



Tax efficiency and future strategies

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Tax efficiency and future strategies

DR STEPHEN BARBER IS AN ACADEMIC WHO ADVISES SELFTRADE ON ECONOMICS AND MARKETS. HE EDITED THIS EDITION OF STOCKTAKE.



Welcome to the latest edition of Stocktake which comes amid continued volatility in domestic markets and turmoil overseas.

CONTENTS

- 4 **Are bonds still a good idea?**
- 6 **A day for resignation... or action?**
- 9 **Trend towards transparent investments set to continue**
- 12 **Real estate has endured a volatile few years but what of the future?**
- 16 **Spread Betting for profit**
- 18 **MENA unrest is a timely reminder for investors to properly assess risk**
- 20 **The forgotten investment tax allowance**
- 21 **SIPP strategies for higher rate tax payers**
- 23 **Global asset views**

And on a more practical level for Selftrade investors, such events coincide with the impending end of another tax year.

And so for investors subscribing to tax efficient vehicles – ISAs and SIPPs – before the 5th April deadline, the question of future strategies is paramount. With returns squeezed and opportunities and risks presented from across the world, the importance of diversification as well as tax efficiency, have rarely been more central to investors' approaches. The priority now is surely to make portfolios work harder and to seek the best returns from across the world.

Domestically, the UK economy suffered a contraction in the last quarter of 2010; the first fall into negative growth since Britain emerged from recession twelve months earlier. Meanwhile, the story which exercised our attention in the last edition of Stocktake – just how policy makers are to respond to stubborn inflation – continues unabated. Indeed, more recent

statistics show that the Consumer Prices Index has risen to 4% (the Retail Prices Index which includes housing costs is a percentage point higher). That puts the Bank of England in an even trickier position. But as the minutes of the Monetary Policy Committee show, however fragile the state of recovery, sentiment is moving towards a rate rise. After all, price rises at 4% while base rates remain at levels lower than at any time since Churchill was prime minister, is surely unsustainable.

Given latest figures published by the Office for National Statistics, which showed that the seasonally adjusted volume of retail sales in January rose by 5.3%, while the value went up 8.2% compared with 2010, one might expect quarter one 2011 growth to be back on track. With economic support being drawn from key trading partners Germany and the USA, investors might well consider the stalled recovery to be something of an aberration. Or is that just too optimistic? We will have an indication before long when the figures are published.

As always, please get in touch with your views and let us know if there are any topics you would like to see Stocktake cover: research@selftrade.co.uk

Also on the horizon is George Osborne's second Budget. With the coalition government approaching its first anniversary, expect to see a shift in language (though not policy) away from the doom and gloom of cuts and austerity to more positive visions of growth and business. Green and high technology, together with infrastructure and even manufacturing are the sectors that investors will be watching.

But one cannot ignore the political unrest in the Middle East and North Africa which is causing ripples throughout world markets. As usual it is the uncertainty of such developments which stress equities and commodities alike.

Diversification is perhaps the answer and this edition of Stocktake explores some options open to investors. Diversification of sectors, markets and instruments can all form part of the strategy to improve returns – especially when combined with tax efficiency. And in these pages, authors consider the attractions of bonds, property, the MENA region, ETFs and structured products, Spread Betting, ISAs and SIPP. ■



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Stocktake feedback

We'd like to tailor the format of Stocktake to suit your needs as best we can, so it would help us if you could answer the few questions below.

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- Impractical and difficult to use
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Are bonds still a good idea?

MARK GLOWREY OF INVESTORS INTELLIGENCE

Mark Glowrey of Investors Intelligence runs through the argument he has been having with fellow analyst David Fuller about the attractiveness of bonds. Mark still favours bonds, but David...

David Fuller, the editor of www.fullermoney.com maintains the view that bonds are an asset class best avoided, pointing out that the bond bull market has seen its best days. Indeed, as the chart below

illustrates, the long-term decline in bond yields (and the corresponding increase in bond prices) started right on 30 years ago in September 1981. This super long-term cycle for bond prices saw yields drop from 15% on the US 10 year note down to a miserly low of 2% in 2008.

David sensibly asks the question, does it make sense to buy bonds so late in the cycle? David's view is that the 28-year bull market in bond yields ended with the climactic downward acceleration in December 2008 (marked with circle on chart). Fullermoney maintains that the next significant move will be upwards.

I, on the other hand, take a more pragmatic approach. Rates are going up, but the important questions for investors seeking an income are: by how much? When? And, what do you do in the meantime? For the moment, saving rates are low and even if we see the Bank of England hike the base rate this year, forward rates in the money-market suggest that interbank rates are unlikely to push up above 2% before 2012.



BONDS

Most investors would like to see a more generous return on their cash, particularly with inflation running at the current level of 4% (as measured by the CPI). Luckily, the market price of bonds is discounting higher rates going forward, with commensurately higher yields for long-dated securities, an effect known as a 'positive yield curve'. This is something that investors can benefit from now, rather than wait for rates to go up.

By buying bonds in the sweet spot of this curve – the 5 to 10 year area, investors can benefit from a decent income without locking in their money for too long a period (and remember that bonds can be liquidated in the market at any time without loss of income). Consider also that such qualifying assets, when held inside an ISA or SIPP, offer a tax-free stream of income. A 5.4% return within an ISA is the equivalent to a 9% headline savings rate for a 40% taxpayer.

The table below lists a selection of bonds popular with private investors currently trading in the secondary market.

Despite David's disapproval, I would continue to advocate selected purchases of fixed income securities as part of a diversified portfolio. However, investors should be cautious of having too many holdings in very long-dated bonds – should interest rates start to spiral upwards, such assets will see sharp falls in value.

