2012

Issue 1

Added Interest

The Newsletterfor Max Horne Group LLP

This month, 25 years ago, Max Horne Financial Services was formed to take advantage of the 1986 Financial Services Act which regulated Financial Services for the first time in this country and I saw an opportunity to offer well-researched, sound financial advice to, at that time, a small number of clients within the new regulated market.

Here we are 25 years later, the business has grown beyond my wildest imagination but still concentrating on that same well-researched, sound financial advice.

And what a 25 years it has been! After 1986 and the stock market crash, we saw rapid growth through the late 80s and through the 90s and in the late 90s we had the tech stock crash, with the effects felt throughout the rest of the World and we have not really recovered since then.

We as a business have evolved; our first merger was in 1994 with Mike Haswell's business in Rosyth and Mike continues to be a valued introducer of business to us. The business grew organically until we merged with Alan Brown's business, Denholm & Brown, in 2007 which effectively doubled our business at that time. Our latest merger last year saw Paul Dodds merge his very niche business with ours and all continue to be run by the excellent staff that we have acquired along the way.

Financial Services has changed a lot in the last 25 years. Initially it was all about saving with traditional well-established With Profits funds and as more sophisticated funds came into the market the business moved into an investment phase where Financial Advisers competed on fund choices and effectively, 'my returns are better than yours'! In the early part of the new century a huge amount of academic research exploded the myth that individual fund managers could produce good returns and the evidence showed that only around 15% of fund managers could regularly produce above average returns. Since 2000, there has been a reduction in the costs of investing and we have embraced this wholeheartedly and moved our clients to this new low cost platform, but the mission is not about trying to find the star fund manager, it is all about trying to cut the costs of fund management and retaining more of the return for the investor rather than the investment house.

I am often asked about retirement and I have no thoughts of retiring just yet – I love working with clients to solve their financial and sometimes their other problems that can result from money and see every day as a new challenge.

KEEP CALM AND CARRY ON!

If we look back on 2011, it was another year of heightened volatility. The only asset class that was positive was Fixed Income, both in established markets and in emerging bonds. Indeed, emerging bonds showed the highest returns at 9.6%.

As we move into 2012 it continues to be a volatile market. The Eurozone continues to have its political issues in a weak economic environment. Progress has been made in reforming the structural weaknesses although the process of reform could take years to run.

We could well see some real volatility in the Eurozone but almost all of the funds that we are invested in have reduced their European risk.

Growth in the UK is poor and unemployment is rising but inflation now appears to be on a downward path, but getting value from the UK will still be a challenge.

Looking further afield, the US appears to be enjoying a slightly stronger growth than expected and the emerging markets seem to have started to bring inflation under control whilst also beginning to ease interest rates. This is where the fund managers we are using see the growth opportunities and have looked to strengthen their exposure to these markets.

This is not going to be a quick fix as I expect a 3 or 4 year low-growth scenario with some real bumps along the road. But we need to just hang on and let our professional fund managers do the job for which we are paying them.

As usual we have some safe havens where funds can be guaranteed not to drop and if you are interested in these at this time please contact the office and we can get together with you.

ISAs AND PENSION CONTRIBUTIONS

ISAs AND PENSION CONTRIBUTIONS BEFORE THE TAX YEAR END – 5TH APRIL

There are two 'use it or lose it' events that take place on 5th April.

The first of these is your £10,680 Individual Savings Account limit for the current tax year 2011/2012 which finishes on 5th April. It is possible to put all of this amount into a Stocks & Shares ISA or you can put half this amount i.e. £5,340 into a cash ISA with the balance being put into a Stocks & Shares ISA.

We certainly would encourage all tax payers to pay into ISAs, especially higher rate tax payers, as there are big benefits long-term by ultimately having a tax-free income from the ISAs.

Please contact the office if you wish to maximise your ISAs for this year and we can arrange the necessary paperwork to have you do this.

Anyone under age 75 should also put the maximum they can into pensions. Individuals can put in £3,600 or 100% of earnings up to £50,000 into pension schemes before 5th April and employers can put in on your behalf up to £50,000 less the employee contributions.

It is possible within certain guidelines to use the un-used £50,000 limit from the preceding three years, but we would need to have a meeting with you beforehand to see if this could be done. The beauty of making pension contributions is that tax relief is available of up to 62% which makes them hugely tax-efficient.

To obtain these high tax reliefs please contact the office and have a chat with me and we can take you through the process of how it is done.

PENSION CHANGES IN 2011 AUTUMN STATEMENT

After rising to age 66 by October 2020, the state pension age will rise further to 67 between April 2026 and April 2028. This is 8 years earlier than previous legislation, saving the Government about £60 billion.

This has a huge impact on everyone but impacts more on females because they have had steady increase recently from State pension age of 60 to 65 and this phasing in process will only just be completed when the age rises to 66 followed 6 years later to 67. Many women will also not receive the full State pension because of shortfalls in their working life credits and it is even more essential that women save for income in retirement rather than rely on their husbands for this income.

I would encourage every female who is aged 50 or over to be saving at least £100 per month net of tax into a pension fund to provide additional income from when they would wish to retire, probably around age 60 or 62 and to allow them to have some form of income and stop work before the State pension age provides them with pension built up by their working life credits.

