The Street Lamp News

Spring 2012

The crisis in the Eurozone abated during the first quarter of 2012, with Greece managing to avoid the disorderly default that many in the market had feared. In addition the European Central Bank provided a liquidity boost to European Banks by offering them three year loans, with gross take up of €1 trillion.

These Long Term Refinancing Operations helped bring down Italian and Spanish sovereign bond yields which had reached worrying high levels and lent creditability to the countries reform efforts. Having said this Spain's recession undermines efforts to cut the deficit. The risk of Bank losses is keeping 10 year yields at almost 6 per cent as investors speculate the government will be forced to bail out the financial system.

Boosting sentiment was an improvement in the outlook for the US economy, with jobs growth laying the foundation for a self sustaining recovery. The risk of relapse remains though, due to fiscal tightening and monetary policy is likely to remain loose.

Risks around growth in China have increased, primarily due to a slowdown in the housing market and a cautious response from the authorities. In the UK, government austerity, a deleveraging banking system and elevated inflation continue to cast a cloud over growth, but rising exports and improving real wages should stabilise prospects this year.

Public sector borrowing in March was £18.2bn, meaning the government met its planned reduction of £11bn against the £136.8bn level last year. UK unemployment fell in the three months to February by £35,000 to 2.65m. UK retail sales rose by 1.8% in March due to the mild weather and panic buying of petrol. UK GDP figures in Q1 shows a contraction of 0.2%, meaning that the UK has slipped back into recession.

Ireland came under its budget deficit target as set by the terms of its IMF bailout. Ireland finished 2011 with a deficit of 9.4% of GDP against the target of 10.6%.

Italian economic growth forecasts for 2012 have been slashed by its government from a 0.4% contraction to a 1.2% contraction. The target of achieving a balanced budget by 2013 is now likely to be delayed until 2015.

Interest rates throughout the developed world look set to remain at the current low levels probably until 2014. Similarly the US Central Bank announced that it did not expect to raise its interest rates until the end of 2014. During the quarter Japan's Central Bank announced further asset purchases and is setting out to combat deflation. The Yen strength has been detrimental to their exporters, but it weakened by around 10% versus the dollar, before firming towards the end of the quarter.

Increased risk appetite benefited the more cyclical areas of the market, including technology, resources and industrials, while defensive sectors lagged. Smaller companies outperformed for similar reasons.

In the bond markets, yields on government issues ended the quarter on average at the levels at which they had started, sustained by evidence of economic resilience and as the Federal reserve appeared to talk down the likelihood of further policy stimulus. Amid the improved appetite for risk, corporate bonds generally achieved positive returns, despite the weakening of their government counterparts.

Gold weakened recently due to the improvement in the US economy, but we believe real interest will remain negative for some time and if economic growth disappoints, further increases in liquidity may be needed which should support the gold price.

Crude oil has risen on the back of fears about Iran, but we could see a retracement because of slowing Chinese economic growth, high stock levels and a commitment from other oil producers to raise production if needed.

Central to any outlook for 2012 is that European Authorities deliver a comprehensive solution to the ongoing eurozone sovereign debt crisis. Officials have been applying a band-aid approach to their problems rather than tackling things early. Politicians have only acted when faced with severe market pressure and only then delivering just enough to stem the tide. This only served to highlight the fundamental inadequacies of the eurozone structures. Closing the gate after the horse has bolted is rarely the answer to market problems, investors invariably move on to the next problem and often what started as a small issue quickly escalates into something far more serious. The situation in Europe over the summer serves as an example. Almost from day one, investors deemed the package to bail out Greece as inadequate. They quickly moved on to systematically attack the far more important Spanish and Italian Government bond markets, forcing yields up to unprecedented levels.

Global economic growth is likely to remain under pressure. This is partly due to many developed economies instigating austerity packages and emerging markets stepping on the brakes to slow a growing inflation threat but Europe is clearly compounding the problem. Despite many European companies being in relatively robust financial positions, they have simply stopped investing, preferring to wait until confidence increases before spending their cash.

Having said all this we would hope that global growth will make progress this year and next, albeit at a pedestrian pace with a chance of setbacks along the way which would be supportive to equity markets, corporate bonds and other risk assets. This growth will be reliant on exports and trade, however, rather than a consumer recovery. As such it is likely to be choppy and volatile in the short term.

JUNIOR CASH ISA'S
(Individual Savings Accounts)

A Junior ISA is a tax free savings account, launched on 1st November 2011. They provide Parents and Grandparents with a clear and simple way to save for their child's future following the demise of the Child Trust Fund.

Up to £3,600 can be invested into a Junior ISA each year. This limit will increase with inflation each year from April 2013. No tax will be paid on any interest or gains in the account. Your child can have up to two Junior ISA Accounts at any time – one cash and one investment Junior ISA.

A Junior Cash ISA works in the same way as a Bank or Building Society Account. The money paid in grows steadily when tax free interest is added to it. A Junior Investment ISA is invested in stock market investments, such as shares and bonds, whose value can go down as well as up.

Money in the account will belong to the child but they will not be able to take the money out until they turn 18 (except in cases of terminal illness or death). They will however be able to manage the account themselves from age 16.

Junior ISA accounts will run until age 18 and will then roll over into an 'adult' ISA. Alternatively at 18 the child can use the money in any way they choose e.g. Further Education, Driving Lessons etc.

Junior ISA's are eligible to:-

1. Children born on or after 3rd January 2011

2. Under 18s born before September 2002

3. Any child born between 1st September 2002 and 3rd January 2011 that did not qualify for a Child Trust Fund.

One point to mention however when investing for capital growth considering that a child has an annual capital gains tax exemption of £10,600, the freedom from capital gains tax on gains within a Junior ISA may be of little value. It is important that other potentially equally tax efficient investments are considered either in addition or perhaps instead of a Junior ISA.

