

## AUTUMN/WINTER 2004

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### A Cool Summer

What a dreary summer! England out of Euro 2004 in the quarter finals and Tim Henman defeated at the same stage at Wimbledon. Combined with the wettest August on record, flooding/hurricanes, rising interest rates and a depressed stockmarket (now improving) – summer has been far from sunny for UK plc. The only golden moments were those in Athens, Test Cricket and the Ryder Cup.

### The Warm Embrace of Uncle Sam

The US is absorbing even more of the world's attention than usual. Election fever is sweeping the US (and the world's media) with the same fervour as Hurricane Charley. The Presidential contest appears wide open, with the degree of support for President Bush from Wall Street rather muted. What is certain is that financial markets will be relieved when the election is over and the future direction of US economic policy clarified.

Apart from the election, markets are absorbed by the continual terrorist threat and the spectre of rising oil prices. Over the summer, US investors certainly lost their appetite for equities and liquidity has continued to increase. What does this mean for UK investors?

Firstly, the weak dollar permits UK investors to acquire dollar assets at a favourable exchange rate. Secondly, the US economy has grown robustly, with corporate earnings rebounding strongly. Despite this, equities are trapped in a narrow trading range – US investors' confidence is still lacking. There are US companies with under-valued shares and (in sterling terms) the market does not appear to be over-valued. Confidence will eventually return, but perhaps only when the electorate has chosen its President and the perceived threat from global terrorism reduces. Oil price fears are already receding. As always, Uncle Sam presents opportunity.

### Travel

Why not visit Uncle Sam this autumn whilst the exchange rate remains so favourable? Our external travel consultant, Amanda Teale, discusses ideas on page 3 including New England and Boston.

### Our People

Gerard Thomas – rare breed, bred in captivity and under the whip. See the back page. ■

# Inheritance Tax Planning

## Judy Lawrence's Experience

Mrs Judy Lawrence, aged 72, was widowed ten years ago and is in good health. She still lives in the family home which is mortgage free and worth around £650,000. She wants to continue to live in the house for as long as she is able.

Although she has a comfortable retirement income, she would really like to be able to use some of the capital tied up in the house to help top up her income and to fund holidays she has planned over the next few years whilst retaining ownership of her home. She is keen that her children enjoy the benefit of the remaining capital on her death, so would like to plan to ensure that her inheritance tax liability is kept to the minimum. (The IHT bill on the house alone would be £154,800 if she were to die tomorrow).

Judy could take out an Equity Release Mortgage which gives her monthly income and a capital sum. The mortgage would be secured against her home and the interest rolled up and set against the proceeds of the sale of the home. The mortgage would be on a lifetime fixed rate basis. She would also have to pay any lender's arrangement fee and legal fees. Judy could live in her home for as long as she wishes.

The mortgage lender Cartlidge Morland would use has to be a member of SHIP (Safe Home Income Plans). Members of this association abide by their Code of Practice, which ensures that products are presented clearly, with a full explanation of the obligations, tax position and costs. SHIP member plans have "no negative equity" guarantees, so that the loan never exceeds the value of the house.

The amount of money that Judy could borrow varies by lender and is dependent on age. For example, at age 72, she would be able to borrow about £130,000 as a lump sum and receive a monthly income of £390 (gross). The lifetime fixed interest rate would be about 7.0% p.a. Interest would be

charged monthly and added to the loan whilst she continued to live in the house. If she were to move into long term care or die, the house would be sold and the loan and accrued interest repaid from the proceeds.

Judy could use the money she raises however she wishes – travelling and taking advantage of IHT exempt annual gift allowances. Any capital that she gives away over and above the exemptions would only be subject to IHT if she died within seven years of the gift being made.

If Judy died whilst she still lived in her home, her estate would be reduced by the value of the Equity Release Mortgage amount and the accrued interest. The amount of inheritance tax payable by her children would also reduce accordingly.

For further information on Inheritance Tax Planning and Equity Release Mortgages, please contact Andrew Cartlidge or your Cartlidge Morland consultant.



