



The Street Lamp News

Winter 2013

Happily the financial world seems a more stable place as we enter 2014. We have been through two recessions and a third was threatening. However, we appear to have turned the corner. The collapse of the Euro Zone has been avoided, growth (whilst still at modest levels) has picked up and the US Government Shutdown finally came to an end.

Only now, 5 years after the start of the Financial Crisis is output above pre crisis levels, and then only in the US and Germany. In the UK the service industry is providing us with some positive data and North Sea Oil production has driven better than expected growth. A positive sign for the stockmarket is the number of companies who have been listed or applied for a listing in 2014. Companies have cleaned up their balance sheets and are in a much stronger position but the same cannot be said for the Government. The Chancellors latest forecast is that his books won't balance until 2020. Before that, of course, we are faced with a General Election and policy in the next 12 months may reflect that looming cloud. A fine example of this is the Help to Buy Scheme which many see as a political tool rather than an effective programme to kick start the housing recovery.

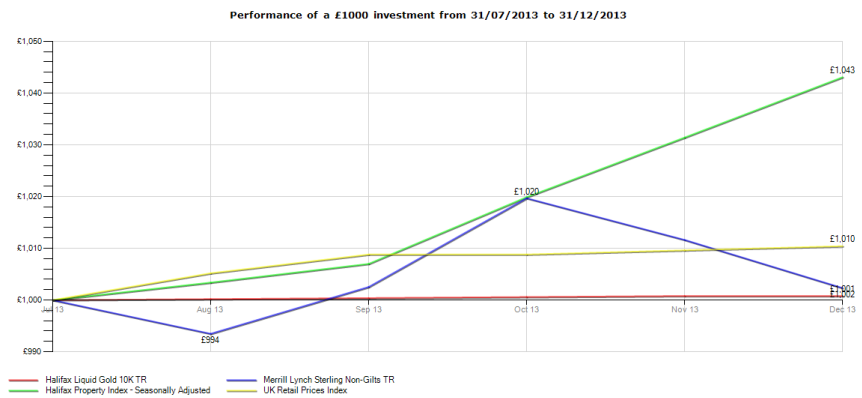
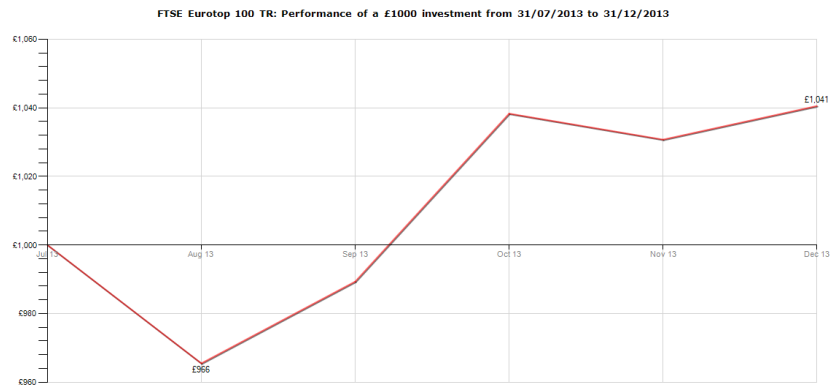
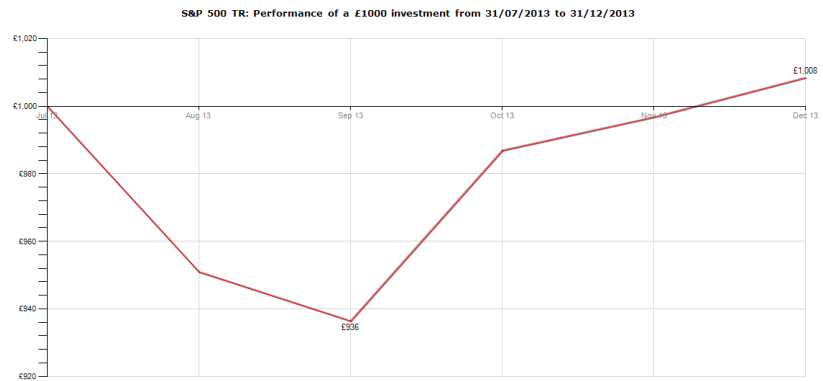
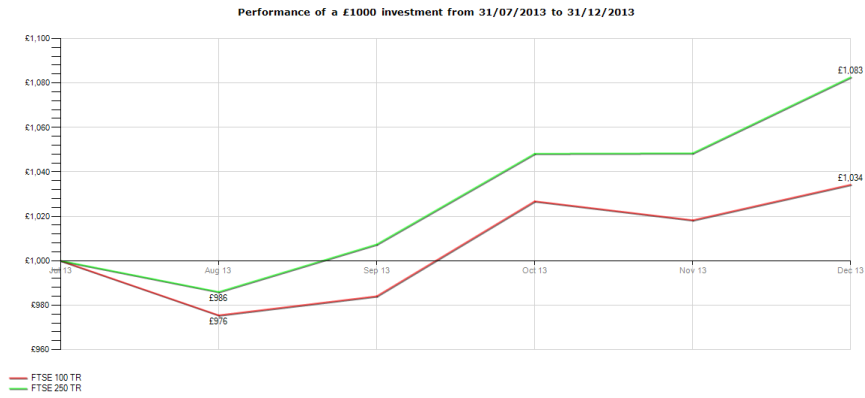
Before the General Election there are the European elections in May and then, perhaps more importantly the Scottish Independence vote. The Commonwealth Games to be held in Glasgow In July could be Scotland's finest attempt to prove itself as a viable independent country. Ultimately for UK investors a Yes vote could have a significant impact. With the removal of Scottish MPs from the House of Lords the Conservatives would hold a majority. For the UK Government there is a potential loss of revenue from the North Sea Oil fields, approximately 90% of which are in Scottish waters. Other implications come from the issue of currency, the higher education system and allocation of the National Debt. The Treasury has also guaranteed all existing UK Government debt which may threaten the UK's credit rating if Scotland became independent. This could lead to higher taxes and further Government spending cuts.

