At the cutting edge of financial planning

WFI have launched their own new Wealth Management System which has been over six months in development. We believe this aims to help maximise returns whilst minimising risk. It is available to new and existing clients and is relevant to investments and pensions, including pension drawdown contracts. Although we can only outline the process here, a detailed brochure is available on request. We would of course highlight that the value of an investment can go down as well as up and past performance is no guarantee of future returns.

WFI's new Wealth Management System has been pioneered by Financial Adviser Rob Mitchell and supported by Joint Managing Director Charles Gillespie, both of whom are fellows of the Personal Finance Society and hold the advanced Investment Portfolio Management qualification.

"WFI has seen substantial growth in our clients funds under management, we therefore required a robust and dynamic investment process to deliver risk graded performance that will inspire confidence when our clients invest" said Charles.

Risk profiling

In explaining the process Rob Mitchell said "we have created ten risk definitions and profiles ranging from Ultra Cautious to Highly Speculative and individually assess your attitude to risk either through a comprehensive discussion or completion of our risk profile questionnaire. Following this we will be in a position to establish which risk profile is most appropriate to you within the Wealth Management profiling system".

The importance of asset allocation

Over the past 20 years substantial technical research has taken place including the landmark study, Determinants of Portfolio Performance, published in the Financial Analysts Journal in 1986 suggested that well over 90% of investment performance is derived from asset allocation decisions, not market timing or stock selection. Therefore, for each of the ten profiles we have created a recommended mix of assets. These are reviewed on a monthly basis by our investment committee and amended where appropriate. Most of us would invest in just four areas, these being Cash, Property, Fixed Interest holdings and Shares. Getting the right mix of these assets for the level of risk you are prepared to accept, has a vital role in driving your investment returns. The asset allocation models take into account our views of the current economic conditions and outlook for each individual investment area. However, we involve our clients throughout the investment process. If appropriate, the asset allocation model will be amended to reflect a clients own views or to take into account other investments they already hold.

Our advisers will then use a number of highly sophisticated research systems we have invested in, to put together a portfolio of funds to match the agreed asset allocation model. These systems look at both factual information such as the past performance records of funds as well as qualitative analysis providing access to information regarding the fund manager and his supporting team, the investment process and risk controls employed. It also provides a detailed analysis and breakdown of the underlying holdings of each fund.

Fund selection

We have put together a panel of funds, currently over 200 that we feel meet our stringent criteria for potential inclusion in an investment portfolio. Most of the funds we recommend will have long track records of excellent performance, along with high independent research ratings. We differ from many of our competitors though, in that even if a fund does not have a track record of success, we may well include it in a portfolio. This would be the case if we strongly believe in the fund managers or investment area. A current example of this would be Overseas Property, which we feel offers excellent potential, but where most funds have only recently been launched. Although, we would stress all recommended funds including Property can fall in value as well as rise and you may not get back the amount originally invested.

Regular reviews

The final piece of the jigsaw is to ensure your portfolio is reviewed and monitored on a regular basis. We have invested in a system that will monitor all the funds in your portfolio and if anything happens such as performance dropping below relative parameters, the fund manager leaving, it becomes more volatile or the fund is downgraded, we are immediately notified. We may not necessarily do anything with this information, but it does ensure we are aware of the situation and can recommend alterations if we feel this would be appropriate.

This is a considerable enhancement to the service we offer and alongside the more sophisticated investments that we specialise in, ensures we remain at the cutting edge of financial planning. It has only been possible to develop due to the exceptional quality of our advisers and a significant investment in technology to support the process.

Alternatively Secured Pension (ASP)

Clarification of how death benefits will be taxed from Mark Rendall - Joint Managing Director

For some people – like the Plymouth Brethren – buying an annuity is against their religion. A number of other investors coming up to retirement also object to being forced to buy an annuity when they want to draw benefits from their pension. They don't like the inflexibility, the apparently low returns from annuities or the position when they die.

Of course, annuities do have their advantages. They can provide a really secure income and they are normally guaranteed to last as long as you live. In fact they can be regarded as a type of insurance against living too long.

