

Finance



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Investments... a balancing act

When investing it is important
you take a balanced approach.



This means you spread your investments, and therefore your risk, among several asset classes. No investment is completely free of risk so the asset classes you choose and your relative exposure to each class must reflect your attitude to risk.

So what does a balanced investment approach look like?

When balancing your portfolio you will probably invest in a combination of UK equities, overseas equities, property, bonds

and cash. Your relative weighting in each asset class will depend on your attitude to investment risk. You will also need balance within each asset class to ensure you do not overexpose yourself to one industry or currency. Finally, you will probably hold a basket of assets that behave differently in differing investment conditions. This can have a smoothing effect during volatile investment conditions, stabilizing your

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Is **now** the time to invest?

If you are someone who has steered clear of the stock market during the recent ups and downs, have you given any thought to when it might be the right time to go back in?

Nobody can 'pick' the bottom of the market, not even the experts, so one way to re-enter the market is gradually, by drip-feeding your investment over time. This way you are less vulnerable to erratic swings in prices. Look at the following example of someone with £12,000 to invest.

	Investment	Unit price (pence)	Units bought
1 April	£2,000	100.00	2,000
1 May	£2,000	80.00	2,500
1 June	£2,000	100.00	2,000
1 July	£2,000	111.11	1,800
1 August	£2,000	95.23	2,100
1 September	£2,000	100.00	2,000
Total	£12,000		12,400

Total value: 12400 x 100p = £12,400

Although this example assumes erratic performance, and ignores the effect of charges, it does illustrate the point. Although the unit price is the same as at the beginning of the period the total investment is now worth £12,400. Compare this with a lump sum investment of £12,000 on 1 April.

	Investment	Unit price (pence)	Units bought
1 April	£12,000	100.00	12,000

Although the whole £12,000 has been invested for longer, on 1 September it is still worth £12,000 because the unit price is the same as the day the money was invested.



If you want to discuss your future investment strategy, contact us without delay.

The value of investments can fall as well as rise and you can get back less than you invested.

Corporate bonds – the income alternative

Corporate bonds have featured in the press lately as a potential income alternative to low-interest deposit accounts. What are they and why are they seen as an answer?

Just as governments raise finance by issuing government bonds, corporations do too in the form of corporate bonds. Compared to government bonds, the risk of a company defaulting on their responsibilities is higher. This risk means a corporate bond will pay a higher yield than the equivalent government bond. There are also degrees of risk within the corporate bond spectrum; these range from lower-risk investment-grade bonds, issued by blue-chip organisations seen as more secure, to high-risk junk bonds of a more speculative nature.

As with any investment, diversification is essential. Don't invest in only one company and don't restrict yourself to one business sector. This way, if a company defaults, the impact is diluted across your portfolio.

Few people have enough capital to play the bond markets while achieving a suitable spread of risk. This is why most people will pool their investment with other like-minded investors by investing in a corporate bond fund managed by professionals. You can also include these funds in an ISA to produce a tax-free income.

If you wish to explore corporate bonds as a way of providing income it is important you seek professional advice – contact us to find out more.

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Don't wait until next March

The run up to the end of the tax year on 5 April spawns the annual rush to take advantage of various tax breaks. But, why do we wait until March to do this? There are several actions you can take to reduce your tax liability; why not make the 2009/10 tax year an exception and do some early tax planning? Here are a few ideas.

Pay a pension contribution

Any pension contributions you make will entitle you to full tax relief in the 2009/10 tax year. Even if you pay little or no income tax you can still pay a net pension contribution of £2,880 in the 2009/10 tax year. And the government will add notional tax relief of £720 to bring it up to £3,600.

Save in an individual savings account (ISA)

Any growth in an ISA is free from any personal liability to income or capital gains tax. You can invest up to £7,200 in an ISA. Of this, you can invest up to £3,600 in a cash ISA with any more than that going into a stocks-and-shares ISA.

