

# RT Financial Planners LLP Newsletter Issue 1

This first quarterly Newsletter from independent financial advisers RT Financial Planners aims to be informal but informative, challenging yet entertaining. It will cover general items as well as detail new developments or old & trusted ideas. We trust you enjoy the read. Your own ideas and feedback will be very welcome. We hope to include your letters in future editions.

*Enter our quiz & win a £25 Smiths voucher!*

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**RT Financial Planners LLP**..... is the new independent financial planning service formed by the foremost members of the Rickman Tooze group. **Our intentions are threefold.**

The first and most important is to ensure you receive independent advice and planning support that suit your present needs and future objectives. We have the experience, skills, systems and technical support to provide this service. RT has linked itself to Sesame, one of the largest independent financial adviser networks in the UK. Their principle role is to act as compliance support. They also provide excellent research facilities including their Company and fund rating service that researches strengths and weaknesses, volatility and costs. It is updated constantly and is available to us online.

The second is strive to make **RT Financial Planners LLP** a highly successful partnership. At outset the partners have a personal financial stake in its success. This ensures the partnership's long term commitment which in turn means there is a major long term commitment to you too. We seek to be innovative in our approach to your needs. It is essential to remember we are independent and consequently answer to you and not the investment companies.

The third is to ensure our commitment to you earns your own commitment to us as together we can do our utmost to achieve the best outcome for your finances.

## **RT's Philosophy.....**

**RT Financial Planners** intentions have been detailed but the philosophy underpinning these intentions are as important. **RT** seeks to challenge many of the comfortable assumptions that underpin the personal financial industry and in so doing to plan your finances to best avoid these blind, comfortable assumptions.

## **and the Investment Conundrum!**

Our view is the investment world is built on a highly flawed assumption. This comfortable assumption is shared by professional advisers, the fund management industry and investors alike.

The assumption? Well, put simply it is, *equities will rise in value*. Looking at the way the investment industry is structured it seems everything is constructed on the basis that share values will inevitably go up.

It seems to be a commonly held view that has hardened over a 20 year period between 1980 and 2000 when share values did consistently rise. However this was the most extra-ordinary period of any 20 years over the last 300 years. It was a period where the personal finance industry grew and grew. It became a mass market product as cars did in the 60's and VCRs in the 80's and DVDs have now.

If in doubt just consider the coverage in the media. It swamps us like midges during a Scottish summer. The industry and media coverage fed all our appetites to make money for the least possible effort and maximum return. It worked wonderfully well providing returns for pensions, unit trusts and endowments as well turning the London stockmarket (previously a rather arcane institution in the City) into something more akin to a massive produce market in an Arabian souk!

The technology stock boom which effectively ended this period only reinforced the investors' psyche that shares will go up in value. Working on this basis investors pursue plans that are higher risk than they really believe and can afford. Investors have plans that are imbalanced and follow strategies that have no fallback.

More and more information is arriving on our desks to show that equities in reality do not normally rise over a 20 year period. For example one study showed that over the last 300 years there have been eight 20 year periods when shares have increased in real terms compared to seven when they have gone down.

It is **RT Financial Planners'** view that investors must plan to succeed through all possible eventualities. Such an approach will meet at least one of the most fundamental points of any financial planning – to avoid overall losses!

We do not say Equities will fall but we are adamant many mistakes are made by planning as if it is inevitable that they will rise!

This discussion will continue over subsequent Newsletters but it is our belief that planning is underpinned by strategies and not products. The investment industry is product driven. There is only one reason for this and that is because it is good for the industry. It can be argued that such product development is good too for the investor but only if it forms part of an overall strategy otherwise it may be akin to buying an Audi to fly the Atlantic – good car but wrong product.

The industry is highly innovative. Innovation is considered to be a *positive* asset but is it always so? Innovation can hide a multitude of complexities that can baffle and often provide a disservice. Investments are not always easily understood (yet can still be described as 'innovative') but in essence they are there to provide one objective for the investor – an acceptable return. But product promotion (as you see in adverts) is not really concerned with what is an acceptable return (or as importantly, suitable) to the investor. It is concerned about the sales level of the product being advertised.

