News & Views

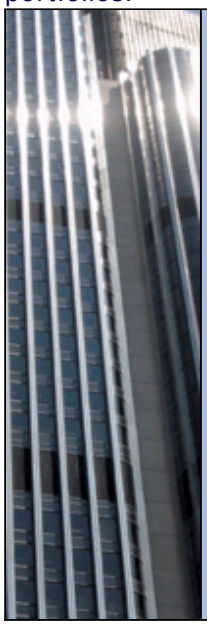
Spring 2008

Worried about inflation?

The UK CPI measure of inflation rose to 2.2% in January thanks to record oil prices and food price rises. Interest rates have recently been cut to 5.25% and the MPC believes inflation will rise further. Should investors be worried? Inflation is far below historic highs. In the late 1980s and early 90s, monthly inflation figures were well above current levels – as high as 8.5% in April 1991. But many will remember the economic slump of the 1970s, triggered by double-digit inflation, and be nervous (source: www.statistics.gov.uk).

The recent peaks in inflation have come from rising energy costs plus higher prices for vegetables, furniture, and cigarettes. House prices and housing costs are also still ahead. However, the Bank of England's Monetary Policy Committee emphasises the longer-term when determining the UK's interest-rate policy as it takes time for a change to take effect.

Data from the British Bankers Association (www.bba.org.uk, as at 18.10.07) shows that consumer credit rose by £184mn overall in September compared to August's fall of £251m suggesting the UK consumer has not yet been defeated by high interest rates. But there is less reason for concern than in the 1970s and early 80s. The economic outlook is strong and companies appear robust - investors should take heart from this benign macroeconomic backdrop. However, this does provide a timely reminder for investors to review and inflation-proof their portfolios.



Are ISAs tax free?

ISAs are tax efficient, but the exact benefits can vary. You pay no additional tax on the income from your ISA savings and investments, and no tax on any capital gains. You don't even have to tell the Inland Revenue you have one, let alone what income and capital gains are generated. But, while cash ISAs are free of tax, and corporate bonds allow you to reclaim the 20% tax on the interest payment they make, equity-based ISAs suffer a withholding tax which cannot be reclaimed. Effectively, you currently pay 10% tax on dividend income - whatever your actual rate of income. However, there is still a significant advantage for higher rate tax payers.

Welcome to the latest edition of Rutland Investment Managers News & Views, our update on developments in the world of financial services.

If you would like to discuss any of the issues raised in this newsletter, please do not hesitate to give us a call.

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Did you know?

According to Sainsburys Bank (as at March 07), the average adult is underinsured by £59,000. Do you need to worry? If you are single with no debts and no dependents then probably not. But, if you do have dependents and commitments which depend on your salary, or simply have debts which your next of kin could not pay off, then yes, it probably is. Life cover will ensure your family's financial security should the worst happen. Planning for this is not easy, particularly while we are young. However, this is the time when our commitments and our security are most at risk and our families most vulnerable – and as a result when life cover is most crucial.

Still a good investment?

Over the last 10 years property prices in most parts of the UK have grown at an impressive rate, more than doubling in value. For those just looking to cash in, some stunning gains have been made. For those looking to trade up, any profits from one property will simply be used up in buying the next.

With signs the property market is stabilising, property is far from being a get rich quick strategy. Not for the forseeable future will we see the double digit figures which had become common place.

However, property remains a sensible investment if certain rules are followed, and in particular expectations are reset as to the type of profits that might be made. In a slower market, it is even more important to choose property in a strong location, and to manage your budget carefully.

Also, choosing the right mortgage is essential. Many people are offered a loan on the high street which appears a good deal, but can have expensive fees or locks-ins that are part of the small print. An adviser will be best placed to assess your individual circumstances and to recommend the mortgage that is going to offer sustained value. While you will want to review your remortgage options after a given number of years, it does not always make sense to move, as this will always involve fees and other charges.

Aside from your own house, you may want to access the benefits for the property market by investing through becoming a landlord. The buy-to-let market is now exceptionally competitive and loans are not much higher than more mainstream mortgages. In the current market it is again necessary to be extremely careful about which property you buy. Some parts of the UK have over supply and landlords with mortgages can struggle to pay these if their property is not let.

Most experts – and indeed homeowners – see the property market as having further growth potential, but believe returns are going to be lower in the future than they have been. With migration into the UK expanding and pressures on new build homes growing, there are persuasive reasons why property will remain a good investment. The challenge is to make sure repayments are affordable – if there are further interest rate rises then many will have to stretch themselves in order to meet these.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

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