Because Life Is Taxing Enough

Tax planning should be a continuous exercise throughout the year but, inevitably, as we move into the final quarter, it is sensible to look at one's financial affairs and to try and take advantage of all the various options that are available.

If you do not want Mr Brown and Mr Darling to get more than their fair share then we would suggest you consider the following areas:

Income Tax

The tax rates in 2007/08 allow an individual to receive £5,225 of income before paying tax, and the 40% tax band starts at £34,600 of taxable income. Higher personal allowances are given to individuals over 65 provided their income is below £20,900.

Married couples may be able to arrange their affairs, by redistributing income-producing assets between them, so that better use is made of personal allowances and tax bands at the lower and basic rates.

Pension Contributions and Individual Savings Accounts (ISA)

Both of these areas provide for tax-efficient investment, as they are free from income tax and capital gains tax.

Most personal pension schemes operate tax relief at source, allowing a taxpayer to make a contribution net of basic rate tax, which is reclaimed by the scheme to enhance the amount invested. Relief from higher rate tax, if applicable, is claimed through the tax return.

An individual can contribute to a pension in 2007/08 100% of relevant earnings up to a maximum of £225,000 (with a lifetime contribution limit of £1.6m above which a tax charge would occur), whilst the maximum subscription to an ISA in 2007/08 is £7,000.

Capital Gains Tax

Where possible the annual exemption (£9,200 for an individual in 2007/08) should be used. If gains have already been taken in excess of the annual exemption it may be beneficial to crystallise losses. There may also be losses arising from investments that have been forgotten about as they no longer exist, that have not, as yet been claimed.

Inheritance Tax

The annual gift allowance of £3,000 enables a significant amount of capital to be transferred over the years. Other exemptions include the small gifts exemption of £250 per donee, gifts in consideration of marriage and gifts out of excess income.

Circumstances may allow for further gifts of capital to be made, either outright or in trust. In many cases there will be no inheritance tax to pay at the time of the gift, which will be fully exempt if the donor survives for 7 years.

Charitable Donations

By making a donation to charity, basic rate taxpayers themselves do not receive any direct benefit, but if done under gift aid the charity can claim the tax that has been paid. For higher rate taxpayers, additional tax that would otherwise have been due can be reduced. For example a donation of £78 will provide a charity with £100, whilst a higher rate taxpayer will also be able to reduce their tax liability by £18.

There is also tax relief on the gift of quoted investments to a charity. An amount equal to the market value of the investment is deductible from the donor's income for income tax purposes. Further, any gain on disposal is not liable to capital gains tax. It should be noted that a charity is not able to reclaim basic rate tax on a gift of investments, unlike a gift of cash under the Gift Aid scheme.

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Market Review






JANUARY 2008

The Weather Outside is Frightful...

At the beginning of 2008, the global "Credit-Crunch" continues to cast its long, dark shadow over world markets. For the last five months, the collapse in the US sub-prime mortgage market has caused a massive down-turn in US housing starts, with significant negative implications for US credit, retail spending and ultimately GDP performance (which may actually enter mild recession in 2008).

Even more serious than this, is the continued outfall of packaged mortgages and loans which still infect the international banking system. Nobody can say conclusively WHERE the damage is or precisely how sizeable - even after collective write-downs of some $80 billion. In the UK, although the FTSE 100 was barely changed over the year, individual sectors were highly volatile, Mortgage Banks fell 49%, High Street Banks fell 20%, Housebuilders fell 42% and Property fell 33%. So negative was banking business sentiment, that money market rates were 1% higher than the base rate for most of the fourth quarter - constituting a massive monetary tightening with significant potential deflationary implications. If banks are unwilling to lend to each other, who WILL they lend to? This background suggests that further UK rate cuts will be essential, with some predicting 4.5% by end 2008. With official UK inflation a whisker above target (at 2.1%), and with the housing market slowing significantly, this seems quite possible.

So, if the US flirts with recession and if UK growth slows to around 2% in 2008, what of the rest of the world? Although most estimates are currently being downgraded, it seems that global growth of 4% should be achievable. The main question is whether the developing world can "de-couple" from the US which has been the major locomotive for global growth since 1945. China and India continue to grow at or around 10%, while their experience of rising internal costs suggests that their respective economies are experiencing take-off into self-sustained growth. As a reflection of this, during 2007 the UK FTSE Mining sector rose 56%, Energy 27% and take-over targets 24% (with sovereign wealth playing a significant role in this last category.)

So, how do we see 2008? As international banks close their books at 31st December, the precise need for balance-sheet write - offs should be more accurately identifiable. This data should gradually feed into the markets during January and February, and no lasting confidence will be established until such information is available, although the recent heavy injection of almost $1000 billion of liquidity by the central banks should help. With the FTSE100 dividend yield at 3.25% net (up 5% over twelve months) and price/earnings ratio at 11.4 (down by 15%), UK markets are not over-valued. The Mid250 (which fell 4.5% in 2007) could produce another disappointing year as its constituents are more specifically dependent on a dull UK economy and as take-over activity is unlikely to emerge until money markets are considerably healthier. The FTSE100 index may even gain support from an unexpected source. The US Dollar, so weak for many years, may see some recovery during 2008. Improving terms of trade (the weaker Dollar itself, rising import prices from developing nations) have narrowed the US trade deficit from 7% of GDP to 5% during 2007. A continuation of this trend can only serve to strengthen the Dollar - with considerable positive benefits for UK internationally focused equities-Pharmaceuticals and Telecommunications as well as Mining and Energy (see page 3).

