



Welcome to the first Newsletter issued by Edward T James & Company

WITH this newsletter we aim to provide our clients with both topical and useful information in the ever changing world of financial services and to keep you updated with any developments in our own services.

An age seems to have passed since we launched our new practice on 1st April 2008. This period has been a challenging and exciting time for us. We have successfully developed and presented our new, unique service and standards proposition to clients both old and new. The support and feedback received has been quite honestly overwhelming and we cannot express enough our appreciation of this.

The year 2008 was certainly a year in the financial world that many will remember; global turmoil in the Stockmarket, the nationalisation of High Street Banks and falling property prices have had their effect on us all in one way or another. Nonetheless, they have served to remind us of the continued need to take the longer-term view with all types of investment.

The effect on us as professional advisers has been positive. It reinforces how vital our role is to never lose sight of our clients' personal and financial objectives. We are here to help guide you and your wealth through both the good times and the tough times that may still be ahead.



We hope that you enjoy our Newsletter and, as always, we would welcome any comments or feedback you would like to make.

Chris Polawski and Simon Bullivent

Market Turmoil

Fear + sentiment = volatile markets



BASED on its performance so far, 2008 is going to go down as one of the worst experiences for investors in recent memory. The credit crunch has led to the nationalisation of two UK banks, billions of pounds spent on bailout packages and a fall in the level of the FTSE All Share Index to under 4,000. Speculation over the full extent of the fallout, and

the recession many expect as a result, continues to generate fear and, despite a fall back in the oil price, inflation figures have only made matters worse.

Across the board, the credit crunch has led to an increase in the cost of borrowing, which has stalled mergers and acquisitions.

Although many companies are in decent financial shape, some – particularly smaller companies – have found tighter credit conditions hard. This, coupled with the oil price, led to the collapse of XL and also put Alitalia in the spotlight. Meanwhile, the end of the housing boom, and predictions that prices could fall further, has hit consumer confidence and retailers are feeling the pinch.

Unsurprisingly, sentiment among investors has taken a huge knock and, in the last few weeks, volatility has become the only certainty. Record falls and record rises in stock markets are reported daily. At times like this, however, there is one rule worth remembering: stock markets tend to be driven by irrational fear (and greed), not logic; the key is to stay calm, think long term, and be selective. In the words of Franklin D Roosevelt, "the only thing we have to fear is fear itself"

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Pension Deferral

It can make sense to wait for your benefits



ANYONE hitting retirement with a substantial pension pot can often feel like the job is done and their comfortable retirement secured. But low interest rates mean low annuity rates and retirees may therefore wish to consider other options to maximise their income. One solution

is to defer your annuity purchase, which, as your age increases (and assuming interest rates do not fall further), could result in higher payments.

There are three main reasons why retirees might defer payments from their pension: One, because interest rates are low and waiting a few years may help them secure a more favourable annuity rate, particularly if interest rates rise in the meantime; Two, retirees may chose to continue some form of paid employment, which can support them in the short-term without the need for their pension; Three, a pensioner may want to buy a joint life annuity, but have

a younger partner. Waiting until that partner is older will secure a better rate on the annuity.

On retirement, you can take a tax free lump sum of up to 25% of the value of your pension pot. The rest is used to provide income, but taking any or all of these benefits can be deferred until as late as age 75 (when your situation must be reviewed). There is also a deferral option for the state pension scheme. For every year you defer taking that income, you get 10.4% extra income which could be worth over £470 per year on a full state pension (based on 2008/09). Sometimes it pays to wait.

ISAs

Tax efficiency is not the whole story

WHILE ISAs are well known for being tax-efficient, choosing the right underlying investment is also important. Using your ISA allocation wisely does not just mean picking the right ISA provider, but also carefully considering the assets themselves.

Within an ISA wrapper, not all asset classes are treated equally. For example, cash ISAs are currently free of income tax - as are corporate bond ISAs, which can reclaim the 20% interest paid on their income. Shares, on the other hand,

cannot reclaim any tax credits, and are therefore a little less effective in saving income tax.

This is because, in April 2004, the rules changed. Where investors in ISAs used to be able to reclaim the advanced corporation tax paid by companies on dividends, this benefit is no longer available. Therefore, the only income tax benefit now is for higher rate taxpayers, who will pay no more income tax on dividends paid to them by their stocks and shares holdings.

