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Smoothing out your portfolio's returns

How to increase the long-term value of your investments

**STAVING OFF
A SOVEREIGN
DEFAULT**

Getting to grips with the current crisis of indebtedness

Do your retirement numbers add up?

Saving to secure the kind of pension you would like to live on

SIPPING into retirement

Are you in control of your investments?

Emerging views

The lure of greater growth and younger economies

Fine-tuning your portfolio

Reduce risk, hedge inflation and diversify your overall investment strategy

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Editorial

Welcome to the latest issue of our personal finance and investment magazine. Inside this issue we provide you with quality analysis and information on a wide range of topics to help you make your financial planning decisions with confidence.

Before you can start planning for your retirement, you need to understand how the money you've built up in your pension fund will be used to provide you with an income when you retire. On page 05 we look at annuities – one of the options you could choose to invest most of your pension in, and one that will pay you a regular income throughout your retirement years. In the UK more than £10bn is invested in annuities every year.

There are numerous ways of saving for retirement, including various types of pensions. The government views retirement savings as being so important that it offers generous tax benefits to encourage us to make our own pension provision. It is usually also the case that you may be able to contribute to more than one pension – for example, if appropriate, you could contribute to a Self-Invested Personal Pension (SIPP) as well as to your company pension scheme. Read the full article on page 04 .

In the light of recent market volatility it's perhaps natural to be looking for ways to smooth out your portfolio's returns going forward. One way for investors to achieve some peace of mind is through 'pound-cost averaging', a simple, time-tested method for controlling risk over time. On page 06 we look at how pound-cost averaging enables investors to take advantage of stock market corrections and how, in this way, you could increase the long-term value of your investments.

A full list of all the articles featured in this edition appears on page 03. ■

Content of the articles featured in this publication is for your general information and use only and is not intended to address your particular requirements. They should not be relied upon in their entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of any articles. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts. Levels and bases of and reliefs from taxation are subject to change and their value depends on the individual circumstances of the investor. The value of your investments can go down as well as up and you may get back less than you invested.

Do your retirement numbers add up?

Saving to secure the kind of pension you would like to live on

How much money do you need to save to secure the kind of pension you would like to live on when you retire? It's a question that concerns everyone saving for their retirement.

So it's essential to make sure your numbers add up, especially as older people have seen their cost of living rise by almost a fifth in four years, according to calculations from Saga. Working with the Centre for Economics and Business Research, Saga estimated that the cumulative inflation rate on the RPI gauge has been 13.9 per cent for the general population over the past four years. But people aged between 65 and 74 have suffered a rise of 19.1 per cent.

DAUNTING PROSPECT

Add to this the daunting prospect that one in three workers in the UK does not currently have a private or company pension, it means that around 15 million people will have to rely on the State pension or personal savings when they retire, according to research of 1,600 adults by Prudential.

This makes the question 'How much money do I need to save to secure the kind of pension I would like to live on when I retire?' even more important.

Much will depend on when you plan to retire. Some people expect to have to work until they are 65, some with a good pension may aim for 60 and others plan for an early retirement during their 50s.

NEW-FOUND FREEDOM

Many of us may dream of long, easy days in retirement, enjoying our new-found freedom. But the illusion can too easily be shattered if we do not have enough income to live on. Few of us may realise just how much we could need in retirement to achieve a comfortable standard of living and how long it will have to last.

As more people are living longer today, so our pensions have to last longer during our retirement years. Realistically a pension may have to provide us with an income for over two decades, if not longer, after our salary stops.

FACTORS TO CONSIDER

There are several factors to consider, such as your current age, how many years left before your retirement, how you plan on spending your retirement years and how much you can afford to save.

When you retire, the chances are that you may not need as much to live on as you do when you are working. As an estimate, a figure of between two-thirds and a half of your present income may be sufficient to maintain a good standard of living. ■

THE KEY TO SAVING FOR YOUR LATER LIFE IS TO START EARLY. MAKING PENSION CONTRIBUTIONS IS A VITAL PART OF SECURING A COMFORTABLE RETIREMENT. TO REVIEW YOUR CURRENT RETIREMENT PROVISION AND TO ASSESS WHETHER YOUR NUMBERS ADD UP, PLEASE CONTACT US.



