

## 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  
Mortgages  
Tax Planning\*

We are remunerated for our professional advice as opposed to 'selling' investment products, which makes the advice entirely impartial and truly independent.

\* these are not regulated by the Financial Services Authority.



The description of the services available from Max Horne Group LLP are not intended to represent a recommendation for any specific investment and are for general guidance only. Should you require advice you should contact our advisers. The content of this newsletter represents our understanding of law and HMRC as at April 2009. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from, taxation are those currently applying but are subject to change and their value depends on the individual circumstances of the investor. The value of land and buildings is generally a matter of a valuer's opinion rather than fact. The value of an investment can go down as well as up and you may not get back the full amount you invested, especially if you withdraw in the early years.

The past is not necessarily a guide to future performance.

**YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.**

Written quotations available on request, Not all tax planning is regulated by the Financial Services Authority.

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# Added Interest

The quarterly newsletter for Max Horne Group LLP



Even if you don't like theme parks and white knuckle entertainment, you won't have avoided the roller coaster of the financial markets of the past 12 months. I, for one, won't be sad to see the back of 2008 as it brought a new perspective to my outlook on the financial services market and the world as a whole.

Who would have thought that great Scottish institutions like the Royal Bank of Scotland and the Bank of Scotland first of all having to be bailed out by the government and then in the Bank of Scotland's case, disappear totally after 300 years in business? It makes me sad to think that Scotland was once looked upon internationally, as a country of prudent people but that myth has now been exploded in the biggest possible way.

In 2008 we also said goodbye to Alan after a long and successful career in the financial services business. His timing to pass the baton to me couldn't have been more perfect from his point of view, swapping the current turbulence of financial markets for the calm and tranquillity of his garden. I know many of you owe a small debt of gratitude to Alan for sorting out your financial affairs.

Some clients have suggested that we acknowledge his service to them by making a "retirement contribution" to one of Alan's favourite charities, Cancer Research and CHAS, both of which are dear to Alan's heart. If you wish to contribute to these charities please contact the office for more information

In this edition of Added Interest I will explore how we are trying to bring more predictability into investing to recover the values that have been lost sooner, rather than wait until markets naturally increase, which some commentators are predicting may be a 3 year journey. We are also exploring ways to create income that is greater than banks and building societies, which have fallen dramatically with the cut in Bank of England base rates.

**Max Horne**

# WARNING!!!

A number of banks and building societies are recommending so called "guaranteed products" which are linked to performance in certain indices, normally the FTSE 100 or the All Share Index. What they are trying to do is to sell products based on giving you high interest or returning the capital at the end of say a five year period but giving the impression that these products are safe, secure, guaranteed etc. They are far from it and we have had several clients who have been lured into investing in these products to make up for a lack of income from lower interest rates. The way that these products work is that your capital would be invested for a fixed term of 5 to 6 years and returns would be based on the performance of the index that it is linked to with the capital return full at the end of the investment – or will it?

Two words sum up these so called guarantees - Lehman Brothers. Prior to it's collapse it had been backing structured products issued by companies like NDF, Meteor DRL and Arc. The banks collapse could mean that anyone who bought these products will have lost a large part of their money. It is also quite likely that these losses will not be covered by the financial services compensation scheme because the company who issued the structured product has not gone bust.

The simplest ones are linked to the FTSE 100 or the ALL Share Index and offer investors a proportion of the growth in that market over a particular period while promising to at least return the initial investment provided the index does not fall by more than a certain percentage, usually 50%. In order to understand these products better and whether they will return the capital or not, please speak to me first before investing in them as, invariably there are clauses in the conditions that are difficult even for me to understand, let alone the non financial services "man in the street".

The Investment Managers Association chief executive, Richard Saunders points out "structured product literature can make claims about performance and protection that managers of traditional investment funds are prohibited from making under FSA guidelines. Structured products may well have a place in a portfolio, but if the providers cannot clearly state the dangers and risks does anyone really want to risk capital in them?" If you are tempted by any of these products that are currently available from most of the banks and building societies please contact me before it all ends in tears!

