

# News & Views



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## Options for savers

UK interest rates have tumbled in recent months, from 5% in September 2008 to just 0.5% by March 2009. This might spell good news for borrowers, but not so for savers who have witnessed plummeting rates on their bank and building society accounts. According to Moneyfacts, mortgage free pensioners who rely on their savings have been particularly hit, with their expenses rising by 2.3% (in line with the Consumer Price Index) whilst their savings have fallen by 1.77% in real terms. Many are looking for ways to make the most of what's left.

A cash ISA is one alternative. Rates are not necessarily much higher than the rates on normal deposit accounts, but ISAs do at least pay this interest tax-free - and from October, if you are aged over 50, the allowance for cash increases to £5,100 for this tax year. Meanwhile, with UK interest rates at unprecedented lows, bonds could offer the chance to receive a stable income stream with less volatility than the equity market.

Investments can fluctuate in value and you may not get back the full amount of what you invest. However, if you are willing to take the risk then the upside of falling share prices does at least mean dividend yields have soared making equity income funds more attractive. Admittedly, in the current climate, some companies are cutting or cancelling these dividends as they attempt to protect their profits from the economic downturn. Nevertheless, an equity income strategy does allow you to benefit from a decent yield whilst also offering the chance of capital growth when the recovery does kick in.

Welcome to the latest edition of News & Views, Rutland Investment Managers update on developments in the world's stockmarkets.

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

Contact us:

## Common mistakes

We are all human and we all make mistakes. But for investors those mistakes cost money. Knowing the most common pitfalls can help you learn from the mistakes of others and avoid losing out. For example, following the herd can be a recipe for disaster – remember when people piled into dotcoms in the late 1990s? Also, don't panic on a downturn. Selling out without serious reason will crystallise a loss and you may miss out on a rebound. Finally, never chase a quick profit, thinking you can time the market – this is no different to gambling on horses. Investment is a long-term game and requires planning. Any other approach makes it a highly risky business.



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## Best of the bunch

There are over 2,000 UK domiciled funds available so how do you choose the ones which will perform? Using a good multi-manager to make the selections for you can reassure as your portfolio will be managed by an expert. There are two types: fund of funds managers select individual funds based on research and will then buy or sell them as performance prospects and markets change. Manager of managers invest pre-agreed allocations of a portfolio with individual managers and give them specific guidelines on how to run it. Either approach can help form the 'core' for your wider portfolio or work as a first step into the world of market investment.

## Comparing ISAs and pensions

With life expectancy increasing, financial planning becomes all the more important. If you're thinking of saving for retirement, then you might consider a pension is the best way to ensure you have enough to live on when you're older. However, there are alternative ways of achieving your goals, such as using Individual Savings Account (ISA) allowances.

One of the main differences between a pension and an ISA is in the way they are taxed. Your pension payments will qualify for tax rebates up to your highest rate, while the income you take later on will be taxed. With an ISA, the money you contribute will have already been subject to tax, but then withdrawals you make are tax free. It's also useful to be aware that if you're over 65, your pension income counts towards your personal tax-free allowance, while your ISA withdrawals do not.

You might think, logically, that, thanks to the tax relief, a typical higher rate taxpayer saving a similar annual amount into both an ISA and a pension plan over their working life will find that by the time they reach retirement age the pension fund is larger. This is obviously fully dependent on their investment choices and tax regulations remaining consistent but it is important as it can influence the size of annuity that can be bought. However, that annuity income is likely to be taxable, unlike ISA withdrawals. But then withdrawing the same money from an ISA may eat into your capital quicker than planned, which could mean you eventually run out.

Other pension benefits include the fact that employers can pay into a company or stakeholder pension scheme, and the contribution limits for pensions are much higher than for ISAs. Nevertheless, an ISA is much more flexible. With a pension, you have to wait until you are aged 50 to make withdrawals (which is expected to rise to 55 by 2010), whereas an ISA can be accessed quite easily.

With longer life expectancies, as well as some high profile issues concerning the way in which a minority of pension funds have been managed, many investors' retirement sums are not quite as large as expected. As a result, some people are now looking to boost their pension funds by topping up their company pension, or by using additional investment vehicles. One solution could be to use both an ISA and a pension plan to ensure that your retirement income is as healthy as possible.



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