

Welcome to the 2nd edition of the Parkgate Financial Solutions newsletter. Our aim is to keep you up to date with activity going on in the financial services arena and this newsletter will be a regular occurrence going forward.

After such a hard winter it is nice to see the sunshine finally coming through bringing with it the springtime which is traditionally known as a season for planting and pruning with the anticipation and hope of future growth. With this principle in mind it may also be a time for you to review your financial position and start planning and reviewing your investments and savings in line with your future plans and dreams. Fail to plan you are surely planning to fail.

Please take a minute to read the articles in the newsletter to give you an idea of what products are available in the Independent Financial Adviser's market place.

What is a SIPP?

The popularity of the Self-
Invested Personal Pension

(SIPP) has increased dramatically in recent years. Costs have come down, many investment providers have launched SIPP-friendly products, and the UK government has ensured many different types of investments qualify for inclusion in a SIPP wrapper.

A SIPP is a tax-efficient wrapper - a particular type of pension - which sits around your retirement fund, allowing you to select from a wide range of investment choices. It gives you great control and flexibility over the investments, allowing you to tailor your SIPP portfolio to match your investment requirements. If you are employed, your employer can also pay into the plan to help boost its value. All contributions, within preset annual and lifetime limits, receive income tax relief at your highest rate, and all investments within it will not be liable to any further income or capital gains tax (CGT).

A SIPP also allows flexibility once you reach retirement, whether you buy an annuity immediately or opt for phased or deferred retirement. However, while there are long-term benefits for those interested in the flexibility, they are not for everyone. There are set-up charges, and annual management charges which need to be weighed up against the benefits. You will also need to consider whether you need the full investment flexibility provided by a SIPP or whether the increasing range of fund links offered by more conventional plans would actually be sufficient.

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Are ISAs tax free?

ISAs are tax-efficient but the exact benefits can vary. You pay no additional tax on the income from your ISA savings and investments, and no tax on any capital gains. You don't even have to tell the Inland Revenue you have one, let alone what income and capital gains are generated. But while cash ISAs are free of tax, and corporate bonds allow you to reclaim the 20% tax on the interest payment they make, equity-based ISAs suffer a withholding tax that cannot be reclaimed. Effectively, you currently pay 10% tax on dividend income - whatever your actual rate of income. There is still a significant advantage for higher rate taxpayers, however, who won't be hit for any more.

Preparing for a new future

It is a sad fact of life that one in three marriages now ends in divorce. Indeed, divorce amongst older couples is on the rise, and older divorcées can find themselves at a bigger financial disadvantage than less established younger couples.

Thanks to the combination of earning less and spending time out bringing up children, women are likely to have much smaller pension pots than men. Therefore, should the worst happen, women in particular need to look to consider pension provision when negotiating a share of marital assets. If one spouse has no pension savings while the other has a substantial amount, this can be taken into account when determining the final settlement.

There is a choice, however. Some couples opt to offset pension rights against the value of other assets and award a one-off lump sum and clean break – but with no guarantees over the actual pension. Another option is to earmark some pension for an ex-spouse, deferring that sharing until the main pension holder retires. Finally, however, couples can now agree to split the pension at the time of divorce but keep those amounts invested; thereby enabling both parties to move but with pension rights in hand yet full control over their share for the future.

If the worst should happen, it is vital to take legal advice before making any decisions. Whatever your circumstances, however, it is worth taking advice about pensions to ensure that, whatever your future might bring, you are well prepared.



Common mistakes

"To err is human" said Alexander Pope - but in investment, to err is expensive. What you can do, however, is look at the mistakes of others and try to avoid the most obvious pitfalls.

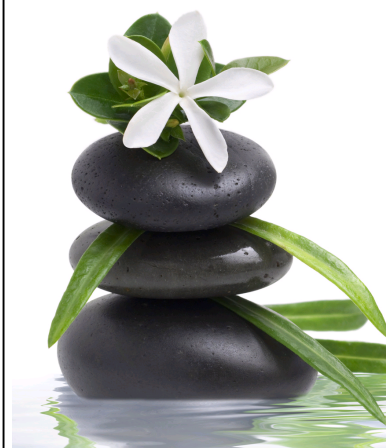
Investors can make many mistakes but one of the most common is to follow the herd. When markets are high, they can scramble to invest, thinking they might miss out. Then, when markets are falling, they often sell out. The most recent example of both issues was the 'dot.com' boom. This first persuaded millions of investors to part with their savings thinking they were missing out on a chance to make 'easy' money. Unsurprisingly, the bubble then burst and many scrambled to get out without a thought about what might happen next.

The lesson is not to get carried away in the moment - either to invest or to sell. Stories of large falls in markets can make investors nervous - but this is the nature of equity investment and selling on a short-term dip simply crystallises a loss - and can also mean missing out on both the eventual return to normality and the longer-term benefits. Markets will always go down as well as up - so if you are scared by such volatility, take advice. Perhaps equities are not for you.

Finally, investors often believe they can time markets yet experts agree this is a near-impossibility. Investment should never be gone into lightly. Be clear about your objectives, your timelines and the risks - and make sure your portfolio is run accordingly.

Start early

The Government Actuary's estimates put life expectancy at 91 for a female born today. As we are living longer, it therefore makes sense to maximise your pension, and the earlier you start saving, the more money you're likely to have. Indeed, the money saved into a pension between the ages of 25 and 35 can account for up to half your final amount. The main reason is the effect of compound interest, where the interest on money you save earns interest on itself over time. Start a pension at 25, say, and at 6% pa, £50 a month would provide £100,000 at retirement (age 65). Delay the start until the age of 35 and that same £50 per month produces just £50,000.



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