

THE ADVISER.

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Welcome to the latest edition of The Adviser, our update on developments in the world of financial services.

Options for savers

UK interest rates have now been on hold at their historic low of 0.5% since March 2009. This might be good news for borrowers, but not so for savers who have witnessed plummeting rates on their bank and building society accounts. According to Moneyfacts, mortgage free pensioners who rely on their savings have been particularly hit, with their expenses rising by 2.3% (in line with the Consumer Price Index) whilst their savings have fallen by 1.77% in real terms. Many are looking at how to make the most of what's left.

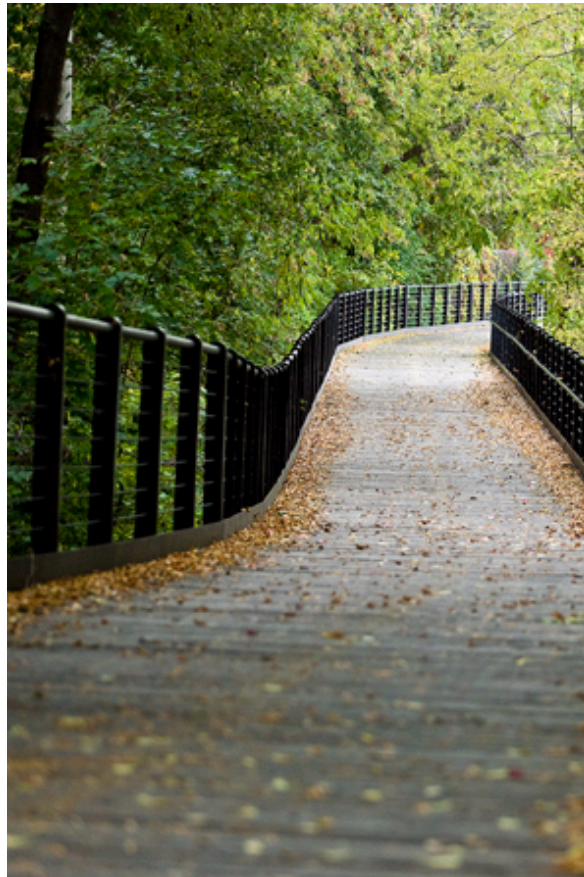
A cash ISA is one alternative.

Rates are not always any higher than the rates on normal deposit accounts, but ISAs do at least pay interest tax-free - and from October, if you are aged over 50, the allowance for cash increases to £5,100 for this tax year. Meanwhile, with UK interest rates at unprecedented lows, bonds could offer the chance to receive a stable income stream with less volatility than the equity market.

Investments can fluctuate in value and you may not get back the full amount you invest. However, if you are willing to take the risk then the upside of falling share prices does at least mean dividend yields have improved and equity income funds have become more attractive. Admittedly, in the current climate, some companies are cutting or cancelling dividends as they attempt to protect their profits from further economic turmoil. Nevertheless, an equity income strategy does allow you to benefit from a decent yield whilst also offering the chance of capital growth when the recovery does kick in.

Contact Us:

Mr , Raymond , Marshall , Dumfries Mortgage and Property Shop , , , Dumfries , Dumfriesshire , DG1 2BU



Little and often

In the world of investment, timing is everything. But, despite claims to the contrary, no one can second-guess the market. However, by saving regularly, investors can benefit from what is called 'pound cost averaging'. Regular savings mitigates the risk of buying all your investment at a single price. Instead, smaller sums are invested at a variety of prices. In a rising market, regular savings would underperform a lump sum as the later investments would miss out on the early growth. However, in a variable or falling market, later investments would buy in at lower or alternating prices and thereby offer more growth as the market returns to higher levels.

A time to buy?

Land Registry figures suggest house prices have risen just over 2.0% from June to August 09. There have also been positive indications from the widely-watched Nationwide and Halifax data – with the Nationwide, for example, suggesting positive returns for the last four months in a row. Have we reached a turning point in the UK housing market?

The statistics have constantly wrong-footed economists. Few predicted the severity of the initial downturn – the Land Registry suggests prices are still nearly 10.0% lower than a year ago. But, equally, few predicted the recovery develop as quickly as it appears. But now, experts are in a quandary. There are some encouraging economic figures, but unemployment is still rising. Mortgage rates are low, but the availability of mortgage finance remains tight. This means there is as yet no clear picture emerging. Pessimists put the recent surge in price down to seasonal variation and believe that there may be more properties hitting the market, which could depress prices. The optimists, however, suggest supply is still limited (despite a small shift upwards) and that mortgage finance is cheap enough for those who carry a deposit and clean credit.

However, much is going to depend on whether this positive news can be sustained and whether there are any signs of organic growth – as opposed to this simply being a response to the stimulus package. There is also the prospect of inflation taking over from the current deflationary forces as the stimulus works itself out.



Time to remortgage?

Most providers offer introductory discounts to borrowers that help to minimise or stabilise the amount you pay each month when you first buy a house. However, once this introductory discount with a lender ends, you will revert to their standard variable rate (SVR) of interest – a rate that is set according to Bank of England base rates and company profitability, and which can be quite high compared with any previous deal. When this happens, you might consider remortgaging.

In addition, whilst house prices have been suffering over the past year, they are still higher than they were five years ago, so if you've had your house a while, you might find deals which were previously not available to you, simply because the amount of equity you have has increased. Of course, moving your mortgage will incur a fee and you should balance these costs against the savings that you might make by moving. Some lenders might help with these costs in order to get your business; however, these sorts of deals are now far less common than they were a few years ago, when lenders were less discriminating about the amount and quality of business they took on.

It is worth remembering that, if you took out a very competitive mortgage, you might find yourself trapped by early repayment charges, even after your discount has ended. However, it is possible that your existing lender could offer you a rollover deal with lower fees.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE

For mortgages we can be paid by commission from the lender, or usually a fee of £500.

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The right time

Following Office of National Statistics revision of its UK economic growth figures upwards to a fall of just 0.6% for the three months to June 09, many people are getting excited by the prospects of an end to our recession. The Bank of England will therefore already be looking at the when interest rates need to go back up. The dilemma, however, is whether these reported 'green shoots' are real or whether they are simply a reaction to the massive cash injections we have received – and will therefore disappear as soon as the injections are withdrawn. With the prospect that inflation may soon start to rear its head, however, the bank will be keeping a close eye to try and stay ahead of the threats, either way.