When buying gilts and/or bonds, you should consider the issuer's credit rating and their ability to repay their debt. This will have a direct bearing on the value of the investment. Should the issuer default, they may not make interest payments or be able to repay your money. ■

Issuer	Coupon	Maturity	Price	Yield	Collateral Type	Credit rating	ISA/SIPP?
RBS	5.3%	2015	101.1	5%	Senior	A+	No/Yes
Lloyds TSB	5.375%	Sept 2015	102.67	4.7%	Senior	A+	No/Yes
Tesco Personal Finance	5.2%	Aug 2018	100	5.2%	Senior	Unrated	Yes/Yes
Enterprise Inns	6.5%	Dec 2018	90.78	8.1%	Senior/secured	BB (sub inv-grade)	Yes/Yes
Segro	7%	Mar 2022	105.4	6.3%	Senior bond	A-	Yes/Yes
Italy	6%	Aug 2028	100.4	5.9%	Sovereign	A+	Yes/Yes

Correct as at Feb 2011



A day for resignation... or action?

DAVE JEAL IS HEAD OF PRODUCT MANAGEMENT AT SELFTRADE

Dave Jeal balances the instinct to throw in the towel with that for investment tax efficiency

What is it about the 5th April that makes it a day of resignation? Prime ministers Henry Campbell-Bannerman (1908), Kuniaki Koiso of Japan, (1945); Winston Churchill (1955); Harold Wilson (1976); Foreign Secretary, Lord Carrington (1982) all left office on this date... and each year UK tax-payers resign themselves to ensuring their tax affairs are up-to-date.

This year it's perhaps more important than ever that we take action ahead of the tax year deadline. With above target inflation eroding our savings, low interest rates impacting cash returns, higher earners facing a 50% income tax bill and spending cuts starting to bite, investors need to ensure they make full use of tax-advantaged opportunities to build capital reserves and protect income.

Tax-in or tax-out?

It's worth pointing out that under the various schemes available from Selftrade you'll only get 'one-way' tax relief. So with an ISA you make contributions out of taxed income (taxed -in) but have no tax to pay on income withdrawals or capital gains (no tax out). And with a pension, you get tax relief on contributions but are liable for tax (depending upon your income at the time) when you draw income over and above the tax-free lump sum you can withdraw once you start drawing your pension benefits.

It's the same for your children. Growth and income in a Child Trust Fund (CTF) is tax-free (apart from the inability to reclaim the dividend tax credit on distributions) and withdrawals are tax-free too. But contributions to the fund by parents, grandparents etc will, of course, be from taxable income. You can't start a CTF for children born from 1 January 2011... but keep an eye on our website for details of the scheme that will replace the CTF.

For those with no taxable earnings, including children, there's the opportunity to contribute up to £2,880 p.a. to a personal pension and get an additional 20% contribution from the tax man to top-it up to £3,600.

Whatever your circumstances, it makes sense to take a good look at what's available and decide how best you can make use of the opportunities. Do take advice if you need it... it can pay for itself.

Access v advantages: layer your investments

Of course, it's not just a matter of saving tax, either now or in the future. Access is important too. There's generally little point in tying-up all your savings for the future and not being able to

get hold of some of it should you need to. As always, getting some balance in your financial planning is important. Some cash for immediate needs (perhaps in a cash ISA or savings account), 'near cash' such as gilts or cash funds that will be stable but can be cashed-in at short notice (perhaps part of a Shares ISA or trading account) for a reserve fund; accessible investments you can draw upon if you have to (your longer-term investments in a Shares ISA), and long-term investments (via a pension or SIPP). This layering effect enables you to structure your savings and investments in terms of access, security and growth potential.

Here's how the various schemes compare in terms of how much you can contribute each year and what access is available:

“Remember to use your ISA and SIPP allowances by 5 April or lose this year's tax benefits.”

Account type:

Tax feature

Income tax relief on contributions
Income tax relief on dividends/interest
Income tax payable on withdrawals
Capital Gains Tax relief

Contribution limits

Maximum per annum:
2010/11
2011/12

Withdrawals

Withdrawals allowed from:
2010/11
2011/12

Child Trust Fund

Cash ISA

Shares ISA

SIPP

X
✓
X
✓

X
✓
X
n/a

X
✓
X
✓

✓
✓
✓
✓

£1,200
£1,200

£5,100
£5,340

£10,200
£10,680

max £255,000
£50,000

age 18
age 18

Anytime
Anytime

Anytime

age 55 (from 6/4/2010)
age 55

There's a third dimension to consider, too.

Relief v restrictions

The price you pay for tax-efficiency can be to limit where you invest your money. Primarily, with a SIPP there's no restriction. You could even invest in CFDs and unquoted shares, although many SIPP Trustees will be reluctant to support such a decision (remember, with a SIPP you are effectively directing the Trustee where and when to invest, and it's their role to ensure you understand the risks).

But with a **Shares ISA** and **CTFs**, HMRC do impose some limitations, although maybe not as severe as some may think. You can invest in:

- equities quoted on a recognised exchange – so that excludes AIM (unless they have a main listing on a recognised overseas exchange too). PLUS Market-listed stocks are eligible but PLUS-quoted and PLUS-traded stocks aren't. 'Equities' in this sense includes Warrants (but not Covered Warrants), ETFs, ETCs and ETNs (but keeping view the 5-year rule for the latter);
- Authorised Unit Trusts and OEICs;
- Bonds and Gilts which have at least five years to run until maturity at the time of purchase;
- Most Investment Trusts and Funds. But a small minority choose not to opt for an ISA-eligible structure, often because this restricts their own opportunity for small-cap investment.

In addition to the small-cap exclusion and unauthorised funds, other exclusions include VCT and EIS investments (other tax advantages apply to these asset classes), Covered Warrants and derivative-based investments (although, as noted above, Exchange Traded Commodities, which are mainly Derivative-based, are eligible).

It can get quite complex, so if you spot an investment you want to buy into your Shares ISA but get an error message saying it's not eligible, do let us know and we'll be pleased to take a second look.

Particularly in these days of low returns, the focus within a Shares ISA can often be on income-producing stocks. So it's handy that you don't need to detail in your tax return the income you get from ISA investments.

