



The Street Lamp News

Spring 2011

Rising inflation continues to raise alarm bells, particularly in the UK. However the consequences of inflation are not uniform around the world and its effects in the developed world will be quite different from those in the developing world.

The principal reason behind current inflation which is likely to increase further in 2011 is the rise in commodity prices, exasperated by the floods in Australia, poor harvests in the developing world and the Chinese demand for commodities. Food inflation is most likely to be felt in the emerging markets where a greater proportion of income is spent on food.

In the UK in addition to the rise in commodity prices we have experienced a VAT rise which has led to inflation being higher than the Bank of England target for a number of months. It is widely believed that by stripping out these 2 items inflation would be within the target range. In short some of the UK's inflation problem is actually being imported, but this of course still has an impact on consumers disposable income.

For the Governments current finances and the indebted consumer controlled inflation is not necessarily a bad thing. With higher inflation employees can demand higher wage and with higher wages the proportion of debt repayment to income falls.

With inflation elevated due to temporary facts such as VAT rises, imported price rises and fragile consumer confidence it is unlikely we will see any significant interest rate rises this year. House prices remain critical to the UK recovery as there is a direct link between house prices and the health of the banking sector. With the UK consumers main source of debt linked to housing it is an area very sensitive to rate rises. With a long lag between changes in interest rate rises and effects being felt in the economy any sharp rate rises might risk slowing down the UK economy just as global growth improves.

Therefore inflationary pressures are likely to lead to monetary policy tightening next year rather than this year.

All Things Being Equal!

EU Gender ruling and the real impact on annuities

The European Court of Justice (ECJ) ruled on 1st March 2011 that as from 21st December 2012 unisex rates will be required to be used for insurance business.

This decision will change the calculation of insurance premiums and benefits for many types of insurance. Although the full impact of this decision will not be known for some time, early indications are that the different types of insurance will be affected as follows:-

Motor Insurance

Female drivers under the age of 26 will be big losers with some seeing premiums rise by 25% at renewal. Prices could theoretically fall by 10% for young male drivers, but in reality will this happen! In middle age, premiums would be largely unchanged.

Private Medical Insurance

Women are more prone to illness when younger, whilst men need more frequent treatment after 60. Switching to unisex rates is set to raise premiums for men aged 35 to 50 by 15% and cutting female premiums by about 12%. After age 60 men would pay on average 7% a year less and women 8% more.

Life Cover

Women typically live five years longer than men so they usually pay the same rate for a man five years younger. However, most life assurance is purchased by men so any unisex rates would be far closer to the current male rate than today's female rate.

Pension Annuities

Once the new ruling comes into effect analysts forecast that under a unisex rate men would get between 3% - 8% less income for their money whilst women might get up to 6% more.

If you are considering taking out private medical insurance or life cover you may wish to consider doing this sooner rather than later in order to save on costs. Similarly a big decision for men with private pensions will be whether to take their benefits before 21st December 2012 when annuity rates for them will most likely decrease. When looking to take your pension benefits the ECJ ruling is not the only factor affecting annuity rates. Gilt yields, interest rates, lifestyle and medical conditions all need to be taken into consideration when purchasing an annuity. Consideration should also be given to the different types of pensions that are now available in retirement, any of which could be a suitable alternative to the conventional annuity; capital protected annuities, income drawdown and phased retirement to name a few.

The annuity offered by the current provider may not be competitive and in many cases it is possible to obtain more pension income by effecting an open market option whereby you are free to buy an annuity from any provider in the market. It is important for any person to obtain independent financial advice before taking the benefits from their pension arrangement.

Budget 2011

Tax Allowances / Reliefs	2010/2011	2011/2012
Personal allowance - under 65	£ 6,475	£ 7,475
Personal allowance - aged 65-74	£ 9,490	£ 9,940
Personal allowance - aged 75+	£ 9,640	£10,090
Income limit for age-related allowances	£22,900	£24,000
Married couple's allowance - aged 75+	£ 6,965	£ 7,295
Minimum amount of married couple's allowance	£ 2,670	£ 2,800
Blind person's allowance	£ 1,890	£ 1,980

INCOME TAX RATES AND TAXABLE BANDS

	2010/2011	2011/2012
Earnings		
Starting rate for savings* - 10%	£0-2,440	£0 - 2,560
Basic rate - 20%	£0-37,400	£0 - £35,000
Higher rate - 40%	£37,401-£150,000	£35,001 - £150,000
Additional rate - 50% -	Over £150,000	Over £150,000
Dividends		
Starting Rate	10.0%	10.0%
Basic Rate	10.0%	10.0%
Additional rate on dividends -	42.50%	42.5%
Over £37,400	32.50%	32.5%
Savings		
Starting Rate	10.0%	10.0%
Basic Rate	20.0%	20.0%
Higher Rate	40.0%	40.0%
Additional Rate	50.0%	50.0%

The 10% starting rate of Income Tax on savings income does not apply if taxable non savings earnings income exceeds £2,560. The additional rate of tax on dividends applies to the gross up dividend less the tax credit. From 2011-12, the basic personal allowance for income tax will be gradually reduced to nil for individuals with 'adjusted net incomes' above £100,000.