## Getting the Most from Your Pension

If you are about to retire it is vitally important in the current climate that you maximise the pension that you are going to obtain from the funds that you have built up. With funds having suffered a loss over the past few years it has never been more important to make sure that you explore all the avenues to maximise the income from those funds.

In a previous Added Interest article, I highlighted the statistics of people having a medical condition and being able to obtain much larger pensions as a result and this still applies but there is a new development in the pension market. No longer do you have to buy an annuity that is fixed for the rest of your life and if you died, unless you opted for a pension for your spouse, the fund would die with you. A recent development has seen one new company come into the market where you can purchase a temporary annuity and this can roll over every 5 years until you are age 75.

The big benefit of opting for this type of temporary annuity is that if you died between now and age 75, if you did not opt for a spouse's pension to be paid, then the balance of the fund would be paid to your estate, less a 35% tax charge. This is a huge difference where all of the fund would be gobbled up by the annuity provider. With statistics telling us you have a 40% chance of being single before age 75, it therefore makes a huge amount of sense to be able to pass on funds to your estate and the next generation without the funds being 'confiscated' by financial institutions.

The other benefit of a temporary annuity is that you may be fit and well at age 60 or 65 when you retire but as you approach age 75 usually some medical condition appears, where if it had been around at age 60 when you wanted to buy an annuity it would have given you an increase in the annuity rate but as you have locked into the annuity for lifetime you cannot subsequently increase the rate due to ill health. The temporary annuity solves this problem as at the next 5 year review date you can then go to the medically underwritten annuity and obtain a higher rate for the rest of your lifetime.

This really is the latest "have your cake and eat it" product as the annuity rate is always in the top 10% of the market in any case, but you are not locking into that rate for a lifetime and if you are unfortunate enough to die before age 75 you will leave the vast majority of the fund to your beneficiaries in the way that you would have wished. The other bit of good news is that we can pass this fund to nominated beneficiaries free of Inheritance Tax.

If you are retiring shortly please contact us, even if we did not set up your pension scheme for you, to discuss the options that are available to you. You may be pleasantly surprised what is available to you as the pensions industry has taken a giant leap forward.

## Getting Your Finances in



**H**ave you considered the potential effects of a recession?

From declining financial markets to a troubled and crisis-ridden housing sector, we are being continually bombarded by a plethora of news stories and media coverage about the state of the UK's financial health. In times of economic turbulence or market downturn, it is prudent, if you haven't done so already, to start considering and planning for the potential effects on your investments and pension.

Firstly, don't make any knee-jerk decisions, especially if you are investing for the longer term. Our service is designed to assess your current situation and provide professional advice to help you make informed decisions. Selling any investments when the FTSE 100 index and other indices are at such a low point may not be the most appropriate course of action for most investors, and if you can wait for equity markets to recover before selling any investments, you have the potential to gain from the upside of any future recovery.

Currently, some investors with a longer-term view and a higher risk-for-reward attitude may even find that some opportunities still exist by holding both UK and US equities, all of which have fallen heavily, could benefit once markets eventually recover.

You may be concerned about the effects on your retirement planning, as the value of your pension fund may have been affected by falls in equity and corporate bond prices. For many people this will almost certainly be the case if they have a personal pension or are members of a defined contribution "money purchase" occupational scheme.

Time is often said to be a healer, and if you have the luxury of targeting a retirement date in excess of five years, continuing your contributions should be an important consideration as markets are expected to recover in the longer term. If you have less time before you stop working, though, you might want to consider phasing your retirement by using only part of your fund to buy an annuity to produce income, and keeping the rest invested in an unsecured pension. Phased retirement is a complex area of pensions and our advice should be sought if this route is being considered.

## How do I get my Income?

**A**s I write this article the Bank of England's Base Rate has just dropped to 0.5% which is the lowest in living memory. The problem is that if you are a bank or building society depositor who is relying on the return from the money you have put on deposit you will have seen your income fall sharply from levels of around 5% gross 12 months ago to only 2% if you are lucky, now. This is a 60% drop in your income which can have a dramatic effect on your standard of living. Many of our clients have money in banks and building societies because they do not want to take risks with investments in property or stock markets but where do you turn to now to restore that income without taking risks?

