

Investment Planning

It is now widely accepted that the key to investment success is holding the right mix of investment assets, whether these be UK equities, overseas equities, fixed interest securities, commercial property, commodities, or cash.

The problem is that the attractiveness of each of these asset types changes constantly. 2009 was the year when the return on cash ceased to be attractive and both fixed interest and equities advanced to a degree which exceeded the expectations of even the optimists.

Looking to 2010, the general view is that the scope for further advances in UK equities and gilts is limited, but that some sectors of the property market look interesting and that commodities should benefit from any economic recovery.

However, no one can accurately predict the performance of markets, which are subject not only to economic developments but acts of God, politicians and extremists. So, trying to switch investments on a short-term basis is likely to result only in increased costs.

It therefore pays to spread one's bets by diversifying between different investment assets, weighting the allocation according to the needs, experience, time frame and attitude to risk of the individual investor.

Some advisers prefer to minimise costs by investing passively, through index-tracking funds or Exchange Traded Funds. They point to the fact that most fund managers fail to out-perform their benchmark index. However, index tracking funds are not without their own downsides, or drawbacks.

Others, Clairville York included, advocate actively managed funds and use research and asset allocation systems with defined filtering processes to assist them in identifying fund managers who have the most sustainable records of out-performance combined with strong risk-metrics.

There are those who would argue that a mixture of these approaches can combine the benefits of each, with passive funds being used to address the major markets, where the abundance of research makes it more difficult for managers to beat the index; and active funds being used to address more niche markets.

Reflecting the increased focus on asset allocation, multi-asset and absolute return funds are becoming increasingly popular, and a number of multi-manager funds are now distinguished as much by their managers' expertise in selecting assets, as in selecting funds.

These funds will be judged on their managers' ability to make the short-term calls which private investors would be ill-advised to attempt with their own investment holdings.

Venture Capital Trusts

Tax increases and Government restrictions on pension contributions for high earners are causing some to turn to Venture Capital Trusts ('VCTs') as an additional source of retirement income/planning provision.

VCTs are a form of Investment Trust which qualifies for special tax advantages subject to them investing only in fledgling businesses which satisfy certain criteria. Income tax relief of 30% can be claimed on investments of up to £200,000, provided that the shares are held for a minimum of 5 years. Also, dividends are tax-free and there is no CGT on disposal.

However, there are good reasons why the tax treatment is so generous. The young companies which the Government is seeking to support are necessarily higher risk and VCT portfolios tend to be concentrated on smaller numbers of holdings than other funds.

It is therefore unsurprising that some VCTs, particularly those that were AIM based, have performed poorly, effectively cancelling out the benefit of the tax breaks. VCTs are not suitable for all investors and usually investors would be well advised not to commit more than 5% of their overall portfolios to the VCT market.

Diverting Salary to Pension

The Chancellor's decision to impose an additional tax on jobs by raising National Insurance Contributions has drawn attention to the advantages in members of occupational pension schemes agreeing with their employers that part of their salary should be paid as a pension contribution – an arrangement known as 'salary sacrifice'.



This reduces the NI charge for both employer and employee, and employers are often willing to increase the pension contribution by the amount of NIC they save. In addition, the contribution avoids income tax.

However, to be effective for tax purposes the arrangement needs to be on-going and evidenced in advance by an exchange of letters between employer and employee on the employer's headed notepaper.

CGT Opportunity Window

It came as a surprise to many pundits that the Chancellor did not take the opportunity in his 2009 Pre-Budget Report of reversing his 2008 decision to standardise capital gains tax at the rate of 18%. In the light of other tax increases over the past two years, this rate now looks anomalously low, and the chances are that it will be increased in the 2010 Budget.

So now is the time to spring-clean portfolios and weed out any shareholdings which may previously have looked too expensive to sell!

Thought for the day

"I contend that for a nation to try to tax itself to prosperity is like a man standing in a bucket trying to lift himself up by the handle."

Winston Churchill

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No responsibility can be accepted for the accuracy of the information in this newsletter and no action should be taken in reliance on it without advice. Please remember that past performance is not necessarily a guide to future returns.

The value of units and the income from them may fall, as well as rise. Investors may not get back the amount originally invested

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