NEW STAFFING

During the last quarter of 2011, we had some staffing changes that have streamlined the business and made it, in my opinion, more effective. Derek Buglass who had been with us for 3 years decided to go off and pursue his dream of being a professional musician, and Peter Livingstone who worked as a consultant with us for 2 days a week, mostly in the compliance side of the business, joined us on a full time basis. I have known Peter for over 30 years and during that time Peter has acquired a wealth of expertise, both working for one of Europe's biggest insurance companies and through his work as an Independent Financial Adviser with the Bank of Scotland. We are extremely lucky to have Peter join us permanently as he will effectively run the business, freeing me up to continue the well-researched, creative financial planning for which we have become well-known.

FINAL SALARY PENSIONS

The last final salary pension scheme provided by a FTSE 100 company came to an end in early January as Shell ended its policy of providing new employees with a guaranteed pension.

This is a significant move which is the last of almost all pension schemes provided by the private sector meaning that many more private sector workers now haveto go it alone.

It is not as if Shell's pension fund has been in trouble as it was one of the best funded schemes out there and will have no trouble in keeping up with payments when their existing members retire, but it goes to show that even Shell isn't willing to take on the liability of such a strain on their balance sheet going forward.

With an ageing population we all know that we are going to have to work longer and probably for less when we come to retire.

Even with the proposed reforms if they are finally accepted by the unions, it does not save the Government substantial amounts because of the concessions they have had to make so far, and in a few years time this will have to be looked at again.

It is an issue that is causing unrest within the public sector, but many are coming to terms with the fact the Government has no money, it has to make savings and bring these savings into line with the private sector in order to make them sustainable.

We will see more and more private sector schemes inevitably follow in this direction and in time the UK consumer will gradually turn into more of a saver than a spender which isn't ideal for the economy in the long run as it relies so much on us to spend.

2012 – THE YEAR OF CHANGE IN FINANCIAL SERVICES

The end of this year will see the biggest change in Financial Services since the 1986 Financial Services Act regulated financial advice in the UK. There are two important changes that affect most of the market, but luckily they won't affect clients of our firm a great deal.

From 1st January 2013, all Financial Advisers will be qualified to a much higher standard, but I am happy to say that both Elaine and I are qualified to this standard currently, having taken steps to be "ahead of the game" over the last few years and obtained additional qualifications along the way.

The second important change is that all financial advice, whether it is independent financial advice – which is what we give from the whole of the market, or what will be known as 'restricted advice' which will be the domain of some well known high street institutions, has to be paid for by a fee. All new investment advice has to be paid for by fee, which suits us as we have been a fee-only practice for around 6 years now and all of our clients are familiar with this system.

We have consistently said over a long number of years that the myth that financial advice was "free" was simply not the case and that it had to be paid for in some ways, mostly by hidden commissions and fund management charges which many of the traditional insurance and pension companies have held on to.

So although there is little change in our business, it is going to mean a massive change for many of the public seeking financial advice in the future. Who will they pay a fee to? Someone in an organisation with limited experience to get restricted financial advice based on a product that such an organisation wants to sell them, or for a similar fee, coming to ourselves and having well-researched, creative, proper financial planning from the whole of the marketplace to maximise choice? We expect a growth in business from now onwards as the public realises that change is afoot. So please don't keep us a secret and tell your friends and family that they can approach us knowing that we can serve them well in the brave new world that is a new dawn in financial services.

SURVIVAL

CANCER SURVIVAL HAS INCREASED SIX FOLD IN THE LAST 40 YEARS

More people have been developing cancer but the latest statistics also show a dramatic increase in survival rates.

The lifetime risk of having cancer is now around 1 in 2.5 (40.3% for men and 38.8% for women) according to cancer research based on 2008 data. Although cancer is often a disease of older ages, incidence under the age of 65 is still 1 in 4 (25.7% for men and 24.4% for women). Incidence is also expected to rise from 298,000 in 2007 to 432,000 by 2030, mainly because of our ageing population.

However, McMillan Cancer Support reports that the median survival period for cancer sufferers is up almost 6 fold in the past 40 years – from 13 months in 1971/ 2 to 69 months in 2007. In other words most people diagnosed with cancer will now survive for more than 5 years and more people are living with cancer than dying with it.

Many cancers have seen dramatic improvements. Over the same period median survival for women with breast cancer rose from 66 months to over 10 years, whilst for men with prostate cancer it rose from 27 months to, again, over 10 years.

Nevertheless, some cancers have seen little improvement. For example, median survival for brain cancer has risen from just 3 months to 7 months and for lung cancer from 3 months to only 5 months.

Insurance cannot cure cancer but it can provide the funding and treatment to manage it and survive it. Critical Illness cover and Income Protection can provide a cash lump sum (on diagnosis) or income, while private medical insurance can pay for the treatment itself.

With more people getting cancer and surviving it, the need for all 3 types of cover is higher than ever.

Max Horne
Financial Services

The Creators of Wealth

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Our Services

Here’s a brief reminder of the services we offer
Regular financial health checks.
Independent advice on:
Lifestyle Planning*
Wealth Management
Pensions
Savings
Investments
Insurance
Tax Planning*
We are remunerated for our professional advice as opposed to ‘selling’ investment products, which makes the advice entirely impartial and truly independent.
Financial Services Authority.
Max Horne Group LLP is authorised and regulated by the Financial Services Authority
*these are not regulated by the Financial Services Authority.