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WANT TO MAKE MORE OF YOUR MONEY?

FOR MORE INFORMATION PLEASE TICK THE APPROPRIATE BOX OR BOXES BELOW, INCLUDE YOUR PERSONAL DETAILS AND RETURN THIS INFORMATION DIRECTLY TO US.

- Arranging a financial wealth check
- Building an investment portfolio
- Generating a bigger retirement income
- Off-shore investments
- Tax-efficient investments
- Family protection in the event of premature death
- Protection against the loss of regular income
- Providing a capital sum if I'm diagnosed with serious illness
- Provision for long-term health care
- School fees/further education funding
- Protecting my estate from inheritance tax
- Capital gains tax planning
- Corporation tax/income tax planning
- Director and employee benefit schemes
- Other (please specify)

Name _____

Address _____

_____ Postcode _____

Tel. (home) _____

Tel. (work) _____

Mobile _____

Email _____



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SIPPing into retirement

Are you in control of your investments?

There are numerous ways of saving for retirement, including various types of pensions. The government views retirement savings as being so important that it offers generous tax benefits to encourage us to make our own pension provision. It is usually also the case that you may be able to contribute to more than one pension – for example, if appropriate, you could contribute to a Self-Invested Personal Pension (SIPP) as well as to your company pension scheme.

PENSION WRAPPER

A SIPP is essentially a pension wrapper, capable of holding investments and providing the same tax advantages as other personal pension plans, that allows you to take a more active involvement in your retirement planning. SIPPs are not appropriate for small investment sums.

You can generally choose from a number of different investments, unlike some other traditional pension schemes that can be more restrictive, and this can give you greater choice over where your money is invested.

It may also be possible to transfer-in other pensions into your SIPP, which could allow you to consolidate and bring together your retirement savings. This may make it simpler for you to manage your investment portfolio and perhaps make regular investment reviews easier.

TAX RELIEF

SIPP investors also receive tax relief on their contributions. So you could potentially benefit from between 20 per cent to 50 per cent tax relief depending upon your own circumstances.

Like some investments in other pensions, any returns from investments within a SIPP are free of income and capital gains tax.

Please note that the 10 per cent tax credit attaching to UK dividend income cannot be re-claimed by anyone.

TAX ADVANTAGES

This is a long-term savings vehicle with certain tax advantages, but you should be prepared to commit to having your money tied up until at least age 55. There are various options for taking benefits from your SIPP that you should be aware of. You can receive up to 25 per cent of the pension fund value as a tax-free lump sum (subject to certain limits); the remaining benefits can be taken gradually as an income or as additional lump sums, both of which are subject to your tax rate at that time, although this is potentially a lower tax rate than the one that you currently pay, depending on your circumstances at the time. In addition, an annuity could also be purchased if appropriate to your particular situation.

NOT SUBJECT TO TAX DECLARATION

Assets held within the pension fund that carry no tax at source, such as offshore investments and government gilts, are not subject to tax declaration or payments.

If you are an experienced investor, then managing your own pension investments may be for you. However, you need to be comfortable that you have the skill and experience to make your own investment decisions and have sufficient time to monitor investment performance. So you can either take control of your investments or pay someone to do it for you. If you pay, your costs will increase for this facility.

MANAGING YOUR INVESTMENTS

There are a number of considerations you need to be aware of, for example, you cannot draw on a SIPP pension before age 55 and there are usually additional costs involved when investing. You'll also need to be mindful of the fact that you may need to spend time managing your investments. Where an investment is made in commercial property, there could be periods without any rental income and in some cases the pension fund may need to sell on the property when the market is not at its strongest. SIPPs also charge higher costs than a stakeholder and you may pay two sets of management fees for the wrapper and the underlying investments. ■

IF YOU ARE AN INVESTOR WITH THE EXPERTISE TO MAKE YOUR OWN INVESTMENT DECISIONS, A SIPP MAY PROVIDE YOU WITH THE INVESTMENT CHOICE TO ENABLE YOU TO TAKE GREATER CONTROL OVER YOUR RETIREMENT PLANNING. IF YOU ARE UNSURE, IT'S ESSENTIAL TO SEEK PROFESSIONAL FINANCIAL ADVICE. TO DISCUSS YOUR RETIREMENT PLANNING NEEDS, PLEASE CONTACT US.