Check that this mortgage will meet your needs if you want to move or sell your home or want your family to inherit it. If you are in doubt, seek independent advice.

## More Information Required?

If you require any further information on the topics covered in this edition of Portal, either complete and cut out or copy the slip below and post or fax it to us. You can also email us with any information requests.

Your Name

Your Address

Your Telephone No.

Equity Release Mortgage  Cash Management  Review of Pension Arrangements

**Post** Valiant House 4-10 Heneage Lane London EC3A 5DQ

**Fax** 020 7929 8701

**Email** portal@cartlidgemorland.co.uk

## A New World

In response to many years of grumbling by the public and advisers that pension legislation was too complicated, the Government has now acted. It has announced that the existing pension regimes (7 or 8, depending on how you count them) will be swept away, to be replaced by a single set of rules dealing with all types of pension schemes. This is called Pensions Simplification.

### The main changes . . .

Of course, pensions being pensions, nothing is ever that easy. To deal with the headlines though, here are the main points of the new rules:

- ▶ The new rules will apply from 6 April 2006
- ▶ Everyone will have a Statutory Lifetime Allowance of £1.5 million initially
- ▶ Pension funds in excess of the Statutory Lifetime Allowance will be subject to Recovery Charge of up to 55% of the excess.
- ▶ The "earnings cap" is abolished
- ▶ There will be no maximum pension contribution, though tax relief will only be granted on contributions of up to £215,000 (or 100% of earnings, if less)
- ▶ No limit to the tax relievable pension contribution in the year of retirement
- ▶ Tax free cash from pension schemes will be 25% of the fund

- ▶ Transitional arrangements are in place to afford some protection to those who might be adversely affected by these new rules
- ▶ From 2010, pensions will not be payable until 55 at the earliest
- ▶ The latest age at which an annuity can be purchased remains 75 (though different types of annuity can push this back to 85)

### Everybody should review their pension arrangements . . .

For most people, these changes are a genuine improvement on the current situation, though inevitably, some will be adversely affected. We are advising all our clients to review their pension arrangements – until you review your pensions you cannot decide whether or not you will be worse off under the new rules. For example, is your pension fund in excess of £1.5 million or likely to be so in the future and if so, what steps should you take **NOW** to protect your pension savings?

Over the coming issues of Portal, we will be examining in more depth some of the issues that clients need to address, but in the meantime, do not hesitate to contact your Cartlidge Morland consultant or David Turner. We can assist you in assessing your pension situation and deciding what steps you should be taking. ■

## Fall into Winter

Cartlidge Morland's external travel consultant, Amanda Teale, recommends New England as a great Autumn or Winter destination. She has a soft spot for Vermont as she learned to ski there.



With the continuing strength of the pound against the US dollar, North America still offers good value and can provide many holiday options from beaches to snowboarding. New England attracts more and more visitors each year, offering the shortest Atlantic crossing through the vibrant city of Boston and a vast array of activities in its many States – Vermont in particular.

Autumn, or Fall to use the vernacular, is a wonderful time to visit Vermont where the changing seasons can be viewed first hand. The best known natural phenomenon in this area is the spectacular change in leaf coloration. This "must see" attraction lasts six to eight weeks and converts the Green Mountains into a wonderful quilt of hues.

As Fall turns to Winter, Vermont transforms itself again – a special blend of a pristine landscape, the simple and the sophisticated, attracts visitors to a natural destination of genuine villages, small hamlets and big mountains. Skiers and snowboarders can choose from more than 5,700 acres of terrain, served by an efficient uphill transportation system of nearly 170 lifts. Annual snowfall averages 250 inches, and 70% of Vermont's lift-served terrain is covered by state-of-the-art snowmaking to ensure the best possible conditions all season. Cross-country skiers have the choice of more than 30 Nordic areas and touring centres, with trails winding through woodlands, fields and mountains.

Where to stay? For the five star treatment (and prices to match!), look no further than Twin Farms Country Estate. Located in Barnard, 10 miles north of Woodstock, resting on 300 acres of rolling hills, meadow, orchards and gardens. The Pitcher Inn in Mad River Valley is a gem with its soft leather sofas and inviting log fires. A good all round resort is the Inn of the Six Mountains in Killington. There are plenty of activities and great skiing nearby. Rates start at \$89.00 per room, per night in November.

