The Street Lamp News

Autumn 2012

The Bank of England has kept interest rates on hold for the 44th consecutive month and refrained from launching a fresh round of quantitative easing after recent data showed the UK exited recession in the third quarter. The Bank's latest round of quantitative easing, announced in July, came to a close this quarter, with total asset purchases having reached £375bn.

Economists had expected further purchases to commence this month but the stronger-than-expected GDP figures released in October saw the majority of those forecasts scrapped.

The Office for National Statistics announced at the end of last month that UK GDP for the third quarter of 2012 came in at 1% on its initial estimate, putting an end to three consecutive quarters of contraction.

Economists still expect further quantitative easing in the months ahead, however.

Sterling set a one-month high against the euro prior to the announcement, the single currency falling to a low of 79.73p, and was largely unmoved on the news.

On the other side of the Atlantic a second presidential term has started for Barak Obama. The Dow shed more than 300 points in yesterday's session as investors questioned re-elected President Barack Obama's commitment to dealing with the US fiscal cliff.

The "cliff" will be reached at the beginning of 2013 when some $600bn in Bush-era fiscal tightening measures are due to hit the US economy unless a deal is reached between the political parties. Hours after Obama's decisive victory over challenger Mitt Romney, markets in New York began to slide at the prospect of a return to gridlock in Washington and a severe cut in the forecast for European growth.

Republicans said they were ready to work with Obama on tax reform and deficit reduction, but billions had already been wiped off the value of big US defense companies as the Dow Jones saw one of its worst trading days this year. With the Dow Jones Index ending 2.36% lower at 12932, the first time in three months it had closed below 13000.

Auto-enrolment

The percentage of people living in the UK over the age of 65 is increasing and people are living longer.

Whilst that is good, millions of people do not make adequate provision for income in retirement and rely on the State Pension and other benefits.

These two scenarios have put an intolerable strain on the state, so the Government has done two things. The State Retirement Age is steadily being increased and all employees are being encouraged to contribute to an occupational pension scheme.

All employers with employees aged between 22 and the State Pension Age who are likely to earn at least £8,105 per annum will have to be enrolled in a suitable occupational pension scheme that must be set up and maintained by the employer.

The minimum contribution from the employee is 0.8% of their earnings, to which tax relief of 0.2% will be added by HMRC. The employer must contribute 1% and again this should qualify for tax relief by way of a business expense. These minimum contributions will rise over a period to 3% net for the employee; and to 4% of earnings payable by the employer. Larger contributions by either party may be made if wished. Once enrolled, an employee may opt out but this choice is the employee's only.

Employers must register their Schemes with the Pensions Regulator and maintain full and accurate records.

Auto-enrolment became compulsory for larger employers on the 1st October 2012 and will be phased in to smaller employers over a period of 6 years.

Existing pension schemes may qualify as a suitable scheme if they meet the criteria of Auto-enrolment, if not it may be possible to adopt them. In addition, the Government has set up a new Scheme under a 'not for profit' arrangement called the National Employment Savings Trust (NEST). This is a Country and Industry wide occupational pension scheme that is open to any employer of any size and will fulfil an employer's auto-enrolment obligations. Operation of the NEST Scheme is via the internet, which some employers may see as a drawback, and for members there is only a limited range of investment funds to choose from.

For employers there are clearly going to be extra costs and administrative duties, a suitable scheme will need to be chosen and employees may require investment advice.

If auto-enrolment affects you and you wish to discuss matters further please contact
David Platt or Malcolm Wright.

Market Review

During the six months ending 30th October 2012 capital changes in the main markets have been as follows:-

Indices	30/04/2012	30/10/2012	Percentage Change %
United Kingdom			
FTSE 100 Index	5737.78	5849.90	+ 1.95
FTSE All Share Index	2984.67	3054.98	+ 2.36
FTSE Mid 250 Index (exc. Inv trusts)	12111.20	12618.70	+ 4.19
FTSE Small Cap. Index (exc. Inv trusts)	2909.91	3248.71	+ 11.64
FTA Brit. Gov. Securities Index			
Fixed Interest - All Stocks	175.40	173.94	- 0.83
Index Linked - All Stocks	454.71	439.08	- 3.43
North America			
Standard & Poors Composite	1397.91	1411.91	+ 1.00
Japan			
Topix Index	853.61	794.39	- 6.94
France			
CAC 40 Index	3212.80	3459.44	+ 7.68
Germany			
DAX Index	6761.19	7284.40	+ 7.74
Switzerland			
Swiss Industrial Index	6096.34	6633.10	+ 8.80
World			
FT World Index	330.41	349.67	+ 5.83

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

Composite Index	0.85%

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:-

Building Society Deposits	30.00%
UK Government Index Linked Stocks	10.00%
UK Equities	40.00%
Overseas Equities	20.00%

Bulls & Bears

UK Equities

The market is underpinned by improved valuations and the benefits of sterling's depreciation, but faces headwinds from weak consumer income growth and fiscal tightening, plus any global slowdown.

