

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.

A fairer deal

Individual Savings Accounts (ISAs) are big business: over 17 million Britons hold a total of £143 billion in cash ISAs. However, recent investigations by the Office of Fair Trading (OFT) are set to ensure a fairer deal for ISA savers.

Typically, around 11% of ISA holders will switch their cash to a new provider each year. However, in response to a "supercomplaint" from consumer watchdog Consumer Focus, the OFT found that cash ISA transfers take an average of just over 26 calendar days, with a quarter of transfers taking longer than 30 calendar days. Current industry guidelines indicate that the transfer process should take no longer than 23 working days.

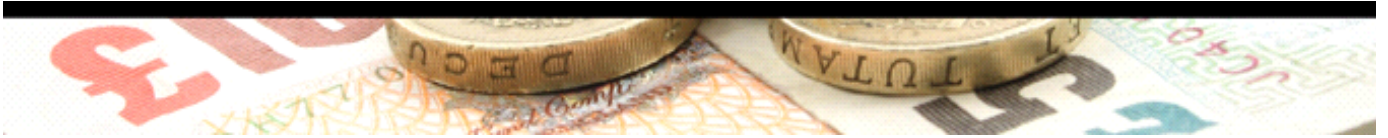
As part of its findings, the OFT has reached an agreement with the financial services sector to ensure that transfers and interest rates on cash ISAs are more efficient and transparent than at present. The OFT has recommended that, from 31 December 2010, transfers should take no longer than 15 working days. Consumer group Which? wants the transfer process to take no longer than 10 days, and also wants a fully electronic transfer system to be set up. The OFT has recommended the Financial Services Authority should undertake research to see whether an electronic transfer system is feasible. At present, the old provider sends details and a cheque to the new provider through second-class mail.

The OFT found that, during the transfer process, there is a period of up to five days when the consumer receives interest from neither the old provider nor the new provider. The OFT has deemed this unacceptable, stating that transferring savers should always receive interest on their money. Moreover, the OFT announced that the new rate of interest should be paid after the recommended 15-day transfer period – even if the transfer remains incomplete – and wants interest rates to be published on statements from 2012. At present, only around 15% of ISA savers receive statements that include their interest rate. The OFT also wants consumers who have applied for fixed-rate products to be guaranteed the rate of interest advertised at the time of application.

The OFT commented: "There is often strong competition between providers in this market to win new savings, the transfer of cash ISAs is taking too long and there is not enough transparency over interest rates. The voluntary changes announced today will give consumers a fairer deal and drive stronger competition."

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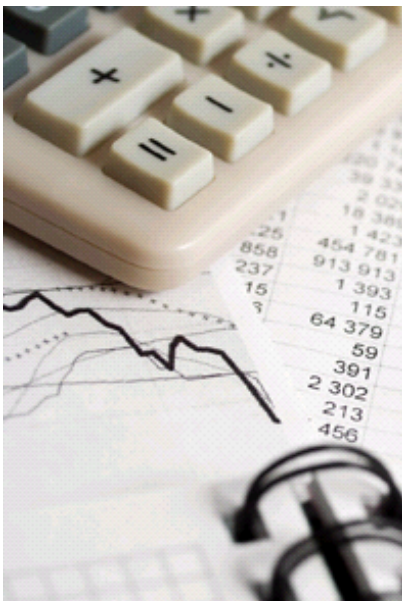


Changes to CGT

A rise in capital gains tax (CGT) was a key tenet of Liberal Democrat policy. To address the discrepancy between the top rate of CGT (18%) and the top rate of income tax (50%), a rise to 40% or even 50% had been mooted. As it was, Chancellor George Osborne was a little more measured.

In the end, CGT was raised to 28% for higher rate tax-payers and maintained at 18% for everyone else. Osborne suggested any further hike would reduce the yield to the Exchequer from CGT rather than increase it. He also maintained the annual exemption at £10,100, adding this would continue to rise with inflation. Although this was a smaller increase than expected, many were disappointed the Chancellor did nothing for assets held for the longer term. However, he specifically noted that a reintroduction of taper relief and/or indexation would prove too complicated. The Chancellor did, however, retain business reliefs and, in some cases, extend them.

The property and equity markets may have slowed, but those investors who have held assets for a long time may still face a large bill. As such, many of the tax planning measures important pre-Budget will now be even more so: Using the annual exemption each year, plus that of a spouse, rather than crystallising a single, large gain can help mitigate CGT. Equally, if you are currently a higher rate taxpayer but expect your earnings to fall, eg: on retirement, then deferring a sale may be worthwhile. Either way, now is a good time to review, just in case the changes offer new opportunities.



Surviving recession

TIP 1: DIVERSIFY

This is also the first rule of investing but worth reaffirming. Different asset classes perform well or poorly at different times. If your portfolio is exposed to a single asset class – say, equities – its performance will follow the fortunes of only the equity market, and returns could be volatile.

However, if your portfolio contains a selection of different asset classes, and is also spread across different countries and regions of the world, the different elements will perform differently – so if one is doing badly, the chances are another will do better and compensate for some of the downside.

Surviving recession

TIP No 2: CONSIDER
LOOKING OVERSEAS

With diversity in mind, perhaps you can start looking overseas for opportunities. A UK-focused portfolio is a sensible and conservative option for a UK-based investor. However, this strategy leaves you at the mercy of only domestic sentiment. Other areas of the world might offer a more positive outlook during this time, or could simply be better placed to help through a domestic downturn. You need to be aware of the additional risks involved with international markets but even a first step into developed, western economies could diversify some risk.

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