On the other side of the Atlantic America is in the strongest position for five years. However unemployment is still too high and household incomes are still below 2007 levels and of course there is still a \$16trillion debt mountain to contend with. Nevertheless new businesses are starting up, people are buying cars and houses and confidence is returning. This recovery has to be prolonged and sustainable for the fiscal pressure to be eased. President Obama's energy and health policies could well tip the balance in the other direction without careful management. Markets have lost a little faith in the Federal Reserve after Ben Bernanke's announcement on the reduction of the Quantitative Easing (QE) scheme which he had hinted at earlier in the year. Any sudden reduction in QE could jeopardise the housing recovery and in fact the entire economy so it is understandable that the Federal Reserve want to get the timing right. However the longer it takes the more profound the impact could be.

In Europe there is a determination to keep the Euro alive and they have done everything in their power to do so, including creating the European Stability fund and the European Stability Mechanism. One could perhaps argue that too much political capital, particularly from Germany, has been invested in the Euro to allow it to fail. But with 18 members of the Eurozone and 28 members of the European Union it is no wonder that decisions are slow and decisions hard to come by. Yet despite the political influences of Germany and France the future of the Eurozone still lies in the hands of Spain, Portugal, Italy and Greece as they still need to get their houses in order. In some ways these 4 nations need to cut spending and raise taxes but the social impact of this, given their unemployment rates of up to 20% could be too much to bear. Social unrest is the last thing the politicians need to contend with. So the only answer is sustained growth helped by the lower level of the Euro which could improve exports.

Bond markets are hanging on every word of the Central banks as they look for details of when tapering of QE will take place and how this will be conducted. In addition, interest rate rises will also have an impact on bond valuations and with significant rises some time away this could prove to be the factor which protects bond values in the next 12 months.

With continuing signs of economic growth, defaults are likely to remain low. For the next 12 months bonds are likely to provide yields ahead of cash with capital preservation but little capital growth.



MARKET REVIEW

During the six months ending 31st December 2013 capital changes in the main markets have been as follows: -

	% Change 6 months	%Change 12 months
<u>United Kingdom</u>		
FTSE 100 Index	+ 10.8%	+ 18.7%
FTSE All Share Index	+ 11.4%	+ 20.8%
FTSE Mid 250 Index (exc. Inv trusts)	+ 16.8%	+ 32.2%
FTSE Small Cap. Index (exc. Inv trusts)	+ 16.1%	+ 29.6%
FTA Brit. Gov. Securities Index		
All Stocks	- 0.9%	- 4.0%
<u>North America</u>		
Standard & Poors Composite	+ 6.0%	+ 28.9%
<u>Japan</u>		
Nikkei 225	+ 8.4%	+ 26.9%
<u>France</u>		
CAC 40 Index	+ 10.8%	+ 22.0%
<u>Germany</u>		
DAX Index	+ 17.5%	+ 29.2%
<u>Property</u>		
Halifax Property Index	+ 5.2%	+ 8.8%
<u>Inflation</u>		
UK Retail Prices Index	+ 1.0%	+ 2.2%
 <u>Composite Index</u>	 + 6.28%	 + 13.0%

