

METCALF MOAT UPDATE

YOUR FIRST CALL FOR INDEPENDENT FINANCIAL ADVICE

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Advisers

*Colin Moat
John Riley
Lee Taylor*



METCALF MOAT

IFA LIMITED

*'Growing by
recommendation'*

Nostalgia is not what it used to be!

As 2009 will be my 20th year as an IFA and my 30th year in financial services, my colleagues have indulged me by allowing me to review some of the changes that have occurred in that time.

Ghosts of Christmas Past

To set the scene I started in 1979, the same year as Margaret Thatcher came to power, Britain was in recession until 1982, inflation peaked at 20%, and interest rates were 17%! When Metcalf Moat appeared in 1989, inflation was a mere 7.5%, interest rates had risen from 13% to 15% and in 1990/91 we went into recession.

Mortgages

In 1979 a first time buyer was expected to have saved with a Building Society for at least a year before they would be considered for a mortgage, and there was little 'shopping around'. In 1983 the introduction of MIRAS (tax relief at source) made the use of endowments with mortgages financially advantageous (they were cheaper), MIRAS was removed in 2000 and a whole new debate about endowments began, and despite the FSA giving its approval if sold in the right way, it spawned a new industry of 'ambulance chasers'. The early 90's saw unemployment of 2.6m, high inflation, and increasing repossessions, withdrawal from the

ERM on Black Wednesday, and interest rates varying from 7% to 15%.

Investment

Of course in the 80's savers greatly appreciated interest rates of 17% but were less impressed by inflation of 20%. The choice of investment from insurance companies was generally limited to With Profit, until the rise of new fangled unit-linked products from upstarts like Allied Dunbar and Abbey Life. There was privatisation on a big scale and, for some years, shares seemed like a one-way bet (sound familiar?). Personal Equity Plans were introduced in 1987 and started slowly, due to its initial limitations, the stock market crash in October 1987 didn't help. The market lost 25% in one week, but regained this over the following year. When PEP changed acronym to ISA in 1997 it had taken £52bn out of the clutches of the taxman (enough to bail out a small country?). Tessa's were less popular due to its rules, and was replaced by cash ISA's.

Pensions

It was a good day when the old Retirement Annuity Contracts (S226 policies) were replaced in 1988 by Personal Pensions, which despite reducing tax free cash from 33% to 25%, they gave much greater

**WISHING YOU ALL A HEALTHY AND HAPPY
CHRISTMAS AND PROSPEROUS NEW YEAR FROM
ALL AT METCALF MOAT**

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1980
SAS rescue ends Iranian embassy siege in London

flexibility. The new style pensions of Stakeholder (April '01) and A-day (April '06) are fantastic products by contrast. Unfortunately, the reputation of pensions has been shot to pieces by the 'sledgehammer and nut' Pension Review, closing of costly company schemes, and the dripping tap of bad news. On top of this the £5bn a year raid on pension funds by Gordon Brown when he abolished dividend tax credit in the 1997 budget hasn't helped much either!

1982
Last-ever Post Office telegram

Protection

This has always been a 'Cinderella' product, but is probably the most important for most people. It is not unusual, to find that people are prepared to pay far more to insure their car rather than the source of the finance that funds it! A major product came to the market in 1967 in the shape of Critical Illness cover, introduced by Dr Marius Barnard (brother of Dr Christian Barnard of heart transplant fame). He recognised that often people and their dependents were in a worse financial state if they had a traumatic illness and didn't die, than if they did. This together with Income Protection are both undersold (and underbought!) but are as vital now as they ever were. 1 in 3 of us will develop cancer in our lifetime*, 2.44 million people have been claiming incapacity benefit for more than 6 months**.

1983
£1 coin introduced

1984
Ice skaters Torvill and Dean win Olympic Gold

1987
Mrs Thatcher elected for third term

Source * Cancer Research June 2007, ** Dept of Work and Pensions as at March 08, based on May 07.

Ghosts of Christmas Future

Mortgages

Very difficult to place at present and you should seek the help of experienced practitioners like my colleagues John Riley and Lee Taylor to ensure what you have is competitive. Lenders can charge up to £1000 for a variable rate now and are reverting to 'old school' underwriting with 'loan to value' and sizes of deposit being all important. It is expected that interest rates will fall still further and that may help stop the slide in house prices. I think an area that will grow in the future is Lifetime Mortgages, which allow people to take money out of their house value rather than downsizing.

Investment

The prospect for savers in the short term is not exciting, with interest rates likely to go down to 2% or less. The search for income may lead to Corporate Bonds as they represent very good value for income, and

1988
Golfer Sandy Lyle is first Brit to win US Masters

1989
Voyager Spacecraft reaches Neptune

1990
Channel Tunnel links England and France

lower risk. For those who have the appetite, many senior fund managers believe that equities have been subject to indiscriminate selling, and, over a 5 year plus timescale, offer good value. One newish product that I believe will become more popular is an Investment Bond which offers a guaranteed 5% withdrawal for 20 years, or for life, and is proving attractive.

Pensions

Now is a good time to review your pensions to check if you are invested in the right funds and the right company. I know when your finances are under pressure its tempting to put your contributions on hold, but remember you are likely to be buying more cheaply now than you have for many years and that in 5-10 years time these could be a bargain! Have you increased your premiums recently? If you don't do something about your income in retirement no one else will, and government help is reducing.

Protection

Ask us to review your policies if you have had these some years, surprisingly, premiums may have reduced! Don't cancel anything until you are sure it can be replaced, and your health hasn't changed. Ask yourself if you were unable to work through illness, how long will your bills be paid, and do you want to sell your assets to pay them?

Bah Humbug!

I spent my early years encouraging people to save on a regular basis into savings plans. If Tiny Tim wanted to do this today he would have to complete a fact-find, products would have to be researched, a recommendation made, applications would have to be completed, and documents produced. By contrast Tiny Tim could receive a letter through the post offering, say, £20000 of credit and with a 10 minute phone call could have the money in his bank. Where is the incentive to save?

And finally...

Another major change over the years, health warnings and compliance. As Mortgages, Lifetime Mortgages, and Debt Consolidation have been mentioned above, we have to include the following:

- *Your home may be repossessed if you do not keep up payments on your mortgage.*
- *Our charges for mortgage advice are usually £295.*
- *Think carefully before securing other debts against your home.*
- *To understand the features of a Lifetime Mortgage ask for a personalised illustration.*

Colin Moat, Director.

1991
Beirut hostage John McCarthy freed

1992
Council Tax Replaces Poll Tax

1994
Nelson Mandela is South Africa's President

1997
Tony Blair is the youngest Prime Minister of the 20th Century

2000
UK Interest rate raised to 6% in February

2001
Shares face crisis as terrorism fear grips market

2003
England win Rugby World Cup in Australia

2007
Northern Rock bank crisis