



Welcome to the Winter Issue of Our Newsletter

ONE thing we can be sure of as we end 2010 and begin the new year is that the world, financial or otherwise, never stands still. In the UK we have the conflicting messages of austerity versus economic recovery, the emerging markets continue to grow and the ghosts of the Credit Crunch are still returning to haunt us.

But despite continuing turmoil and unpredictability, we are pleased that our clients' portfolios have continued to grow and enjoy relative security. We firmly believe that this is the result of structured reviews and proper diversification, and the continuing research we undertake to respond to market conditions on behalf of you, our clients.

We have included quite a few topical articles in this issue that we hope will interest you. Some of you may be particularly interested in the Simon Bullivent view on gold investments – not as an investment opportunity, but more as a continuation of some very amusing discussions during reviews!

We also report on some movement in the world of cash ISA transfers – many of you will be pleased to hear that certain providers are now being called to account for the inexcusable delays and poor service.

As you know, approachability is one of our most important priorities. With this in mind, we have created a 'Facebook' page as a further channel of communication available to our clients. The page includes newsletters, information and colour versions of our photographs. While probably not everyone's cup of



tea, we have done this to compliment our website and all other means available to contact us. If you visit our page, please press the "like" button so that we know you have been there!

We hope that you enjoy the carefully written and selected articles in this edition. As always, we would welcome any feedback or comments and look forward to hearing from you. In the meantime, may we wish you a happy and prosperous New Year!

Simon Bullivent and
Chris Polawski

Ethical Investment

No longer marginal but now approaching maturity

ETHICAL – or Socially Responsible Investment (SRI) – has moved from the sidelines to become an increasingly credible option for forward-thinking investors. In the past, when making the decision to invest ethically, many investors had to make a decision between profits and principles.



Ethical screening focused on negative, rather than positive criteria, and the emphasis was to avoid the

"bad" and seek out those making a positive contribution to society.

However, ethical investment strategies have evolved. In addition to the routine analysis conducted by most investment houses, an SRI approach involves asking questions that might not usually be asked. Indeed, it can also uncover crucial information – positive and negative – that might affect on a company's share price. Used effectively, it does not just screen out undesirable companies, it also finds the desirable. Positive social themes can provide valuable stimuli for product innovation which leads to share-

price appreciation. Asking challenging questions also provides opportunities for fund managers to identify potential rewards at an early stage in their cycle.

For example, recognising that environmental issues are now right at the centre of worldwide economic and social policy, companies at the forefront of product development and environmental services are likely to get a boost. SRI is no longer a niche area and, with the right approach, investors do not have to accept volatile or disappointing returns to uphold their principles.

Contact Us

Edward T James & Company, 4c Falmouth Business Park, Bickland Water Road, Falmouth, Cornwall, TR11 4SZ
01326 218261 | enquiries@edwardtjames.co.uk | www.edwardtjames.co.uk

The Gold Rush

A very personal view by Simon Bullivent

QUITE a few clients do ask us about our personal investments. This is one of the very few areas where Chris and I differ quite radically in our approach – Chris tends to favour a well rounded diversified portfolio for his own money, whereas I am what you might call a blatant speculator!

One of my latest dalliances has been gold. Strangely enough, this precious metal has very little productive use. Apart from a few applications with electrical connections and components, it is true to say that more than 99% of its value is based on the fact that people (and governments) want to own it. As it is a scarce and dwindling resource, the laws of demand and supply operate true to form and result in massive volatility in pricing.

In the 20th Century and before, gold was the asset that underpinned currencies for most countries. The 'Gold Standard' was mostly abandoned by the Second World War, but there have been periods when it has returned in different guises. There is even now a significant body of opinion that believes we should return to the old ways, and there is no doubt that a country's gold reserves are viewed as significant when looking at financial stability.

Gold is a high risk opportunity that I have committed to, on and off, for several reasons. The first is that in times of uncertainty gold is often sought out as an alternative to cash or currency bonds, particularly by governments. Secondly,



the fast growing middle classes in emerging economies such as China and India want gold – primarily as jewellery. Finally, this is a metal that is getting harder and harder to find and extract – it is running out.

Of course there is a huge downside. The value of gold is determined by its price, and although many have tried, there is no reliable method to predict its behaviour. In fact it often behaves in completely the opposite way one would expect.