As I mentioned in another article, most high street banks and building societies are offering crazy products that are being marketed as guaranteed but although the income may be guaranteed the capital at the end of day, certainly is not.

We have been looking closely at guaranteed products and have come up with only one or two that we would recommend currently. One has a guaranteed income of 6.5% per annum gross and where the capital is guaranteed by one of Europe's strongest banks which in turn is 100% guaranteed by the German government.

This fund is also backed by a multi asset portfolio which means that the fund invests worldwide in a variety of different areas including futures and options. By using futures and options the fund has been able to increase returns with no increase in risk and is one of the few funds over the last 12 months that has a positive return "with a plus". This fund is a typical lower risk, lower reward fund that has been around for a while but which has been largely ignored over the last few years because people have been seeking high returns. Those high returns have come as we have seen with a high downside elsewhere over the past 2 years.

If you want to explore whether this product is suitable for you please contact the office. This type of investment will return the income you were used to 12 months ago to let you get back to the lifestyle you enjoyed without having to miss out on life's luxuries.

# The Mortgage Market



You can't help turn on the news these days without hearing about the UK and world banking crisis. This has inevitably led to changes in the UK market for residential and investment (Buy to Let) mortgages.

Banks and Building Societies have become more cautious in their approach to mortgages and the main areas of the market which have changed are for anyone looking to buy a property without a deposit of at least 10% and for those with a poor credit history. Lenders who specialised in these areas have either withdrawn from the market completely or withdrawn their specialist products. The number of lenders offering Buy to Let mortgages has also reduced but products are still available for those looking to invest in property for a rental or capital return.

The current mortgage market while tough, still offers some good news to those looking to move home or remortgage:

Lenders are actively being encouraged by the government to increase lending and while this is taking time to filter through to the consumer, it will in time and the market should become more competitive again.

Interest rates are at historically low levels and monthly payments on a mortgage are probably more affordable now than they have been for a long time. The best rates are available for those with the largest deposits and this is typically where you only need to borrow about 60% of the value of the property. The higher the percentage required the higher the rate tends to be. Even though, rates for those looking to borrow 90% of the property still offer good value.

While rates for new mortgages have come down, existing borrowers have only benefited from recent rate reductions if they are on rates which track the Bank of England base rate or the lenders Standard Variable Rate. Those who are currently in fixed rates however may see their payments come down when their current deal expires, if rates stay as low as they are at present.

If you are thinking of moving house or remortgaging it is worth remembering that while current tracker rates may seem very competitive

there is added risk involved if rates go back up at some point. With base rate currently at 0.5%, a tracker rate of 3% above base rate offers a very competitive rate of 3.5%. However you will probably be tied into this deal for at least 2 or 3 years, and if the Bank of England were to increase base rate to say 4% over this period (which is not impossible if they feel the need to combat inflation) the rate on your mortgage would then be 7%. Careful thought should be given to this when thinking about the benefits of a tracker mortgage compared to a fixed rate mortgage.

So while there are obvious changes and restrictions in the current mortgage market there are real opportunities for those looking to buy a new property or remortgage to a better deal. The key pieces of advice would be to keep your credit record as clean as possible and try to put together as big a deposit as you can. This will allow you to take advantage of some great deals and potentially buy that new home, in what is definitely a buyer's market, or find a better mortgage deal than you are currently on.

**MurdoMcHardy, Director**  
**Dedicated Mortgage Solutions**



The Max Horne Group is not authorised to give advice on mortgages as both Alan and I took a decision to come out of that market some time ago as it was becoming highly specialised. The accompanying article has been written by our mortgage partner, Dedicated Mortgage Solutions, who are our preferred mortgage sourcing company. The two directors of the company Murdo McHardy and Ninian Duncan have a vast experience in the mortgage business, having held senior positions at both Scottish Widows Bank and at Intelligent Finance.

If you have a mortgage that is coming to the end of its fixed rate life and require a replacement we can get them to source the best deal for you. Equally if you have children that are struggling to get into the house purchase market for the first time you may find their expertise invaluable in putting them on the housing ladder at a lower cost than you might think.

If you have any mortgage requirement please contact our office in the first instance and we can pass the initial enquiry directly to them to have them source the best deal for you.

**Max Horne**