National Savings and Investments

Invest in Index-Linked Savings Certificates or Fixed-Interest Savings Certificates and you can receive all growth free of income and capital gains tax.

Invest for your children in a child trust fund (CTF)

Transfer some of your money from a taxed environment into a tax-free environment by investing in a CTF. All gains from a CTF are free from income

and capital gains tax. Each year you (as well as grandparents and other family) can pay up to £1,200 into your child's CTF.

Why pay more tax than necessary?

Exploring legitimate ways of saving tax makes perfect sense but you need expert advice. So, start exploring ways of reducing your future tax bill early in the new tax year; contact us now for help and advice.

Tax concessions are not guaranteed and may change in the future. The value of investments can fall as well as rise and you can get back less than you invested.

Is cash still king?

The current low interest rates are good news for mortgage repayments but not so good if you are relying on your savings to produce an income.

If you are a saver rather than a borrower, you will have noticed the interest you are receiving has fallen some way in recent months. So, what choices do you have?

It is important that you seek professional advice when looking to invest for income as any solution needs to take account of your existing portfolio and your attitude to investment risk. However, the following all offer alternative ways of producing an income from your savings.

Equity income funds

These funds invest in companies with a track record of paying attractive dividends. These can offer an attractive

income but the trade off is a higher degree of risk to your capital.

Corporate bond funds

These funds invest in corporate bonds, in other words corporate debt. Corporate bonds have attracted much press of late and we discuss them in a bit more detail above.

Government bonds or gilts

Because government loan stock is considered as safe an asset as you can get, the returns are lower than corporate bonds because of the lower risk.

Call Lima Financial Services
on **01206 814814**
or **01474 876969** to
discuss your requirements.

Guaranteed income bonds

These offer a fixed income over a fixed period – usually up to five years. They often offer a capital guarantee as well, provided you hold them until maturity. Although interest on your deposits may be at an all-time low, your capital is, at least, relatively safe. Therefore, before you sacrifice any safety in a search for income, you need expert advice so you fully understand all the alternatives. This is where we can help.

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Retirement...

the longest holiday of your life

Imagine being on holiday for 20 years or more; what would you do for spending money? With life expectancy seemingly on an inexorable increase this is exactly what retirement means for many people. When you retire, all the time you used to spend earning an income becomes spare time you need to fill, but without the income – a conundrum in itself.

When David Lloyd George introduced the old-age pension in 1908, the average life expectancy was somewhere in the 40s. Although he set the retirement age at 70, few people expected to get there. In 1909, around half a million people received the old-age pension; in 2009 there are more than 12 million pensioners. (Source: Investment Week)

What's more, today, if you make it to age 65, a woman can expect to live for a further 23.4 years, a man for 21 years.

(Source – www.statistics.gov.uk)

Currently, most of us can expect to receive a pension for at least 15 years. Even though the state pension age will increase to 68 by 2044, with the average life expectancy heading towards 90* it could mean more than two decades of payout in future.

*(Source: Office for National Statistics)

New research, part of a report by life insurer Scottish Widows, suggests:

- 1 in 3 Britons cannot afford to save regularly for their retirement
- A survey of 6,381 people showed that half of them weren't saving enough for a comfortable retirement
- Only 51% of people are setting aside enough money to provide themselves with enough income for their retirement. (Source – BBC News.co.uk)

If you don't save for your retirement now, it will be too late when you do retire. Some of today's pensioners have found

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overall investment return. Investing direct into the markets is too risky for most people as few investors can spread their capital thinly enough. This is why most investors choose to invest in collective investment funds, such as unit trusts and Open-Ended Investment Companies (OEICs), where you can pool your investment with others and spread your risk much wider.

If you are concerned that your investments are out of balance, contact us for a review.

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they can't manage on their state pension alone and are having to carry on working to pay for their retirement.

If you are worried about whether you will have enough income when you retire contact us now.



If you wish to discuss your financial needs, or any of the content in this newsletter, please get in touch.

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