

## Get in touch

If you would like any further information on the topics covered in this newsletter, or would like to discuss your finances, then please make contact with either Kevin Reynolds or Paul Barnard.

You can write to us at:

Freepost RRYK-SLJR-EJK  
Asset Investment Management Ltd  
Drayton Old Lodge  
Drayton High Road  
Drayton  
Norwich  
NR8 6AN

Telephone us on **0800 0025 161**

e-mail us - [enquiries@asset-im.co.uk](mailto:enquiries@asset-im.co.uk)

Asset Investment Management Ltd, Drayton Old Lodge, Drayton, Norwich,  
Norfolk, NR8 6AN

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# Asset Advantage

The quarterly newsletter from

**ASSET** Investment Management Ltd  
*wealth management specialists*

Welcome to this Spring 2009 edition of *Asset Advantage*

Is there a little light showing at the end of the investment tunnel, or is it an ex head of an investment bank lighting a fat cigar with a £50 note?

We have witnessed the worst financial crisis in living memory but, as independent financial advisers we hope that the public will now turn away from the greedy, product pushing banks and instead seek advice from someone who actually acts for them and who has a long term interest in them.

We continue to receive new enquiries each month, but are very aware that a lot of people are "waiting". Quite what level they want the market to be before investing is a mystery - recovery will come, it is when that is the unknown and buying when anything is cheap has to be better than waiting for it to become expensive again.

You will also have received a letter from us regarding "Treating Customers Fairly". We hope you have taken the time to complete and return this to us so that we can focus on what our clients really want from us and correct any areas where you feel we could be stronger and better.

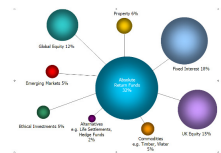
The last two Summers have been damp affairs - perhaps we can look forward to a good one this year!



Financial Asset  
Calculation Tool



Compensation



Core and Satellite  
Investing



Absolute Return Funds



Corporate Bonds



The Budget

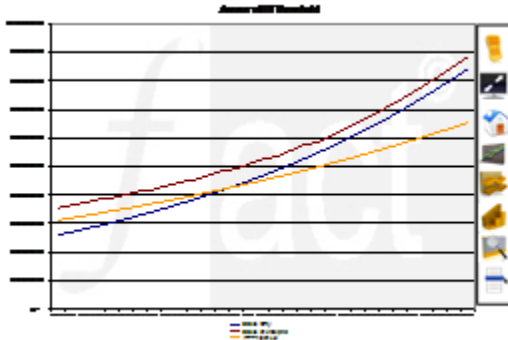
# Can you afford to....



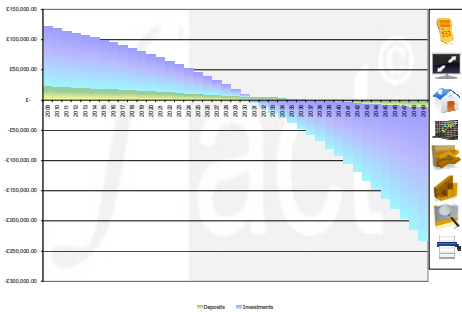
We have developed another unique financial planning tool called FACT. Fact is an acronym for Financial Asset Calculation Tool and its strengths is in the title - you tell us what assumptions to make for income growth, investment growth, deposit growth etc and then tell us what you want to achieve from your money and when. We then input the figures, run the calculations and present you with, well, the FACTS!

We also ask clients to complete an expenditure input form. This mirrors the Office of National Statistics Personal Inflation Calculator, so some people have been a bit surprised to see their personal rate some 4 - 5% higher than the headline RPI figure! However, if the costs they have are going to increase by this amount, they need to know how to plan.

FACT can also produce charts showing when your estate might exceed the Inheritance Tax threshold, or indeed when you might run out of money completely. Some clients want to take a regular high "income" now, and when we tell them that it will all be gone by the time they are 95 they aren't overly worried, preferring not to leave any to the Exchequer or to have to fund their own Care Fees.



For many, of course, that idea is complete anathema and again we can make recommendations on the basis of the FACT findings to try and ensure that money is there when needed and your estate can be preserved for your family too.



Please ask us to run a FACT finding on you - currently this service is free and you have nothing to lose but maybe a lot to discover!

