



The **MUNRO PARTNERSHIP** Ltd.

PENSION SPECIALISTS AND INDEPENDENT FINANCIAL ADVISERS

• ESTABLISHED 1982 •

MOVING FORWARD

with The Munro Partnership Limited

Credit Crunch, Investments & Financial Planning

It appears that the high levels of uncontrolled debt are coming home to roost. This on its own may not be the only problem as market sentiment, and the fall out caused by this, will have some effect on all of us.



The strange reality is that some people will of course be better off. Those people with cash will always be able to take advantage of poor markets and simply pick up 'bargains'. The cash position allows them to remain balanced in the short term and create some rewards over the medium term.

What about the rest of us, what should we be doing to make the best of a difficult time? Well, cash is 'king' and we all have to have a reasonable balance in our financial affairs and in how we live.

The first suggestion is to review your income and expenditure plan (this assumes that you have a plan). This, allied with having a sensible position to access cash, creates the best base for being objective about your accumulated investments.

Enforced selling of solid investments is painful and must be the last resort. It is important to consider why you have investments and when you need or expect to benefit from these. In reviewing your overall financial planning consider the following points:

1. Identifying your short term financial requirements. (Download an income and financial planning spreadsheet from our website);
2. Connecting up and having a holistic view of your finances and investments. (This may of course include your pension investments);
3. Employing strategies for creating security over various timescales, with more focus on the shorter term;
4. Creating a balanced position on a year to year basis and not simply trying to be tax efficient without control.

The summary position is that we need to have access to cash and income in every section in life. Our future 'bread and butter' is something that is normally built up from hard work and is a combination of investments and pension. We at the Munro Partnership Ltd often only deal with elements of our clients financial affairs. To do a better job we need to know you better. Please do not hesitate in contacting your consultant or the service team if you wish to get to know us better.



S Munro

Debt Control

The uncontrolled availability of credit in recent years has led to the credit crunch which has now focused attention on credit card and store card debt as well as mortgages and overdrafts. Although the blame has been laid at the door of the financial institutions for inappropriate lending, the consumer must accept some responsibility for their own actions and plan for the repayment of these liabilities.

With all forms of planning there must be a starting point which we would recommend being the completion of an income and expenditure planner. This is a stark reality for many people as their planning has been based on stable interest rates and a solid increasing net income. Both of these factors may now have changed significantly.

Action Plan

- List down all debts, the balances, when they are due to be repaid and the existing monthly payments.
- List the liabilities in cost order, i.e. the highest rates of interest being applied.
- Plan for the repayment of these debts.
- Arrange a review of your overall finances and any investments or assets you hold.

Be Aware

- Overdrafts are not simply about high interest
- Credit cards offer additional charges
- Late payment charges are very expensive

Management & Tax

- We can offer assistance and help you
- We can create savings and make use of additional income or funds
- We can sort out the confusion and agree a strategy



P J Leonard

Protecting your Personal Finances

Whilst many people take care to insure their homes against damage from storms or accidents and their vehicles from theft, why do so many then neglect the protection of their families and their own income?

There are many ways of protecting your personal finances, however in order to define what is most important to you we should firstly ask ourselves the question 'What if?'

- If you have a young family, how would you ensure their standard of living did not deteriorate if you, or your spouse or partner, died? Check to ensure that you have adequate life cover and/or Death in Service cover.
- If you lose your job or your salary is reduced due to illness or injury, how would you meet your liabilities if your income dropped or ceased?
- If you are diagnosed with a Critical Illness, this may radically change your life, it does not mean the end of it.
- If you were unable to administer your own affairs due to illness, who would you turn to?
- If your Estate is left to beneficiaries that you did not choose?

It may be worth reviewing what protection you have or should have. Let us know if you want to discuss matters. The liabilities may include business and possibly business colleagues.

Income Drawdown - The Risk, Our Controls and Your Options



D R Hughes

The mid 1990s witnessed the introduction of Income Drawdown, now often referred to as "Unsecured Pension". The idea behind the introduction was to allow those individuals who were retiring with larger pension funds to have an alternative option other than be forced to purchase an annuity with their residual fund, after any tax-free cash payments had been made.

