



Welcome to Our Latest Newsletter

AS we lead into the summer hoping for good weather for our holidays, although issues have not relaxed in the financial world, the first half of the year has not presented any major storms that are unmanageable. Although there will never be an official announcement that the Credit Crunch of 2008 is over, there is a general acceptance that it is over and now we are in the process of living with the consequences.

For the UK, the main emphasis this year has been politics and the economy. The election in May has provided a form of government not seen for generations, and doubtless the new incumbents will have their work cut out to restore the UK's financial health. A summary of the Emergency Budget is included in this newsletter.

Although prospects for the UK over the next few years are currently encased in 'doom and gloom', we do not believe that this applies to the global economy. We have included an article that makes the case for optimism for our clients and their wealth, and how austerity here may not affect your investment objectives as seriously as you think.



Here at Edward T James & Company, in April we celebrated 2 years of being

established, and look forward to many more years of doing what we enjoy the most: that is, continuing to provide the personal service that we believe makes the difference to financial planning in helping you, our valued clients, meet your personal objectives.

We are pleased to welcome two new Administrative Assistants, Jenna and Rachel, whom no doubt all our clients will meet or speak to over the coming year. Vikki and Jamie have moved on to new pastures; we very much appreciated their time with us and wish them well. We are sure that you will agree with us that Jenna and Rachel are very well suited to the practice and will enhance the level of support and service we give you.

Finally, as always, we hope that you enjoy our newsletter and would welcome any feedback or comments you may have.

Simon Bullivent and Chris Polawski

Individual Savings Account

The Tax Benefits



ISAs are tax-efficient but the exact benefits can vary depending on your actual investment choice. You pay no additional tax on the income received from your ISA savings and investments, and no tax on any capital gains. You don't even have to tell the Inland Revenue you have one, let alone what profit it might be generating. However, while cash ISAs are free of tax, and corporate

bonds allow you to reclaim the 20% tax on the interest payment which is taken at source, equity-based ISAs suffer a withholding tax that cannot be reclaimed. Effectively, you pay 10% tax on your dividend income - regardless of your actual income tax rate. There is still an advantage for higher rate taxpayers, however, who are saved from being asked for any more.

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Reasons to be Cheerful

A Personal View by Simon Bullivent



WITH so much bad news about recessions, austerity measures, jittery stockmarkets and uncertain world events, investors could be well justified in asking "So what prospects for growth could there possibly be in my portfolio now?." The answer, I believe, is plenty... and enough to cover at least the next 20 years.

I have long held the opinion that the Emerging Markets are the key to future wealth creation, and I base that belief on the consideration of pure logic and common sense.

What do I mean by Emerging Markets? Basically, anywhere in the world where industrialisation and what we in the West would call civilisation has not reached the standards we are used to here. The four key markets often cited are South America, Russia, India and China. Added to that could be Africa, the Far East and even what is called "emerging Europe" which consists mostly of ex-Iron Curtain countries.

Out of over 6 billion people inhabiting our planet, more than two thirds are to be found in the above – and the majority of these people want a life similar to ours in the West. This pressure to improve causes a momentum that has a huge multiplier effect in increasing the level of wealth worldwide: governments invest in infrastructure; companies form to build it; new jobs are created; the new employees want to spend their earnings; companies and jobs form to satisfy this new demand; infrastructure must further expand and the cycle continues. This in turn creates a new demand for our own

products, services and expertise...and the same multiplier effect occurs here.

For investors, this leads to many opportunities. One of the most interesting opportunities is natural resources – notably the finite reserves of precious metals, base metals (copper, tin and nickel for example) and of course energy resources like oil, coal and gas. With increasing demand and a dwindling supply, their value inevitably increases. This dwindling of resources itself creates other opportunities in sustainable energy and new technology – both likely to be huge growth areas in the coming years.

However these are just small examples of how new wealth for investors can result from the Emerging Markets. In my view, if the objective of these new economies is to duplicate the position of the West, you then begin to see the sheer scale of what they are working tirelessly to achieve and that we can be looking at decades of prospective growth ahead.