For more information about Autumn or Winter holidays in Vermont, perhaps staying in Boston for a few days too, contact Amanda Teale at Travel by Amanda on **0700 4822 583** or [ateale@travelbyamanda.com](mailto:ateale@travelbyamanda.com)

## Cash Management — Give

Although the Bank of England has recently raised interest rates, rates are not expected to rise much further and the days of deposit interest rates of 10% p.a. or more are long gone, probably not to return. So it is more important than ever to make sure that cash held on deposit is really worked as hard as possible. So many of us place funds on deposit with our usual bank or building society and then hardly ever check the interest rates or move the funds for a better return.

And the reason? Usually inertia – we are too busy and simply cannot be bothered, or the trouble of looking through dozens of different rates every month is just too much.

### Cartlidge Morland has an answer

In association with AXA, one of Europe's largest life assurance companies, we can now offer:

- ▶ Up to 5% p.a. "income" for 20 years without deduction of income tax.\*
- ▶ Access through a **single scheme** to hundreds of bank and building society accounts – immediate access, term or notice accounts, as needed. Evidence for money laundering purposes submitted only once – not necessary for each institution.
- ▶ **Gross roll up** of interest
- ▶ **Monthly monitoring** of rates
- ▶ **Notification** of the "best" rates
- ▶ **Hassle-free transfers** between one account and another
- ▶ **Income tax paid only on encashment**, not annually

\*Income tax is deferred and will be payable when the wrapper is encashed. However, a wrapper may remain in force through your and your spouse's lifetimes and potentially your children's too as it has a 99 year term.



"WORKING OUT"

# Your Cash a Regular Workout

## So how does it work?

Simple really. Access to all these account(s) is through an AXA offshore investment wrapper. Once the funds have been placed with AXA and a small amount set aside into a dealing account to cover charges, the balance is invested on your instruction in the bank or building society account(s) of your choice.



## Rate Monitoring

If the investment is more than £200,000, we undertake to email you every month with details of what we believe are the most competitive interest rates across a range of accounts, including instant access and notice accounts. All you need do is select your desired account(s), send us your instruction and we will ensure that your funds are transferred to the account(s) of your choice.

## Costs

We are charging just £500+VAT to establish the wrapper and will receive a commission of 0.25% p.a. from AXA to cover monitoring costs.

AXA's charges for this investment are a 1.5% bid/offer spread, £82 per quarter which may increase in line with UK RPI and a 0.25% fund based annual charge. You will not pay any more tax than you would if the funds were held in a UK bank account. The amount of tax payable will depend upon the amount encashed at any one time and the rate of income tax you pay at that time. Cartlidge Morland can provide advice in this area. These and other aspects will be explained in full should you wish to consider this investment.

Please bear in mind that if monies are in a term account, any transfers out of the account before the full term may attract penalties or loss of interest.

If you would like to ensure that your cash holdings are giving you the optimum returns, please contact your Cartlidge Morland consultant or David Turner.

# Investment

## Meeting Personal Objectives and Controlling Risk

by Steve Williams, Investment Manager

There are many influences on the construction of an investment portfolio. The nature of these influences can vary tremendously from one investor to another. This leads to significant variation from one portfolio to another.

You might expect that two portfolios with similar objectives (income or growth for example) would be identical. This is not the case. The portfolio construction process has many variables but we shall concentrate on just two: 'objectives' and 'risks'.

### Setting Objectives

Objectives generally fall within a 'requirement for a sustainable income' or a 'requirement for capital growth' (or a balance of the two). The level of net income or the level of capital growth required is far less homogenous. The importance of detailed face to face discussion with our clients about their objectives cannot be overstated. Before considering which investments to make, it is crucial that all potential liabilities (capital expenditure, taxation and other contingencies) are planned for – investment markets are inclined to spring surprises.