One final thought...

Most customers will benefit from an ISA. So if you're investing in ISA-eligible investments, it's worth taking a look at how an ISA might benefit you. And remember, ISA rules allow you to make your subscription then decide where to invest – you don't have to jump in there and then, although you do need to be 'actively seeking to invest' your ISA cash. But given that's the whole purpose of paying into your ISA, it's very likely you'll be on the look out for the right investment, at the right price and at the right time anyway!

So you don't need to resign yourself to paying more tax than you need after all. ■

Trend towards transparent investments set to continue

JOHN CRAVEN IS DIRECTOR OF EXCHANGE TRADED PRODUCTS AT SOCIETE GENERALE

The dramatic growth of Exchange Traded Funds (ETFs) in recent years has been driven by a shift in demand towards lower cost, liquid investments that offer convenient, transparent and diversified exposure to many different underlying markets, says SG's John Craven.

In a low return environment, fees have become more visible, and investors are more focused on reducing them. With the implementation of the regulatory Retail Distribution Review in 2013, this trend is expected to increase, and we may well see the UK catch up with countries such as the US, where around half of all ETF assets are held by private investors.

The least complex ETFs are designed to track a benchmark equity index such as the FTSE 100. Unlike other popular UK investment vehicles such as Unit Trusts and OEICs, they can be traded throughout the day, with live prices quoted on the exchange in the same way as shares or investment trusts. Furthermore, unlike many closed-ended investment trusts, since ETFs are generally open-ended, they tend to trade at prices very much

aligned to their Net Asset Value (NAV). The number of shares outstanding in an open-ended fund can also be increased or decreased to reflect demand for the fund, reducing the liquidity risk that holders of investment trusts face, because shares may trade at a big discount to the NAV.

The Active v Passive debate

Critics of ETFs sometimes cite the potential benefits of active management, where higher management fees are paid in return for the potential outperformance of a benchmark index. While there are many active funds that do indeed outperform their benchmark, many academic studies suggest the majority do not. As it can prove difficult to select a fund that persistently outperforms its benchmark index, many investors prefer to focus on reducing costs and eliminating 'manager performance risk.'

As the popularity of ETFs increases, investors are becoming more aware of the differences in providers in terms of counterparty risk and



investment costs. For example, Lyxor ETFs use a 'Swap Replication' method to track the index more accurately, whilst at the same time reducing costs. This method means that investors face the credit risk of Société Générale for up to 10% of NAV (they could lose up to 10% of their investment if Société Générale went bankrupt). As Lyxor does not on-lend stocks, there is no additional unknown counterparty risk. This is not the case with some other ETF providers or active fund managers.

A lower cost, liquid alternative to Structured Products from a high street bank?

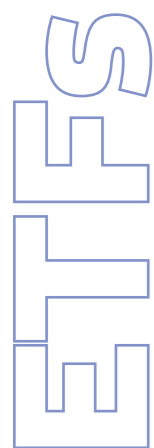
Four in ten private investors now own a structured product, accounting for more than £52 billion in retail investor funds in the UK¹. Investors are attracted by potential benefits such as capital protection, high income, or superior growth over traditional investments. However, many products are bought through high street banks, where upfront charges can be as high as 9%, and where little or no liquidity is available for investors looking to get their money back early.

The universe of Exchange Traded Products (ETPs) also stretches beyond ETFs, offering sophisticated investors access to investment strategies in much the same way as a traditional Structured Product, but with the flexibility and transparency of the

product being listed on the London Stock Exchange (LSE). Listed Structured Products trade directly on the LSE like a share, saving the distribution fees charged by banks. Not only does this eliminate the middle-man, but it means that investors benefit from superior liquidity (they can buy or sell throughout the trading day at a time that suits them) and a broader product range.

For example, the most popular product in the UK market in recent years has been the 'Kick Out Plan' (often known as an Autocallable), where investors can achieve yields of around 8% - 12% per annum provided equity markets are higher on one of a number of anniversary dates than on the day the product launched. As part of their diverse range of Investment Strategies, Société Générale have a choice of eight Autocallables available, enabling investors to choose the version that best suits their investment objective and risk profile.

It is generally recommended that investors seek professional financial advice before investing. Many products involve risk to capital, and investors may face other risks such as counterparty risk of the Issuer (they could lose their whole investment if the Issuer defaults), and liquidity risk. The product's documentation outlines all the key benefits and risks associated with the product, and this is available online at www.sglistedproducts.com.



Tax efficiency

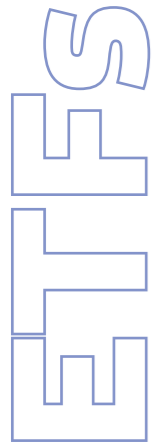
Recent increases in income and Capital Gains Tax (CGT) rates make tax free wrappers such as SIPP's and ISAs invaluable. Those holding investments outside these wrappers tend to look for investments eligible for CGT, given the benefits of the annual tax-free allowance, lower tax rate and potential to offset losses.

During the financial crisis, many investors were attracted to the relative safety of Gilts and corporate bonds. However, as coupons are typically taxed as income at a 40% or 50% rate (for higher rate tax payers), they can be quite inefficient relative to those investments where profits are chargeable as a capital gain at a lower rate. When evaluating different ETFs, it is important to check whether they are efficient for UK investors. Lyxor ETFs listed on the LSE are designed for UK investors, whereas many ETFs not listed in London may be less

efficient. Many yield enhancement products such as Autocallables, and participation products such as Accelerated Growth products can be held within SIPP's and are typically CGT-eligible if held outside. Some products with a maturity above five years can be held within an ISA.²

Regulation promises to further increase fee transparency at a time when low yields make investors more focused than ever on reducing costs. With many investors suffering bad experiences in recent years with complex, illiquid investments, the trend towards less complex, more liquid investments seems set to continue. The popularity of ETFs in recent years suggests that investors will embrace the ability to access other investment strategies such as Kick Out products with lower cost, superior liquidity and greater transparency.