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

Valuations have become more supportive compared with other markets, while many exporters are benefiting from strong emerging market demand offsetting the weakness of some domestic economies.

Japanese Equities

Valuations have improved but the success of the government in helping the economic reconstruction after the series of natural disasters remains limited.

Emerging Markets

Selection is increasingly required. While some countries benefit from strong commodities demand and upgrades to sovereign debt ratings, others face growing inflationary pressures and valuation concerns.

Asia Pacific Equities

Strong economic growth is still translating into inflationary pressures, bolstered by food and commodity price shocks, which, in turn, requires continued monetary tightening.

Property

Although occupier demand has shown signs of slowing, yields remain attractive and we continue to expect reasonable returns versus cash on a 3-year holding period

UK Gilts

Although the muted economic recovery and fiscal tightening provide support for the gilts market, valuations have arguably reached expensive levels. Meanwhile, headline inflation risks will be present at least into 2012.

Investment Grade Bond

Positive corporate cash flows should enable a renewed decline in the now extreme yield spreads, although the volatility of the underlying government bond markets will periodically affect total returns.

Non Investment Grade Bonds

The market is still benefiting from healthy balance sheets and low levels of default, although concerns about future economic growth have affected valuations.

Overview

We remain positive on the ability of companies to generate profits, despite the muted economic backdrop seen in many developed economies, as emerging economies continue to expand strongly. However, the rise in raw material costs is squeezing margins for some companies, while currency appreciation is becoming more of a problem for others.

Central banks in OECD countries are debating the pace and extent of interest rate changes. However, policymakers are becoming much more mindful of the ongoing sovereign debt crisis. This suggests that more central banks will be forced to accept some form of quantitative easing into 2012. Meanwhile, other central banks, especially those in Asia, are still forced to keep policy tight in the face of any inflationary pressures.

E U Gender Directive

The experience of insurance companies is that women live longer than men, have fewer car accidents but have more time off work than men through illness. This experience has resulted in different premiums and benefits for men and women.

All this is about to change. A Belgian consumer group called Test-Achats argued before the European Court of Justice that this differentiation by insurance companies contradicted the wider European principle of gender equality. The court agreed and ruled that insurance companies will no longer be able to charge different premiums to men and women. This ruling will affect all new policies from the 21st December 2012.

The likely effect is that any man taking their pension benefits in the form of a lifetime annuity after the 21st December 2012 will receive less. Women on the other hand may receive more. For instance, at present, assuming good health and a non smoker, a man aged 60 with a fund of £100,000 would receive a pension of £4,984.44 per annum. Given the same circumstances a woman would currently receive £4,763.76. In both examples the annuity is payable monthly in advance, level in payment and guaranteed to be payable for 5 years and life thereafter.

For life assurance, using an example of a 40 year old man, non smoking and in good health for a sum assured of £100,000 for a term of 10 years the most competitive premium is currently £8.23 per month. For a woman it would be £6.78 per month.

The premiums payable on Income Protection policies that provide benefits in the case of lost earnings through sickness are currently more expensive for a woman.

The conclusion is that any man considering taking the benefits from a pension policy in the near future by way of a lifetime annuity or taking out an income protection policy and any woman seeking life assurance should do so before the 21st December 2012.

I do not think that this ruling will mean that men will live longer but with the prospect of a reduced pension, it may just seem like it.

Another effect is that the next time ladies renew their car insurance they are likely to see a rise in premiums, it is thought that this will particularly affect younger female drivers.

Cash Deposits

With interest rates remaining low it is even more important to ensure your money is working for you.

As an example the rates currently available as quoted by Moneyfacts are:

3 month fixed rate	Buckinghamshire Building Society	2.20% annual equivalent
6 month fixed rate	Nationwide Building Society	2.62% annual equivalent
1 year fixed rate	Kent Reliance Building Society	2.75%
2 year fixed rate	Santander	3.00% per annum

For a variable rate account the rates available are:

30 day notice	Tipton & Coseley Building Society	3.10% per annum
3 year bond	Chorley & District Building Society	3.25% p.a guaranteed 2.75% above Bank base rate for the duration

This list only includes banks and building societies which we feel are suitable and rates are without deduction of tax.

For investments in Cash ISAs the following rates are available:

1 year fixed rate	Marks & Spencer Money	2.80%
2 year fixed rate	Santander	3.30% per annum

The rates available do change daily and the above rates should not be relied upon. For more information please do not hesitate to contact us.

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