### Risk Control

Cartlidge Morland describes investors' tolerance of risk as "cautious", "balanced" or "adventurous". These basic descriptions serve partially as important indicators, but also satisfy the demands of financial services regulation. In practice, our interpretation of them is linked to a precise blend of client's objectives and their consistency with the degree of permissible risk. Some managers adopt "low", "medium" or "high" risk classifications of their clients. Cartlidge Morland believes that this is a dangerous approach for a number of reasons. There may be instances when we advise clients who describe themselves as 'adventurous' or 'speculative' to invest in much 'lower risk' assets to balance investments elsewhere, or in order to match liabilities. Furthermore, risk across each asset class is not static; it is dynamic and varies greatly. Equities, for example, present increased or diminished risks to capital values from time to time.

Whilst general risks should be borne in mind (equity investment is never suitable for those not prepared to suffer capital losses), shorter-term warnings can be given by fundamental indicators such as unusually high or low P.E. ratios or dividend yields. By paying attention to such indicators, we further tailor portfolios to ensure that exposure to equities reflects their current risk.



Steve Williams

Importantly, the returns available from lower risk assets also influence the level of risk perceived in equity investment. Relatively high returns from low risk assets push up the level of required returns from riskier assets to compensate for risk. Hypothetically, annual returns of 5% to 6% from gilts would make equities unattractive over the short term if we only expected annual returns of 6% to 7% (although the effects of compounding over the long term would create a much higher 'risk premium').

### Risk and Asset Allocation

An investor's liabilities and tolerance of risk, which vary greatly from investor to investor, can therefore have a fundamental impact on asset allocation. Asset allocation is a broad 'strategic' template where differences from one portfolio to another are obvious. Less obvious diversity in 'tactical' holdings within the 'strategic' template can often have a far bigger influence than many realize.


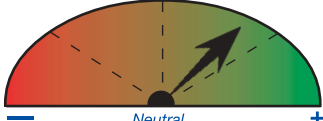

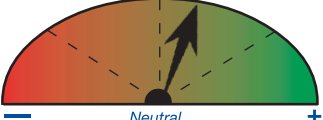



Inside any allocation to the fixed interest market, the choice of instrument – short dated gilt or sub investment grade corporate bond for example – is crucial both to expected returns and to expected risk. The same is true of the equity markets, both domestically and overseas.

These are just two influences on portfolio construction, there are many more. . . little wonder then that one portfolio is as different from another, as one investor differs from another investor. It is for this reason we dislike the "one size fits all" increasingly adopted by the Banks and Private Client Stockbrokers, for clients in their standard "income", "growth" and "balanced" portfolios.

For further information on personal investment portfolios please contact your consultant or Steve Williams.

# Investment Views

According to Cartlidge Morland's Investment Committee, these are the factors most likely to influence markets in the shorter term at 31 August 2004. The relative attractiveness of sectors is given on a three to five year view based on anticipated Sterling returns. The percentages shown are the movements in the appropriate indices since the last edition of Portal (15 June 2004).