Income Drawdown allows individuals to retain control over a significant personal asset, provides maximum flexibility both in relation to accessing tax-free cash and also with regards to having the ability to vary income from one year to the next or alternatively defer income altogether until a later date.

The personal control, flexibility on offer and the attractive death benefits for dependents/beneficiaries has made this an extremely popular choice for individuals with funds in excess of £100,000 at retirement.

The Munro Partnership Ltd has been managing Drawdown portfolios for over 10 years, during both good and bad investment conditions.

The Risks

Income Drawdown generally provides a maximum income that can be up to 20% greater than the maximum income available from a single life level annuity. The ability to generate this additional income appeals to many clients however the risk is borne on the investor. The reason why the government permit higher income levels from Income Drawdown is that the investor is hoping that investment returns will not only replace the levels of income being withdrawn, but also give some capital growth over and above. If this is not achieved then ultimately the Drawdown fund will reduce in value and there is the possibility that it could generate less income than the initial annuity purchase would have provided.

Our Controls

The Munro Partnership Ltd has a number of controls in place to assist with the management of Income Drawdown portfolios. It is imperative that a portfolio is balanced and has adequate liquidity. Short term income, particularly for the first 2 years of a plan will be set aside in a Cash based fund. This allows the remaining investments to be spread across lower, medium and higher risk areas with the view that they can hopefully be left alone for some time should investment conditions deteriorate.

We also insist on annual reviews for all our Income Drawdown clients during which an assessment will be made on your personal and financial circumstances and objectives to ensure that Income Drawdown remains appropriate for you at all times.

What Are Your Options?

For those clients in Income Drawdown, we have experienced a particularly poor year for investment conditions when only the Cash asset class has generated a positive return for investors. Fixed Interest investments, Commercial Property and Equities have all had a negative year and when this is combined with the month to month income which has been withdrawn, many Drawdown clients have witnessed an erosion of their capital in this short term period. One option is to consider reducing income which would put less strain on the funds that remain.

You always have the option to purchase an annuity. This would mean giving away the capital to an insurance provider but in return you would receive a guaranteed income for the remainder of your lifetime.

If you are an existing client within Income Drawdown or you are considering this as a possible retirement option, please do not hesitate to speak to our team of consultants should you wish further clarity or reassurance on the above concept.

Income from Investments

Many individuals use their investment portfolios to generate an income. This income can be provided in two ways. The first is to simply instruct the investment house to provide you with a fixed amount each month. This is done by encashing units in your fund to the value of the required income level.

The advantage here is that the income amount is fixed each month. However, in months where the unit price is low, more units will have to be encashed to provide the income payment and vice versa when the unit price is high.

The second option is to invest in funds which provide a natural income distribution. Such funds can invest in a variety of assets such as equities and bonds. Equity income funds for example invest primarily in companies that pay investors a dividend. This is due to the fact the objective of them is to provide a natural income distribution in addition to seeking an element of capital growth. As a result such funds will invest in traditional dividend paying industries such as pharmaceuticals, oil, telecoms, utilities and in more unethical sectors such as tobacco companies. Generally, such companies are more defensive in nature and will invariably be blue chip. As a result some equity income funds tend to hold up relatively well in times of market volatility and decline.

The income from such funds will fluctuate as the value of the holding and the dividend yield (income level) changes. However, as the income is natural, units are not being encashed to provide it and therefore your shareholding is not decreasing. Equity income funds can also be appropriate for investors who do not actually need the income that they produce. If not required, the income can be reinvested back into the fund. This can act as a useful hedge against the unit price falling.

Sovereign wealth funds have been in the news recently amid rising concern about their activities. But what are they, who is behind them, and why are people worried about them?

Sovereign wealth funds are government-controlled investment funds, created by countries with surplus cash for investment. They hit the headlines initially when middle eastern funds helped out the investment banks, then more recently following the news that a Chinese fund had accrued almost 1% of UK oil giant BP. Some market watchers have become particularly concerned about the motives behind these purchases; China needs oil in order to fuel its ongoing expansion, and some think these stakes might be an attempt to gain influence within the sector.