Lyxor Asset Management is a subsidiary of Société Générale.



¹ Source: Survey commissioned by the Financial Times.

² The tax statement is only a general guide. The tax treatment of investments will depend on an individual's circumstances. If investors are in any doubt as to their tax position, they must consult with an appropriate professional tax adviser. This statement of the UK tax treatment of the product is based on our understanding of the laws and practice in force as at the date of this document and is subject to any changes in law and the interpretation and application thereof, which changes could be made with retroactive effect.

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Real estate has endured a volatile few years but what of the future?

M&G PROPERTY PORTFOLIO FUND MANAGER, FIONA ROWLEY, TALKS TO STEPHEN BARBER



What is your view on the market outlook over the next year or so?

I believe that income will dominate returns in the commercial real estate market during 2011 and that the current two-tier market for property will continue. The capital values of some lower-quality properties will probably fall in the first half of the year. The rental market will remain difficult for such property and I believe pricing still doesn't adequately reflect the greater risk to that income. I feel that the prime end of the market is now fairly priced, at sustainable levels.

While the occupier market is still relatively challenging, there are signs that rents are bottoming out and there are even select areas of rental

growth. As the economy gradually improves, feeding through to higher tenant demand and stronger rents over the next two years, better-quality properties will tend to benefit first before the market recovery broadens, perhaps two to three years down the line.

And looking a bit further ahead?

On a five-year view, I believe the UK commercial property market should produce an annualised return of between 7% and 8%. However, commercial property is a specialised sector and you should contact a financial adviser if you have any doubts about investing in this sector. There is no guarantee that the value of property assets will increase

and the value of an investment in commercial property is not fixed and you may not get back the amount you originally invested.

How has your thinking developed in recovery?

I expect any rental growth at the market level to be weak over the short term. In the medium term, however, as tenant demand strengthens with the economy, rental growth is likely to be augmented through the lack of supply of new builds, a consequence of ongoing restrictions for development finance. This supply shortage should manifest itself in above-trend levels of rental growth, and hence above-trend capital growth, in 2013 and 2014. In my view, the property cycle is

turning and so my strategic emphasis is beginning to shift, from primarily securing and maintaining rental income towards devising more initiatives that will grow the fund's rental income. I believe this stock-specific active asset management will enhance capital values for those properties and the fund overall. There is no guarantee that rental growth will take place. Rent default could have an adverse effect on performance. This fund provides a variable level of income.

My strategy is to have a quality portfolio balanced between properties that are particularly income enhancing and those that are more performance enhancing. More recently, my acquisitions have begun to focus a little more on the latter.

So which sectors do you favour?

Stock selection is always more important than sectors in commercial property. That said, I do favour South East industrial properties currently

– a stronger economic region with less supply and hence a good rental growth story. I like central London offices but not in the core areas of the West End and the City, where pricing looks at the least 'full', with a lot of international buyers pushing prices high. The areas I would prefer are the 'villages' of central London – Euston, Fitzrovia and Clerkenwell, for example. Infrastructure improvements like Crossrail should have a beneficial effect on these areas. Southern shopping centres (away from dominant regional centres like Bluewater) are also quite attractive where there is limited supply and where I believe the specific rental profiles have good potential to grow.

What is your own approach to investment management?

I seek to exploit the benefits of being part of one of the largest real estate fund management houses in the UK which undoubtedly provides a considerable information advantage

in what is a 'data-poor' and hence inefficient market. In doing so, I combine our extensive research efforts with our considerable 'front-line' market insight to construct a relatively low-risk portfolio of quality properties. My strategy is to pragmatically and appropriately balance income and growth as we move through the business cycle.

We actively manage the properties in the portfolio. Active asset management is where the fund management team implements stock-specific strategic initiatives to generate growth in rental income. Examples of such asset management initiatives include tenant engineering on multi-let properties, refurbishment, and acquiring assets with a measured level of leasing risk with a view to improving their income profile. Higher rental income for a property not only boosts the income received but also results in an increase in the capital value. However there is no guarantee

that rental growth will take place. Rent default could have an adverse effect on performance.

Tell me about the fund you manage?

The M&G Property Portfolio is a pure property investment, only invested in 'bricks and mortar' – no shares or bonds. It is a highly diversified fund with a strong bias towards prime and high-quality secondary real estate. Lease duration is much longer than average at 14.7 years compared with a market mean¹ of around 10 years (as at 30 September 2010). The vacancy rate is also very low at 3.0% against a market average of 8.3%. This very strong and defensive income profile includes around 25% of the portfolio that is protected against inflation. These are properties with rents that have either fixed increases over time or are pegged to the rate at which the Retail Prices Index rises. A rising rate of inflation will have the effect of reducing the actual value of any gain by an equivalent amount.

With the properties in the fund entering a period of stability, I am looking for ways to increase the capital values of stock through specific asset management initiatives. We don't just collect rent. At M&G we actively manage our properties throughout the business cycle, securing income and extracting further value from assets to enhance performance. At this stage of the rental cycle, I am increasingly looking at asset initiatives to grow the fund's rental income, anticipating the cyclical upturn that should come. This engineered rental growth should then enhance the capital values of these properties. However commercial property is a specialised sector. You should contact a financial adviser if you have any doubts about investing in this sector. The value of an investment in commercial property is not fixed and you may not get back the amount you originally invested. There is no guarantee that the value of property assets will increase.

Is it time for a property renaissance?

The last three years or so have of course seen an extraordinary period in UK commercial property markets. But I feel, for long-term investors, property should always have a place in a balanced portfolio. Over the long term, the diversification benefits are quite clear.

What are the risks in property today?

Many of the current risks to property are common throughout the asset classes, namely the uncertain economic environment. For example, if we were to see a double-dip recession, this would very likely have a knock-on effect on the outlook for rental growth. We have to be aware of the planned public sector cuts and how such job losses may affect the various metropolitan areas we invest in.