Having said this, while shares are considered higher-risk investments, they have performed significantly better over the long-term compared with bonds and cash. Therefore, the lack of any capital gains tax liability within an ISA remains important. However, while making the most of your tax benefits is important, it does not outweigh the need to pick the right assets to suit your needs.

Only once you get this right can you start thinking about which tax breaks might be of further help.

The Pre-Budget Report

A summary of the Chancellor's intentions

IN AN exceptionally surprising year, it is probably not surprising that 2008's pre-budget report has mutated into a fully-fledged emergency budget containing measures to help the Treasury withstand the worst effects of the recession and kick-start the UK economy. The government is bringing forward £3 billion-worth of capital spending from 2010 and 2011 in order to boost the economy. Overall, they plan to inject £20 billion; however, these plans will create a massive budget deficit. The UK's borrowing will hit £78 billion during 2008

and £118 billion during 2009. Borrowing is forecast to fall to £105 billion from 2010 and to £54 billion by 2012.

From April 2010, those earning more than £100,000 will see their tax allowances cut in stages. In addition, from April 2011, those earning more than £150,000 will be hit by a new higher income-tax rate of 45%.

Meanwhile, from 2011, National Insurance contributions will increase by 0.5% - although tax bands are being changed so

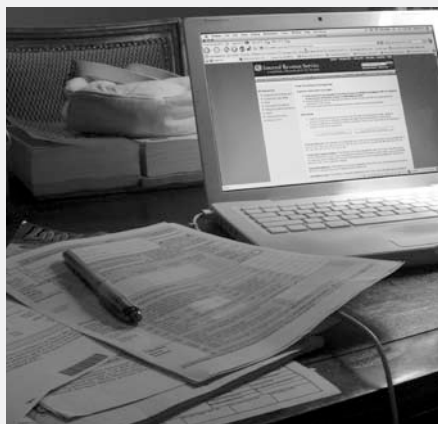
that those on less than £20,000 pay no more. In a controversial move, VAT has also been cut temporarily, from 17.5% to 15% until the end of 2009.

The Chancellor expects the economy to grow by 0.75% during 2008 and to shrink by between -0.75% and -1.25% during 2009. By 2010, he anticipates that the economy will start to recover and should demonstrate growth of up to 2%, although comments from some independent bodies suggest that not everyone is quite so optimistic.

New Capital Gains

Tax Rules

A level playing field at last?



THE new tax year on 6 April brought with it a new regime for dealing with capital gains. Indexation and taper relief were abolished and in their place came a single, flat tax rate of 18%.

What does stay is the annual allowance, below which you have no Capital Gains Tax to pay - £9,600 for 2008/09. In addition, to help small businesses, there is an 'entrepreneur's relief', allowing directors, business owners and employees with a 'material stake' of 5% or more in a business to dispose of their holdings at a rate of just 10% (subject to a total lifetime gain of £1m). All other business and non-business assets, however, will now be taxed at the 18% rate. There will no longer be taxation at your marginal income tax rate so, subject to the effects of the abolition of indexation and taper relief, the majority of higher rate tax payers will be better off under the new rules, particularly on non-business assets such as rental properties.

There are some downsides. Basic rate tax payers who held shares in their employer's company for 2 years or more under the Save As You Earn scheme (SAYE) were previously only subject to a 5% charge. For higher rate taxpayers, the attraction of investment bonds as a way of deferring higher rate income tax may also reduce as the CGT rate is now lower, perhaps making alternative products a more tax efficient route. However, for existing holders, the situation is not clear cut so you should speak to your adviser and take the opportunity to review your plans.

Asset Allocation

There is more to investment than Stockmarkets

WHAT IS the most useful tool that a successful investor could have? Strong research? Access to company management? A prodigious memory? These are all useful – perhaps even vital – attributes. However, the most useful tool is the one thing that nobody can have: the benefit of hindsight.

As long experience shows us, different asset classes and industry sectors will provide strong or weak performance at different times. For example, equities are widely acknowledged to have provided the best long-term performance of the four main asset classes - but most investors who lived through the meltdown of the "dot-com" sector know only too well that short-term, things can be quite different. Bonds on the other hand, are viewed as medium to lower-risk investments, particularly when economic growth is on the wane - but the recent developments in credit markets have left many with burnt fingers. Meanwhile, in times of uncertainty, investors make tracks for the safe haven of cash – but leave your money there too long and the value can fall prey to the corrosive effects of inflation.

