



## Investment Bulletin

Autumn 2009

Major stock markets have continued to make headway over the summer months. Investors have taken heart from improving economic data and the knowledge that the global banking system is functioning in a more customary manner.



Simon Cole,  
Financial Services  
Partner

The banking sector has certainly come a long way since its darkest days a little over a year ago. But when did things start to go wrong and what does the future hold? On page 6, Mark Higginson examines the banking crisis and looks at the implications for savers and borrowers in the months ahead.

To find out what else, aside from the improved prospects for the banking sector has influenced the performance of stock markets, take a look at our regular Market Review on page 2.

As Benjamin Franklin said, "In this world nothing can be said to be certain, except death and taxes" so what can you do to prepare for the first and mitigate the second? In our article on page 4 Gavin Jones reminds us of the importance of life cover and why it is vital to regularly

review this type of insurance policy. And for those aged 50 or over you can now pay less tax by putting more of your savings in an Individual Savings Account. Details can be found on page 7.

We also hear from one of our Pensions Managers, Steve Woodham. Steve looks at a change to the Normal Minimum Pension Age, which will come into effect on 6 April 2010. This change will have far-reaching implications for thousands of people. To find out more turn to page 7.

Thank you for your continued support and I trust that you will find this latest edition of our Investment Bulletin informative.

**Simon Cole**  
Financial Services Partner

### Contents

- Page 2** Market review
- Page 4** How much are you worth?
- Page 6** The banking crisis
- Page 7** A rising minimum pension age / Increased ISA allowance
- Page 8** Contact details and important information

## Market review

During the past three months the majority of stock markets have continued to make good progress. Improving economic and corporate data, combined with positive rhetoric from key personnel within the major central banks, further improved investors' appetite for equities.

As the table below shows, the major markets in the UK, US and Japan continued to make remarkable progress.

### Stock markets have continued to recover

Country	Index	Closing level	Closing level	Closing level
		03/03/09	29/06/09	30/09/09
UK	FTSE 100	3512	4294	5133
USA	Dow Jones	6726	8529	9712
Japan	Nikkei	7290	9958	9978

Source: HSBC. Past performance is not a guide to future returns. The value of investments and any income will fluctuate and investors may not get back the full amount invested.

### UK

The Bank of England kept interest rates at 0.5%, but surprised the markets by extending its quantitative easing programme from £150 billion to £175 billion. At present, inflation certainly isn't an issue, as the Consumer Price Index sits comfortably below the target rate of 2%.

Results from Barclays and HSBC captured the headlines, as both reported first-half profits of around £3 billion. The other data that they had in common was a rise in the number of bad debts on their books; a sign that some customers, be they corporate or individual are still suffering from the economic slowdown. Indeed, according to a report from KPMG, Britain's major banks are forecast to post further losses in the latter part of this year as more customers run into financial difficulties.

Interestingly, personal debt levels fell for the first time since records began in 1993. Although the number of mortgages approved continued to rise, there was a drop in both mortgage debt and bank loans. However, credit card borrowing rose slightly, which may reflect the strong clothing and footwear sales recorded in the summer. The retail sales data also received a further boost with an improvement in sales of household goods. This was a significant development as the household goods sector had been in the doldrums for the previous 18 months.

The UK housing market also continued to enjoy a turnaround in its fortunes and the Royal Institute of Chartered Surveyors reported a further improvement in the number of surveyors reporting lower house prices.

Unemployment, which usually lags behind an economic revival, continued to rise and may well do so for many months. However, the eventual peak will probably be lower than originally feared, providing the global economy remains on track.

### USA

"From a technical perspective, the recession is very likely over at this point."

Ben Bernanke, Chairman of the Federal Reserve, 16 September 2009

There was no change in interest rate policy at the Federal Reserve and no change in Chairman, as Ben Bernanke was reappointed for another 4 year term. Investors were further heartened by improving housing data, with a key property index recording its first quarter-on-quarter rise for 3 years.

During the period many large corporations delivered better than expected earnings. J.P. Morgan, IBM, Google and Intel all pleasantly surprised and their results helped push the Dow Jones Index up to a fresh high for 2009.

