

News & Views

'Stay Calm'

FOR INVESTORS the events of the last few months have been at the very least worrying, but for many, of serious concern. It seems that markets have done nothing but move backwards & forwards for weeks and, as the News bulletins constantly appear to delight in telling us, wipe £millions off the value of shares!



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Volatility is normal. Even steep volatility happens often within bull markets. With the markets this way it is important that investors avoid the urge to panic and instead, stay calm and ride out the storm. At times like this, the instinctive reaction for individual investors is undoubtedly to ask 'should we sell? By exiting investments now you are crystallising your losses, whereas staying in your investment means you have the ability to catch the recovery.

Of course, 'get out and take the losses before something much worse happens' is always a consideration. No one can see into the future, not even the experts, and the credit crunch in 2007-08 showed exactly how vulnerable the global economy is.

But part of this economic weakness can be tracked back to exceptional factors – including the Japanese earthquake, the escalation of unrest in the Middle East and North Africa, and Europe's debt crisis – all of which have dominated sentiment for much of the year.

The volatility we are living through was not totally unexpected. For months now, leaders in the Eurozone have been negotiating over debt levels of various countries - Greece, Portugal, Spain and even Italy are under pressure. The US, the world's largest economy entered the fray with party politics bringing deadlock over the country's growing debt burden which also threatened to prompt a default on US government debt. Markets have been unimpressed by the lack of political leadership shown both in the US and Europe!

Investors should take a long-term view

Investor's attitude during negative periods is as important as their portfolio's structure. Economies cannot keep growing indefinitely - recessions are part of their nature and should be expected by investors at least every few years. Successful investors therefore tend to be pragmatic. They invest for the long term and expect that whilst there will be good times, there will also be some bad ones along the way. A short term downturn should therefore be accepted and not be seen as reason to panic.

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Welcome to our latest edition of News & Views, your independent update on current financial issues.

We hope you find the content of interest, and if you would like to discuss any of the issues raised in this edition, please do not hesitate to contact us.

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Equity release myths

For many retirees – as well as those considering their retirement plans – their home is likely to be their largest asset. In an environment of high inflation and low savings rates, money can be tight for pensioners, but misconceptions about equity release plans might prevent retirees from releasing the value tied up in their home. Research by Safe Home Income Plans (SHIP), the trade body for equity release providers, has found a number of myths that persist about equity release plans.



1 – 69% of UK consumers believe you risk losing your home. However, you can remain in your property for life as long as it remains your main residence. In cases in which a couple is involved, this rule will apply to the last surviving member of the couple.

2 – 67% of UK consumers believe you will not be able to leave an inheritance. In fact, when you die, your home will be sold and the money used to pay off the loan. Although an equity release plan will reduce the value of your estate, any money left over will go to your beneficiaries. Taking out an equity release plan could also help by reducing inheritance tax liability.

3 – 52% of UK consumers believe you will not be able to move house. In practice, you have the right to move your equity release plan to another suitable property without suffering any financial penalty.

4 – 47% of UK consumers believe equity release plans are unsafe and unregulated. However, all members of SHIP have to abide by a rigorous complaints procedure to satisfy the Financial Services Authority.

5 – 43% of UK consumers believe your children will have to repay the loan themselves. In fact, you will never owe more than the value of your home and no debt is ever left to the estate. Importantly, SHIP providers also offer a no-negative-equity guarantee.

It is important not to confuse equity release plans with sale-and-rent-back arrangements, in which the house is sold – often at a discount – to a third party and then rented back to the vendor for a specified period. These arrangements tend to be an action of last resort, involving those in serious financial difficulties.

If you are considering Equity Release please contact us for further information.

Equity release refers to Home reversion plans and Lifetime mortgages. To understand the features and risks always ask for a personalised illustration.

Rents pushed higher & buy-to-let bounces back

Private rents continue to be driven higher, according to a recent report from the Royal Institution of Chartered Surveyors (RICS).

Demand from tenants, many of whom have had their home-buying ambitions thwarted, is continuing to outstrip the supply of homes to rent.

"The imbalance between demand and supply is thought likely to persist, with the survey results suggesting that further gains in rents are likely over the coming months," RICS said.

"One of the main drivers of the strong demand for rental property continues to be would-be buyers who have moved to the lettings market after struggling to find mortgage finance, or first-time buyers unable to meet lenders' deposit requirements," RICS added.

The survey, for the three months to July 2011, was based on answers from 156 RICS members who work as letting agents.

With rents on the rise mortgage lenders are seeing landlords as a better bet than first-time buyers. At a recent industry debate hosted by HSBC, Matthew Wyles, distribution director for Nationwide - one of the biggest mortgage lenders - said: "As a lender we would rather lend 75% LTV (loan-to-value) on a buy-to-let mortgage to an experienced buy-to-let investor, than to a first-time buyer at 95% LTV".