Negative	Cartlidge Morland View	Positive
<ul style="list-style-type: none"> <li>X Interest rate increases will impact on equity prices</li> <li>X Equity market seems to have settled in to narrow trading range</li> <li>X Rising energy prices will hit both consumers and corporates</li> <li>X M&amp;A activity subdued</li> </ul>	<p style="text-align: center;"><b>UK Equities</b></p>  <p style="text-align: center;">Neutral</p> <p style="text-align: center;">FTSE All Share 2214.19 (-0.11%)</p>	<ul style="list-style-type: none"> <li>✓ Upward pressure on house prices eases</li> <li>✓ Interest rates unlikely to rise more than another 0.5%</li> <li>✓ Price Earnings Ratio at reasonable level</li> <li>✓ Manufacturing investment increasing</li> <li>✓ High yielding large cap stocks at attractive valuations</li> <li>✓ Assuming growth forecasts achieved (likely) Government finances remain stable</li> </ul>
<ul style="list-style-type: none"> <li>X Rising energy costs cause concern</li> <li>X Demographic factors (falling working population) disastrous for the funding of over-generous state pensions – yet to be tackled</li> <li>X Weaker US \$ may harm exports</li> </ul>	<p style="text-align: center;"><b>European Equities</b></p>  <p style="text-align: center;">Neutral</p> <p style="text-align: center;">FTSE Eurotop 300 970.16 (-2.76%)</p>	<ul style="list-style-type: none"> <li>✓ European equity markets at very attractive valuations</li> <li>✓ Eurozone growth stronger than expected and remains unrevised</li> <li>✓ Investors becoming less risk averse</li> <li>✓ German industry confronting trade unions on working hours/practices – at last!</li> <li>✓ Outlook for Euro remains stable</li> <li>✓ Eurozone manufacturing exports provide strong impetus for the economy</li> </ul>
<ul style="list-style-type: none"> <li>X Serious Federal deficit ignored by both political parties</li> <li>X Trade deficit continues to burgeon (to what degree will foreigners continue to finance this?)</li> <li>X Expected bull run prior to Presidential election fails to materialise</li> <li>X US \$ likely to go down long term</li> <li>X Concern that energy consumption will outstrip affordable supply</li> </ul>	<p style="text-align: center;"><b>North American Equities</b></p>  <p style="text-align: center;">Neutral</p> <p style="text-align: center;">S&amp;P 500 1104.25 (-2.45%)</p>	<ul style="list-style-type: none"> <li>✓ US equity valuations reasonable</li> <li>✓ Short term gains in US \$ expected</li> <li>✓ Productivity gains continue</li> <li>✓ Federal Reserve expecting economy to continue to recover</li> <li>✓ Inflation under control</li> <li>✓ Foreign capital inflows remain high</li> </ul>
<ul style="list-style-type: none"> <li>X Consumer prices still declining</li> <li>X Widely accepted higher levels of optimism usually mean lower returns</li> <li>X Postal savings still massive</li> <li>X High oil prices a concern if they persist</li> </ul>	<p style="text-align: center;"><b>Japanese Equities</b></p>  <p style="text-align: center;">Neutral</p> <p style="text-align: center;">Nikkei 11,081.79 (-2.68%)</p>	<ul style="list-style-type: none"> <li>✓ Exports and business fixed investment increase</li> <li>✓ Some signs of recovery in property sector</li> <li>✓ Monetary policy remains accommodating</li> <li>✓ Reduction in non-performing loans continues</li> <li>✓ Banks making new loans to quality borrowers</li> </ul>
<ul style="list-style-type: none"> <li>X Will Indian Congress party continue to pursue economic reforms?</li> <li>X Slowing Chinese economy</li> <li>X Equities suffer from risk aversion</li> </ul>	<p style="text-align: center;"><b>Far East Asian Equities excluding Japan</b></p>  <p style="text-align: center;">Neutral</p> <p style="text-align: center;">Hang Seng 12,850.28 (+6.63%)</p>	<ul style="list-style-type: none"> <li>✓ Record corporate profitability across region</li> <li>✓ China making progress in enshrining property rights in law, including intellectual property</li> <li>✓ Capacity utilisation increased in industrial plants</li> <li>✓ Diversity of trading partners reduces dependence on US</li> </ul>
<ul style="list-style-type: none"> <li>X Prospects for capital growth still low</li> <li>X Risk that rising energy prices will surprise</li> </ul>	<p style="text-align: center;"><b>UK Fixed Interest</b></p>  <p style="text-align: center;">Neutral</p>	<ul style="list-style-type: none"> <li>✓ Inflationary expectations benign</li> <li>✓ Capital values at less risk</li> <li>✓ Yields attractive</li> <li>✓ Default rates on corporate issues have fallen further</li> <li>✓ Prospective interest rate rises priced in</li> </ul>
<ul style="list-style-type: none"> <li>X Retail sector sensitive to downturn in consumer demand</li> <li>X Secondhand stock vacancies in office and industrial sectors curb pace of rental growth</li> </ul>	<p style="text-align: center;"><b>Property</b></p>  <p style="text-align: center;">Neutral</p>	<ul style="list-style-type: none"> <li>✓ Capital values only risen by 3.5% p.a. over the last five years. There is no bubble to burst.</li> <li>✓ Yields remain consistent at around 6-7% p.a.</li> <li>✓ City office shows signs of improvement</li> <li>✓ Excess cash levels subsiding in collectives</li> </ul>

## Our People

### Gerard Thomas, Consultant

Gerard Thomas is the newest member of the Cartlidge Morland consultancy team. He joined the firm from Sedgwick Independent Financial Planning (recently renamed Barclays) in July 2004. He advises private clients on all aspects of their financial planning requirements, but specialises in investments.