Recent unemployment data shows that the economic recovery is still ongoing and emphasises the need for interest rates to remain at very low levels for some time to come.

### Japan

The Democratic Party of Japan swept to power, ending almost 50 years of unbroken power for the Liberal Democratic Party. New Prime Minister, Yukio Hatoyama, promised economic revival and stronger ties with the United States.

August data confirmed that Japan had emerged from its longest recession since World War II. However, domestic investors remain unconvinced as to the sustainability of the recovery. Unemployment remains close to record highs and some external analysts believe further stimulus packages will be needed to ensure a prolonged recovery.

### Euro Zone

The European Central Bank kept interest rates at 1% as some surprisingly good news came out of the region.

The economic growth numbers highlighted the diversity of the region. While the year-long recession in France and Germany came to an end, the story for other

European countries wasn't as good. The economies of Austria, Belgium, Holland, Italy and Spain continued to contract, albeit at a slower pace. Unemployment levels across the region currently stand at 9.5%, the highest since 2005.

Closer to home, the Irish economy continues to suffer. Here, unemployment is nearly 13% and the European Central Bank is helping to keep the Republic's economy afloat.

### Elsewhere

The central bank in Australia raised interest rates by 0.25% to 3.25%, becoming the first major central bank to tighten economic policy.

China, now very much a global powerhouse, reported higher than expected growth numbers. China's Shanghai Composite has enjoyed a spectacular recovery, interspersed with declines of up to 5%. China's second largest bank, China Construction Bank Corporation, indicated that it would be sharply curtailing lending – this is a sign of things to come as China's regulators plan to raise the minimum capital ratios for banks.

The South African central bank took markets by surprise by cutting rates to a four year low of 7%. Rates have now tumbled from 12% in December 2008.

### Commodities

As the world economy emerges from recession the price of many commodities has crept up. During the period under review gold broke the \$1000 level, before falling back slightly. The price of oil (Brent Crude) has remained relatively stable and is currently trading at \$US65.

### Summary

Stock markets have made strong gains since March of this year. Optimism regarding the strength of the world economy and confidence in company health has been running high but the nagging fear is that disappointing data may lead to some profit taking.

Prospects have certainly improved markedly since the dark days of the banking crisis. Liquidity has returned to the financial system and the threat of financial Armageddon has disappeared. That being said, it won't simply be plain sailing from here on in. There will be volatility along the way as investors grapple with a mixture of economic data in the weeks ahead.



## How much are you worth?



Gavin Jones,  
Chartered  
Financial Planner

We all like to believe that we have plenty of time ahead of us to set money aside for the future. Whether it's paying for school fees, clearing a mortgage, or helping a child onto the property ladder, the prospect of future career earnings helps to put our minds at rest.

However, when it comes to protecting our dependants against the loss of future earnings, how many of us are guilty of simply hoping for the best, rather than planning for the worst? Most of us carefully consider the insurance for our cars and houses each year, but how many of us pay the same level of care and attention to ourselves?

In this article, Gavin Jones, who is responsible for financial strategy at Old Mill, explains the options available and the reasons why it is important to review regularly any cover that you have.

### What are the main types of cover to consider?

Life Insurance, Critical Illness and Income Protection should all be carefully considered and discussed with your Old Mill consultant.

### What are the main differences between these types of cover?

**Life Insurance** (which can often be known as 'life assurance or 'term assurance') is probably the most well known. This cover pays out a lump sum should you die or suffer from a terminal illness. There are many different types of policy to choose from; the main ones are detailed in the box below.

#### Level Term Insurance

The sum assured is guaranteed and remains unchanged throughout the term. If you require cover that increases other options are available.

#### Decreasing Term Life Insurance

The sum assured decreases during the lifetime of the policy. Many people will have this type of life insurance with their mortgage.

**Critical Illness** insurance pays out a tax-free lump sum upon diagnosis of a specified life changing illness, such as cancer. This type of cover should be discussed, together with life insurance, as combining the two can be very cost-effective.