Options at age 75
The pension simplification regime introduced on 6 April 2006 abolished the requirement to buy an annuity by age 75. Unless you have already bought a lifetime annuity or something similar called 'a scheme pension', on attaining age 75 you can now:

- ***Either*** buy an annuity or a scheme pension
- ***Or*** switch to an Alternatively Secured Pension (ASP)

This Alternatively Secured Pension is a restrictive form of pension fund withdrawals.

- The maximum you can withdraw is 90% of a single life, level, monthly in advance, no guarantee annuity assuming age 75. The minimum income that has to be drawn is 55% of an annuity based on a 75 year old.
- These maximum withdrawal rates are reviewed every year (although they are always based on an annuity for someone aged 75), so your income could fluctuate, particularly if your income withdrawals have been relatively high.

The lower level of withdrawal and frequent reviews are designed to prevent rapid erosion of your pension fund, although this cannot be guaranteed. ASP is not for you if you are unprepared to accept investment risk and/or would be heavily reliant upon the ASP income. However, the flexibility of income withdrawals via ASP is overshadowed by the penal tax regime, confirmed in the 2007 budget, which can lead to an overall tax charge upon death of 82%.

What happens on death?
What you are allowed to do depends crucially on whether you have any dependants alive at the date of your death. Dependant in this case means spouse, civil partner or someone who is financially dependent on you.

- If you die leaving any dependants, then the remaining ASP fund must be used to provide an income for at least one of these dependants. The dependant could take his or her benefits by fund withdrawals, so that when the dependant dies, there could also be some funds available. If there are more dependants left, they can continue drawing benefits, otherwise the remaining funds are treated as below.
- If you die leaving no dependents whatsoever your residual fund could be transferred to other members of your pension scheme, for example your children or grandchildren, whom you can nominate. This transfer is known as a Transfer Lump Sum Death Benefit. The total tax levied on this transfer including IHT would be 82% assuming the aggregate estate, excluding the remaining ASP fund is more than £300,000.

The fund could alternatively be paid to any charity you nominate, free of inheritance tax and it would also escape the unauthorised member payment charge and the unauthorised scheme sanction charge.

Mark commented "the chancellors confirmation of the position upon death in ASP is particularly disappointing at 82% which seems to be at a totally unjustifiable level. It does nothing to help reduce the substantial 'savings gap' that is emerging for future pensioners who could potentially benefit from receiving the unused element of a parents pension fund to supplement their own future pension. It would seem more appropriate to tax the fund on death in ASP at 40% equivalent to the current rate of IHT".

Possible solution
Mark suggested "one possible solution for those wishing to continue income fund withdrawal after 75 in ASP, might be to establish a guaranteed Whole of Life, life assurance, written in trust and therefore outside the estate for the benefit of the pensioners children/grandchildren to provide cover for an element or all of the fund and then leave the entire fund to a charity on death, which does not trigger a tax charge". This option assumes that the pensioner (and if married, their spouse) is insurable, as the life cover is subject to underwriting. It also assumes the pensioner in ASP would have sufficient surplus income or financial resource to cover the cost of the life assurance premiums. The alternative appears to be an annuity or an 82% donation to the government!!

Would you be better off if you switched your Mortgage?

asks WFI's Mortgage Manager Claire Spencer

Imagine your local supermarket giving you free shopping one week in every month. Or, your boss deciding to pay an additional sum of money straight into your bank account each month.

You'd be overjoyed, wouldn't you?
In our opinion, millions of homeowners could give themselves just such a financial break simply by switching their mortgage, but they don't. "Finding a better rate with another lender can save householders a worthwhile amount of money, each and every month," says Claire.

Possible savings
"On a mortgage of £200,000, where the client is paying their current lenders Standard Variable Rate (typically 7.70% as of November 2007) their monthly payments will be around £1,635 a month. Certain lenders at the moment are offering fees free remortgages with discounted rates at 1.64% off their Standard Variable Rate, potentially saving £192 a month."