# Compensation



The Financial Services Compensation Scheme (FSCS) is an independent body that was founded in the UK in 2001 by the Financial Services Authority (FSA). It covers all companies regulated by the FSA, and is funded by levies on companies authorised by the FSA

## Deposits

Under the FSCS, customers' deposit account savings are guaranteed up to a maximum of £50,000 per customer per institution, or £100,000 for a joint account. If a customer has more than £50,000 with a bank that collapses, they will only receive the maximum amount of £50,000 per person per institution. However, they might eventually receive additional funds following the distribution of any assets as part of the insolvency process. Interest owed to customers up to the date that the bank is found to be "in default" will be treated as part of the compensation.

The FSCS does not always cover 100% of a customer's losses. If the customer owes money to the failed firm (such as mortgages or loans), these will be taken into account when compensation is being calculated.

The FSCS aims to pay out within six months, but has never actually had to pay out for the failure of a major UK bank. However, it is likely that the UK government would do everything within its power to avoid the collapse of a British retail bank.

## Investments

Investment customers can be compensated up to a maximum of £48,000 (100% of the first £30,000 and 90% of the next £20,000) for losses resulting from failure of an investment company. Pensions, on the other hand, are covered by the insurance element and each claimant will receive 100% of the first £2,000 of their claim, and 90% of the total balance. However, these payouts only take place if a company is unable, or likely to be unable, to pay claims against it.

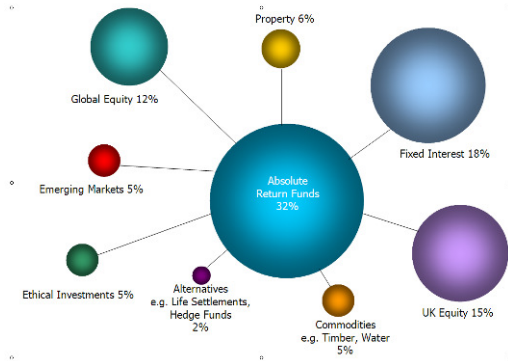
It is worth noting that, if a mutual fund company collapses, the assets are likely to be unaffected. Assets held by such a company are not held by them directly but are instead placed in the hands of an independent custodian. This means they are protected from any mutual fund company creditors.

If an investment company does fail, it is likely the assets under management would actually be transferred to another company (subject to the shareholders' approval) so they could continue to be managed on behalf of the investors. The actual value of the assets would therefore be unaffected by any problems at the original firm and instead continue to be priced by the market.

# Core and Satellite

Finding a core investment is an important part of building your investment portfolio. A core investment is a more predictable, lower-risk holding (or series of holdings) onto which you can build up the higher-risk elements of your portfolio. The theory is you will keep this investment for the longer term, while tailoring other parts of your portfolio to medium-term or higher-risk strategies.

The exact make-up of the core will depend on your attitude to risk but the principle is the same for all. The aim is to invest this lion's share of your portfolio in mainstream stocks or funds that can offer a diversified mix of assets and can provide stable lower-risk returns.



What exactly these funds are will depend on your individual requirements but, for many investors, they might include UK stocks and shares, as this reduces their exposure to currency risk. It may also involve allocating a

certain percentage towards assets that are deemed lower-risk - such as bonds, cash and maybe blue-chip or FTSE 100 stocks - so as to provide a solid basis for your long-term investment plans.

This core is then supplemented by a satellite strategy, typically the minority percentage. A satellite strategy can focus on more specialised or higher-risk areas, designed to increase overall returns while still keeping risk under control. This strategy could target a specific sector, such as commodities, smaller companies or overseas and emerging market assets. Again, the exact make-up will be entirely down to your personal circumstances but you should always be comfortable with the overall level of risk you are taking.

Many providers now offer funds that can be used as a one-stop core investment. Such products tend to have conservative aims and look to deliver realistic returns and be spread across cash, bonds and equities in different proportions. Most can be put into an Individual Savings Account (ISA), or a Self-Invested Personal Pension (SIPP), and so can also be tax-efficient.

Whichever type of core holding you select, it is worth remembering an investment should be considered only for the longer term. Take advice from a professional and choose a provider that will be able to keep your investments on track.

# Absolute Return Investing

These type of funds become increasingly popular when the credit crunch wiped out returns for "long only" equity funds. The availability of these funds has been encouraged by UCITS III regulations, enabling managers increased investment powers to employ as part of their strategy.



One notable feature, granted by these regulations, is the ability to short stocks and therefore take directional bets on stock prices falling, allowing such funds to prosper in times when market returns are diminishing.