**Income Protection** is often overlooked and shouldn't be, as it provides a tax-free monthly income to pay bills

and other fees if you are unable to work. It is different to critical illness protection in that it pays out on diagnosis of long term sickness (including mental health problems and stress). A pay-out is made once you've been off work for a set amount of time

### What should you consider when taking out cover of this nature?

You should always consider what you are trying to achieve. Will the policy provide enough cover, will you or your family be able to access the funds quickly and are you duplicating cover that you may unwittingly already have in place?

### How much cover should you have?

This will obviously vary depending on your individual circumstances. An Old Mill consultant can discuss your needs and ascertain the most suitable level of cover to have. There are many different factors to take into consideration when determining the right level of cover. These include the amount of your outstanding debt, your living costs, your earnings (particularly if you are the main bread-winner), and the age(s) of any dependants.

### Could you give an example of underestimating life cover?

Imagine someone aged 39 on a basic salary of £40,000. They have a partner and two children and currently have life cover of £100,000, which may sound like a substantial amount. However, this level of cover is probably insufficient.

Aged 39, they are likely to work for at least another 21 years. Allowing for a salary increase of only 2% per annum their total earnings will comfortably exceed £1 million during this time. Therefore, £100,000 of cover may not be enough to allow the family to enjoy their current lifestyle for many years. It is always worth taking the time to review how much life cover you have.

### How can you ensure your dependants obtain funds quickly?

When you die your bank accounts are frozen and your assets (including money paid out from a policy) may not be readily accessible.

There are simple ways around problems of this nature. What is important is determining how the policy should initially be set up and who should have access and control of your funds over the short and long term. An Old Mill Consultant can take these factors into consideration and provide you with the right solutions.

### Should employees ask their employers about cover?

Absolutely. It is important to know if your employer provides you with life cover and the rules that they

have in place concerning an extended absence from work due to ill-health. Many people are unaware how long they will be paid for should they fall ill.

If you know these simple facts then planning becomes much easier and cost savings can be made. For example, if you know that your employer will pay you for the first 6 months of sickness then any insurance payments can be deferred until you cease to be paid. This will make the insurance premiums less than for a policy that pays out after 3 months of absence.

### What affects the cost of life insurance?

The main factors that determine the level of premiums are the amount of cover required and the length of time that cover is required for. Lifestyle factors also have a major influence, so your sex, age, occupation and health will also be taken into consideration.



Over the past few years we have seen a change in the amount of questions asked surrounding health. The questions are now more in-depth. In addition to smoking habits they can also focus on Body Mass Index and the number of alcoholic units consumed during the week and at weekends. Obviously the answers given will influence the cost of life cover.

### Can you reduce the cost of life insurance while maintaining the same cover?

Yes. One of the easiest ways of doing this is by giving up smoking. The case study on this page helps to demonstrate the dramatic effect that this can have. It's important to remember that the amount of time that you have to have given up smoking will vary from policy to policy. This may be as little as a year or as long as 5 years.

Mr X was born on 30 June 1971 and requires £300,000 of life insurance for the next 21 years. As a smoker his monthly premium is £46.70.

Mr Y was born on the same day and requires £600,000 of life insurance for the next 21 years. As a non-smoker his monthly premium is £46.70.

Source: The Exchange September 2009.

### How often should you review a life insurance policy?

Even if you haven't given up smoking it is always worth reviewing your policy on a regular basis. Moving to a new home, having children, or gaining a promotion at work are just some of the other lifestyle changes that could affect the amount of cover you need and/or the premiums that you pay.

Like any insurance cover, new policies come onto the market all the time so you may be able to achieve more cover for the same cost. An Old Mill consultant can help determine the most suitable policy for you.

### What other elements need to be considered when taking out life insurance?

The following decisions all need to be carefully considered:

#### Should the policy be written on a single or joint life basis?

A joint life policy usually pays out on the death of the first policy holder and subsequently leaves the remaining policyholder to seek cover for the future. The medical circumstances of the surviving policyholder may have changed, so obtaining new cover may be costly. Having two separate policies could be a more sensible decision as the costs are likely to be only marginally higher.