On a more property specific matter, there is around £230bn of real estate debt outstanding. The banks want and need to reduce these loan books. As

part of this loan book reduction, some borrowers and banks, where they have taken possession in the case of default, will need to sell property. But the market will not stand up to any rapid reduction in prices and indeed the banks are clearly not in a hurry to sell. I think the most likely scenario is this structural de-leveraging will occur over many years. This may of course present potential opportunities for sourcing stock.

How should investors incorporate property into a balanced portfolio?

I believe that property deserves a place in any well-balanced portfolio as it displays different risk and return characteristics to the other main asset classes. Over the long term, property has demonstrated a relatively low correlation with the other main asset classes and therefore should serve as a good diversifier at the total portfolio level. Also, the property sector has delivered competitive returns when viewed in relation to both equities and UK government bonds.

Commercial property can be viewed as an asset class that sits somewhere between equities and fixed income in terms of risk/reward characteristics. It is similar to fixed income in that it can generate a healthy income whilst, like equities, it has scope for capital growth. In the current environment when investors are concerned about rising bond yields, property can be seen as an attractive alternative whilst being more conservative than equities. However, property investments can be relatively illiquid compared to bonds and equities and selling property investments can be a long and uncertain process. We are unable to give financial advice. If you are unsure about the suitability of your investment, speak to your financial adviser. Commercial property is a specialised sector. You should contact a financial adviser if you have any doubts about investing in this sector.

Source of M&G Property Portfolio info and other data unless otherwise stated: M&G statistics as at 31.01.11.

¹Market mean refers to IPD index. Real estate debt outstanding source: De Montfort University June 2010. This Financial Promotion is issued by M&G Securities Limited which is authorised and regulated by the Financial Services Authority and provides investment products. The registered office is Laurence Pountney Hill, London, EC4R 0HH. Registered in England No. 90776 ■

Fiona Rowley joined PRUPIM as an investment surveyor in 1994 and was appointed deputy fund manager of the M&G Property Portfolio on its launch in 2005. She was appointed fund manager in 2007. Before joining the group, Fiona worked for property service company Knight Frank. She has a first class honours degree in estate management from South Bank University and is a member of the Royal Institution of Chartered Surveyors (RICS) and the Investment Property Forum.



Spread Betting for profit

MALCOLM PRYOR, INVESTMENT WRITER



Spread Betting has been one of the fastest-changing areas of trading in recent years. But even its incredible growth has done little to change the ratio of winning to losing traders. The majority still lose most of the time. And they still don't have to says investment writer Malcolm Pryor.



I wrote my first book about Spread Betting in 2007 (The Financial Spread Betting Handbook, Harriman House). The book is organised around the metaphor of mountaineers setting out to climb a mountain. Proceeding from base camp through to planting your flag on the summit – moving from understanding trading platforms to devising, and executing, successful strategies – the parallel seemed pretty apt.

When you start out in Spread Betting, risks surround you on all sides, though none may be especially visible at first: the ice hides much, and spread companies, at least back then, never set out to be Sherpas. A lot of that has now changed, and for the better. The number of firms offering Spread Betting services has increased significantly. It now stands at well over 50. The customer base has become more sophisticated too, and readier to jump

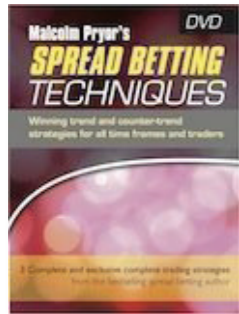
ship to another firm if they see tighter spreads or a better service.

There has been significant downward pressure on the size of spreads. A decade ago, I had to pay a spread of 12 on the FTSE – making day trading impractical. Now the spread is just 1 point. On two of the currencies I trade, I can get a spread of zero (and the Spread Betting firm still makes money!). Likewise, some unacceptable practices, such as the infamous re-quoting of prices, have been discontinued.

And many firms have invested heavily in education, in particular making significant improvements to the quality of their websites. But – and it's quite a big but – most spread betters still lose.

The problem is that climbing that mountain has become, in some respects, less dangerous: but not

less difficult. The weather might be a little better. The ground (on the whole) is more stable. And certainly tales of abominable snowmen (or painful quote shifts, inopportune margin calls, and other bugbears) are less frequent. But it's still a task that requires acumen and endurance.



Thankfully applying these kinds of skills to Spread Betting is, for the most part, straightforward to learn. With the intoxicating speed and rewards that Spread Betting offers, maybe it is not surprising that it is simply a process all of us have to go through. It's why I originally wrote *The Financial Spread Betting Handbook*, and it's why I was excited to have the chance to refresh the whole book this year, bringing all of its advice up to date for those facing the same central task: winning regularly at Spread Betting.

To do this, I identify what winners do that losers don't, and vice versa – and then show how this can guide spread betters who are serious about trying to win. For instance, in the first edition of the book I remarked that most share traders remained long throughout the 2002 bear market – and to their cost.

Since then we have seen the credit crunch, and another bear market, and once again that bias for going long (rather than adapting to the market conditions and looking to go short) has cost spread betters dearly. It shouldn't have done. And my hope is that this revised book will help spread betters stamp out such mistakes in the next few years of trading, whatever further changes they may hold.

Please note that as mentioned above, Spread Betting carries a high level of risk to your capital with the possibility of quickly losing more than your initial investment. It isn't suitable for all investors and you should ensure you fully understand the risks involved and seek independent advice if necessary.

Malcolm Pryor has authored three Spread Betting books and two DVDs.

