



FINANCIAL

PRIVATE CLIENTS

QUARTERLY NEWSLETTER - Q1, 2011

Satellite images of the UK completely covered with snow fall this December.
Courtesy of Nasa.



A big thank you to all for your support during 2010. We had a tremendous response to our annual survey which is invaluable to us. What an end to the year, a mixture of beauty and the beast. The Cotswold's looked fantastic but to move about was a nightmare - it seemed much the same nationwide. The stock market ended at 6,000 but this was almost over-shadowed with the excellent Ashes series with the Barmy Army in fine voice and the Aussies receiving a bloody nose at last. I am sure you are quite fed up with predictions and opinions for 2011 so I will spare you any. Meanwhile, do enjoy this edition and as ever please be in touch if we can be of any help whatsoever.


Dick Raby, FPC Managing Director

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QI/II

SQUIRREL'S CORNER

Going abroad and paying those pesky currency commissions? Then you should possibly look towards one of the websites listed below. They can provide you with a card account to transfer your holiday money into whilst you are abroad.

My son who is in Austria doing (yet another!) ski season uses one in conjunction with his UK bank account.

It is essential that you look at the pros and cons of each i.e. Euros, Dollars, Swiss Frank or combinations etc as there are differences. They are simple to set up / use and are internet based so you have access at all times.

FAIRFX - www.fairfx.com **CAXTON FX** - www.caxtonfxcard.com

TRAVELEX - www.travelex.co.uk

Other squirreling suggestions...

Instant Cash ISAs, 2.85% Santander 2.80% Halifax/Northern RockNationwide

1 Year Fixed Cash ISAs 3.00% Marks& Spencer Money



Charlie Palmer

Quantitative Easing – Made Easy



It is a slow day in a damp little Irish town. The rain is beating down and the streets are deserted. Times are tough, everybody is in debt, and everybody lives on credit.

On this particular day a rich German tourist is driving through the town, he stops at the local hotel and lays a €100 note on the desk, telling the hotel owner he wants to spend the night. The owner gives him some keys and as soon as the visitor has walked upstairs, the hotelier grabs the €100 note and runs next door to pay his debt to the butcher. The butcher takes the €100 note and runs down the street to repay his debt to the pig farmer. The pig farmer takes the €100 note and heads off to pay his bill at the supplier of feed and fuel.

The guy at the Farmers' Co-op takes the €100 note and runs to pay his drinks bill at the pub. The publican slips the money along to the local

prostitute drinking at the bar, who has also been facing hard times and has had to offer him "services" on credit. The hooker then rushes to the hotel and pays off her room bill to the hotel owner with the €100 note. The hotel proprietor then places the €100 note back on the counter so the rich traveller will not suspect anything.

At that moment the traveller comes down the stairs, picks up the €100 note, states that the rooms are not satisfactory, pockets the money, and leaves town. No one produced anything. No one earned anything. However, the whole town is now out of debt and looking to the future with a lot more optimism.

And that, Ladies and Gentlemen, is how the Irish bailout package works. It is also how Quantitative Easing works, except in that case the money is given as a gift to the banks (a false market of the Treasury buying and selling the same gilts from the same buyers), by the Treasury.

Dick Raby



Paddy Power (The Bookmakers) Now Bigger Than Irish Bank

Irish financial companies are having a tough time of it at the moment, but one Irish company riding high is Paddy Power. According to a report in The Daily Telegraph, the Irish bookmaker overtook the Bank of Ireland to become the eighth largest company in Ireland during November 2010.

Shares in Paddy Power have done well since the summer, when the company said it would exceed analyst's expectation for full year profits

and just last week the company indicated that it needed to recruit a further 500 staff to cope with expanding business in its online gambling operations. Meanwhile, shares in the Bank of Ireland plummeted, losing more than 40% of their value during November, and the company now has to accept the Irish government taking a majority holding. Paddy Power is already well ahead of Allied Irish Banks, which has a market capitalisation of around €300 million compared to the bookmaker's €1.4 million.

Are You In Your Company Pension?

continue to meet people who have been invited yet have amazingly declined entry into the employer's pension scheme. Their main reason being an aversion to risk particularly following the recession and credit crunch. Hiding your cash under the mattress is not the answer. Investing for the longer term means you are looking for real investment growth so short-term volatility should not make that much difference. Also, the extremely effective and relatively simple tax benefits available cannot be found elsewhere.

A company pension is a valuable employee benefit but you need to become involved yourself and to get to grips with understanding it. It is really just a way of saving. You invest your money into a pension while earning a salary to provide income

in retirement and the earlier this is done the better. If you have not already joined an available scheme you could be turning your back on the equivalent of a significant pay rise as employers pay money each month over and above your salary to the employees' pensions to complement the individuals own payments where appropriate. The employer's contributions are "free money" to you and you could also be missing out on valuable death in service and long term sick pay benefits.

Company pension schemes have an automatic default fund and like any investment, it pays to keep a careful eye on how well your pension fund is performing and consider adjusting these as and when circumstances may dictate. The choices made today will have an effect on your fund in 20-30 years time.