On leaving school, Gerard moved from his home town, Bristol, to join Quilter Goodison in the City, where he worked in their back office. Whilst at Quilters he passed the Registered Representative examination, the equivalent to the current SFA qualification. In 1993, he joined Sedgwick as a trainee consultant. He progressed to Consultant in 1995, advising clients and taking on responsibility for Sedgwick's advisory portfolio management service. This included membership of the Investment Committee, deciding asset allocation and fund choice. He joined Cartlidge Morland as it offered the structure in which he could continue to offer a high level of service to both existing and new clients.

Gerard (34) has been married to Gail for seven years and they have one daughter, Charlotte, who celebrated her first birthday in July. They live in New Eltham. Gerard met Gail whilst he was working at Quilters. (Gail still works in IT there). He says that they were brought together by the Baltic Exchange IRA bomb of 1992. As a result of the devastation of this bomb, Quilters had to move offices and in doing so, Gerard and Gail's closer working relationship developed into a romantic one.

A keen sportsman, having played football, cricket and snooker in the past, Gerard has now resumed dinghy sailing and taken up golf. He plays most weekends and already has a handicap of 18. He also enjoys skiing, taking to the slopes every year. Gail is a keen horsewoman, but when asked if he rode too, Gerard just grimaced. It appears that the horse safari that Gerard and Gail went on during their honeymoon was one gallop too far. Gerard's horse became uncontrollable and Gail feared that he was about to disappear with a herd of zebra into the sunset. Luckily, calm was restored, Gerard escaped with badly cut knuckles and an aversion to riding.

Whilst not a horse lover, Gerard is a fan of another type of animal . . . the Panda. He cannot remember why he developed Panda-mania but he is smitten. Panda ties, panda cufflinks . . . he even diverted on holiday in Las Vegas to visit the pandas in San Diego Zoo. One of his ambitions is to go to China to try and view pandas in their natural habitat – with only 1,000 remaining they can be quite difficult to find.

We are hoping that Gerard decides to drive into work one day soon as we are fascinated to find out what type of car he drives . . . it just has to be a Panda, but is it black and white?!!



#### IMPORTANT INFORMATION & NOTES

1. The views and suggestions in this document are based on Cartlidge Morland's research which is obtained from a variety of sources. Whilst these sources are believed to be reliable, the information obtained cannot be guaranteed to be accurate and may be condensed or incomplete. The funds, investments and products described are not suitable for everyone and advice should be sought from your consultant who will provide a recommendation having considered all relevant circumstances.
2. Some or all of the investments referred to are intended as being of a long-term nature. Early withdrawal might mean that you will not get back the full amount invested. The value of investments may go down as well as up. For investments denominated in foreign currencies, changes in rates of exchange may have an adverse effect on the value in sterling terms. Performance in the past is not necessarily a guide to future performance.
3. In the case of income funds, the income is not fixed – it can go up and down.
4. The level and bases of, and reliefs from taxation may change. The value of tax reliefs depend upon individual circumstances. Statements relating to taxation are based upon current taxation laws and practices which are subject to change. In if doubt, tax advice should be sought.
5. Cartlidge Morland is a Licenced Credit Broker.
6. Cartlidge Morland is a firm of Independent Financial Advisers which is authorised and regulated by the Financial Services Authority.
7. Cartlidge Morland is a member of the General Insurance Standards Council.

## Wedding News



Another wedding at Cartlidge Morland in June. Nicola Gibson, our Practice Finance Manager, married Tony McConville in the stunning setting of Hazlewood Castle. We wish them great happiness in the future.