A pension is a long-term investment. The fund value may fluctuate and can go down as well as up. You may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.

25%

The maximum percentage of your pension fund value you can receive tax free

Time to go annuity shopping?

Don't make your final decision until you've received different comparisons

Before you can start planning your retirement, you need to understand how the money you've built up in your pension will be used to provide you with an income when you retire. One of the options you could choose is to invest most of your pension in an annuity, which pays you a regular income throughout your retirement years.

£10bn

The amount invested in annuities every year in the UK

You purchase an annuity using the lump sum from your pension or, perhaps, some savings, which provides you with a guaranteed income for the rest of your life. The size of the income you receive, however, usually depends on the size of your pension fund, your age, your gender and your health. In the UK more than £10bn is invested in annuities every year.

ANNUITY QUOTATION

When you retire, your pension fund provider will inform you of your pension fund total, and offer you an annuity quotation based on the size of your fund. In general, most people purchase an annuity by the time they reach age 75.

Your choice of annuity will depend largely on your financial circumstances, the value of your pension(s), your retirement expectations and, possibly, on your health or the health of your dependants.

You can choose whether you would prefer a level annuity or an escalating annuity. Level annuities pay you a fixed level of income each year, while an escalating annuity increases each year in line with inflation.

The income generated from an escalating annuity is usually significantly lower in the first few years than you would expect to receive from a level annuity.

POOR HEALTH

If you suffer from poor health, you may qualify for an enhanced annuity or an impaired life annuity. These usually pay a higher income amount if your health problems (such as high blood pressure, kidney problems or diabetes) could potentially reduce your lifespan. You might also be able to receive an 'enhanced annuity' if you are a smoker or diagnosed as obese.

SHOPPING AROUND

You can purchase your annuity from any provider and it certainly doesn't have to be with the company you had your pension plan with. The amount of income you receive from your annuity can vary between different insurance companies, so it's essential to receive comparisons before making your final decision.

'OPEN MARKET' OPTION

Remember that you do not have to accept your pension fund provider's annuity offer and could find much better value elsewhere. Pension fund providers are also now legally obliged to inform you of your rights to choose an annuity. You can decide to take the 'open market' option providing that you haven't already taken any benefits from your pension

or agreed an existing annuity with your pension provider.

Before you take out your annuity, you could also opt to withdraw a tax-free lump sum – up to 25 per cent of the total value of your pension – known as a Pension Commencement Lump Sum.

BEST COURSE OF ACTION

At times of falling annuity rates it might be tempting to hold off buying an annuity, perhaps while you wait for rates to increase. But this may not necessarily be the best course of action. If you decide to delay your purchase, rates could fall even further. In addition, every month an annuity is deferred is a month without income and this lost income may not be recouped in the future. ■

IT'S IMPORTANT TO REMEMBER THAT ONCE YOU HAVE AGREED TO PURCHASE YOUR ANNUITY IN EXCHANGE FOR A PENSION SUM, YOU CANNOT CHANGE THE ANNUITY AT A LATER DATE OR TRY TO SURRENDER IT FOR CASH. THEREFORE, YOU SHOULD SEEK PROFESSIONAL ADVICE TO ENSURE YOU FIND THE BEST POSSIBLE ANNUITY AVAILABLE. THIS IS LIKELY TO BE ONE OF THE MOST IMPORTANT FINANCIAL DECISIONS YOU'LL EVER MAKE. WE CAN HELP YOU WORK OUT WHICH ANNUITY OPTION IS BEST FOR YOUR OWN PERSONAL CIRCUMSTANCES – PLEASE CONTACT US TO DISCUSS YOUR REQUIREMENTS.