So do I keep gold bars under the mattress? Well, no! My research has found that there have been greater returns historically by investing in mining companies rather than the metal itself. My current preference is a fund managed by Evy Hambro with the asset management company Blackrock, called "Gold & General". The fund has an astonishing 10 year cumulative performance of 1101.78%! Of course, one must bear in mind that this is a past performance and could have no relation to the future, and that values can go down as well as up.

I believe it very important to state that this is not how I manage client portfolios and that such narrow asset picking is not suitable for most people! And to illustrate the high risk nature of such speculation, I will share the following with you. During the 2008 financial crisis, most conventional portfolios decreased in value by some 20-40%. Mine decreased by nearly 90%!

Definitely not for the faint hearted!

The Axeman Cometh

A summary of the government spending review

THE Comprehensive Spending Review was always likely to attract controversy. Chancellor of the Exchequer George Osborne presented a four-year package of public spending cuts aimed at restoring "sanity to our public finances and stability to our economy".



He warned of "a hard road" ahead, and the cuts outlined in the Treasury's statement did little to challenge that warning. Nevertheless,

spending in government departments will be reduced by an average of 19%, rather than the 25% originally estimated.

Most departments were hit, most significantly perhaps, the Department of Work & Pensions. The public sector pension system is set to undergo reform and households with one or more higher-rate taxpayer will no longer receive child benefit. A new permanent levy on banks will be launched in January 2011, applying to the global balance sheets of UK banks and overseas banks' UK operations. The Treasury hopes that, as well as making a "fair contribution", this will deter financial operations from taking excessive risks.

Universal benefits for pensioners, however – free bus passes, TV licences and winter fuel allowances – have been retained.

The Confederation of British Industry commented that "the spending cuts, though painful, are essential to balance the UK's books and build its future prosperity". However, the review has triggered some fears it will stifle the UK's economic recovery. Word is that around 490,000 public sector workers will lose their jobs. The squeeze on spending, combined with this risk of unemployment, could renew pessimism, perhaps risking the UK's fragile recovery.

Nest

More eggs in the basket for retirement?

BRITAIN'S population is ageing, yet many individuals are not saving enough to provide themselves with a comfortable retirement. Recognising that this situation was unlikely to improve on its own, the government has introduced a simple low-cost pension scheme. This is the National Employment Savings Trust (NEST) an independent pension scheme run by a trustee appointed by the government for the benefit of its contributing members - the working public. Enrolment will begin in 2012.

At present, 750,000 private-sector employers do not offer a workplace pension scheme. Under the new rules, however, all employers will have to enrol eligible employees into a qualifying pension scheme and then contribute to that scheme.

Consequently, one way or another, all qualifying employees will be enrolled automatically into either their workplace pension scheme or NEST and then be required to contribute to that scheme (you are able to opt out but that decision will need to be revisited at least annually). Once enrolled, you are likely to be able to choose how your money is invested from a range of investment funds and if you leave your job you could opt to continue



saving into your existing scheme. Self-employed individuals are also able to join NEST.

The maximum annual contribution into NEST will be £3,600 (index linked from 2005), so there is scope for employers and employees to make additional contributions if they wish. With a few exceptions, transfers in to and out of NEST are not currently permitted.

So far, NEST appears to have been relatively well received by financial advisers and consumer groups. In particular, Which? personal finance campaigner Doug Taylor has commented, "This is another important milestone... consumers want a brand they can trust working for them and the best return they can get for their contributions. We believe that NEST will deliver that."

Cash ISA Transfers

Action at last on a very poor record

RECENT investigations by the Office of Fair Trading (OFT) show that ISA savers may not be getting a fair deal. Around 11% of Cash ISA holders switch their deposits to a new provider each year. However, following a 'supercomplaint' from watchdog, Consumer Focus, the OFT found that cash ISA transfers take an average of over 26 calendar days (against industry guidelines currently set at 23 working days).

Having to wait nearly five weeks is a long time. In addition, during this period, the OFT found that consumers not only miss out on the higher rates which pushed them to transfer in the first place, there is also a period during which they receive no interest at all! The OFT has, unsurprisingly, deemed this unacceptable and agreed that transfers and interest rates on cash ISAs be more transparent. From 31 December 2010, the OFT recommends that transfers take no longer than 15 working days. Consumer group Which?, however, wants to cut this further, to no longer than 10 days, and also wants

a fully electronic transfer system to be set up.