GLOBAL BACKDROP



The developed world economies look set to continue in a steady recovery with the main impetus for 2011 likely to emanate from the Asia/Pacific (excluding Japan) region. This is together with a fairly anaemic showing by Western Europe and Japan, and America expected to grow at about 2.8%. Global inflation is not seen as a major short term issue apart from some emerging economies. More specifically:

USA: The US Central Bank confirmed its current extremely expansionary monetary policy stance and will want to see stronger improvements in the labour market.

Euroland economic growth forecast have actually increased over the year but there are still very much divergent patterns between Northern Europe and the so called PIIGS (Portugal, Italy, Ireland, Greece and Spain).

Japanese growth is estimated at nearly 3% for next year, assuming Yen starts to weaken.

Other Asian and major emerging economies such as India, Brazil and Russia all expected to show above average growth.

UK Economy

The Treasury recently stated that “there is further evidence that a gradual but sustained private sector led recovery is under way” and we would broadly agree with this. GDP is expected to grow between 1.5% and 1.8% in 2011. However headwinds in the shape of government spending, VAT, sticky unemployment and likely rising short term interest rates will have to be monitored closely. Higher than expected inflation is another source of uncertainty.

Fixed Interest

With the economic picture described above, UK inflation in the 3%-4% range, and forecast global rise in government bond yields, we see little attractions in the conventional gilt market. We do however still find relative attractions in some other fixed interest products including selected corporate bonds, for example ETF exposure, preference shares, PIBS and certain hybrids. Index linked gilts may outperform conventional and we would include certain corporate issues as well as government stock.

Equities

UK equity driving factors are in place for a further rise in the overall share market and we currently forecast a year end FTSE in the range 6300-6500. However, themes and sectoral mix will be crucial and changeable over coming months. On a valuation basis, UK equities, as represented by the FT ALL-Share Index stand on a trailing PE (Price Earnings) ratio of approx 13 falling to 11.5 in 2011 and a dividend yield of 2.9% rising to 3.4%. Both of these tend towards, but not at, the cheaper zone of a 20 year range. Several stocks in the area of utilities, telecoms, pharmaceuticals and insurance yield about 5% and with mining stocks due to resume payments it is possible to construct a portfolio with income and growth characteristics. Corporate activity is also likely increase which might additionally favour some mid and small cap stocks.

Property

We currently believe that a longer term recovery is in place in terms of capital values and rental income as confirmed by the widely followed IPD (Investment Property Databank) index. However some instruments have already overreacted and may still be suffering from liquidity, balance sheet, covenant, bank overhang and valuation issues. We would rather hold than commit new funds at this stage, although some vehicles may offer an income return in the 6%-7% region. Residential property, we believe the out-look for 2011 is “flat at best”.

Commodities

Stick with industrial metals and agricultural plays e.g. our favoured ETF but would be wary of chasing gold near \$1400.

DISCLAIMER

Past performance is not a guide to future returns;

The realisable value of fixed interest securities may fluctuate during their lifetime as the market reacts to economic news, interest rate changes, and etc;

Income generated within a portfolio may fluctuate and could diminish in real value over time due to the effect of inflation. This could result in the income becoming inadequate to meet long term investment objectives;

Generally, equity prices will vary and dividend payments will also fluctuate in line with the fluctuating trading performance of the issuing company;

Currency movements can impact positively on investments but they can also have a negative impact and profits can be eroded by a fall in the value of a particular currency;

Investing in “emerging” or “developing” markets or specialist sectors has the potential for higher returns but is also likely to be more volatile and higher risk. This is largely due to the fact that these markets and sectors can be more vulnerable to cultural, political or economic change;

The tax laws currently in place may change in the future which could affect the value of investments;

The value of investments can go down as well as up, and as a consequence, upon withdrawal or transfer, the investor may not realise the sum originally invested.

Income from investments may fluctuate as part of the capital invested may be used to pay that income.

SUMMARY

Depending on risk profiles we would suggest that investors continue their gradual switch from Fixed Interest to Equities. We would however stress that certain fixed interest vehicles continue to look attractive and might suit more income orientated, cautious investors. We would tend to avoid conventional gilts at this moment. Within UK equities we would emphasise yields, strong balance sheets, some overseas or niche exposure. There are certain sectors we remain wary of, where possible earnings downgrades are not reflected in current valuations or price performance. We continue to like Asia as a region and contrarian investors may consider Japan. There are investment trusts on double figure discounts in this area. For a lagging emerging market, Russia may surprise on the upside with high commodity prices, undervalued currency, electoral excitement, Sochi and World Cup infrastructure as possible themes.

Charlie Palmer



Life Assurance – Have You Thought About It?