Staving off a sovereign default

The need to get to grips with the current crisis of indebtedness

The turbulence that has gripped financial markets is a response to the perception that politicians in the Eurozone and the US have been slow to face up to issues of indebtedness.

If interest rates in the UK and the Eurozone remain low for years to come, the pound and euro currencies would then be an unattractive place for investors to deposit their cash.

CONTINGENCY PLANS

The direct exposure of UK banks to Greece is fairly limited, but Bank of England Governor, Mervyn King, revealed in his response to MPs' questions in June that the Bank was working with the Treasury to draw up contingency plans for a Greek default.

The European Central Bank together with the 'eurosysteem' of 17 national central banks can create money that is used to buy government debts to stave off a sovereign default. There is therefore no theoretical limit to how much can be bought up.

The sooner Europe's political and financial leaders get to grips with the current crisis, the sooner the markets can try and return to some sort of normality.

US SOVEREIGN DEBT

Across the pond, the recent downgrading of US sovereign debt by Standard and Poor's (S&P) is an important symbolic moment in the shift of economic power from mature industrialised nations to emerging economies.

The US will only regain its AAA status once politicians have demonstrated that they can implement the necessary tax increases and/or spending cuts that will eventually get the ratio of outstanding debt to GDP onto a downward trajectory.

Private investors are likely to keep their investments as simple as possible via direct investment and collective vehicles such as funds and investment companies, while those with direct exposure to higher risk assets, which may fall in value in the short to medium term, at least have the capacity to grow again in the future. ■

Smoothing out your portfolio's returns

How to increase the long-term value of your investments

In the section talking about 'pound cost averaging' whereas you give lots of prominence to the benefits of buying in a falling market you do not balance this out by stating that an investor is paying a higher price in a rising market which after all is needed to create an average.

In the light of recent market volatility, it's perhaps natural to be looking for ways to smooth out your portfolio's returns going forward. One way for investors to achieve some peace of mind is through 'pound-cost averaging', a simple, time-tested method for controlling risk over time.

It enables investors to take advantage of stock market corrections, and by using the theory of pound-cost averaging you could increase the long-term value of your investments. There are however no guarantees that the return will be greater than a lump sum investment and it requires discipline not to cancel or suspend regular Direct Debit payments if markets continue to head downwards.

REGULAR INTERVALS

The basic idea behind pound-cost averaging is straightforward; the term simply refers to investing money in equal amounts at regular intervals. One way to do this is with a lump sum that you'd prefer to invest gradually – for example, by taking £50,000 and investing £5,000 each month for 10 months.

Alternatively, you could pound-cost average on an open-ended basis by investing, say, £5,000 every month. This principle means that you invest no matter what the market is doing. Pound-cost averaging can also help investors limit losses, while also instilling a sense of investment discipline and ensuring that you're buying at ever-lower prices in down markets. However, you will pay a higher price in a rising market which is needed to create an average.

MARKET TIMING

Investment professionals often say that the secret of good portfolio management is a simple one – market timing. Namely, to buy more on the days when the market goes down, and to sell on the days when the market rises.

As an individual investor, you may find it more difficult to make money through market timing. But you could take advantage of market down days if you save regularly, by taking advantage of pound-cost averaging.

SAVINGS HABIT

Regular savings and investment schemes can be an effective way to benefit from pound-cost averaging and they instil a savings habit by committing you to making regular monthly contributions. They are especially useful for small investors who want to put away a little each month.

Investors with an established portfolio might also use this type of savings scheme to build exposure a little at a time to higher-risk areas of a particular market.

The same strategy can be used by lump sum investors too. Most fund management companies will give you the option of drip-feeding your lump sum investment into funds in regular amounts. By effectively 'spreading' your investment by making smaller contributions on a regular basis, you could help to average out the price you pay for market volatility.

