonds. Shares, on the other hand, cannot reclaim any tax credits, and are therefore a little less effective for saving income tax. Where investors in ISAs used to be able to reclaim the 10% tax paid by companies on dividends, this benefit is no longer available. Therefore, the only remaining income tax benefit

on equities is for higher rate taxpayers, who will pay no more income tax on the dividends paid by their ISA holdings in stocks and shares. Having said this, while shares are considered higher-risk investments, they have traditionally provided higher total returns over the long-term than bonds and cash. Therefore, the lack of any capital gains tax liability within an ISA remains important for everyone.

It is important to remember that, while making the most of your tax benefits is important, it does not outweigh the need to pick the right assets to suit your needs. Only once you get this right can you start thinking about which tax breaks might be of further help.

## SKY VS PENSION PLANNING

As healthcare and living standards improve, so does our longevity. A male aged 65 is now expected to live to almost 83<sup>†</sup> and a female even longer. This, along with the attraction of early retirement, means some of us could be looking forward to a happy retirement lasting perhaps more than 30 years.

As a result, a thriving workforce that was once more than able to support our elder population is becoming far less able to do so.

So, whilst we may be looking forward to long and carefree days, finally free of the rat race, the question needs to be asked – is our pension provision good enough to pay for it?

The first step towards getting on track is to understand where you are now. How many companies have you worked for and how many offered pension plans? What other provision do you

have – e.g. savings accounts, investment plans, perhaps a second house or even your own business.

Then you need to take charge. Your pension fund could end up as one of the largest assets you have, but how much is it actually going to pay you? £10,000 might buy you a one-off luxury trip round the world, but it is not so impressive if you need to plan many years of holidays.

Our pension review service could help you get on track for your retirement. We take a comprehensive look at what provision you have, where that provision is going to place you, consider how this fits with where you want to be – and then, if appropriate, suggest the best options to make up any shortfall.

<sup>†</sup> Source: National Statistics Office and Government Actuaries Department, Life tables published in 2006, based on 2007 estimated figures for life expectancy. [www.statistics.gov.uk](http://www.statistics.gov.uk) and [www.gad.gov.uk](http://www.gad.gov.uk)

## AT HOME WITH THE WHITTINGTONS

August is always a chaotic month in the Whittington household and this month proved no different... the build up to Burghley Horse Trials has started. Burghley is one of the most prestigious equestrian events in the world and is the pinnacle of the sport of eventing. With a 1st prize of £50,000, it is understandable that tension starts to set in. This year we decided to take a short break in Sicily for a few days to unwind and relax after a busy start for both of us this year. Max, our 18 month old son, went to visit granny for a few days, so we had a fantastic time and caught up on a lot of much needed sleep!

Francis took Sir Percival for a pre-Burghley warm-up competition at Hartpury College in Gloucestershire. Sir Percival is a very spooky horse and doesn't like anything that looks like it might eat him... So when he trotted into the arena to do his dressage test and saw one of the judges sat behind a table with a bright red cloth, he decided he would try to turn around and vacate the arena!! Fortunately, Francis persuaded him to go past and carry on and they completed the competition and finished 8th. This was a great prep run for Burghley, so I will be updating you all on how he got on in the next newsletter...

So, 'til next time...

*Sam Whittington*

*Sam Whittington, Independent Financial Advisor*



Photo: Stephen Davis, SW&P

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