

METCALF MOAT UPDATE

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METCALF MOAT

IFA LIMITED

*'Growing by
recommendation'*

Going nuts in Brazil!

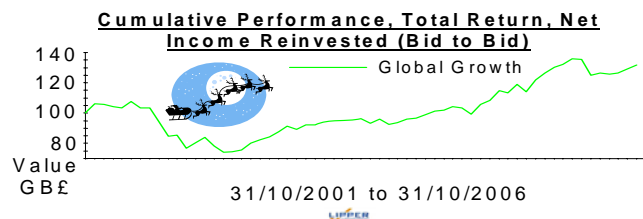
Its normal in the run up to the festive season, that the investment side of our business enters the seminar season (some similarities to panto), and we are deluged with opportunities to listen to fund managers of the various investment houses extolling the virtues of their funds. Generally these funds are selected due to their performance over the last one to three years (we resist shouting 'its behind you'), or, alternatively they are new funds launching or being relaunched under new management.

Whilst historic stellar performance is of interest, most advisers who have been in the profession some time, have learned to use these occasions to interpret the general economic situation, but more importantly, in these days of globalisation, geographical trends.

As an adviser who started his career in Financial Services in the days of Britain joining the EEC, one of the most significant changes in the investments arena (apart from With Profits falling from favour) is the impact that Globalisation has had on it. Even if you are investing in a UK growth or income fund, the vast majority have holdings in the big banks for example, and think how much money these banks have invested in companies around the world. In addition the UK funds hold major international companies like Shell, Vodafone and British

American Tobacco etc. so I hope you see what I mean. The countries all the fund managers are talking about at present are termed BRIC, standing for Brazil, Russia, India and China, and these seem to have overtaken the 'Tiger' economies of South East Asia, and as for Japan, that is 'so last century'. However, due to their diversity property funds (REITS) are still popular. The difficulty from an advisers point of view is to try and get clients exposure to growing markets, without subjecting them to the risks encountered with

investment world for some time, and their performance to date bears this out. It is currently offered within Investment Bonds, PEP's and ISA's and a number of pension contracts. An interesting twist to the Multi-Manager concept is the launch of a 'Best Ideas' fund, where 10 top fund managers are asked for their 10 best stock selections. The principal being that you have a diverse fund of 80-100 stocks from some of the current leading managers who are keen for their selections to outperform the other 9! Not a fund in



'Teletext Times' I am pleased to advise that the introduction of, 'Fund of Funds' and 'Multi-manager funds' to investment ranges have helped to reduce this risk. The fund manager selects funds from a range of different fund providers and blends the various talents of these fund managers. In addition they use geographical diversity to spread clients money over a wide area and monitor this on a regular and consistent basis, any changes made enjoy economies of scale. I believe this is one of the most positive moves in the

which to pour all your life savings, but it certainly could be of interest to diversify, and there is a global version too! The above graph indicates cumulative performance of an average global growth fund over the last 5 years. Contact your usual Metcalf Moat adviser for more details on any of the funds.

For the opportunity to win one of 5 gift vouchers, send the correct answer to this question:

'In what year did Britain join the EEC?'

Answers by 14/01/07

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WISE MEN AND CHRISTMAS

The original Christmas story saw wise men travelling from afar to celebrate the birth of a saviour. The wise men hadn't comprehended the purpose of their journey, but acted in faith, understanding the seasons and interpreting the 'signs'. Destiny unfurled and history was made.

In another less seasonal story, a wise man built his house on the rock, but a fool, doing things quickly and cheaply, built his house on sand. With the latter, devastation ensued when the storm came. Note the emphasis on **WHEN**, not **IF** a storm came. A storm would happen sooner or later, a bit like life. There will be storms and they can blow up suddenly and unexpectedly, and we don't know the shape they will take, or when they will arrive. They come uninvited and we can't control them!

The house built on the rock withstood the storms of life being built on good ground and firm foundations, providing a safe environment and security from the elements. Fortunately today common sense prevails within the construction industry. It is now standard procedure to build only after having first laid suitable foundations to support the structure, and not doing so would breach building regulations.

Similarly, The Financial Services Authority (regulator of the financial services industry, and one of the most powerful bodies in the UK) prioritises the need to have

suitable protection cover to underpin all other arrangements. How bizarre is it that we should try to build our life with investment, pension and property portfolios on the cheap without first laying a foundation of suitable protection for life, risking the very assets and lifestyle that we are trying to create.

However, recent Friends Provident figures show 90% of the UK working population have no income protection cover at all. Many insure the cat, dog, fridge, car, TV, mobile, holiday and golf equipment, in fact almost anything but the one thing that pays for everything else, our income!!!

Equally ironic are the 4 main reasons given for not effecting income cover, the 4 age old myths: "It's too expensive", "Insurers won't pay out", "There's little chance I'll need it", and "The State will provide!".

With regard to cost, subject to initial medical underwriting, in many cases comprehensive income protection cover providing security and income until retirement in a claim situation can be provided for similar cost to that of our monthly satellite TV subscriptions or car insurance premiums.

Suddenly income protection cover seems great value compared to other insurances and

'goodies', taking into account the merit, cost and value of each, e.g. the cost of car insurance and value of the car insured. One has to ask what price is guaranteeing our income until retirement worth, maintaining lifestyle and security.

Secondly, insurers **DO** in fact pay millions of pounds each year to income protection clients (Friends Provident alone paid out over £26,000,000 in 2004, with similar amounts paid by other insurers).

Thirdly, according to statistics provided by reinsurer Munich Re show you have at least a 1 in 4 chance of needing to claim income protection during your working life. Also, claims experience of leading insurers shows over 50% of all Income Protection claims are being paid for 4 years or more. (Friends Provident / Scottish Provident), and currently over 2.5 million UK citizens have been off sick for 6 months or more (Dept of Work and Pensions).

Finally, the level of benefit payable by the State is basic, currently providing the following:-

After 3 days sickness, up to £70.05 weekly Statutory Sick Pay (SSP) for first 28 weeks, and from 29 – 52 week, Short Term Incapacity benefit will pay the same amount of £70.05.

After 52 weeks, £78.50 weekly Single Person's Long



Term Incapacity Benefit is paid and that is taxable after 28 weeks of receipt.

Slightly higher benefits may be payable subject to age and dependants. However, of claims received during the 2006/7 tax year, 1 in 4 people failed the State's People Capability Assessment and would receive no benefit.

Having dispelled the myth's associated with income protection, and hopefully **NOT** struck fear into the hearts of all during 'the season to be jolly', I sincerely wish you a very Merry Christmas. At the same time, I encourage you to include reviewing your income protection arrangements at the top of your new year's resolutions, and like the original wise men, follow the signs, make the journey to your financial adviser (gold, frankincense and myrrh not necessary) and who knows, they may become your saviour!!