MARKET REVIEW

During the six months ending 30th April 2012 capital changes in the main markets have been as

	31/10/2011	30/04/2012	% Change	£
United Kingdom				
FTSE 100 Index	5544.22	5737.78	+ 3.49	
FTSE All Share Index	2860.86	2984.67	+ 4.33	
FTSE Mid 250 Index	10979.60	12111.20	+10.31	
FTSE Small Cap. Index	2273.27	2552.52	+12.28	
FTA Brit. Gov. Securities Index				
Fixed Interest - All Stocks	168.35	169.25	+ 0.53	
Index Linked - All Stocks	417.99	441.73	+ 5.68	
North America				
Standard & Poors Composite	1253.30	1397.91	+11.54	+10.87
Japan				
Topix Index	764.06	804.27	+ 5.26	+ 2.18
France				
CAC 40 Index	3242.84	3212.80	- 0.93	- 6.55
Germany				
DAX Index	6141.34	6761.19	+10.09	+ 3.84
Switzerland				
Swiss Industrial Index	5731.27	6096.34	+ 6.37	+ 1.44
World				
FT World Index	327.29	344.72	+ 5.33	

*This column adjusts the capital changes to reflect the movement of Sterling against the relevant local currency.

Composite Index + 6.35 %
follows: -

This Index is calculated on the basis that a client's Portfolio is invested as detailed below with net income re-invested at the payment date:-

Cash Deposits	30.00%
UK Government Stocks	10.00%
UK Equities	40.00%
Overseas Equities	20.00%

BULLS & BEARS

Equities

UK Equities	Companies increasingly face headwinds from weak consumer spending and slower European export demand, while commodity prices force more downward pressure.
US Equities	Good cost control and continued export demand have supported strong earnings growth, although consumer debt and the housing market overhang limit many domestic stocks.
European Equities	Despite concerns about recession in some countries, valuations have become more supportive compared with other markets, while many exporters still benefit from strong export demand.
Japanese Equities	While the reconstruction budget will support economic momentum in early 2012, this has been well flagged in advance and the market is expensive on many measures.
Developed Asian Equities	Slower economic growth in key economies such as China affects the wider region, while monetary policy is only slowly being eased in response to continued inflationary pressures.
Emerging Market Equities	Selection is increasingly required; while some markets benefit from strong commodities demand and upgrades to sovereign-debt ratings, others face growing inflationary pressures and valuation concerns.

Corporate Bonds

Investment Grade	Positive corporate cashflows should enable a renewed decline in historically wide spreads, although the volatility of the underlying government bond markets will periodically affect total returns.
High Yield Debt	The asset class still benefits from healthy balance sheets and low levels of default, although concerns about future economic growth have affected valuations.

MANAGING IN RETIREMENT

Here is some food for thought! For those who are retired, you probably have more free time but less money to spend, so it is even more important to know what is available to help you. With this in mind here are some useful tips to help you manage.

Make the most of your money:-

Work out your budget, what is the total of all your savings and see what else you can do to make your money go further. In essence this is a question of establishing your financial goals and making the most of your savings and investments in the most tax efficient manner.

Benefits and Financial Support:-

Find out what benefits, if any, you may be entitled to and how to make a claim in this respect. There may be benefits available to help you top up your income or help you with specific costs, such as Pension Credit, Housing Benefit and Council Tax benefits, Grants for Heating and Insulation improvements, Travel and Leisure discounts and help at home.

Tax:-

The amount of tax you pay can change when you retire so it is important to make sure you are not paying more than you need to. Do you have to pay tax in retirement and can you claim back any overpaid tax. Have you considered any Inheritance Tax liability you may have and the ways in which this can be mitigated in part or in full.

Planning Ahead:-

You may want to think about making a Will or making sure your existing Will is up to date as circumstances change over time. You may want to consider arranging or paying for your funeral now and legally putting in place who will act on your behalf if you stop being capable of looking after yourself. If you were diagnosed with a terminal illness what support is available to you and how do you go about putting this in place. Consider setting up a lasting Power of Attorney so that if the time comes when you cannot manage your property and financial affairs or personal welfare you do not need to worry about who will deal with these matters on your behalf.

Insurance:-

It is usually a good idea to consider insurance to provide for your partner in the event of ill health or death. The costs involved depend on a number of factors such as amount of cover required, the length of the term involved (a fixed term or whole of life), age, health and smoker status. As you get older the costs increase so it is better to plan ahead sooner rather than later. In summary Life Assurance involves protecting your family and dependents, in the event of death. Health Insurance in the event of serious ill health or to help with private medical costs and Long Term Care if you need help to stay in your own home or have to move into a care home.

Dealing with a deceased partner's money:-

Find out how to handle the financial affairs of a deceased partner and check how this may affect your overall financial position. When someone dies the executor or administrator normally sorts out the finances and then distributes them in accordance with the terms of the Will. Any money held in joint accounts normally belongs to the surviving joint owner. It does not form part of the deceased persons Estate and therefore does not need to be dealt with by the executor or administrator. If the deceased has more than £5,000 in accounts in their own name you may need to apply to the Probate Registry for a grant of representation in order to gain access to the money.

This is a brief resume of some of the things you should consider in retirement. You may have some or all of these in place but whatever the situation they should be reviewed on a regular basis as circumstances can and do change over time. This may all seem onerous but it can be easily remedied with a little help and this is where F.H. Manning Financial Services comes in. We are only a phone call away and can steer you in the right direction, so do not delay, give us a call if you would like some assistance to put your affairs in order.

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The value of investments and the income from them can go down as well as up and investors may not get their original investment back. Past performance is no guide to the future.

The firm is authorised and regulated by the
Financial Services Authority