

THE ADVISER.

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

We hope you find the contents of interest. If you have any questions, or would like to discuss any of the points raised, please give us a call.

Covering a serious illness

Critical illness cover is a form of insurance protection which pays out a lump sum if you are diagnosed with one of a specific set of serious illnesses. The illnesses covered are the kind which will have a significant impact on your lifestyle or require it to change and, for example, generally include a heart attack, stroke and many forms of cancer.

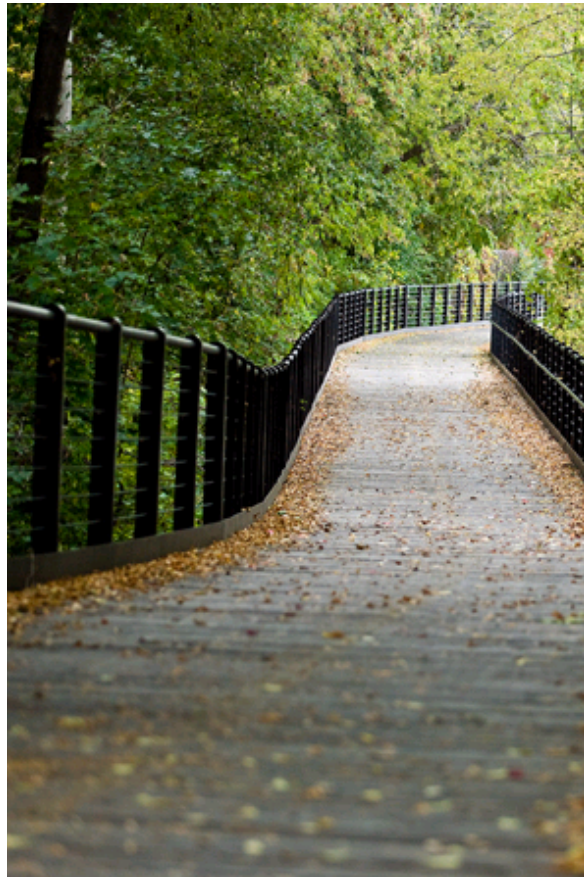
The idea of critical illness is that it takes the financial stress away at a time when you might not be able to work for an extended period – or perhaps have to change job to one which pays less money. The lump sum can be used to reduce existing costs, such as your mortgage, finance charges which might be required to your home or even simply to finance an extended holiday to aid recuperation.

As well as the diseases you might expect, such as heart attacks, stroke, and certain cancers, conditions covered can also include Alzheimer's, blindness, motor neurone disease and kidney failure. It is important to remember, however, that several conditions can also be excluded from a policy, including drug abuse and some of the less invasive types of cancer.

Sadly, cases do still crop up where the policyholder, having been diagnosed with a serious illness, discovers it is not covered by their policy. Robust, independent financial advice and a willingness to be open about your medical history are therefore a must when applying for cover.

Contact Us:

Mr , Crawford , Primrose , D.M.P.S. Financial Services , 9 English Street , Dumfries , Dumfriesshire , DG1 2BU



Keeping track

When you have opened an ISA, the provider will make sure you receive statements every six months to let you know how much your investment is worth. These allow you to keep track of performance as you can compare the value each time with that of previous statements. In between times, and for comparison with the market in general, the performance of collective investments and shares are readily available on the internet and in certain newspapers. For cash ISAs, monitor mail from the bank telling you of interest rate changes and keep an eye on the Sunday papers or internet finance sites to make sure you are not losing out.

Funding a decent income

When making plans to start any pension plan, the first thing to consider is how much income you think you will need. Few people need as much income in retirement as they do while working – the mortgage may be paid off, children will likely have left home and day-to-day expenses will probably fall. However, with more leisure time available, you may have some ambitious plans for travel. All this needs to be considered so you can set some realistic expectations.

Once this target figure has been determined, you can then begin to decide how much needs to come from a pension and how much can come from other means. For example, the state pension is £95.25 a week (for 2009/10), plus you may have money in ISAs or from rent on second properties. You may also decide to work part time or take some other type of temporary paid employment. Pension plan savings are then the first step in working out how to generate the difference - and this can be complicated. You may have some form of work pension from previous or current employment, but it is unlikely they are sufficient on their own so some form of continued saving will be required to meet your target.

At current annuity rates, with interest rates at very low levels, £10,000 worth of annual income for a male aged 65 will require a pension fund valued at over £140,000. For females - or for those wanting to retire earlier - the fund required will be even higher. Hence the need to start planning. The earlier you start, the easier reaching that target will be.



Meanwhile, the recession

The recent elections and subsequent political events made sure the economic news was completely overshadowed early in June. However, just as our Prime Minister earned another reprieve, Lloyds TSB announced the closure of the Cheltenham & Gloucester, resulting in 1,600 job losses; the economic downturn was back on the front page and reminding us that any tentative 'green shoots' are still very fragile.

Buried behind the political posturing, there have been some mixed messages coming out of the economy. Retail sales were down in May, with the British Retail Consortium indicating consumers were steering clear of the big ticket items – furniture and large electricals. We were, however, treating ourselves to more gardening and outdoor products. Meanwhile, the Royal Institute of Chartered Surveyors suggested that house prices were stabilising and that sales per surveyor have hit their highest level since August 08. However, supply has reduced, with new instructions falling for three months running, and those same sales figures are still 30% down on a year ago.

If the National Institute of Economic and Social Research is right, GDP may have ceased its decline in April and the worst of the recession could be over. However, the downturn has been very severe and even if growth has resumed, as figures from the Office of National Statistics on industrial production show, levels may well have gone up 0.3% in April, but they are still down over 12% on a year ago. There is a way to go yet.

Did you know..?

The 52nd annual Barclays Equity and Gilt Study (2007), a study of the historical performance of equities, shows that over 20-year periods the return from equities has always been greater than for either gilts or cash (with dividends reinvested). Short term, the study showed equities held for two years outperformed cash in 71 out of 107 periods. However, if the holding period was extended to 10 years, equities outperformed 93% of the time. As is always the case, past performance is not a guarantee of future performance but it does illustrate why the experts are always recommending that we use at least some equities for our long-term investments.



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