

THE ADVISER.

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Welcome to the latest edition of our newsletter, our update on developments in the world of financial services.

If you have any questions about the issues raised in this issue, please do not hesitate to contact us.

Speeding up the process

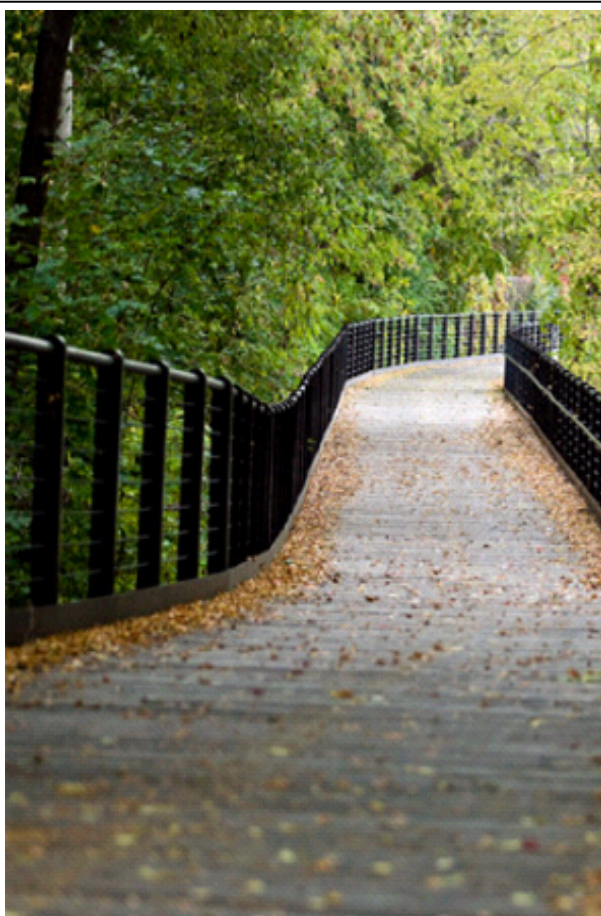
Recent investigations by the Office of Fair Trading (OFT) show that ISA savers may not be getting a fair deal. Around 11% of Cash ISA holders switch their deposits to a new provider each year. However, following a 'supercomplaint' from watchdog, Consumer Focus, the OFT found that cash ISA transfers take an average of over 26 calendar days (against industry guidelines currently set at 23 working days).

Having to wait nearly five weeks is a long time. In addition, during this period, the OFT found that consumers not only miss out on the higher rates which pushed them to transfer in the first place, there is also a period during which they receive no interest at all! The OFT has, unsurprisingly, deemed this unacceptable and agreed that transfers and interest rates on cash ISAs be more transparent. From 31 December 2010, the OFT recommends that transfers take no longer than 15 working days. Consumer group Which?, however, wants to cut this further, to no longer than 10 days, and also wants a fully electronic transfer system to be set up.

The OFT has therefore recommended that research be done to see if an electronic transfer system is feasible. They also believe the new rate of interest should be paid from day 15 of the transfer period – even if the transfer remains incomplete – and that interest rates be published on statements (from 2012). Despite the disagreements, however, after so many years delaying the process, it is good to see that something is finally going to be done.

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Time for your own review

As you can probably guess from the many contradictory reactions to the spending cuts, no one can really tell which way the economy will go in the short term. As an investor, therefore, you could be forgiven for not knowing how to position your portfolio whilst we find out. However, some rules never change and the first, making sure your holdings are well diversified, is exactly for times like this. Over expose yourself to a single asset class – say, equities – and its performance will mirror only the fortunes of the equity market. However, if you choose a range of asset classes from across different countries, the different elements will all perform differently. If one does badly, the chances are another will do better and compensate for some



Rock and hard place

Uncertainty appears to be the watchword among policymakers at the Bank of England (BoE). Recent events have provided few hints on the possible direction of UK interest rates and the timing of any potential movements, and the Monetary Policy Committee (MPC) remains divided on future strategy. Minutes of their November meeting showed that, although most Committee members wanted rates frozen at 0.5%, one member voted for an increase of 0.25 percentage points, while another called for an expansion of the currently dormant quantitative easing programme.

The Consumer Price Index remains stubbornly high, running well ahead of the BoE's rolling government-set target of 2%. However, the MPC cannot seek to cool inflation by raising interest rates. Although the base rate remains at its lowest level in more than 300 years, policymakers are reluctant to stage an increase for fear of derailing the UK's fragile recovery. This is likely to experience an additional curb in the short term thanks to the cuts in public spending.

For the short term at least, our environment of exceptionally low interest rates appears here to stay. Such a strategy is good news for borrowers; however, it will prolong the headache for savers, particularly those who are looking for a low-risk home for their money. Those focusing on deposit accounts are already getting little return on their money while inflation continues to eat away at its real value.



Celtic tiger declawed

After considerable speculation, Ireland finally buckled under the weight of its financial crisis and followed in Greece's footsteps by requesting bailout funds from the European Union (EU) and the International Monetary Fund (IMF).

In order to support the overall stability of the eurozone, Ireland will receive a substantial loan – funded jointly by the IMF and the EU. In addition, the UK will offer a bilateral loan to Ireland. Although this loan is likely to prove controversial, it is widely believed to be in the UK's interest; Ireland is one of Britain's principal trading partners, accounting for 5% of British exports, and the banking systems of the two countries are closely linked.

Ireland is running a huge budget deficit; it totalled 14.4% of GDP at the end of 2009, but is expected to soar as high as 32% by the end of 2010, considerably higher than the EU's limit of 3%. Ireland's leaders are introducing a four-year plan aimed at bringing down its budget deficit by slashing public spending. Income taxes are set to rise, but Ireland's low rate of corporation tax – considered crucial in attracting and retaining overseas investment – will remain unchanged.

Although uncertainty over Ireland's fortunes has diminished following the news of the bailout, concerns over the country's immediate future have not been eradicated. For many investors, the financial stability of the eurozone remains in doubt, and questions remain over the outlook for other highly indebted countries such as Portugal and Spain.

An interesting start

When your first child arrives, the very last thing you are probably thinking about is how much its going to cost. However, according to the Liverpool Victoria Cost of a Child survey (2010), you are looking at a 21 year bill of over £200,000. Saving a little along the way is therefore a sensible way to deflect some of the larger future commitments which you might find yourself facing. In many cases, at least to start with, deposit accounts are the first port of call and most banks offer child-specific accounts. The benefit of these is they can allow irregular payments of spare money and you always know that your capital value is safe. However, the return you get is purely interest so make sure you seek out the highest one you can find.



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