But let us be positive as innovations are often very useful and recently many have been attractive by providing investors with frameworks for positive strategies that can provide an 'acceptable return' – (no matter what way you may define that phrase!).

These will be discussed in future Newsletters but you can always call your adviser if you cannot wait until then.

## **Absolutely Relative!**

In respect of the foregoing have you noticed how every measure of a fund is against a benchmark. For example, so & so's fund has done well as it is 10% better than the accepted benchmark. Excellent news except the benchmark being used has gone down 15% and that means so & so's fund has only lost 13.5% over that time! Wonderful!! That is what is called a 'relative' measure. Ever wondered why fund

managers get bonuses when they have lost *you* money? It is because they have out performed the benchmark. It is after all a relative success!

Many people though do not like relative success. They want absolute success. And absolute success can only really be measured against the prevailing deposit rate. Bear that in mind when next reading an advert or considering an investment!

## **8% Returns on Day One – This Is No Joke!**

As IFAs our role is to improve our clients' finances and on occasion that role is sometimes made very easy by the generosity of life assurance companies. Currently many are offering us ridiculous terms on lump sum investments.

Not one to let a gift horse's dentistry get in the way of exceptional offers we are duty bound to inform you of the fact these companies are falling over themselves to outdo each other in the Ridiculous Offer Stakes. This one is typical.

## **A lump sum investment can attract an allocation of 108%. That's £108,000 for a £100,000 investment.**

So what is the catch? In many ways none although naturally there are some initial charges but at least one company has an initial charge of only 2% and that can be spread over two years! Early exit penalties (normally over the first five years) are consideration but as income payments can be received without penalty and given most investments stay in one place for an average of 7 years, the opportunity to getting an initial boost of 8% is one very hard to ignore.

As a comparison 8% is approximately twice the annual rate of investment on a bank or building society account, at current rates. The 8% allocation is therefore the equivalent of two years growth in one day and given the immense choice of funds (*anything from cash on deposit to high risk emerging market equities*) this really is a matter that demands further investigation.

One last point. Companies offering these types of allocation are not small nor peripheral, but major institutions including the likes of Norwich Union, Clerical Medical and Standard Life.

## **A Real Revolution in Pensions!**

The biggest most dramatic change in pension legislation has been introduced and will become fully effective in April 2006. Yet these changes should not

be ignored now as you may need to attend to your plans today. Also this is not something affecting one age group – whether you are 24 or 74 this can have a very significant impact on your options – on your wealth.

This Act is now on Statute but several of the finer points still need to be verified by the Inland Revenue and Treasury and so as usual we will expect you to contact us for more detailed discussions as your situation will be unique to yourself. However five important points can be stated.

1. The current regime includes rule for 8 differing types of pension plans and schemes. The new rules will allow one simplified universal scheme.
2. Pension schemes will be able to run beyond the current maximum age of 75 (when currently an annuity must be purchased).
3. There will be opportunities to connect pensions between different individual plans allowing families to create 'family plans'. This may have a tremendous impact on Estate Planning by mitigating inheritance tax.
4. The present restrictions on contributions are being swept away leaving the opportunities for far greater contributions to be made.
5. The opportunities to include diverse assets within your pension plan are immense as you will be able to include currently exempt assets such as fine art, wine, hedge funds, land and residential property.

The word 'revolution' is not hyperbole. This really is a major development. It is our view a strategy should be put in place as soon as possible and RT Financial Planners are here on hand to help you at all stages.

## **Ostriches and Condors!**

According to Stephen Fry it is a myth, but even so ostriches are supposed to bury their heads in the sand and unfortunately that habit is not confined to the bird world. The human race is habitually turning a blind eye to many matters not least financial ones and usually at the most important times when most money is being expended.

During one's lifetime more money is spent on one's house and one's tax bill than probably any other single item (*even a son or daughter aren't that expensive!!*). Everyone complains about housing costs, whether it is the cost of the mortgage, the level of stamp duty or the

cost of selling. Similarly everyone begrudges paying more tax than they need to the Treasury. That said the vast majority pay without looking at the options available. At best people look for a better mortgage rate.