While figures from the data provider Moneyfacts show that the number of buy-to-let loans available to landlord's has doubled over the past year.



UK tax system inefficient and too complex



The Institute of Fiscal Studies (IFS) has called for an overhaul of the UK tax system. In the blueprint for long-term reform, the Mirrlees Review conducted by the IFS, has said an overhaul of the system would benefit the economy by tens of billions of pounds and create thousands of jobs.

The review, which took 5 years to complete, made a series of recommendations, including merging income tax and national insurance (NI), abolishing inheritance tax (IHT) and stamp duty, extending VAT to financial services, and removing pensions' tax free lump sum at retirement. One striking proposal was to bring in a comprehensive system of congestion charging to replace duty on petrol and diesel, while another was to make all savings tax free if they do not involve any risk.

IFS director Paul Johnson said: 'If we were starting from scratch what would a tax system designed for the world today look like? We are now more convinced than when we started of the scale of the social and economic benefit of making these changes. '

"The system is too complex, has inequalities where it doesn't need to be and is inefficient in its cost to the economy" he added.

The review also said the government took about £4 in every £10 earned in the economy in taxation.

The Noble Prize-winning economist Sir James Mirrless who led the review said that the tax system "could raise as much revenue and achieve as much redistribution as it currently does in far less costly ways."

Retiring soon? Don't miss out

We all want to make the most of our retirement, so when it comes to arranging your retirement income, it's important to take control, get the right advice and ensure you get the best deal.

Your pension provider will contact you as you approach retirement, with details of your retirement income - but you don't have to accept this offer. By simply discussing your health and lifestyle with an Independent Financial Adviser who can access the whole market, you could get a better return on your annuity and see a rise in the amount you receive each year.



Converting a pension to an annuity for an income for the rest of your life is a one-off decision - you cannot change your mind once it is set up. So it really pays to shop around to make sure you get the retirement you deserve.

An Independent Financial Adviser can provide you with straightforward, unbiased advice, searching the market and comparing rates from leading annuity providers, talking through all your options, providing personalised quotes, and even looking after all the paperwork. They can advise on whether to take a tax-free lump sum (up to 25% of your pension fund) or use more of the fund to buy an annuity.

You may also be eligible for an enhance annuity, this looks at your medical history, to find out if you have a health or lifestyle condition (such as diabetes, high blood pressure or being a smoker) that could shorten your life expectancy. If so, you may be able to get a higher income for life!

As it can take up to 3 months to set up an annuity it is recommended you seek independent financial advice about 6 months before your intended retirement date.

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Cost of dying has risen

Costs related to death, such as the funeral, probate, headstones and flowers, have continued to rise, collectively increasing to an average of £7,248 - 20% higher than 4 years ago - a new report has found.



Sun Life Direct's fifth *Annual Cost of Dying* report revealed that many people have not taken responsibility for organising their end of life plans, like making a Will, and those left behind often struggle to meet the costs.

The cost of funerals was key to the increase, with funeral costs increasing by 61% over the past 7 years. The report revealed that this increase in costs has been met with surprise and concern from those who have responsibility for making such arrangements. A quarter of people surveyed have not made any end of life plans, while 44% expected family and friends to organise and fund their funeral, while one in five struggle with funeral costs.

Simon Cox, head of life planning for Sun Life Direct, warned the nation was leaving itself vulnerable to an end of life crisis. He said: "Many people are sleepwalking into a financial nightmare, leaving end of life plans to their families, the State or no-one at all. As a nation we need a wake-up call. Our research indicates that although there is indeed openness to talking about death, action is still greatly lacking."

The Sun Life Direct report also suggested that the costs related to death were expected to keep rising. The report suggested that the average cost of a cremation in the UK was £2,720 and a burial was £3,462. Administration of the estate cost £2,292 it said, and other costs included catering for the funeral at £319 and flowers at £144.

One option to cover increasing funeral costs is to purchase a Funeral Plan and so freeze the cost at today's prices. Dignity, is a British company that provides funeral services to families in the UK. They launched the first Funeral Plan to be offered in the UK in 1985, and have been the market leader ever since. More than 425,000 people have taken out a Funeral Plan with Dignity.

Dignity's Guaranteed Funeral Plan does what savings and insurance policies can't – it guarantees to cover funeral costs, so you can be certain that the funeral specified in the plan will be paid for in full, no matter how much prices might rise in the meantime. And once it's paid for, it's paid for. The money you pay into the plan is held in a secure trust, which makes sure the funds are there to pay for the funeral when the time comes.

If you're 50 or over, acceptance is guaranteed. It has no upper age limits, no health restrictions and no medical questions, so you can apply confident in the knowledge that you are guaranteed to be accepted.

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