

Significant volatility and fear continues to affect in global markets yet we also continue to contend with relatively high inflation and historically low interest rates.

Longer term planning and diversification therefore continues to be important.



Junior ISA's - winners all round?

Junior ISAs were launched on 1st November 2011 and will enable adults to save into an account earmarked for a child's future. Whether this launch will be with great fanfare or to remains to be seen – however whenever the Government provides a way to shelter monies from taxation there should really only be positivity!

Given that we are in an environment of falling Government expenditure and rising taxes, forward planning from both a budgeting and tax point of view makes sense. We've recently heard that many Universities will be charging the maximum of £9,000 each year in order to study. Add to that the cost of actually living and we can see how many graduates will start with debts at a time when they then may be looking to get on the property ladder. We've also seen how getting on the housing ladder is now tricky – not least because quite high deposits are often necessary.

Whilst we never know what the future will bring – building up savings over time can help to provide options in the future and we see Junior ISAs as providing just that opportunity. Junior ISAs will be available for all children under the age of 18 who don't hold a Child Trust Fund. Initially, up to £3,600 per annum can be paid into each child's account.

Being ISA's, they will be sheltered from tax and there will therefore be no personal tax liability arising from any income or capital gains. At 18, the account will become the child's own ISA and will therefore continue to benefit from tax effectiveness.

Not only do we see Junior ISA's as a way of helping children save for their future - they can also provide a very tax efficient way of cascading wealth between generations. For those who have an estate which would be subject to Inheritance Tax, making large lump sum gifts probably wouldn't immediately reduce the value of the estate. Making regular payments out of income however, can see those contributions falling outside of the estate immediately.

Taking full advantage of ISA allowances is good financial sense as, if unused, they are lost. Taking this one step further, if there are parents, grandparents or anyone else for that matter who are keen to help to provide for the future of their younger generations, a Junior ISA should be given close consideration given the tax effectiveness.

This becomes even more powerful for those who would like to assist children and who themselves have assets above the Inheritance Tax threshold as they can both provide children with financial help in the future whilst also reducing the amount of potential Inheritance Tax on their own estate. We hope, therefore, that Junior ISAs will benefit from positive coverage however, given the current climate we are in, they may not gain the full recognition they perhaps deserve!



Rock and a hard place

As policymakers try to reconcile their concerns about the health of the UK economic recovery with their worries about inflation, UK interest rates have remained unchanged at their all-time low of 0.5% since March 2009. However, the nine members of the Bank of England's (BoE's) Monetary Policy Committee (MPC) voted unanimously for the first time since May 2010 to hold interest rates at their August meeting. The Organisation for Economic Co-operation & Development (OECD) urged the BoE to support economic activity by retaining its "expansionary" stance in the short term, but warned that interest rates may have to rise this year due to inflationary pressures. The UK economy expanded by only 0.2% during the second quarter and output in the manufacturing sector fell, fuelling fears that the recovery might be stalling. The OECD expects UK economic growth to remain weak during 2011.

In the minutes from the MPC's meeting several members wanted to consider a further programme of asset purchases. Although the MPC concluded that such action was not yet necessary, one member voted again for additional quantitative easing (QE). Elsewhere, the Institute of Directors called for QE to stave off the risk of a double-dip recession. Inflation remains a significant problem for policymakers; prices rose at an annualised rate of 4.5% during August, compared with an increase of 4.4% during July. The BoE has tipped inflation to reach 5% this year before subsiding during 2012 and into 2013.

Focus on the top 100

The UK stockmarket has a reputation for being weighted towards defensive stocks - ie: those less exposed to a downturn. However, this is far from the whole story. Companies in the FTSE 100 Index is made up of international companies which are large, global market leaders and have business interests across the world.

Having said that, because some of those companies are very large, the index is relatively concentrated. For example: the top 10 of that 100 make up almost 50% of the index by size. The top 20 make up 65% and the top 50 companies, almost 90%. It is also skewed towards banks, oil and pharmaceutical companies. In other words, tracking the FTSE 100 Index may not be quite as diverse an investment as you thought.



The rules of investing

No 1: ONLY BUY WHAT IS RIGHT FOR YOU

Just because an investment has worked well for a friend does not mean it is right for you. The most important aspect of building an effective portfolio is to understand your own circumstances and act accordingly. Perhaps most importantly, the value of investments can go down as well as up and the chances you might get back less than you invested can be quite high.

What is acceptable risk for one person can be quite different to that of another - as can the period of time over which our goals are focussed. By all means be open to new ideas - but always make sure you make your own decision.

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