

## INVESTMENT: KEEPING YOUR COOL

It is always unsettling when stock markets are languishing, because the value of savings and pensions suffers and the economic problems which usually lie behind the malaise tend to hit consumers in the pocket and to exacerbate the negative sentiment. However, it is important to retain a sense of perspective and to bear in mind the lessons learnt from previous setbacks:

1. Investment is for the long term – five years or more – and if that is your time horizon, there is plenty of time for markets to regain the positive momentum which they have consistently shown over the long term.

2. Don't crystallise losses by selling holdings unless there is a serious need to raise cash immediately. Selling now will only serve to crystallise a loss.

3. If you make regular contributions to a savings scheme or pension whose investments are sensibly diversified, don't stop now. The principle of 'pound cost averaging' means that your money buys more units or shares when prices are lower.

4. Don't cash in ISAs unless you really need the cash, because it will be impossible to retrieve the lost tax relief. If you are unhappy with your current ISA holdings, it would be better to switch funds.

5. If you have available funds and there is some major item of expenditure which you intend to incur, it might be better to spend the money now rather than to invest it. Retailers and builders are feeling the pinch.

6. If you are a cautious investor, any new investment money might suitably be directed towards cash or money market funds, in the short term. However, the best course of action for most investors is to invest for the longer term in a variety of 'asset classes' – i.e. equities, fixed interest, property or cash – providing the best recovery potential. The amount invested in each asset class will depend on your attitude to risk, which should be reviewed, together with your portfolio on a regular basis.

7. It is unlikely that an authorised institution will go bust, but some journalists are suggesting that deposits should be spread between a number of Banks and Building Societies so as to maximise the protection provided by the Government compensation scheme, which guarantees deposits of up to £35,000 per person per institution (a figure which may shortly be raised to £50,000).

8. If you are tempted by higher rates of interest offered by a smaller institution, remember that it is the larger institutions which are likely to offer greater security.

9. Although cash is the safest haven in the short term, it will lose value over time as a result of inflation. In the longer term, equities, though more volatile, have in the past proved to be the best way of beating inflation.

10. The only investments which provide guaranteed protection against inflation are Government index-linked stocks (Gilts) and index-linked National Savings certificates. However, gilts only guarantee to beat inflation if held to maturity, and the real return on index-linked investments is low.

## CONSOLIDATING PENSION POTS

October 2008 will see the abolition of the restrictions which currently apply to the investment of 'protected rights' – i.e. the pension savings generated by the National Insurance rebates received by those who contract out of the State Earnings Related Pension Scheme ('SERPS') and the Second State Pension ('S2P').

Previously, protected rights could only be invested in insurance company schemes, which in many cases were confined to the insurers' own funds. In future, however, any SIPP will be able to obtain authorisation to accept both transfers of accrued protected rights and new contracted-out contributions.

The protected rights will still have to be separately identified, but they will be able to be invested in the same way as the non-protected SIPP funds, including property



purchase and even exotic investments such as private equity, hedge funds and gold bullion.

A relaxation already introduced in 2006 allows contracted-out pension savers to draw 25% of the value of their protected rights funds in the form of tax-free cash, and to use protected rights as part of an income drawdown plan.

The requirement will remain that annuities purchased with protected rights funds must provide a 50% spouse's pension, but even this restriction will be removed in 2012.

## CONTRACTING OUT

In the 1980s and 1990s the general view was that contracting out of the State Additional Pension scheme, (which was then known as SERP's and has subsequently been rebranded as S2P), might be advantageous up to the ages of 46 for men and 53 for women.

However, the Government incentives for contracting out have reduced over the years, and it is unlikely to be worth considering contracting-out these days after the ages of 40 for men and 45 for women.

Even up to these ages the decision is not straightforward, and it is essential to take advice. Furthermore, the Pensions Act 07 which became law in July 07 has abolished contracting-out from 6<sup>th</sup> April 2012.

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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