"A mortgage is potentially the biggest debt most of us will ever have, but until recently few people realised they could shop around for a better deal and swap lenders. Now borrowers are wising up on their finances and getting more interest rate conscious, consequently more people are opting to remortgage," comments Claire, who heads up the mortgage department at Whitehall's Sheffield headquarters.

Claire and her team source the most suitable deal from the entire market and they have an opinion that cutting the monthly budget is the main reason for remortgaging, but a close second is the desire to release the cash that is sitting in the bricks and mortar. "The housing boom means some people have substantial equity in their homes," explains Claire. "A remortgage may allow them to release funds for a wide variety of uses without necessarily adding a hefty amount to their monthly expenditure. Often I am able to find them a better interest rate, release the cash they wanted and ensure they have a similar monthly repayment to the one they had before, whilst keeping the mortgage on the same term."

Her experienced team can also deal with the more complicated Buy to Let and commercial mortgages. To Claire, a qualified Financial Adviser with over 9 years experience, plus the CeMAP mortgage qualification and the full Financial Planning Certificate to her name, changing a mortgage to take advantage of better rates and deals makes perfect sense.

The process
Whether a client is purchasing a new home or remortgaging, we are determined to make it easier. From start to finish, we guide people through the mortgage procedure. We do the initial groundwork and streamline the whole process, helping to complete the paperwork and reduce the hassle and time involved in first of all finding, then completing the mortgage."

After an initial consultation, the Whitehall team will research the mortgage market place using sophisticated sourcing software to find the most competitive deal that suits the borrower's current financial needs as well as their budget. Often deals can cover most, if not all, fees for solicitors and surveys.

Regular reviews
"We aim to re-contact our clients before their special loan rate is due to end. We endeavor to source the market and aim to secure a more suitable deal to meet their current needs and circumstances," Claire explains. "We believe that the more we can do for our clients, the more they are likely to refer us to their family and friends and come back to us for their future mortgage requirements".

Your home may be repossessed if you do not keep up repayments on a mortgage. There may be a fee for advice, the precise amount of this fee will depend on your circumstances, but we estimate it to be £250. The Financial Services Authority does not regulate some aspects of Buy to Let mortgages.

Case Study

The following case study is for guidance only and should not be considered advice and that the particular mortgage product described is not suitable for everyone. We recommend you seek independent mortgage advice in respect of your own circumstances.

Objective:
To pay off a mortgage early.

The Circumstances:
The client has a property worth £400,000 with an outstanding mortgage debt of £300,000 on a repayment mortgage and has 20 years remaining. He is currently paying his lenders Standard Variable Rate which works out at £2,472 per month (again based on a typical Standard Variable Rate of 7.70% as of November 2007.) He has 2 young children and does not feel he can commit any more monthly income to overpaying the mortgage to reduce the term. He has £100,000 sitting on deposit with his bank paying gross interest of 5.25% which was left to him in an inheritance that he wants to keep intact.

The Solution:
As the client is paying his lenders Standard Variable Rate, he is free to move to another lender without penalty. His best option is to move his mortgage and the inheritance money to an offset mortgage account which will allow him to offset the £100,000 savings against the interest payable on the mortgage, meaning he will only pay interest on £200,000 of the debt. For example, moving to an offset product of 5.84% variable (6.0%APR) will immediately save the client £351 a month as the monthly payment at this interest rate is £2,121. The maximum loan to value on most offset products is 85%. It has no early repayment charges so can be redeemed at any time without penalty. It does have a £784 valuation fee payable upfront. However in the monthly savings alone this can be covered in the first 3 months.

The real savings though are shown below, when the actual offsetting takes place. By offsetting the £100,000 against the £300,000 debt and continuing to pay the £2,121 a month repayments, the mortgage will be cleared after 14 years and 6 months (5 years and 6 months early), saving £140,924 in interest, whilst still keeping the £100,000 inheritance intact. The £100,000 must remain invested in the offset account throughout the mortgage term to achieve this saving.