The sector is defined to include those funds managed with the aim of delivering absolute (i.e. more than zero) returns in any market condition. At this stage it is also worth noting that inclusion is voluntary and that there is no asset based monitoring for this sector, meaning a broad variety of funds could be eligible for inclusion. All funds have different styles, some using derivatives, some short positions, some holding cash, some blending all styles.

Most funds target the cash rate as defined by the London Interbank Offered Rate (LIBOR) and seek to beat this by around 3% after charges, over a full market cycle. They do not guarantee to provide a positive return 100% of the time.

The relatively youthful nature of this asset class means 14 funds operate within the sector, and only five of these display a history of at least three years. This means that the sector cannot be scrutinised in great depth with the majority of funds yet to experience a full economic cycle - the essential factor to assess the true merits of such a vehicle.

However the risk element never fails to impress with an annual volatility outshining the FTSE 100's 16.68%, given that the most risky fund was only 10.37%.

In rising markets it is unlikely that such funds will keep pace with traditional "long" funds (i.e. those who invest for the long term, rather than using financial instruments to hedge performance) but as a lower volatility "core" we are becoming increasingly convinced of their place in most portfolios.

# Corporate Bonds



Corporate bonds are loans issued by companies and funded by investors. In exchange for your capital, companies make a pre-agreed payment of interest back to you at regular intervals, making them particularly attractive if you are looking to supplement existing income.

When the State issues debt it does so via Gilts, and the gilt yield has fallen dramatically following the government's quantitative easing policy, where millions of pounds has flooded the market.

In general, the more financially secure a company the lower the interest rate it will need to offer to attract investors. A less secure company may, however, need to offer higher interest to compensate for the greater risk of it defaulting on payments.

To give investors an idea of this risk, most corporate bonds receive ratings from independent agencies such as Standard & Poor's or Moody's. These ratings reflect a company's ability to meet liabilities and therefore influences the rate of interest on offer.

These ratings divide the market into two key sections - investment grade and high yield. Investment grade bonds are considered the lowest risk, while high yield bonds are more likely to default and therefore tend to offer higher interest rates to tempt investors.

At the very bottom are junk bonds where rates appear very attractive but the risk of default (i.e. losing some or even all of your investment) is significant. It is therefore very important you research your investment decision and recognise that higher returns will carry higher risk.

The current valuations on bonds have priced in very pessimistic default rates and this has attracted huge inflows to this sector over the last couple of months. As always, we have been wary about following the herd and trying to pick the "flavour of the month" but still advise that these financial instruments form part of a diversified portfolio, as traditionally if not recently, their returns are not correlated with equities.

Investors in Corporate Bonds do fare better in the event of a company going bust and rank higher in the pecking order than those holding equity in the company

# The April Budget



2009's Budget was never likely to provide much in the way of good cheer. As the Treasury struggles to cope with the cost of the recent bank bailouts, the rising cost of social security and falling tax revenue, public borrowing is set to soar to record levels.

In an attempt to help the UK balance its books, Chancellor of the Exchequer Alistair Darling intends to cut growth in spending on public services by almost half from 2011 and, in a surprising move, he announced that those earning more than £150,000 per year will be taxed at a new high rate of 50% from April 2010.

The Budget also included a reduction in tax relief on pension contributions paid by high earners. Tax relief for those earning more than £150,000 per year will be tapered off, disappearing completely for those earning £180,000 or more. Meanwhile, those earning more than £100,000 per year will see the withdrawal of their personal allowances from April 2010.

Fuel duty will rise by 2p per litre in September, while duty on alcohol and tobacco rose by 2%. Darling announced £2 billion-worth of help for the unemployed, and measures intended to boost the housing market and the motor industry.

The Budget included some help for businesses, although the Confederation of British Industry criticised the Budget, commenting that it did not set out a "credible and rigorous path for restoring the public finances to health."

Pensioners will see the basic state pension increase by at least 2.5%, regardless of inflation, and current winter fuel allowances will be maintained for another year despite the recent fall in energy prices.

The limit on savings that pensioners can possess before their Pension Credits are reduced will rise to £10,000 in order to help those negatively affected by low interest rates. Meanwhile, the annual limit for ISA contributions will rise this year to £10,200 per year for those aged over 50, and for everybody from next year.

Darling expects Britain's economy to shrink by 3.5% during 2009, and return to growth the following year. However, the International Monetary Fund expects the UK to contract by a rather more drastic 4.1% in 2009, and does not expect Britain to return to growth during 2010. Darling appears to be gambling on a relatively swift economic recovery for the UK; only time will tell whether this gamble will pay off