What is a Trust?

Just for Lawyers or a Useful Tax Planning Tool?



TRUSTS have traditionally been seen as the way the super-rich shelter their assets from the taxman - as illustrated by the saying: 'For those willing to stump up for crafty accountants, trusts will simply melt away a tax liability'.

However, the reality is far less exciting. Trusts are certainly a useful tax planning tool, but many of the loopholes have been closed and they are not a panacea for all tax liabilities. That said, they are also not just for the very rich. Anyone whose home or other assets pushes them above the inheritance tax threshold

could benefit from using trusts for tax planning or for the controlled passing over of assets to beneficiaries.

So what is a trust? In its simplest form, a trust is a legal obligation binding an individual or a company (the trustee) to deal with certain assets for the benefit of one or more beneficiaries. Individual beneficiaries may benefit from the trust in different ways – for example, one may receive the income and another the capital. However, the trustees are the legal owners of those assets and the trust agreement will set out how they should look after the assets and for what purpose.

Assets within a trust can include cash, land or buildings, investments or assets such as equities and collective investments or even individual items such as paintings or antiques. There are a number of

different types of trust, each with their own rules and tax treatments - the five main types being bare trusts; interest in possession trusts; accumulation and maintenance trusts, discretionary trusts; and mixed trusts - and the way in which income generated by the assets is dealt with in each type will generate a different tax charge. Each will also offer different rules for the rights of beneficiaries and for the role of the trustees, the details of which will be decided on by the settlor (the creator of the trust) and set out in the trust deed.

Trusts can be a useful tool in tax planning, particularly for inheritance tax. For example, they can be a way to ensure that nil rate bands are used when passing money to children. Often, however, they are simply used for succession planning – to ensure everyone receives the right amount of money at the right time.

National Savings

The Safest Home for our Cash

ORIGINALLY established in 1861 as the Post Office Savings Bank, National Savings & Investments (NS&I) products were set up to encourage people to save for the future with security whilst also generating a valuable supply of funds for the UK Exchequer. When individuals invest in a NS&I product, they are lending money to the UK government. In exchange, the government guarantees the safety of their capital and provides payback in the form of interest, Premium Bond prizes or returns linked to the performance of the UK stock market.

NS&I offers a range of products aimed at investors, whether they are seeking income or growth, tax-free products or simply want to protect themselves from the effects of inflation. Simple, straightforward savings accounts and investments for children are also available, as are Premium Bonds, probably by far

the best known of the product range. Today, nearly 27 million customers* invest over £94 billion* with NS&I and over 23 million individuals* hold Premium Bonds. (source: <http://www.nsandi.com>)

NS&I is one of the most secure places for UK savers to invest their money as the

products are backed by the government. Unless the country finds itself in serious trouble, investors' capital is 100% safe. The price for accessing this safety is lower returns – but, it seems, for almost half the British population, this is a small sacrifice to make for the consequent peace of mind.



Long Term Care

A Serious Threat to your Wealth

WE are becoming increasingly familiar with the effects of an ageing population on pensions funding and the shortfall in State benefits. However, there is another serious issue that is not considered as often – the older we get, the more healthcare we potentially need. Indeed, just when the State is getting increasingly concerned by the demands on its funds, the costs of long-term care is rising. Many people are therefore looking for ways to help prepare for such an eventuality – either by a pre-funded policy or, if the situation has already arisen, by using an immediate care plan.

At the moment, what few pre-funding options exist are being rejected by many in favour of other priorities. As a result, the vast majority of people reach the emergency category without any specific funding provision. This may not be a problem if your income is sufficient, or you have significant savings - you may be able to make the payments from existing resources. In the case of short-term requirements, this could indeed be the

most appropriate course. However, there are other considerations, particularly if your needs are long-term.