[The Financial Spread Betting Handbook](#), 2nd edition, is released on 9 May 2011 and is available from the Selftrade bookshop at a 40% discount. He edits www.spreadbettingcentral.co.uk. ■

MENA unrest is a timely reminder for investors to properly assess risk

STEPHEN BARBER

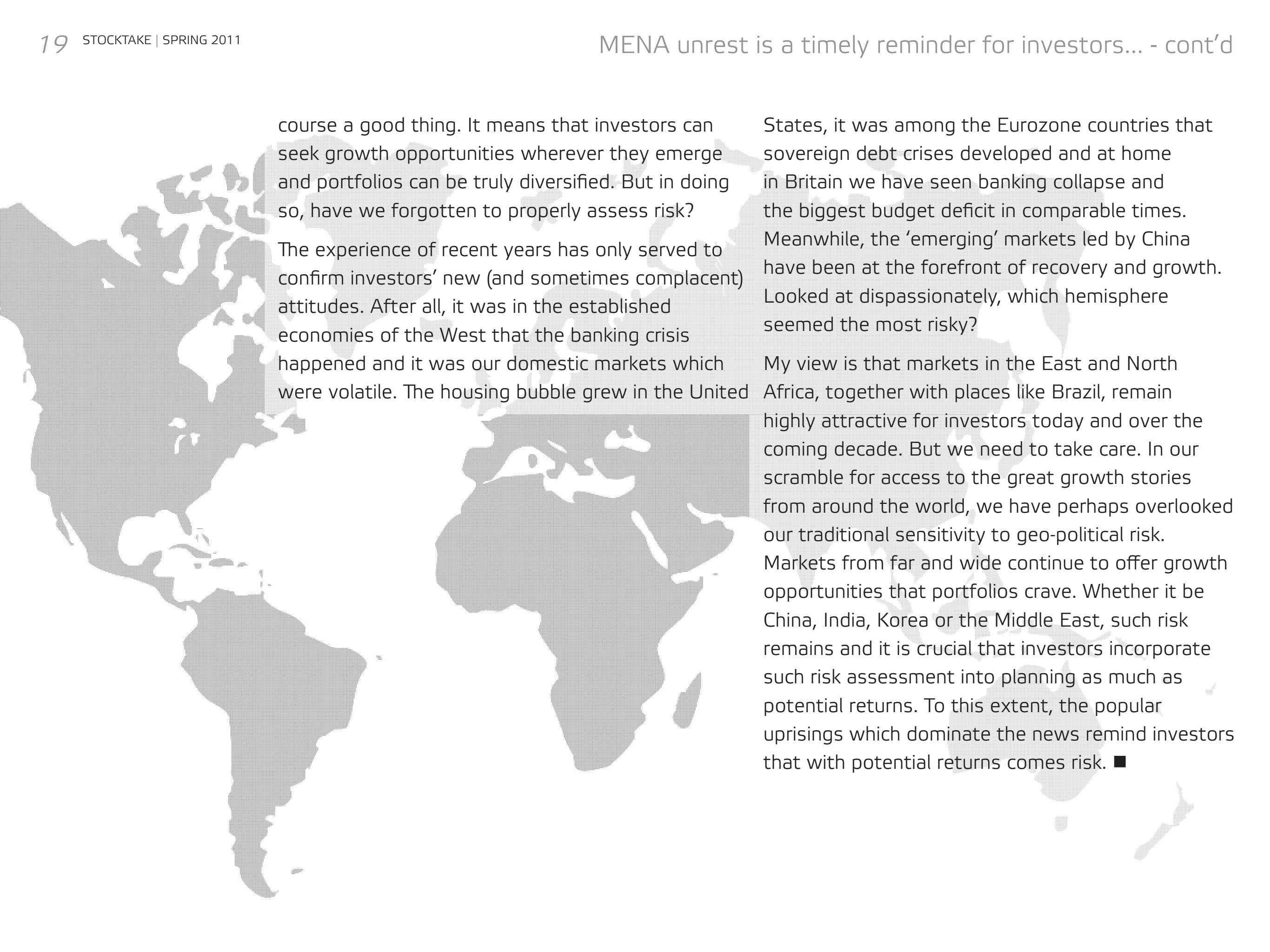
Global news channels have been dominated by the revolutionary demands of people in the Middle East and North Africa who have so long lived under stable dictatorships. But as UK private investors have become accustomed to accessing these and other parts of the world, it is important not to forget geo-political risk warns Stephen Barber.

An outbreak of unrest in Tunisia, then the Lebanon, Egypt, Bahrain and perhaps most prominently Libya, is a timely reminder for investors surveying global sectors. Egypt for instance was a talking point at last month's World Economic Forum in Davos where business leaders discussed the implications for that great trade route, the Suez Canal. This historic passing is responsible for a large portion of Egyptian wealth and is vital for transportation of goods and of course oil. Meanwhile, turmoil in this energy rich region has pressured the price of

oil, indices and related share values. Indeed, it is estimated that the MENA region holds some 60% of oil and 45% of natural gas reserves. And if investors wanted an indication of the correlation between the fast paced events and global markets, one only has to look to the brief rise in equities and fall in crude prices on a false rumour that Muammar Gaddafi had been shot.

One of the great features of investing today is access to markets and sectors from right around the world. Private investor portfolios have been transformed over the last decade or so from domestically focused lists to having fantastic global exposure. A combination of data and research, once the preserve of professionals but now available online, and innovative products such as Exchange Traded Funds have meant buying into BRIC, Africa or even Kuwait is now commonplace. This is of





course a good thing. It means that investors can seek growth opportunities wherever they emerge and portfolios can be truly diversified. But in doing so, have we forgotten to properly assess risk?

The experience of recent years has only served to confirm investors' new (and sometimes complacent) attitudes. After all, it was in the established economies of the West that the banking crisis happened and it was our domestic markets which were volatile. The housing bubble grew in the United

States, it was among the Eurozone countries that sovereign debt crises developed and at home in Britain we have seen banking collapse and the biggest budget deficit in comparable times. Meanwhile, the 'emerging' markets led by China have been at the forefront of recovery and growth. Looked at dispassionately, which hemisphere seemed the most risky?