The OFT has therefore recommended that research be done to see if an electronic transfer system is feasible. They also believe the new rate of interest should be paid from day 15 of

the transfer period – even if the transfer remains incomplete – and that interest rates be published on statements (from 2012). Despite the disagreements, however, after so many years delaying the process, many would agree it is good to see that something is finally going to be done.



Trustee Investment

The 'duty of care' – professional advice is the key

WHETHER it is a Will Trust, a Charity or an Inheritance Tax Plan, under the Trustee Act 2000, there are a number of statutory obligations and responsibilities placed on trustees with regard to the monies under their control. The underlying principle, now a legal requirement, is a duty of care, which must include seeking proper advice where necessary.

Trustees now have specific responsibilities concerning the servicing and administration of trust funds. The duty of care applies to professional and lay trustees. However higher standards are expected from professional trustees.

A statutory duty of care applies to the trustee investments that are held. For new or existing trusts, the trustees must take into account the trust's objectives and the suitability of the investments to be held.

Trustees have a duty to protect the value of the trust fund, whilst providing income

for the beneficiaries where appropriate. It is important for trustees to consider the suitability of the trustee investments held, funding, the type of trust arrangement and the requirements of the beneficiaries.

It is important to seek independent and impartial advice on the assets held within any form of trust arrangement. Trustees often engage the investor services of a bank or stockbroker. However, often it may be that the service is not specific to the needs of the individual trust. A "one size fits all" approach may not take into account the individual needs of the investors. This can be particularly important with taxation, the current rate for trusts being 50%.

A diversified portfolio of assets invested tax efficiently should be used to meet the trusts specific objectives. The aims could be to provide Capital Growth, Income or a combination of both. This approach can help to reduce the risks of the trustee investment by investing across various asset classes. It is important to take into account risk and any specific requirements from the trustees. This could also include the need to invest in an ethical or socially responsible manner. There is a duty not to hoard cash where it is unlikely that the monies will be needed for some time.

Trustees have an administrative duty to review the assets held within the trust on a regular basis. This can be a time-consuming and lengthy process, especially if the trust administrators are not experienced investors.

In conclusion, aside from the legal requirements, it is now generally recognised that a trust's financial objectives are more likely to be met successfully by taking proper advice. This means accessing the expertise and knowledge of qualified and impartial investment advisers.



Inheritance Tax

One area definitely not subject to cuts!



EVEN though the threshold has risen to £650,000 for married couples and civil partners, (£325,000 for individuals, tax year 2010/11) the increases in

house prices over recent years means inheritance tax (IHT) could still be a concern. Therefore it makes sense for investors to consider the potential liability they may be leaving behind.

For most, the key contribution to the value of their estate will be the family home but it is not the only asset that counts. For example, ISA investments shelter investors from capital gains and income tax but not from IHT. Property held abroad also counts towards the total. The problem with IHT is not just that it has to be paid, but that it generally has to be paid quickly. Therefore, without a little planning, the family home or precious heirlooms may need to be sold to meet the bill.

However, there are things you can do to offset the impact. For example, you have an annual gift allowance of £3,000 a year. Certain gifts for weddings, from parents, grandparents and even friends, are also exempt. Other useful tools, despite recent changes, include loan trusts and discounted gift schemes - indeed, there are a myriad of options available, some more complex than others.

Given the changes in legislation which the Government is using to try and close the potential tax loopholes, it is always worth getting professional advice on the best way to ease any burden on your estate.

The contents of this newsletter do not constitute advice and should not be taken as a recommendation to purchase or invest in any of the products mentioned. Before taking any decisions, we suggest you seek advice from a professional financial adviser. The newsletter is based on information obtained from sources that we believe to be reliable, but we cannot guarantee either its accuracy or completeness, and it is not to be construed as a representation by Edward T James & Company Limited. The guidance and/or advice contained in this newsletter is subject to UK regulatory regime and is therefore restricted to consumers based in the UK. The Financial Services Authority does not regulate Taxation Advice or advice on Trusts.