CAPITAL GAINS TAX RATES	2010/2011	2011/2012
Individuals	18%	18%

ANNUAL EXEMPTIONS

Individuals	£10,600	£10,600
Main home	unlimited	unlimited
Entrepreneurs' Relief lifetime limit of gains	£5m	£10m

Other Budget Changes

Individual Savings Accounts

The annual allowance for investment in a tax free Individual Savings Account has increased to £10,680.

Inheritance Tax

Whilst the nil rate band of £325,000 is unchanged new rules have come into effect for those donating more than 10% of their net Estate (i.e. after exemptions, reliefs and the nil rate band) to Charity. Reduced rate of 36% will then apply.

Junior ISAs

For all children under 18 who do not have a Child Trust fund they will become eligible for the new account. No specific regulations are yet available but further details will be set out in the Autumn.

Approved Mileage Allowance payment

The rate at which employers can reimburse employees for using their own cars for business purposes has increased from 40p to 45p free of tax,

National Insurance

The main and additional rates of National Insurance increase by 1% from 6th April 2011. The primary threshold for employees increases to £139 per week and the secondary threshold for employers increases to £136 per week.

Pension Scheme Contributions

The maximum annual contribution to a registered pension scheme has fallen from £255,000 to £50,000 but the ability to carry forward unused allowance has been re-introduced allowing up to 3 years to be carried forward from 2008/09. The lifetime allowance remains unchanged.

Enterprise Investment Schemes & Venture Capital Trusts

Relief for this type of investment will increase from 20% to 30% and the annual investment limit increases to £1 million.

MARKET REVIEW

During the six months ending 31st March 2011 capital changes in the main markets have been as follows:-

	Indices		Percentage Change %	Adjusted Change % *
	30/09/2010	31/03/2011		
<u>United Kingdom</u>				
FTSE 100 Index	5548.62	5908.76	6.49	
FTSE All Share Index	2867.58	3067.73	6.98	
FTSE Mid 250 Index (exc. Inv trusts)	11063.5	12190.4	10.19	
FTSE Small Cap. Index (exc. Inv trusts)	2439.17	2628.6	7.77	
FTA Brit. Gov. Securities Index				
Fixed Interest - All Stocks	161.09	153.14	-4.94	
Index Linked - All Stocks	379.81	380.87	0.28	
<u>North America</u>				
Standard & Poors Composite Index	1141.2	1325.83	16.18	14.21
<u>Japan</u>				
Topix Index	829.51	869.38	4.81	3.85
<u>France</u>				
CAC 40 Index	3715.18	3989.18	7.38	9.72
<u>Germany</u>				
DAX Index	6229.02	7041.31	13.04	15.51
<u>Switzerland</u>				
Swiss Industrial Index	6296.33	6357.55	0.97	6.00
<u>World</u>				
FT World Index	328.17	364.11	10.95	10.95

*This column adjusts the capital changes to reflect the movement of Sterling against the relevant local currency.

Composite Index

9.43 %

This Index is calculated on the basis that a client's Portfolio is invested as detailed below with net income re-invested at the payment date:-

Building Society Deposits	30.00%
UK Government Index Linked Stocks	10.00%
UK Equities	40.00%
Overseas Equities	20.00%

Bulls & Bears

Equities

UK Equities The market can make headway, supported by valuations and the benefits of sterling's depreciation on overseas earnings, but faces headwinds from weak real income growth and fiscal tightening.

US Equities Supported by improving corporate cash flow into 2010 on the back of strict cost control but the upside is limited by the consumer debt and housing market overhangs restraining domestic demand.

European Equities Profitability is restrained by less cost cutting than is taking place in the US and UK, plus the impact of euro appreciation, albeit some firms are supported by their exposure to emerging market economies.

Japanese Equities Exposure to the Asian and US economies is offset by very weak domestic dynamics and tighter fiscal policy; government action has been unsuccessful so far in stimulating consumer spending or ending deflation.

Developed Asian Equities Cautiously selective on Asian economies benefiting from strong Chinese growth but wary of inflation pressures building in some countries unless central banks take firm action to dampen liquidity.

Emerging Market Equities Some are benefiting from the upturn in commodity demand and upgrades to sovereign debt ratings. Others still face external financing problems awaiting a strong recovery in export growth.

Corporate Bonds

Investment Grade Spreads over government bonds are still historically wide, although not as attractive as last year. Improving corporate cash flow supports a peak in bond default rates.

High Yield Debt This benefits from an attractive carry, improving corporate cash flow and a peak in the default cycle as the global economy recovers. Investors still need to be aware of selective default risk.

Government bonds

UK Gilts	Concerns about the economy's fiscal position and likely sizeable gilt supply in the years ahead make us cautious relative to other western markets.
US Treasuries	Yields look relatively attractive against the backdrop of muted inflation pressures and a still weak housing market which will limit any interest rate increases this year.
UK Inflation-Linked Debt	There are inflation risks in the medium term from central bank quantitative easing, but valuations of inflation-proofed debt need to be examined carefully.

Property

UK & European	Looking attractive, with particular focus on supply-constrained office markets, e.g. London and Paris, and higher-yielding central European logistical property.
North American	Significant property debt maturities present risks for US commercial property but Canada's lowly-leveraged property markets should fare better.

Other Assets

Global Commodities	Strong demand for industrial commodities, led by infrastructure projects in emerging economies, but oil and soft commodities will eventually see new supply come on stream.
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Cash

Central banks in the major economies will keep monetary policy very loose well into 2010 as inflation pressures remain weak due to excess capacity and high levels of unemployment

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