My view is that markets in the East and North Africa, together with places like Brazil, remain highly attractive for investors today and over the coming decade. But we need to take care. In our scramble for access to the great growth stories from around the world, we have perhaps overlooked our traditional sensitivity to geo-political risk. Markets from far and wide continue to offer growth opportunities that portfolios crave. Whether it be China, India, Korea or the Middle East, such risk remains and it is crucial that investors incorporate such risk assessment into planning as much as potential returns. To this extent, the popular uprisings which dominate the news remind investors that with potential returns comes risk. ■

The forgotten investment tax allowance

STEPHEN BARBER

With all the attention on ISAs and SIPP's in the approach to the tax year end, it's easy to forget that dear old HMRC offers investors another break: the Capital Gains Tax (CGT) allowance. And it's important to make as full use as possible of this, if portfolios are to be as tax efficient as possible. Combining accounts by way of 'Bed and ISA' transactions can be a useful way to do this.

CGT is paid on profits taken in your portfolio at the rate of 28% and this tax is one of the key reasons investors seek shelters such as ISAs and SIPP's in which profits can be made tax-free. But outside of these wrappers, an allowance of £10,100 a year is available and it is one which many investors overlook. Making use of this allowance each year can make your portfolio more efficient and can be worth many thousands of pounds over the long term. And like ISAs and SIPP's, if we don't use the allowance each year, we lose it.

In the approach to the tax year end, investors can achieve 'uplift' in book costs by taking profits within the allowance. Taking these smaller profits incrementally means that a big tax bill could be avoided in the future when you eventually want to sell stocks. But of course many investors will be reluctant to sell successful holdings which are performing well.

'Bed and ISA' transactions can be the answer. This involves selling a share with an inbuilt capital gain, thereby taking a profit within the allowance, and simultaneously repurchasing within the ISA so that you continue to be exposed to the stock.

Please be aware that tax rules may change and depend on individual circumstances. If you are in any doubt as to the risk or suitability of an investment or product you should seek advice from an independent financial adviser. ■





SIPP strategies for higher rate tax payers

FRANCIS MOORE, MANAGING DIRECTOR OF EUROPEAN PENSIONS MANAGEMENT LIMITED

EPM's Francis Moore offers a guide for investors to developments in the pension and tax efficient investment regime.

There is always plenty for investors to think about when it comes to their SIPP, retirement planning and tax efficiency. And governments frequently tinker with rules and allowances. Here is my update on the key changes that will affect investors over the coming year.

Pension contributions, relief and carry forward

Contributions from 6 April 2010 to 5 April 2011

The last government had legislated very complex provisions for claiming higher rate tax relief for this financial year. Essentially any payment over £20,000 gross for the tax year 2010/2011 may be subject to a recovery charge designed to ensure that higher rate tax relief is significantly restricted. It is advisable that your personal tax adviser assists you in calculating how much of a contribution you can make in the tax year 2010/2011.

Contributions from 6 April 2011 to 5 April 2012

To its credit the coalition government has moved quickly to simplify the process providing for a maximum contribution of £50,000 gross per annum for which full tax relief (up to 50% for higher rate tax payers) can be claimed from 2011/2012. Contributors must have earnings at least as high as the contribution being made.

Carry forward

Additionally the government has provided for the return of 'carry forward' such that those with sufficient earnings can carry forward unused relief from previous years starting with the year 2008/2009. Again a contributor must have earnings to support the contribution being made in the pension year.

Pension input periods

It may be possible to vary the end date of the period that payments are made such that two payments might be made in the same tax year.

Salary sacrifice

An option for members of self invested personal pensions might be to negotiate with their employer a salary sacrifice whereby the salary level is reduced with the employer paying the given up salary as a contribution to the SIPP. From 6th April the limit for tax relievable contributions will be £50,000 encompassing both employer and member gross contributions.

Taking your pension abroad

If you are considering retirement abroad, you might like to consider transferring your SIPP to a Qualifying Recognised Overseas Pension Scheme (QROPS) set up offshore in Guernsey and other overseas locations. The QROPS has to be run under SIPP rules for the first five years and then reverts to local pension legislation opening up a number of previously restricted asset classes and avoiding compulsory annuity purchase, though significant changes are planned to UK retirement benefits from 6th April 2011.

SIPPs4KIDs

Sheltering up to £3,600 gross per annum into a SIPP for a child or non-earning spouse leads to an immediate tax break of 20% because the contribution is paid net of tax at 20% by the contributor (usually a parent, god-parent or grand-parent). Whilst the contributor does not receive tax relief on the contribution, it could provide an opportunity to shelter assets via an in-specie contribution or direct asset purchase. To pay the full amount of £3,600 gross requires a net of tax payment of £2,880 with the pension plan receiving a tax credit of £720.

Future retirement options

Sweeping changes are planned for those entering retirement from age 55 on 6th April 2011. These include the abolition of compulsory annuity purchase and the introduction of Capped and Flexible Drawdown. These will be featured in a future article.

European Court of Justice

The European Court of Justice has decided that from 21 December 2012 annuity rates (or income) have to be calculated using unisex mortality assumptions. This is likely to favour women taking retirement income.

This is of course just a brief overview of the key changes and investors will want to think about other tax efficient schemes such as ISAs, Venture Capital Trusts and Enterprise Investment Schemes. But for those who want to squeeze the most out of their SIPPs, it is worth keeping up to date with the most important developments.

The value of investments can fall as well as rise and any income from them is not guaranteed. The extent and value of any SIPP tax advantages or benefits will vary according to the individual's circumstances. The levels and bases of taxation may also change. If you have any doubts as to the suitability of a SIPP for you, we recommend you seek independent financial advice. ■

Global asset views

Consensus views on world markets and sectors drawing expertise from fund management groups.



Analysts' consensus

This quarterly snapshot of consensus views drawn from our panel of fund managers and analysts reflects both optimism and caution in its view of world economies and markets. Amid these views is the turmoil raging in the oil sensitive Middle East and North Africa region, mixed indicators at home, ongoing sovereign debt issues in the eurozone, strength in German and American economies, continued growth in China and the East and the difficult question of inflation at home and abroad. Nevertheless, the overall trend is a positive one.