Any costs involved in making the regular investments will reduce the benefits of pound cost averaging (depending on the size of the charge relative to the size of the investment, and the frequency of investing). ■

Investing regular amounts could have the advantage of averaging out the cost of your total investment over time and may take away the worry of timing your purchases correctly. Regular investing may be ideal for people starting out or who want to take their first steps towards building a portfolio of funds for their long-term future. To find out more about the different options available to you, please contact us.

Personal protection

Could you cope with the unexpected?

Personal protection is an important part of most people's financial planning requirements. The financial effects on your family in the event of death or illness could be profound. There are many protection options available and we can help you identify the most suitable for your specific requirements.

If you were to die, at the very least you'd want your mortgage, debts and funeral costs to be paid for. You'd probably also want the security of knowing that your family would be able to maintain their current standard of living.

If you became seriously ill or were injured and had to give up work, you'd also want to be sure that your family could continue to be supported financially. You may decide to use your existing savings and investments, but how long would these last for before they ran out?

Considering protection solutions is a good way to safeguard against unforeseen events or expenses and can provide your dependants with the financial security you desire.

These are the basic protection foundations you should protect:

Life insurance: this provides some financial security for your dependants in the event of your death and helps them to pay some or all of the outstanding debts/financial commitments such as your mortgage and other liabilities

Income protection: this replaces part of your income if you are unable to work because of an illness or disability for a short or a long period of time

Critical illness: this provides you with a tax-free lump sum or regular income if you are diagnosed with a serious specified illness covered by the policy

Certain policies should also be written under an appropriate trust to ensure that monies pass to the right people at the right time and in the most tax-efficient manner. ■

IF YOU ALREADY HAVE SOME PROTECTION SOLUTIONS IN PLACE IT IS BENEFICIAL TO REVIEW THESE REGULARLY TO ENSURE THAT THEY CONTINUE TO MEET YOUR CURRENT NEEDS. FINANCIAL PLANNING SHOULD BEGIN WITH ENSURING THAT YOU HAVE A SECURE AND APPROPRIATE PROTECTION FOUNDATION IN PLACE TO COPE WITH DEALING WITH THE UNEXPECTED – PLEASE CONTACT US TO REVIEW YOUR CURRENT REQUIREMENTS.

TRUST

Certain policies should also be written under an appropriate trust

CRITICAL ILLNESS

Provides you with a tax-free lump sum or regular income

Emerging Views

The lure of greater growth and younger economies

'Emerging markets' is a broad term that encompasses the giants of Brazil, Russia, India and China (BRIC), as well as some other nations. Emerging markets have continued to outperform developed markets, even during the difficult economic climate we have experienced throughout 2011. The lure for investors is greater growth and younger economies than typically found in the developed West, but the trade-off for this growth is higher volatility and greater risk.

The population and economic growth in these markets has created a potentially massive high-consuming middle class – estimated to be more than one billion people by 2030, according to the World Bank, April 2010.

Emerging markets have large reserves of natural resources and these reserves should also aid their future prosperity as commodities continue to be in high demand.

In addition, many emerging markets have lower government debt burdens than developed nations and may have large holdings of foreign exchange. This means that spending in most emerging markets has not been dramatically curbed by the recession, as was the case in many developed nations, which allowed further stimulation of their economies and infrastructures to continue while some domestic markets waned. ■

Investments in emerging markets are by their nature generally considered to be higher risk. The value of these investments and the income from them can go down as well as up and you may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.

Boosting your income

How to access a broad range of income-producing funds

Generating an income from investments is usually an important requirement for many people who are retired or approaching retirement, those who need to supplement their salary or even those with a relatively short investment timeframe.

There are thousands of income-producing funds to choose from and they are divided into different types, or sectors. The four main types of income fund are:

Money Market Funds – these pay interest and aim to protect the value of your money.

Bond (Fixed Income) Funds – this type of fund pays a higher rate of interest than cash deposits but there is some risk that the value of your original investment will fall.

Equity Income Funds – the income is produced from dividends paid to shareholders. In return for some risk to your capital, you may get a more regular income than you would from cash, and the income, as well as your capital, may increase over time, however, it can also reduce.

Property Funds – these funds pay income from rents but the value of your investment can fall as well as rise.