The drawback of this, is that no interest is earned on the savings and the value of the capital will be eroded over time by the effects of inflation. However, the savings on the mortgage debt seem to more than make up for this.

Mortgage products may have a limited availability and may be withdrawn by the provider at any time, also these products are not suitable for all borrowers.

Corporate planning using your pension scheme

Most business people will have heard of the old cliché "people don't plan to fail - they simply fail to plan".

Lee Thompson

The Chancellors announcement in the 2007 budget of an increase in the smaller companies rate of corporation tax from 19% to 20% this year, rising to 21% next year and 22% from 1 April 2009 along with the phasing out of Industrial Building Allowances, increases the need for proper planning to reduce a companies tax burden.

In the past a company purchasing its own premises had the potential for significant tax breaks through the benefit of Industrial Building Allowances (IBA's) associated with certain classes of commercial property purchase (predominantly manufacturing and agricultural operations). The announcement of the phasing out of IBA's will leave some business owners to consider whether there are tax efficient alternatives on acquiring premises for their companies own occupation.

One possible solution is to establish or utilise a Directors own pension arrangement in the form of a Self Invested Personal Pension (SIPP) or Small Self Administered Scheme (SSAS), whereby the company makes significant contributions which provided they are deemed "wholly or exclusively for the purpose of trade" and within £225,000 in the current 2007/2008 tax year, would be allowable as a business expense and reduce the companies corporation tax liability.

Using a pension fund to acquire premises in this way has four distinct advantages:

1) Contributions will usually receive a corporation tax deduction.
2) The pension and therefore the premises it acquires are ring fenced from creditors in the event of business failure.
3) The company pays rent to the Directors pension scheme which itself will be allowable against corporation tax and yet it is not taxable within the Directors pension scheme.
4) The Director builds wealth, tax efficiently outside of the company to provide a tax free cash sum of 25% of the value of the fund at retirement and the residual fund is available to pay a pension.

Case Study:

Please note this is a brief outline of a SIPP property purchase and does not take into account costs of a property purchase which could include, legal costs, stamp duty, surveyors costs, bank arrangement fees and SIPP fees.

Objective:
The Company Directors want to move to new bespoke premises costing £475,000 in a tax efficient manner.

ABC Ltd has two Directors both with existing personal pension funds of £65,000. In the current trading year ABC Ltd have a net pre-tax profit for the year of £500,000.

They have established two SIPP's and transfer the personal pension funds into their individual SIPP's.

Director A Fund	£ 65,000
Director B Fund	£ 65,000
ABC Ltd Contribution to SIPP for A	£100,000
ABC Ltd Contribution to SIPP for B	£100,000
	£330,000
Loan (max 50% of pension fund value)	**£165,000**
Total Combined Pension Fund available for property purchase	**£495,000**

1) The 2 x £100,000 pension contributions reduces the companies corporation tax liability at the marginal rate of 32.5%, therefore reducing the corporation tax bill by £65,000.
2) The property is ring fenced from creditors in the event of business failure.
3) Rent from company to pension = £36,000 per annum (approximate yield of 7.5%). Rent is allowable against Corporation Tax as a business expense. Assuming an interest rate of 7%, the loan is repaid in under 6 years. After the loan is repaid the rent accumulates in their SIPP's and is available for further investment.
4) Assuming an increase in the property value of just 3% per annum over the first 6 years, the Directors will have increased their pension from £165,000 (£65,000 transfer and £100,000 company contribution) to £283,500 each, equivalent to a 71.8% increase or 9.4% per annum compound.

Points to consider: Clearly, this route is not suitable in all situations and there are several other considerations when a company is planning the acquisition of premises for it's own occupation. Consideration should therefore be given to the following:-

The company must pay rent to the scheme for use of the premises at a commercial rate and therefore there is an added cost to the business. There could be a lack of diversification if the only (or main) asset is the commercial property. The property would no longer be available as security for any borrowing.

The level of company contribution to a pension will to a greater extent depend on Directors remuneration as to whether it is wholly or exclusively for the purpose of trade. The levels, bases and reliefs from taxation may be subject to future change and their value depends on individual circumstances of the investor.