The recent downturn in the values of both property and invested assets has reduced the potential Inheritance Tax liability on many estates. Although the value of agricultural land has risen, for the most

part any increase is covered by the Agricultural Property Relief exemption. An increasingly common reaction to the current situation of financial insecurity and market volatility is to defer passing on assets to the next generation. This decision is often fuelled by uncertainty over what personal needs might be, particularly in the face of increasing life expectancy. Recent changes to trust legislation have caused a similar reaction, as the transfer of assets into Discretionary Trusts is now liable to an immediate Inheritance Tax charge of 20 per cent, where the nil rate band has already been exceeded. At each 10th anniversary a further charge of up to six per cent will be levied on the

trust's value and an exit charge may also become payable. Deciding not to pass over assets in the short term is perfectly justifiable, providing your assets are exempt or you have protected your position with appropriate Life Assurance that is written in trust to cover the potential Inheritance Tax liability. Life Assurance is an ideal way of seeing your way through until the economy is more stable and you feel better able to pass on assets to the next generation. The cost of taking out Life Assurance varies hugely depending on whether you decide to try and provide a long term solution or opt for short-term, temporary cover. The less comprehensive Death by Accident Insurance can also be considered, which can be put in place quickly, without medical underwriting and can often be quite a lot cheaper. There are currently good reasons for delaying the handover of assets to future generation, but make sure you have sufficient cover in the meantime. For more information regarding these and other products please contact Dick Raby.

FUN FACTS

1. What is the difference between £1bn and £1m, where £1 = 1 day?

A) 1 day to 100 days B) 3 days to one year or C) 10 days to 32 years

Answers on back cover.



Hundreds for the Hundreds of those who have moved!!!

Hundreds of taxpayers who have moved home over the past few years must tell the taxman or risk missing out on a rebate that could be worth hundreds of pounds.

HM Revenue and Customs (HMRC) is in the process of sending 5.7 million letters to employees charged the wrong amount via the Pay As You Earn (PAYE) system during the previous two financial years following a government computer glitch. Almost 4.3 million are due a refund.

MoneySavingExpert.com has discovered HMRC is sending many crucial pieces of paperwork, such as rebate cheques, to the wrong address because

it does not always keep track of people who move. This is despite information appearing on correspondence it receives from employers (and this will also apply to those in receipt of annuities). Many mistakenly believe their employer updates their address because it takes care of tax payments so it would be worth your while to ensure HMRC know where you live. For those who receive their pension income via an annuity should also ensure their home address is correct. (In any circumstances, this would also be appropriate for any outstanding tax demand so do be aware!).

Interest Rates Hike?

There have been increasing calls for a hike in interest rates during recent weeks and from quite responsible sources. Notably rates will have to rise in the new year to control inflation, the

Confederation of British Industry predicted on the 20th December in its latest economic forecast and this will add thousands a year to mortgage bills for millions of households.

The CBI said rate increases would come despite 'very sluggish' economic growth in the New Year as tax rises and Government spending cuts bite, however, it added the chances of a double-dip recession are 'low'.

It believes rates - currently at a record low of 0.5% - will hit 1.25% by the end of 2011 and 2.75% by the end of 2012.

FUN FACTS

2. How much do stocks have to fall to make a stock market crash worsen from an 80% to 90% peak to trough decline? A)10% B)25% C)50%

Answers on back cover.

Dick Raby



Euro-Zone Crisis In 2011?

Since the bail out of Greece and Ireland several notable commentators are becoming increasingly nervous. Bob Diamond, who takes over as chief executive of Barclays next month, says in This is Money there is 'a distinct possibility' that a number of countries may drop out of the euro. With Portugal back in the firing line over the size of its debts, the American investment banker believes the euro-zone will survive but in a smaller form. These comments follow warnings from Moody's on 21st December that it may downgrade Portugal's debt. Spain was hit by a similar warning the week before fuelling fears that the euro-zone debt crisis is spreading and Spain and Portugal will have to follow Greece and Ireland

in seeking a financial rescue by the EU and IMF.

Douglas McWilliams Chief Executive of the Centre for Economics and Business Research on 31st December 2010 gives the euro only a one in five chance of surviving in its present form for 10 years. He also states that if the euro doesn't break up, this could be the year when it weakens substantially towards parity with the dollar.'

The CEBR's top economic prediction for 2011 is "yet another euro-zone crisis in the spring if not before". This crisis would be bad news for Britain because Europe is the UK's biggest export market. McWilliams also says "a double dip for the world economy is not likely because of the strength of the emerging economies but it is well within the bounds of possibility for the UK".

Post Office savers are now UK covered

We have had quite a number of clients expressing some concerns on savings with the Post Office. This has been resolved as savers with money in accounts or bonds at the Post Office are now protected under the UK's compensation scheme. This means they have the same per individual £50,000 cover as any UK bank, under the Financial Services Compensation Scheme (FSCS).

Previously, Post Office savings had fallen under the Irish compensation scheme because the accounts are held at Bank of Ireland. But the bank transferred all Post Office savings to a new UK subsidiary called Bank of Ireland UK on 1 November.

At the end of December 2010, this changed the equivalent of €100,000 - currently around £85,000 - when the UK falls under the new European compensation scheme.

FUN FACTS

3. The FTSE100 peak of 7,000 was achieved on the eve of the millennium. Eleven years later and the index is lower in real terms (using RPI figures) by how much? A)15%, B)30% C)45%

Answers on back cover.

Meet the team...



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ANSWERS**Answers to Charlie's Quiz**

Question 1 (C) 10 days to 32 years. **Question 2** (C)50%. **Question 3** (C)45%