In addition, there are mixed asset funds, which invest your money in both bonds and equities. A typical 'mixed fund' will also include property and cash as well as equities and fixed interest.

INTEREST FROM CASH OR MONEY MARKET FUNDS

This income varies in line with the interest rate set by the Bank of England. The fund's investment manager will aim to get the best rate available, helped by that fact that, with large sums to deposit, funds can often achieve better rates than individual investors.

The capital amount you originally invested in cash is unlikely to go down (subject to the limits for each deposit under the Financial Services Compensation Scheme). If the interest rate is lower than the rate of

inflation, however, the real spending value of your investment is likely to fall.

FIXED INTEREST FROM BONDS

Bonds are issued by governments (known as gilts in the UK) and companies (corporate bonds) to investors as a way to borrow money for a set period of time (perhaps five or ten years). During that time, the borrower pays investors a fixed interest income (also known as a coupon) each year and agrees to pay back the capital amount originally invested at an agreed future date (the redemption date). If you sell before that date, you will get the market price, which may be more or less than your original investment.

CREDIT RATINGS AFFECT THE MARKET PRICE

Many factors can affect the market price of bonds. The biggest fear is that the issuer/borrower will not be able to pay its lenders the interest and ultimately be unable to pay back the loan. Every bond is given a credit rating. This gives investors an indication of how likely the borrower is to pay the interest and to repay the loan. Typically, the lower the credit rating, the higher the income investors can expect to receive in return for the additional risk.

A more general concern is inflation, which could considerably erode the real value of the interest paid by bonds. Typically, bond prices rise if interest rates are expected to fall, and fall if interest rates go up.

If you invest in bonds via a fund, your income is likely to be steady but it will not be fixed, as is the case in a single bond. This is because the mix of bonds held in

the fund varies as bonds mature and new opportunities arise.

DIVIDENDS FROM SHARES AND EQUITY INCOME FUNDS

Many companies distribute part of their profits each year to their shareholders in the form of dividends. Companies usually seek to keep their dividend distributions at a similar level to the previous year, or increase them if profit levels are high enough to warrant it. If companies do not make a profit then no dividends will be paid and there is no guarantee.

RENTAL INCOME FROM PROPERTY AND PROPERTY FUNDS

Some people invest in 'buy-to-let' properties in order to seek rental income and potential increase in property values. Property funds typically invest in commercial properties for the same reasons, but there are risks attached. For example, the underlying properties might be difficult to let and rental yields could fall. This could affect both the income you receive and the capital value.

SELECTING FUNDS

There are a number of key points you should consider when selecting funds. Initially, you need to balance your need for a regular income with the risks. The income from a fund may be higher and more stable than the interest you receive from cash deposited in a bank or building society savings account but it can still go up and down. There may be some risk to the capital value of your investment.

Where funds are invested in real estate/commercial property, you may not be able to switch or cash in your investment when you want because assets in the fund may not always be readily saleable. If this is the case your request to switch or cash in your

Fine-tuning your portfolio

Reduce risk, hedge inflation and diversify your overall investment strategy

Commodities have received much media coverage over the past year, with prices rising as other asset classes falter. Investing in commodities within your portfolio may not only create exposure to different investment products, but can also help reduce risk, hedge inflation and diversify your overall investing strategy.

Commodities, like much else, are subject to the laws of supply and demand. When supply falls, as in the case of oil, the price will steadily rise. Likewise, when demand rises, as has been the case with gold over the past few years, the price rises. Stock market volatility and rising UK inflation has attracted a diverse mix of investors to this sector.

In October the Monetary Policy Committee (MPC) announced £75bn of new quantitative easing (QE) measures to help boost the faltering economy and free up the money markets. The stock market reacted positively to this news with mining and commodity stocks benefiting from the QE which filtered through to asset prices.

SAFE HAVENS PRESERVE WEALTH

Commodities are physical assets. They include oil and gas, metals such as gold and silver, and so-called 'soft' commodities such as wheat, sugar and cocoa beans. They are often called 'safe havens' as they preserve wealth in a physical way.

