

Welcome to the 3rd edition of the Parkgate Financial Solutions newsletter. Our aim is to keep you up to date with activity within the financial services arena.

Most people will now have had their summer holidays and start looking forward to the change of season. Let's hope it is not a repeat of last year's winter.

As the temperatures drop we naturally look to wrap ourselves in suitable clothing for comfort and warmth so why not apply this principle to your savings and investments. Our company does engage with Wrap technology which is platform based investing, using model portfolios matched to your attitude for risk.

If you are interested in hearing more about our Wrap culture and the features and benefits they provide please do not hesitate to call 01925 600 665 and ask for more information.

## Inflationary pressures rise

UK interest rates have now remained at their all-time low of 0.5% for over a year. The UK appeared to creep tentatively out of recession but the new Government is now anxiously looking at ways to cut costs without derailing a still fragile recovery.

However, the UK Consumer Price Index was still 3.1% in July. In his most recent open letter to the Chancellor of the Exchequer, in May, the Governor of the Bank of England (BoE), Mervyn King considered these levels to be the result of "temporary factors" and suggested inflation will fall back below the Government-set target level of 2% "within a year".

Even taking King's explanation for the rise into consideration, it is worth remembering the rate of inflation has almost doubled since November 2009. Indeed, only a few months ago, deflation seemed the more credible risk. In normal circumstances, the BoE would increase the cost of borrowing in order to cool inflation. However, rates are unlikely to rise in the short term because policymakers fear higher interest rates could endanger that economic recovery.

Low interest rates are generally good news for borrowers, but are bad news for savers, who have already endured a year of exceptionally low interest rates. Returns on cash are meagre and relatively high inflation is eroding the real value of cash. At least in the short term, Britons face the combined problems of high inflation and rising taxes, both of which will put additional – and unwelcome – pressure on disposable income.



## Pooling your resources

For those who lack either the knowledge, capital or simply the time to research direct investments into shares, pooled funds offer a good alternative. Investor's money is collected together and the total is then invested across a range of assets in return for a fee. There are hundreds of pooled funds to choose from - some aiming to provide an income, others to deliver capital growth. Some simply track a stockmarket index while others are actively managed by a professional manager with stock selection expertise. Some even target a specific country, region or market sector. However, the principle is the same - by pooling your money with other investors, you can achieve greater diversification from a far smaller outlay of capital.

### Contact Us:

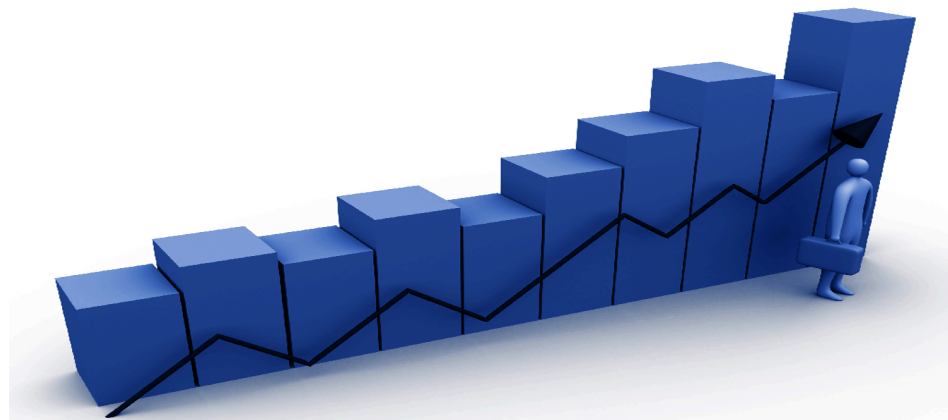
Parkgate Financial Solutions, 1st Floor, 99 Knutsford Road, Grappenhall, Warrington, Cheshire, WA4 2NS.  
Telephone: 01925 600665, Fax: 01925 600556, E-mail: [post@ParkgateFinancialSolutions.com](mailto:post@ParkgateFinancialSolutions.com)  
Web: [www.ParkgateFinancialSolutions.com](http://www.ParkgateFinancialSolutions.com)

## The attractions of income

UK interest rates are at an all time low at the moment and the rates on cash deposits have plummeted from their levels of 2007. Savers are therefore looking for alternative ways to boost their income, and in this current environment, it is perhaps worth reconsidering the benefits of equity income.

Companies that pay high dividends over the long term tend to be established, with robust balance sheets, strong cashflow and earnings growth, and an ability to control costs. These companies tend to perform better than their less mature counterparts during market downturns and are well placed to deliver long-term performance. Of course, some companies might decide to cut their dividends at this time – and we have seen a spate of these decisions as firms look to safeguard profits – however, as an investor, a widely diversified portfolio can help insulate you from the one or two companies who do.

A successful equity income strategy balances a better-than-average yield with the potential for long-term capital growth – and when markets are volatile, dividends can provide at least some support for a portfolio's overall value. In addition, large companies often derive a sizeable proportion of their earnings from overseas, and the pound's current weakness might even provide the opportunity to boost profits when those are translated back into sterling. Above all, however, an equity income strategy will focus on high-quality, well-established companies with the potential to contribute to a strong, sustainable total return.



## Planning for growth

The make-up of your investment portfolio will depend on a number of factors, most importantly your age and attitude to risk. Age, for example, helps indicate your time horizon and therefore what volatility you can tolerate. Your attitude to risk then determines your reaction to short-term losses and how much your exposure to the more volatile asset classes needs to be balanced with lower-risk holdings.

If you do not require an income, you will be looking to invest in assets that will maximise the potential capital value of your portfolio. If you have a longer time horizon (for example, during the earlier years of pension planning) then it could actually pay you not to be too cautious. Equities have traditionally outperformed all other asset classes over the long-term. However, if you do get nervous when equity markets slump or you have a shorter time horizon, then maybe equities are not the right option – or perhaps you just need to be careful about what sorts of equities you choose. For shorter periods – or for more cautious investors – a small core holding of larger UK equities might be more appropriate than international equities, emerging markets or smaller companies

The rest of your portfolio is then likely to be spread across fixed interest – a blend of corporate and government bonds – and cash. This provides the diversification you need for when markets fall and, through the use of deposit accounts, gives you a safety net for any short-term emergencies.

## A little at a time

In an environment of low interest rates, new options have appeared which allow you to avoid chancing your entire hard earned pension fund on the annuity rates available on a single day. If you plan to work beyond retirement, perhaps part time, you could consider phased retirement, ie: a series of mini-retirements which enable you to use parts of your pension in smaller portions over an extended period of time - perhaps right up to age 75. The effect is that you start with a low income (and small tax free lump sum) and increase this, bit by bit, as your needs dictate. It is not appropriate for everyone but you only retire once and need to make the most effective use of your hard-earned pension fund.



## All in the taxation

Is a pension the only way to ensure you have enough to live on when you are older? Rather than depend on it, using an Individual Savings Account (ISA) could offer an additional - or even an alternative solution, depending on your situation. The one main difference between a pension and an ISA is the way investments and then withdrawals are taxed. Your pension payments qualify for tax rebates on the way in, while the income paid out later is taxable. With an ISA, the money you contribute has paid tax before it goes in but then the withdrawals you make are free of further tax. It is also useful to know that your pension income counts towards your personal income tax allowance, while your ISA withdrawals do not.

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