For example, what happens if your payments for care increase quicker than your income? If you are using your savings, how long will they last? Could they run down before your needs run out? What if you live much longer than expected? These are common concerns for anyone facing an immediate need for care. However, there is another option to consider - you can purchase an 'immediate care plan'. This can guarantee to cover any shortfall between what you can pay and your actual care fees for life – or for as long as you need them, whichever is sooner.

Finding a lump sum may be difficult but thanks to house price rises, there may be equity in your house. This brings its own considerations – you may have to fund mortgage payments or sell the house and lose the family home from your estate. There are also some risks, primarily that you die earlier than expected and

therefore lose out compared with paying the fees yourself. In exchange for this risk, the provider takes on the happier possibility that you will live longer than expected and therefore need more money than you invest. An adviser can help you through the maze - although, speak to a suitably qualified adviser and be aware that the FSA does not regulate some forms of Long Term Care and Estate Planning.



Planning for a Downturn

This is all Part of Successful Investment

AS an investor, you understand that different asset classes and industry sectors are liable to turn against you from time to time. Despite equities' long-term potential, both the meltdown of the 'dot.com' boom and, more recently, the credit crunch fallout demonstrate things are much less certain in the short term. Similarly, bonds are viewed as medium to lower-risk investments, particularly when economic growth is on the wane. However, holders of some bonds over the period since the crunch first hit would have suffered.

Many investors, faced with such downturns, tend to panic. They see only the short-term loss on their portfolio balance sheet and forget their reasons for investing. Sadly, this is the worst thing

they can do – and it is why planning at the outset of any investment is worth every minute spent. If you know why you are investing and understand fully the risks involved, market downturns should never have such an impact. If you are far-sighted and have a degree of nerve, they can even be an opportunity. Such downturns can be wide-ranging and indiscriminate; meaning the share prices of high-quality companies can suffer alongside lower-quality peers.

This gives canny investors the opportunity to add to their portfolio at bargain prices. However, for most, the best strategy is simply to protect yourself while the market settles down. Nothing in a portfolio is more valuable than the time you spend achieving balance, diversification and cementing that long-term objective.

Pension Changes

So we have to Work Longer and Save Harder



THERE is no doubting that the pension system has been in need of change for a while. The current retirement age was set before the dramatic increase in life expectancy we have experienced. Medical advances mean retirement can now last longer. Indeed, it is widely reported that the state system is overwhelmed, so as a result, various Pensions Bills are being advanced, aimed at addressing these issues and building a retirement

system suitable for the future.

Most recently, we have seen plans to increase the retirement age. Personal Accounts are also being launched from 2012, to address the alternative provision issues, to which employers, employees and the Government will all contribute. In addition, state pension benefits will once again be linked to average earnings. Finally, we have the proposal that qualification for a full state pension be reduced from 39 to 30 years.

Personal Accounts are likely to be the most wide ranging reform. Employees will be automatically enrolled in the scheme (unless their employer runs an exempt alternative) and minimum contributions will be set. It is at least a start in the process of bringing our pension system up to date

The Emergency Budget

A Summary of the Coalition Government's Announcement

Here is a summary of the main points in the Emergency Budget of 22nd June that we think will be of most interest to our clients:



Personal Taxation

- The rate of capital gains tax is increasing to 28% for higher rate income tax payers from midnight on the 22nd June 2010. The trustees' rate will increase to 28%
- VAT is to be raised from 17.5% to 20% on 4th January 2011.
- The Personal allowance will be increased by £1,000 to £7,475 in April 2011.

Pensions

- The Government will look to accelerate the increase in state pension age to 66 years.
- They will restore the earnings link to Basic State Pension from April 2011 and offer a triple guarantee of earnings/prices or 2.5% per annum each year thereafter, whichever is the greater.
- The Government will scrap compulsory annuitisation from April 2011.

Other

- The UK banking sector is to be charged with an annual £2bn bank levy from January 2011.
- A 2 year pay freeze for public sector workers will be introduced.
- The Government will assist councils in order to try to facilitate council tax freezes from April 2011.
- There are various tax reductions and incentives for businesses.
- No further increases on duty on alcohol, tobacco or fuel.

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