The sector has little correlation with stock markets and currencies, which means if equity markets fall, the price of commodities won't necessarily fall.

They tend to behave differently to conventional asset classes and can therefore be very useful for the purposes of diversification within an investment portfolio.

VIALE WAY TO ACCESS COMMODITIES

An investment fund that enables investors to access the sector and spread risk, with investors investing in a variety of commodities, is a passive fund incorporating Exchange Traded Funds (ETFs).

ETFs provide appropriate investors with the chance of buying whole indices in the same way as buying a share on the London Stock Exchange. In addition, they are eligible for inclusion within Individual Savings Accounts and do not attract any stamp duty.

TRACKING THE FUTURE PRICE

Equity-based commodity ETFs invest in shares of commodity companies through an index such as the FTSE 100, whereas Exchange Traded Commodities (ETCs) are instruments that track the price of the commodity, or a basket of commodities.

They can either be physically backed by the commodity itself or use swaps with other financial institutions to provide the exposure.

Should the price of the commodity fall, so will the investment, as the ETF will simply track its performance. ETCs also allow investors to 'short' or 'leverage' their investment. Investors should be careful here, as these strategies involve high risk. Although there are potential gains to be made, there could be significant potential losses too.

With the incredible rise of emerging economies forecast over the coming years, the commodity markets may provide appropriate investors with a range of investment opportunities to enable them to grow their wealth over the longer term. ■

Investments in commodities are by their nature generally considered to be higher risk. The value of these investments and the income from them can go down as well as up and you may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.

FTSE100

One index through which ETFs invest in shares of commodity companies

£75bn

The amount of quantitative easing measures announced by the Monetary Policy Committee in October

Making the most of your pension contributions

Are you claiming higher rate pensions tax relief?

If you pay higher rate tax you will not receive tax relief automatically on your personal pension contributions unless you claim it. This means that someone earning more than £42,475 in the current financial year could potentially be losing a fifth of the value of their pension if they are not actively claiming back higher rate tax relief on their contributions.

CLAIMING TAX BACK

If you pay income tax on your earnings before any personal pension contributions, your pension provider claims tax back from the government at the basic rate of 20 per cent. In practice, this means that for every £80 you pay into your personal pension, you end up with £100 invested in your pension fund.

If you are a higher rate tax payer paying 40 per cent, you may be able to claim an additional tax relief. Depending on how much you earn over the higher rate tax band, any additional tax relief could range from between a further 1 per cent up to a maximum of 20 per cent.

ADDITIONAL RATE TAX PAYERS

From 6 April, if you are an additional rate tax payer and pay 50 per cent, you may also be able to claim additional tax relief at your highest rate. Depending on how much you earn over the higher-rate tax band and your level of contribution, any additional rate tax relief could range from between a further 1 per cent up to a maximum of 30 per cent.

Claiming higher rate tax relief on personal pension contributions is for many people the single most important relief they can claim, yet hundreds of thousands could be missing out. To obtain your additional tax relief you must file a tax return or get HM Revenue & Customs to change your tax code. To do this, you have to contact your local tax office.

FULL TAX RELIEF STRAIGHT AWAY

If you are employed, usually your employer will take occupational pension contributions from your pay before deducting tax (but not National Insurance contributions). You only pay tax on what's left. So whether you pay tax at basic, higher or additional rate you receive the full relief straight away. ■

Tax matters

How much of your hard-earned money will the taxman get his hands on?

Inheritance Tax (IHT) in the UK may be one of life's unpleasant facts but IHT planning and quality advice could help you pay less tax on your estate.

For the 2011/12 tax year, no IHT is charged on the value of your estate up to £325,000. This is known as the 'nil rate band'. Everything above this is taxed at 40 per cent.

If an individual's IHT nil rate band is not used up on their death, the unused proportion can be transferred to their surviving spouse or civil partner.

Assets passed between spouses or registered civil partners are exempt from IHT (assuming the spouse or partner is domiciled in the UK), regardless of the worth of the assets and how soon you die after acquiring them.