The theory runs like this: during periods of strong economic growth, equities are likely to perform well, whereas when economic growth is in decline, bonds

and cash should prove more beneficial. "Specialist" asset classes – such as commodities and property – are also available and can perform differently from all of the above. (However, do note: these need expert advice and should be approached with a modicum of caution.)

What can be tempting for investors is to chase the best returns by jumping from one asset class to the next when it looks like the returns are promising. However, in reality this rarely works. If judging the right time to switch and where to switch to were easy, we would all be rich. Even some of the full-time, so-called professionals consistently get these decisions wrong. Therefore, instead of trying to choose which asset class to be in and when, perhaps it would be better to have a bit in all the asset classes, all of the time.

This is called diversification – the act of spreading your investment across more than one asset class. In doing so, you not only make sure you are invested in the asset class that is performing best, you also ensure you are not 100% invested in the asset class that is doing worst. Instead you get a bit of everything – and as a result, your investment returns should be smoothed out as performance rotates through the asset classes and each compensates for another as time goes by.



Core & Satellite

Building a portfolio that works

A CORE investment is a series of relatively lower-risk holdings around which you can construct the rest of your portfolio. The theory is you will keep this investment for the longer term, while tailoring other parts of your investment portfolio to follow more medium-term or higher-risk strategies.

Although the choice is dependent on your specific attitude to risk and circumstances, the principle is the same - that the majority of your portfolio is invested in mainstream funds and assets that can offer a diversified mix and provide stable lower-risk returns to give some predictability on which you can build.

This core is then supplemented by a satellite strategy comprising the minority percentage of your portfolio. This focuses on more specialised areas where you can take a little more risk and potentially increase your overall returns. For example, you could target a specific industrial sector, smaller companies, or maybe overseas and emerging markets stocks. It is important to remember that portfolio risk is a highly personal decision that varies from investor to investor and you should always be comfortable with the overall level of risk you are taking.

Core funds are designed to act as the central focus for your planning so that you can have some fun around the edges. Whichever type of core holding you select, always remember that investment is for the long term and ensure you take professional advice to make sure you get the mix right.

Commodities

An alternative edge to traditional assets



WITH rising energy prices and geo-political pressures, commodities such as oil and gas continue to be headline news. However, energy is just one commodity sub-sector. Commodities encompass many other materials, such as livestock and agricultural products, as well as precious and industrial metals.

In recent years, commodity prices have been strong, boosted by demand from global powerhouses such as India and China who need commodities to build the infrastructure necessary to support their growth. However, those same commodities have also been blamed for creating inflation (when demand exceeds supply this can create inflationary pressures as prices are driven up by those most desperate to buy) and while supply remains finite, this could continue to be a problem.

Investors are therefore excited at the potential this sector offers and also by the low correlation they have traditionally demonstrated with other asset classes. However, taking delivery of a tonne of copper is fraught with difficulty; after all, where and how would you store it? The easiest way to invest is therefore via pooled products accessing a range of commodities, or through the shares of companies operating in that sector.

But don't overlook the possibility you may already own some. Oil and mining stocks are very well represented in a FTSE 100 index fund as they sit among the largest companies in the UK.

The Development of China

An economic superpower in the making?



JAPAN'S reputation as a major economic power is long established – but now other Far Eastern countries are making the jump from “developing” to “developed”. In particular, the last two decades have seen China evolve from bystander to economic superpower.

China's development has influenced almost every area of the global economy. Strong demand for its cheaply manufactured products has helped the economy expand rapidly; although the Chinese government has sought to cool down the country's rampant export-fuelled growth. Elsewhere, an insatiable appetite for raw materials, driven by the

rapid development of its infrastructure and booming demand for its exports, has helped to stoke commodity prices.

Inflation continues to run at very high levels, fuelled by surging food prices. China's agricultural capacity has not kept pace with its industrial expansion and, although incomes have grown significantly, food prices are now rising faster than wages – an unwelcome development for China's middle class.

Ultimately, in common with the rest of Asia, China is unlikely to prove immune to the effects of a global slowdown, and this could help to curb growth in the short term. Looking ahead, China's growing influence on the world economy has led to speculation about its longer-term position in the global pecking order. For now, the US is the economic powerhouse, but China is already a force to be reckoned with.

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