Europe continues to split opinion but there is a growing confidence emerging from the views. The story from Germany is perhaps the most encouraging emerging in recent weeks. This dynamo of Europe has seen buoyant exports and growth coming in at an astounding 4%. The question for the Eurozone now is just how far the European Central Bank will be prepared to form monetary policy sympathetic to the flailing economies of Ireland and Greece rather than the needs of powerful Germany.

Efforts to reduce the US deficit will have pleased investors but with the White House and Congress

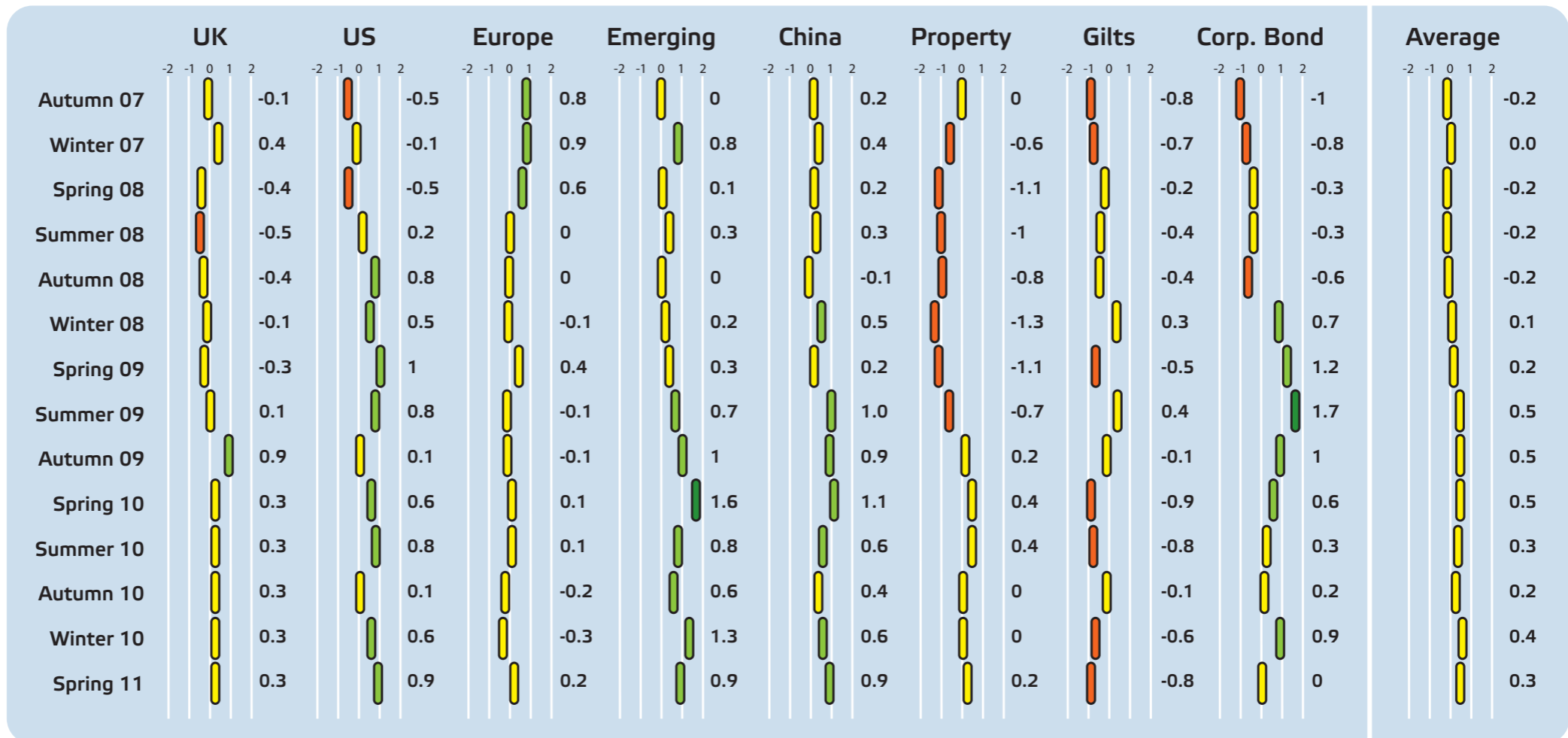
locking horns, we could well be in for a period of policy stasis. For markets seeking stability, this might not be too unwelcome. Like Britain, the story across the Atlantic is somewhat mixed with some regions doing well while others still suffer the hangover of downturn. Nonetheless, with a growth rate last year of almost 3% (albeit with forecasts revised down) and a remarkably low inflation record given extensive quantitative easing, our panel might be forgiven for believing that this giant of the global economy has much to contribute in the coming months. This perhaps accounts for the rather bullish territory in which this sector finds itself. And where the US goes, the UK will surely follow. One might detect a degree of caution in the neutral to positive consensus about the UK, but the direction is encouraging.

Elsewhere British government debt continues to disappoint while no-one it seems is getting too excited about corporate debt. China and the Emerging world appear now to have established themselves as staples of global growth and attract almost unremarkably upbeat views. ■

	UK	US	Europe	Emerging	China	Property	Gilts	Corp. Bond
Aberdeen	0	0	0	1	1	1	-1	1
BlackRock	0	1	-1	1	0	0	0	0
Gartmore	0	1	-1	1	1	-1	-2	0
JP Morgan Asset Management	-1	1	0	1	1	0	0	0
M&G	2	2	2	2	2	0	0	-2
Selftrade Research	1	1	1	1	1	0	0	0
Schroders	0	1	0	0	0	0	-2	0
Scottish Widows Investment Partnership	1	0	1	0	0	2	-1	0
Threadneedle	0	1	0	1	2	0	-1	1

KEY: ● -2 Negative ● -1 Underweight ● 0 Neutral ● +1 Overweight ● +2 Positive

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