Most sovereign wealth funds also tend to be secretive, which has further fuelled questions about their motivations. In addition, accusations of speculative activity have been leveled against some of their managers, although defendants argue that the managers are simply looking for long-term, returns, just like any other investor.

Looking ahead, there are moves afoot to persuade sovereign wealth funds to sign up to a code of conduct that would ensure greater disclosure about their assets and investment strategy. It is unlikely that every government involved would be willing to accede to such an agreement; however, until they become more open about their activities, their detractors are likely to remain.

What is clear from the activity of Sovereign Wealth funds is that the current market conditions appear to offer real value to large investors over the medium to longer term. There is a possible concern that the ownership of our biggest institutions may end up in foreign hands. Countering this, such the investments will probably stabilise the market.

As you will be aware, investment markets have been yo-yoing up and down dramatically over the last year. Timing investment transactions, especially where large single premiums being made to a pension are involved, becomes particularly crucial at times like these. When markets are volatile, to get the best possible deal - invest on a day when markets are low - you either have to be very lucky or very knowledgeable. Even if you are knowledgeable you can get it wrong sometimes.

An alternative option is to gradually phase pension contributions, lessening the risk that people choose the wrong date to invest (the day when the market is very high). This happens as a matter of course when people have a regular savings contract. However, for people who invest large single premiums, the risk can appear to be much higher in the short term that you can invest at the top of the market.

The ability to spread the risk and buy some units when investments are low - known as pound cost averaging - has been around for as long as the markets have been in existence, so the strategy is hardly revolutionary. If the market falls, the client benefits by getting more units when the price is low. It also makes timing less critical as the investment is not as sensitive to market risk - by spreading the investment the price paid for shares is averaged out and the possibility of investing everything at the top of the market is avoided.

Pound cost averaging gives the potential to provide sustained growth over time, regardless of short-term fluctuations. It can allow people to concentrate more on where to invest their money rather than wasting effort on trying to find the exact best time to invest. While markets continue to be very volatile it is worth considering the benefits of this simple, hassle-free way of spreading investment risk by drip feeding their investments through pension.

There is the potential downside of pound cost averaging is that markets may continue to grow in value and therefore, you will be buying fewer units as the price of the fund(s) you are investing in increases. However, phasing into the market may give you greater piece of mind.



R Dale

Points to consider in volatile markets

World stockmarkets have been in decline over the last year. In the 12 month period to 16th July 2008, the FTSE 100 Index has fallen just under 19% with many predicting that things may get worse before they get any better.

The Munro Partnership Ltd's recommendation is that it is not the time to exit markets but to take a long term view. History has shown that the patient investor has been rewarded by the long term upward trend in equity prices. Whilst cash is looking attractive as a safe haven for many investors, trying to switch in and out of the market is very difficult and most investors end up worse off as a result of moving at the wrong time. £1,500

invested in the UK stockmarket 15 years ago and left untouched would today be worth £3,261, assuming you reinvest the dividends. According to research carried out by Fidelity International, if you had missed the ten best days in the market since June 1993, then the £1,500 would be worth only £2,147 - 34% less. Take out the best 40 days and that portfolio would be valued at only £885 - a massive 73% of a difference. The message is to be managed and stay put.

If you find it difficult to stay invested in the present market conditions and are panicked by the bad news that is always around, then perhaps equity investing is not for you. Those who remain invested should bear in mind that the outlook may deteriorate further if market sinks lower. At the bottom of the market the outlook will appear worst of all. This is when the pressure to sell your investments will be greatest. Remember though that the stockmarket will turn well before there are any signs that the economy is improving.

The worst mistake a private investor can make is to be sucked into markets when they are high and the prevailing mood is optimistic only to be shaken out at times when markets are falling and the outlook is uncertain. By ensuring you have good cash deposits will mean that you should not need to encash investments at the wrong time.