REDUCING YOUR FAMILY'S TAX BILL

Any amount of money you give away outright will not be counted for IHT if you survive for seven years after making the gift. If you die within this period, the amount of the gift will be included within your estate. Taper relief may apply in these

circumstances and can reduce the amount of IHT due. ■

THERE ARE A NUMBER OF OPTIONS YOU COULD UTILISE TO REDUCE YOUR FAMILY'S IHT BILL. WHY NOT INVESTIGATE THE WEALTH PROTECTION SERVICES WE OFFER? IHT IS A HIGHLY COMPLEX AREA OF FINANCIAL PLANNING AND YOU SHOULD ALWAYS OBTAIN PROFESSIONAL ADVICE. WE CAN ASSESS YOUR INDIVIDUAL CIRCUMSTANCES AND HELP YOU FIND THE RIGHT SOLUTION(S) TO MEET YOUR REQUIREMENTS.

Tax laws are subject to change, possibly retrospectively. The rules for individuals who are not UK resident or not UK domiciled are different and therefore tax and local laws should be considered by a potential investor.

HOW MUCH OF YOUR ESTATE COULD GO TO THE TAXMAN IN THE 2011/12 TAX YEAR?

Value of your estate	Your IHT bill payable
Less than £325,000	£0
£400,000	£30,000
£500,000	£70,000
£600,000	£110,000
£700,000	£150,000
£800,000	£190,000
£900,000	£230,000
£1,000,000	£270,000

A new flexible friend

Withdrawing as little or as much income from your pension fund as you wish

Generating a retirement income has now become even more flexible. From 6 April, new rules were introduced to replace the previous pension drawdown arrangement which have now provided investors with greater flexibility and control over their pension options when they retire.

QUALIFYING FOR THIS OPTION

Flexible drawdown is more flexible than the previous income drawdown, and if you qualify for this option it removes the cap on the income you could take. This will not be available to everyone and there are certain criteria that must be met before you can opt for it.

Flexible drawdown gives some individuals the opportunity to withdraw as little or as much income from their pension fund, as and when they need it. To qualify, you have to declare that you are already receiving a secure pension income of at least £20,000 a year and have finished saving into pensions. The same rules apply to dependants who elect flexible drawdown.

SECURE PENSION INCOME

If pension contributions have been made to any pension in the same tax year or if you are still an active member of a final salary scheme, it isn't possible to start flexible drawdown. Once in flexible drawdown, it isn't possible to make further pension contributions.

A secure pension income means a company pension being paid to you either from the UK or from overseas; or an annuity being paid to you

(from a personal pension or company pension) either from the UK or from overseas; or a State pension being paid to you either from the UK or from overseas.

DID YOU KNOW?

- The effective compulsion to buy an annuity by age 75 has ended
- You now have more flexibility to defer taking a pension and tax-free cash payments post age 75
- Capped drawdown – this option enables you to draw an income for life, with an annual limit, without having to purchase an annuity. This is not guaranteed as essentially high withdrawals coupled with poor investment performance could lead to the fund being exhausted before death.
- Flexible drawdown – if you have a secure income of over £20,000 per annum you will not be subject to limits on the income you take from your drawdown
- There has been an increase from 35 per cent to 55 per cent in the tax payable on lump sum death benefits from drawdown

75

It is no longer compulsory to buy an annuity at this age

£20,000

The amount you have to declare you are already receiving annually as a secure pension income

FLEXIBILITY AND CONTROL OVER YOUR PENSION

These new rules, with the exception of the increased tax on death payouts, could benefit those who do not want to buy an annuity by age 75 or who want more flexibility and control over their pension.

However, the majority of people may still want to purchase an annuity in retirement, because it enables them to secure a guaranteed income in retirement. ■

PLANNING FOR YOUR RETIREMENT CAN MAKE A WORLD OF DIFFERENCE. FOR MORE INFORMATION ABOUT HOW WE COULD HELP YOU, PLEASE CONTACT US TO DISCUSS YOUR REQUIREMENTS.

The fund value of a flexible drawdown arrangement may fluctuate and can go down as well as up. You may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.