



Financial Focus is produced by the Financial Planning Team of
Blackett Hart & Pratt Solicitors

Investment Planning



Stewart Thompson, an Independent Financial Adviser with Blackett Hart & Pratt suggests a 10 point plan for investment

strategy

All investments have their ups and downs. American funds and technology funds have boomed, then declined. With-profits - the main engine behind endowments - have done extremely well for some investors, but less well for others.

And Corporate Bond funds, which last year out-performed equities and can usually be relied upon for reasonable stability, demonstrated in the early nineties that they can also fall as steeply as shares.

Nevertheless, a sensible investment strategy usually pays off in the longer term. So the question is, what sort of strategy should be adopted to maximise the upside and minimise the downside? Here is a suggested 10-point plan:



STEP 1 Don't base investment decisions on the apparent economic prospects. Even the experts' predictions are often proved wrong. In any event, investment planning should look beyond the short-term prospects, which should only affect decisions on whether to invest or stay in cash

STEP 2 The best way of reducing risk is to spread investments between a wide range of shares and fixed interest holdings. So don't put your faith in individual shareholdings, but chose instead as the core of your portfolio a diversified fund such as balanced managed funds, with-profits funds, portfolio funds or funds of funds.

STEP 3 Treat your core investment as a long-term holding. One of the main obstacles to performance is incurring unnecessary switching charges. Warren Buffett, the great American investor, says that he buys an investment "for ever".

STEP 4 If you require an immediate income from your investments, the core holding could extend to fixed interest funds or split-capital Investment Trust funds, or it could take the form of Investment Bonds or Unit Trusts which offer a tax-efficient capital drawdown facility.

STEP 5 Build an appropriate selection of satellite holdings around your core. These could be more tactical than strategic, possibly with a shorter time-span in mind, to enable advantage to be taken of realising profits under cover of the annual Capital Gains Tax exemption.

STEP 6 When considering share funds, bear in mind that the typical UK investor should concentrate primarily on the UK market. Buying funds which hold overseas shares necessarily involves taking the risk of currency fluctuation; and the less sophisticated markets, such as those of the Far East, also carry a risk of increased volatility.

STEP 7 Apart from geography, take account of the "style" of the fund manager. This could favour Growth stocks (which offer future prospects but little if anything in the way of assets or dividends); Value stocks (more traditional companies); or a blend of the two. Clearly, the greater the exposure to Growth stocks, the higher the risk.

STEP 8 Take account also of the size of the companies in which the fund invests. Smaller companies tend to lead a more exciting life!

STEP 9 Take full advantage of the opportunity to invest through tax-efficient "wrappers" such as ISAs Unit Trusts and Investment Bonds, which can increase returns by reducing the amount of tax payable and/or minimising administration.

STEP 10 Entrust the selection of funds and managers to someone who is able to provide truly independent advice and can ensure that your portfolio is appropriate to your objectives and your attitude to risk. Who better than your solicitor financial adviser?

Finally, having invested, don't anxiously watch the values day by day. Remember that investment is for the long term. And remember also that the time to sell is not when the news is bad, but when everyone else is buying!





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YOUR HOME IS AT RISK IF YOU DO NOT KEEP UP REPAYMENTS ON A MORTGAGE

Young Investors

We explain why one of the unexpected beneficiaries of the Government's new cheap and cheerful Stakeholder pension is children.

At first it seemed that this might have arisen from an oversight by the draftsmen, but Gordon Brown's subsequent announcement of Baby Bonds confirms that he is indeed keen to create a savings mentality even among the most junior members of society.

Because there is no minimum age limit for Stakeholder, and contributions need not be paid out of income, virtually every UK resident is eligible to make at least a basic £3,600 annual contribution. So Stakeholder may well become a standard christening present for rich uncles!

The effect on returns of compound tax-relieved growth is remarkable. A single contribution of £1,000 at birth will grow to £44,145 by age 65, using the PIA's standard projection assumptions.

Furthermore, because contributions are made net of basic rate tax - even for non-taxpayers - only £2,808 need actually be paid to create a contribution of £3,600.

Thinking again of children, if child benefit of £15.50 were invested in a Stakeholder plan, this would gross-up to £20; and if the payments were contributed week in, week out, until the child attained the age of 18, the value would

drawdown flexibility



Geoff Coulson sheds some light on Income Drawdown

It was in 1995 that the Government gave the green light to the introduction of Income

Drawdown plans for pensions. The reason was that pension annuity rates had become very poor value, and it was felt that retirees from Personal Pension plans and other money purchase schemes would benefit from being able to delay purchasing a pension annuity until rates might improve, provided that meanwhile they could draw an income from their pension fund.

In the event, annuity rates have remained low, but income drawdown has nevertheless become popular, for two reasons. First, it enables retirees to continue to manage their pension investments after retirement and to take advantage of stock market opportunities.

Secondly, if the retiree dies during drawdown, the value of the pension fund can be passed to the surviving spouse or dependants, less a 35% tax charge.

Buying a pension annuity cannot be deferred indefinitely. Age 75 is the last permitted date.

This complicates the management of a drawdown fund, because annuity rates become less attractive as age increases, and unless the growth in the fund is sufficient to compensate, the annuity which is eventually bought will be less than it would have been on retirement.

Retirees therefore need the maximum flexibility when investing a drawdown plan, and need to look beyond the standard balanced managed pension funds. The greatest flexibility is achieved by investing through a self-invested personal pension plan (SIPP). And happily, the rules have recently been changed to enable investors to transfer their funds between providers, to whichever offers the most attractive arrangements.

WITH-PROFITS PERFORM

With-profits funds have been criticised for having obscure charging structures and giving product providers too much discretion as to the bonuses they declare and the redemption penalties they can impose.

In addition, investors in EquitableLife will be only too aware of the danger of selecting a provider which gets into difficulties.

However, research by Chartwell Investment Management has found that returns from with-profits funds over a five-year period ranked above a series of other investment choices including Balanced and Active Managed funds.

Chartwell's conclusion is that with-profits continues to be a good choice for cautious investors, particularly when stock market prospects are uncertain.

"Returns stand up very, very well compared with other low-risk investments. They are not designed for people who are hoping to get returns of 25% a year and are willing to take big chances with their money. They are designed for people who are retired, or are coming up for retirement, who are after security and income".

A few product providers have already announced their intention to offer with-profits funds for Stakeholder investment. The most important factor in choosing a with-profits investment is the financial strength and reputation of the product provider.