But do you consider what name the ownership of your property should be in? Do you naturally assume stamp duty has to be paid at the full rate on your country pile or commercial offices or factory? Do you buy a second home in France on the whim of a croissant without realising the short and long term tax implications? Does your company pay corporation tax without considering the options that may benefit the company and/or the employees? Ever wondered whether being born abroad or having parents being born abroad can help or hinder your finances? The answer is you should. Why? Because it does!

Or are you not an ostrich but instead a condor with a wide view from horizon to horizon?

RT Financial Planners takes the wide view and looks at all the options with a view of saving money (up to tens of thousands of pounds) for our clients. Financial planning is not about hawking the latest wheeze. It is about taking a condor eye view. Consider taking time with RT Financial Planners to enjoy your own condor moment.

## **Depolarisation!**

December 2004 saw the financial services industry altering its structure regarding how it offers advice and sales to the public. Since the Financial Services Act 1986, the UK financial services industry has operated under a system called polarisation. This introduced the concept of independent financial advisers (IFAs) and tied advisers. Previously it was a free for all! An IFA, as you will be aware, can provide advice from the whole market whereas a tied adviser is restricted to offering advice on the products provided by their employer (e.g. Legal & General or Scottish Widows or Barclays etc.).

Now we are in the world of depolarisation. Simply put, whilst more complex, there will still be IFAs and tied advisers but there will also be multi tied advisers. This last is where an adviser is supported (often financially) by a selection of providers, no doubt often a mix of life assurers and investment houses. Obviously a new development like this needs to find its feet but it is expected a multi tie adviser will settle on about 2-3 providers. The only examples of multi-ties previously are those organisations offering stakeholder products, notably pensions. Currently the 'powers that be' seem to hold a view that as all stakeholder pensions share the same terms there is less need for advice; presumably on that same basis, Arsenal and

Accrington Stanley are not comparable as they both play football by the same rules. **RT Financial Planners** will be retaining its independence status and offer planning advice across the full spectrum of financial opportunities.

## **Inheritance Taxation!**

Inheritance tax is affecting more and more people as even if house prices fall as predicted with the nil rate threshold at £263,000 (tax year 2004/05) there are still plenty of estates that may attract the attention of the Inland Revenue's IHT arm, the Capital Taxes Office. As is commonly known estates are taxed at 40% on those assets in excess of the nil rate threshold. There are various means to mitigate inheritance tax but it is a area that needs careful planning. It has become more complex with the introduction of the Pre Owned Asset Tax (POAT). Certain plans in previously common use have now been withdrawn from the market as a result of POAT and certain strategies in trying to mitigate the value of one's home are in similar difficulties.

Estate planning has always been a specialist area and one where careful consideration is vital. It is a prime example where good intentions can lead to expensive consequences. If you are concerned about estate planning please do not think piecemeal actions are adequate. Professional independent advice is always worth seeking.

## **RT Financial Planners Inaugural Quiz – £25 Voucher to be Won!**

Every Newsletter will include a quiz that is open to everyone. All you need to do to enter is to send your answers to our office at 2 – 4 Park Street, Cirencester, Glos. GL7 2BL or email [geoff@rickmantooze.co.uk](mailto:geoff@rickmantooze.co.uk) and your entry will be included in a prize draw for a £25 Smith's Voucher. It is a bit of fun and we hope you will all enter.

1. Apart from the Financial Services Authority what other regulator set up by H. M. Government has the initials FSA?
2. Which city comes next in sequence: Tokyo, Mexico City, Munich, Montreal, Moscow,.....?
3. What connects astronaut Michael Collins with a best selling album by Pink Floyd?
4. Which actor appeared as the eponymous TV hero Taggart?
5. Where did the Tate open an Art Gallery in the West of England?

You can enter as many times as you like. The winning entry will be drawn on the 25<sup>th</sup> January 2005. The judgement in all matters will lay entirely with compilers of the RT Financial Planners Newsletter. The winner will be announced in the next Newsletter.

## **Keep Us Abreast!**

Drop us a line to The Newsletter, 2-4 Park Street, Cirencester, Glos. GL7 2BN or email [geoff@rickmantooze.co.uk](mailto:geoff@rickmantooze.co.uk) and tell us your thoughts and ideas about financial services. Let us know if you allow us to reproduce some or all of it in forthcoming Newsletters.

### **Please Note!**

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