#### Should the policy be 'Written in Trust'?

This ensures that the money is paid directly to the person you nominate and also avoids your estate paying inheritance tax.

#### Should the policy include critical illness cover?

As I have already mentioned it may work out cheaper than taking out a separate policy.

An Old Mill consultant can help you to make all these decisions. If you would like a financial protection review please contact your local Old Mill office.

1. Ensure you have adequate life cover
2. Don't underestimate your worth
3. Review your policy regularly
4. Consider the elements your policy needs (e.g. the benefit of using Trusts)
5. Think carefully about critical illness and income protection

## The banking crisis



Mark Higginson,  
Financial Services  
Consultant

The global banking crisis and subsequent credit crunch have been dramatic. Household names have disappeared and the financial landscape has changed forever.

In this article, Mark Higginson, looks back at this tumultuous period and considers the future implications for savers and borrowers.

In the latter part of 2008 it seemed as though the roll call of major financial institutions facing extinction was growing by the day. In the UK those bailed out, taken over or nationalised include Alliance & Leicester, Bradford & Bingley, HBOS, Lloyds TSB, Northern Rock and Royal Bank of Scotland.

In the US some of the largest companies in the world got into serious difficulty. AIG, Bank of America, Bear Stearns, Citibank, Fannie Mae, Freddie Mac and Merrill Lynch all had to receive lifelines, while Lehman Brothers wasn't so fortunate and was allowed to fail.

### How it all began

Much has been written in the media recently following the first anniversary of the demise of Lehman Brothers on 15 September 2008. However, the initial problems for the banking sector can be traced back to August 2007, when the French bank, BNP Paribas, suspended the calculation of prices for three of its funds. This was the result of a complete evaporation of liquidity in the US subprime mortgage market, and the news sent jitters across the financial world.

Falling house prices and mortgage defaults compounded problems. Banks became reluctant to lend to one another and the 'credit crunch' was underway. The decision to let Lehman Brothers fail backfired spectacularly, as confidence in the Western World's financial system evaporated. Subsequent unprecedented intervention by central banks and governments restored order, but are we now out of the woods?

### The positives

The worst of the current banking crisis is over and we should be able to look forward to a more benign financial landscape in the coming months. As confidence returns, banks are now lending money to one another and the rate that they charge each other has dropped dramatically.

Recent results from the banking sector have been encouraging. In the UK, banks that were close to the brink of collapse have repaired their balance sheets by taking advantage of the Bank of England's quantitative easing programme. Those re-mortgaging will have

noticed a marked increase in costs (despite interest rates remaining at 0.5%) while savers have seen the rates on their accounts plummet – moves that have also boosted banks' profits.

In the US a similar picture is emerging. The recent announcement by ten of the largest banks that they would be able to repay money loaned to them by the US Treasury bears testament to this. Indeed, Goldman Sachs recently reported record profits.

The transformation in prospects for banks has been reflected in their share prices and helped to propel stock markets upwards from the lows reached in March. Central banks and governments around the world appear determined to keep liquidity flowing through the financial system. Interest rates seem set to remain at low levels for the foreseeable future and quantitative easing remains a tactic still very much in play. These measures are both designed to avert another credit crunch and help to keep economies from slipping back into recession.

### A word of caution

Banks are now more reluctant to lend money. While an air of prudence can be a good thing, many businesses and individuals are struggling to obtain affordable finance.

In the UK and US unemployment continues to rise, and while there have been encouraging signs for the property market, the long-term outlook remains uncertain. Against this backdrop it is easy to imagine more borrowers getting into financial difficulty with mortgage payments and credit card loans, which would be damaging to the financial institution lending them the money.

**“We will not go back to the days of reckless behaviour and unchecked excess at the heart of this crisis.”**

**President Obama**

One thing is for sure, politicians around the world are determined to stop banks taking excessive risk in the future and are striving to pass laws that will prohibit the substantial rewards afforded to those that do so. Quite how they go about doing this is yet to be confirmed but the rhetoric has been strong. A change in government in the UK may even result in the Bank of England taking a more 'hands-on' role.