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

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%

Featured Fund

Investec Global Free Enterprise Fund

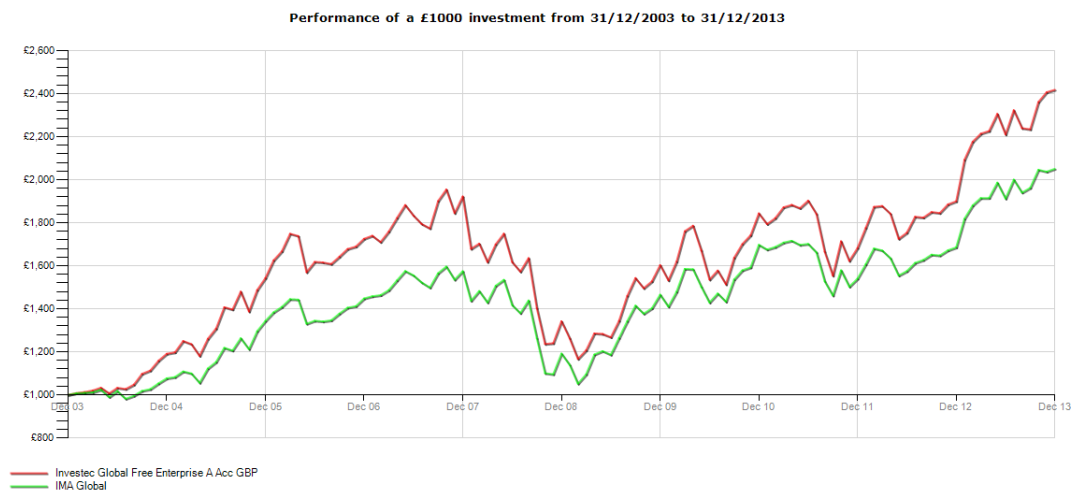
The Fund aims to achieve long term capital growth primarily through investment in equities issued by companies around the globe that are expected to benefit from the process of privatisation, deregulation or demutualisation or otherwise believed to offer above average opportunities for capital gains.

One of the key factors in choosing a fund is the manager and his team. Mark Breedon who manages the team who run the fund has been running Global Equity funds for 14 years.

The investment philosophy is based on the idea that superior returns can be achieved through investments in high quality, attractively valued companies with improving operating performance, and which are receiving increasing investor attention. The team ranks nearly 4500 companies worldwide on four factors: 1) dynamics 2) valuation 3) strategy and 4) technicals. This process is unique to Investec. In order to be considered for inclusion in the portfolio, the stock must score highly across all the factors.. When a stock purchase is made the manager will set a price target which will be monitored and reappraised as conditions change.

The fund holds between 75 and 100 stocks and is restricted to holding no more than 20% in emerging markets and no more than 5% in any single stock.

The fund has consistently outperformed and we feel that this can continue with the process they have in place.



Lifetime Allowance Changes

The Lifetime Allowance is the amount an individual can accumulate in their pension funds before incurring a 55% tax charge. For most people their pension fund may never reach this level but for a small number of individuals this is an issue.

In 2011 the allowance peaked at £1.8 million and despite the Governments assurances at the time of its introduction that it would always maintain its true value the austerity measures being put in place have now included a reduction on the lifetime allowance to £1.25 million from April 2014.

It is essential that this matter is considered now as it is possible to put protection measures in place before the regulations change. If your pension pot exceeds £1.25 million on 5th April 2014 or you expect it to exceed this level you can apply for Fixed Protection. Assuming you do not have Primary or Enhanced Protection from the original 2012 changes then you can apply for the 2014 version. You must however stop all contributions and your pot cannot grow by more than the relevant percentage, which is normally the Consumer Prices Index, from September 2014.

Applications must be received by HMRC by 5th April 2014 if you wish to apply for this protection.

If your pension fund currently exceeds £1.25 million you may apply for Individual Protection at anytime up to 5th April 2017. In this case you will acquire a Personal Lifetime Allowance of the actual value of your pension pot on 5th April 2014 up to a maximum of £1.5million. You will also be able to continue contributions but any excess fund over your Personal Lifetime Allowance will be subject to a lifetime allowance charge.

You can actually apply for both Primary and Individual Protection but cannot apply at the same time.

The past promise of Pension Simplification seems a long way away now.

Long Term Care

The 2013 Budget announced that the Government will introduce a cap on amount individuals are expected to pay towards the cost of their care in 2016. After a study commissioned by the Government, the proposed cap will be set at £75,000. This cost applies to personal care and not to good and heating which will be capped at £12,500 per person.

It is further proposed that threshold of assets for those who have to pay for all their care will be £123,000.

At present if you are in NHS Continuing Healthcare, i.e. those who primary need for being in care is health based they are fully funded by the NHS.

For those who are in intermediate care, i.e. for rehabilitation, treatment or re-ablement then this is fully funded and normally lasts no more than 6 weeks.

Where care is provided by registered nursing homes the Primary Care Trust covers the cost of registered nursing care. This does not involve the cost of time of any member of staff other than the registered nursing staff. This is now £109.79 per week. For those already in a home on 1st October 2007 the rate is £151.10. The payment is made directly to the Care Home.

For everyone else there is a contribution from capital and income

For those individuals with capital in excess of £23,250 they are expected to fully meet the cost of their care. Capital below £14,250 is disregarded for local authority charging purposes. From those in between the lower and upper limit for every £250 of capital they are assessed as having an extra £2 income.

The income contribution is slightly more complicated as there are exclusions and disregarded income.

The point is that everyone in the UK should be prepared for having to pay towards the cost of their care in later life. There are a number of ways to plan for care home fees and we are more than happy to discuss this with you further.

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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.

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Financial Conduct Authority