If a specific opportunity is considered we would ordinarily complete a more detailed feasibility study and cost analysis before making a recommendation.

It is imperative you seek professional advice before embarking on a course of action that may involve high levels of contribution and/or property purchase.

The above case study is based on our understanding of the current law and HM Revenue customs and practice.

What are REITs?

Tim Couldwell explains

Real Estate Investment Trusts (REITs) became a reality on January 1 2007 when nine groups including British Land and Great Portland Estates converted to REIT status. Since then, there are now 17 REITs available including a new REIT-Local Shopping REIT.

REITs are property investment companies that are tax transparent investment vehicles that will allow investors to put their money into commercial and residential property markets simply by purchasing a share in them.

The benefit to the company is that by converting to a REIT, it will pay no Capital Gains Tax on their ring fenced assets, or corporation tax on dividends. The company must meet a number of conditions for it to maintain these tax benefits, a major one being that it must distribute at least 90% of their exempt rental income to shareholders as a Property Income Distribution (PID).

Liquidity considerations
REITs have been around since the 1960's in the US and have raised several billions of dollars. They offer the investor one major advantage, that is they can own shares in property companies which are traded on recognised stock exchanges where as physical property is not the most liquid of investments, particularly when markets suffer periods of uncertainty.

Investors who want liquidity therefore often consider investing in the shares of companies that develop and manage commercial property. The question investors need to ask is whether the liquidity is worth the added cost of the short term volatility associated with investing in the stock market.

Discounts to Net Asset Value (NAV)
Commercial property shares, including REITs have suffered in the recent stock market turmoil. Since the start of the year, some quoted property companies such as Land Securities and British Land have seen their share price fall by over 20% (source: Financial Times 15.8.07) leaving them trading at an average discount of 13% to their Net Asset Value (NAV) (source: Financial Times 22.8.07).

This clearly can cause investors concern (not to mention their advisers) however it is important to remember that markets are driven by a combination of long term fundamentals and short term investor sentiment. Share prices reflect supply and demand , which in turn reflect investor's views of the future in terms of:

- the ability of the company's managers to add value through long term growth
- the value of the company's assets and the yield on them in the form of dividends
- and, in the case of property companies and REITs, the prospects for the commercial property market.

The commercial property market is particularly sensitive to changes in:

- long term (5 year) interest rates (which can affect development funding and the attractiveness of yields)
- tenant demand (which reflects the state of the wider economy).

Above all it should be remembered that investors views of the future are being measured continuously by the stock market and thus share prices reflect changes in sentiment minute by minute rather than, as is the case with actual property valuations, infrequent measurement based on historic transactions.

What are the long term prospects for UK commercial property?
Current REIT share prices suggest that some investors think property assets will fall in value compared with other assets. If they don't fall, then share prices might be under-priced in relation to their long term fair value and offer a potential buying opportunity.

According to Investment Property Database**, prime central London real estate continues to attract investment and was the top performing property sector in Quarter 2 2007 with a total return of 4.7% quarter on quarter. However, property located in secondary positions have seen widening yields and lower capital growth, with retail spaces outside London delivering lower total returns of 1.2% quarter on quarter in Quarter 2 2007. Therefore, whilst there is general agreement that some further realignment of capital values in the property sector is likely, there appears to be no indication of a repeat of the 1990s over supply situation.

** The IPD Quarterly Index is based on a £131bn sample of 8,349 properties.

At WFI, we believe that property is an important asset class as part of a diversified portfolio, subject to a clients attitude to risk. However, it could be several years before we see REIT share prices trading at par to their NAV but we suspect it will happen at some point in the future, so on this basis the current substantial discount between the share price and NAV of some REITs looks good value, although we do anticipate further volatility in the share price of REITs generally.

Note: Levels and bases of and reliefs from taxation are subject to change and their value depends o the individual circumstances of the investor. This article is for guidance and information purposes only and advice should always be sought before making any investments decisions. Past performance is not a guide to future performance.