While President Obama insists that the behaviour of bankers in the future will be greatly improved, it could be argued that recently disclosed remuneration packages and strong profit numbers indicate otherwise. There have been banking crises before and there may well be again, although it is hard to imagine another of the magnitude we have just experienced and certainly not in the near future.

## A rising minimum pension age



Steve Woodham,  
Pensions Manager

On 6 April 2010 a change to the Normal Minimum Pension Age will come into effect. This will have far reaching consequences for those wishing to draw benefits from a pension fund before the age of 55.

In this article, Steve Woodham, a Pensions Manager at Old Mill, explains why it is imperative to seek independent financial advice if you are one of the thousands of people who will be affected.

The Finance Act of 2004 contained a change to the age at which you can start to draw benefits from a pension fund, with the minimum age rising from 50 to 55. And, unlike most amendments to retirement ages this isn't being phased in; from 6 April next year the goalposts will move.

### He who hesitates is lost

The table in the next column explains how the changes will work in practice.

## Increased Individual Savings Account (ISA) allowance

As the UK Treasury endeavours to claw back billions of pounds, levels of taxation are increasing while some personal allowances are decreasing.

During the coming months a new 50% rate of tax will be introduced, personal allowances for those earning over £100,000 will be reduced and larger age allowances for those aged over 65 with earnings of around £20,000 will diminish. So what can you do to help to mitigate these changes and soften the blow of any future tax increases?

**Before** new rules start on 6 April 2010

Mr Brown	Date of Birth 20 January 1960	Earliest date he can draw on his pension 20 January 2010 (Age 50)
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**After** new rules start on 6 April 2010

Mr Brown	Date of Birth 20 January 1960	Earliest date he can draw on his pension 20 January 2015 (Age 55)
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If you are over the age of 50 now, but won't be 55 by 6 April 2010, then you have just a few months to decide whether to draw benefits from your pension fund now or wait up to a further 5 years.

A decision of this nature needs to be carefully considered. While you may not be able to afford to retire now it could still be advantageous to draw benefits from your pension fund. It's important to remember that you can still continue to work while drawing these benefits.

There may also be other options available to you such as phasing your retirement. What you will have to weigh up carefully is how a decision of this nature fits into your long-term financial strategy.

If you are affected by these changes it is important to seek advice now – after the 6 April 2010 it will be too late.

In the summer edition of our Investment Bulletin we highlighted the government's decision to increase the ISA allowance in two stages. On 6 October the first of these changes came into effect.

If you are aged 50 by the end of the 2009 -10 tax year, you can now put up to £10,200 (including up to £5,100 in cash) in your ISA – an increase of £3,000 from the previous maximum amount. For those aged under 50 the new allowance will come into effect on 6 April 2010. To open an ISA, or top up your existing one, please speak with your usual financial services consultant or contact your local Old Mill office.

Be sure not to miss out. It's more important than ever to take full advantage of your ISA allowance.

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## Contact details

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### Devizes

Greystone House, High Street, Devizes,  
Wiltshire SN10 1AY  
Tel: 01380 723496  
Fax: 01380 721787  
Email: [devizes@oldmillgroup.co.uk](mailto:devizes@oldmillgroup.co.uk)

### Shepton Mallet

The Old Mill, Park Road, Shepton Mallet,  
Somerset BA4 5BS  
Tel: 01749 343366  
Fax: 01749 344986  
Email: [sheptonmallet@oldmillgroup.co.uk](mailto:sheptonmallet@oldmillgroup.co.uk)

### Exeter

Berkeley House, Dix's Field,  
Exeter, Devon EX1 1PZ  
Tel: 01392 214635  
Fax: 01392 214690  
Email: [exeter@oldmillgroup.co.uk](mailto:exeter@oldmillgroup.co.uk)

### Yeovil

Number One Goldcroft,  
Yeovil, Somerset BA21 4DX  
Tel: 01935 426181  
Fax: 01935 431852  
Email: [yeovil@oldmillgroup.co.uk](mailto:yeovil@oldmillgroup.co.uk)

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