ASSET Advantage

Your quarterly newsletter from

ASSET Investment Management Ltd

wealth management specialists

Autumn 2012

September Reviews

Most clients will soon be getting a call from Kevin to book in their review - others will be contacted in March and of course those who have twice yearly reviews will be seen then as well.

When I was preparing the "Market Commentary" I was awaiting news about the European Central Bank and its pledge to "do whatever it takes" to preserve the Euro. This did in fact materialise and markets rose.

Then came the announcement from The Federal Reserve that they would pump an extra $40 billion a month into the U.S. system to aid recovery; on that news the FTSE 100 rose around 95 points and all could appear rosy.

Caution is still required though, and I would like to make an analogy. Imagine if you will, instead of the EU, a large department store. In several departments there have been serious fires and the prospects for each department to keep trading look slim. If they stop trading, it will have serious implications for the whole store.

After much negotiation and lots of arguments about who was to blame for the fires, the management have at last agreed to install a sprinkler system so that this could never happen again.

What remains, however, are fire damaged departments with few prospects for sales in the short term, but with the staff demanding to be kept on as employees at the same rates of income as they had in the good times.

All is not doom and gloom though; active fund managers who we favour over passives (and it makes no difference to our income, by the way), can still select individual sectors and stocks which will make profit and growth, though the overall sentiment in markets can drag their performance down at times.

As ever, quality and diversification are the watchwords.

Welcome to the second of the revamped and revised Asset Advantage bulletin, designed to keep you informed of developments on a local and global level.

If you have any requests for articles or information, or want this to be sent to any friends and family, then please let us know.

Our Services

We are able to offer qualified advice in areas other than pure investment, such as:-

- Care Fee Planning
- Equity Release
- Mortgages*
- Income Protection
- Life & Critical Illness cover
- Pension Planning
- Inheritance Tax Planning
- Wills and Estate Planning**
- Lasting Powers of Attorney**

* we refer mortgage enquiries to a specialist mortgage broker
** provided by Align Wills and Trusts

Protecting Your Share

In small businesses, a shareholder agreement can ensure that remaining shareholders get first refusal on a fellow director's shares should they become unable to work or even die early.

Set up along with an insurance policy, this can ensure that the business remains with the people who created its vision – but also supplies the funds to compensate beneficiaries adequately for the surrender of any inherited share.

It is a difficult thing to consider, particularly in the early, visionary days of a small business, but without such an arrangement, directors or partners might see part of their company sold on to competitors or unwanted third parties without their consent, or "inheriting" the spouse of a deceased business partner as an equal shareholder, even if they have no idea how to run the business.

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Independent Financial Advisers

The Retail Distribution Review - 2

One of the consequences of the Retail Distribution Review is that the number of registered individuals is set to fall - perhaps by up to 30%.

Given that many of the big banks are pulling out of regulated retail financial services, this need not be a major blow as perhaps their customers will now seek the advice of an IFA instead.

However, another consequence is the fall of the traditional product provider as old and antiquated products, laced with hidden charges and unfair conditions, no longer have a place in this "brave new world".

Dealing with many of these companies in the past was difficult enough when we sought client information - it has become even more difficult recently as the investment business of many previously household name companies is swept into a new one comprising the legacy business of several companies, all with different computer systems and so forth.

Transparency is the new "overarching" consideration as wraps and platforms take centre stage in the investment arena.

Market Timing

"To err is human" said Alexander Pope - but in investment, to err is expensive. What you can do, however, is look at the mistakes of others and try to avoid the most obvious pitfalls.

Investors can make many mistakes but one of the most common is to follow the herd. When markets are high, many scramble to invest, thinking they might miss out. Then, when markets are falling, they often sell out. The most recent example of both issues was the 'dotcom' boom. This first persuaded millions of investors to part with their savings thinking they were missing out on a chance to make 'easy' money.

Unsurprisingly, the bubble then burst and many scrambled to get out without a thought about what might happen next.

The lesson is not to get carried away in the moment - either to invest or to sell. Stories of large falls in markets can make investors nervous - but this is the nature of equity investment and selling on a short-term dip simply crystallises a loss - and can also mean missing out on both the eventual return to normality and the longer-term benefits. Markets will always go down as well
as up - so if you are scared by such volatility, take advice. Perhaps equities are not for you.

Finally, investors often believe they can time markets yet experts agree this is a near-impossibility. Investment should never be undertaken lightly. Be clear about your objectives, your timelines and the risks - and make sure your portfolio is run accordingly.

Considering Buy to Let?

Buy-to-let property became one of the investment stories of the past decade. At its peak, a rush of new lenders entered the marketplace, leading to some rather wild products. The credit crunch coupled with the recession, led to a sharp decline in demand; nevertheless we are asked by clients about the merits of buy-to-let.

One will usually need a deposit of 25% of the property’s value. Lenders will want to know the property’s rental potential, details of your salary and of any other properties owned. The rates charged on buy-to-let mortgages are also higher than on mainstream loans, so careful selection is essential. Many landlords opt for an interest-only mortgage.

If using capital, bear in mind that you are depending heavily on one asset class and that "tenants from hell" can be difficult to remove - hardly a stress free existence!