So far we have not mentioned the UK political scene, which has seen the new Prime Minister lurch from one crisis to another, earning himself the title "Culpability Brown". As yet, this has had no impact on domestic financial markets, after all, if the present government were to fall, "Things can only get better...." (Now where have we heard that before?)

Performance in 2007

	31/12/07	29/12/06	Change
FTSE 100	6434.8	6220.8	+3.4%
FT All Share	3276.17	3221.41	+1.7%
US Dow Jones	13264.82	12463.15	+6.4%
Nasdaq Comp	2652.28	2415.29	+9.8%
FTSE Eurotop 300	1506.61	1483.47	+1.6%
Japan Nikkei	15307.78	17225.83	-11.1%
APCIMS Growth	3493.13	3380.08	+3.3%
APCIMS Balanced	3024.71	2949.56	+2.5%
APCIMS Income	2331.82	2303.96	+1.2%
£/$	$1.9861	$1.9586	+1.4%
Euro/£	€1.3612	€1.4839	-8.3%
Gold (per ounce)	$833.30	$635.95	+31.0%
Brent Oil	$94.50	$60.28	+56.8%

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Stock Selections for 2008 (prices as at 14th January 2008)

Barclays

Sector - Banks

Price 482.5p Yield 6.42% PE 6.71

Mkt.Cap. £31816m High/Low 794p/442p

Barclays has been one of the hardest hit shares in the Bank sector due to sub-prime concerns. This is because of the importance of its investment banking arm, Barclays Capital, to group profitability. The group did take a £1.3bn write-down relating to the crisis, but at the same time said Barclays Capital's profit was ahead of the previous year. A further update on 27th November was broadly reassuring with full year earnings expected to be in line with expectations.

The shares trade on a very depressed rating – a forward yield of 7.3% and PE of 6.6. We expect the share price to recover during the year, as the credit squeeze continues to ease.

GlaxoSmithKline

Sector - Pharmaceuticals

Price 1351p Yield 3.55% PE 14.15

Mkt.Cap. £74413m High/Low 1514p/1146p

The share prices of Pharmaceutical companies and GlaxoSmithkline (Europe's largest) have under-performed the broader market over the last 5 years, due to concerns about generic competition and poor drug pipelines. Also weighing on Glaxo's shares was a US FDA investigation into the safety of its diabetes drug Avandia, although this has now been resolved.

Glaxo is supplementing its internal drug development with acquisitions, such as the £800m purchase of US based heart drug company Reliant - the deal is expected to be earnings enhancing in year 1 (before acquisition costs).

The group is weathering the concerns, generating lots of cash, and still growing profits.

Marks & Spencer

Sector – General Retailers

Price 401.5p Yield 4.56% PE 10.27

Mkt.Cap. £6725m High/Low 759p/382p

Marks & Spencer has made great progress over the last 3 years under the stewardship of Stuart Rose. Pre-tax profit has risen from a low of £505m in 2005, to £936m last year, and should exceed £1bn this year despite the slowdown in consumer spending. It plans £1bn of capital expenditure this year and next, part of a drive to increase selling space by 15% to 20% over the next 5 years. Its improved financial strength has also allowed it to instigate a £1bn share buyback programme, equivalent to 10% of its issued share capital.

A Christmas sales update led to a sharp fall in the share price but management believed the market response to be harsh, because it maintained market share and was up against tough comparatives. Overall the price is more than 40% below last year's peak suggesting value has returned.

Standard Life

Sector – Life Insurance

Price 236.25p Yield 3.89% PE 10.84

Mkt.Cap. £5136m High/Low 357.25p/222.25p

Since de-mutualising and listing on the stock market in 2006, Standard Life has made excellent progress in improving efficiency and margins, reflected in strong profits growth. In October it reported 21% growth in sales for the 9 months to 30th September, and said it was on track to meet its target of 9-10% return on embedded value for the full year. The share price, however, has fallen heavily during the last 6 months, partly due to market weakness, but also on fears it may overpay for Resolution (for which it had a £4.9bn offer recommended at one point). Eventually it lost out on Resolution to Pearl, and is now itself viewed as a possible takeover target.

In the first half of last year the share price rose strongly, prompting us to recommend a sale in July at 328p. Now at 30% below this level, our stance is reversed.

Land Securities

Sector – Real Estate

Price 1547p Yield 3.43% PE n/a

Mkt.Cap. £7194m High/Low 2300p/1371p

Land Securities share price is down over 30% since we suggested selling at 2200p exactly a year ago. Still the largest UK Real Estate Investment Trust (REIT), the fall in its price mirrors that of its peer group and reflects a drop in commercial property values, higher borrowing costs and stricter controls on credit.

In November the group announced tentative plans to split itself in three. It will separate Trillium, a property outsourcing company, from its London and retail property investment units. The move is not expected to happen for at least 12 months. Most Real Estate sector analysts value the sum of the three separate parts about 10% higher than the whole.

Commercial property values are undoubtedly lower than when Land Securities last reported Net Asset Value (NAV) of 2236p per share in September 2007, but a share price discount of 35% to NAV is overdone.

Wolseley

Sector – Support Services

Price 684p Yield 4.74% PE 9.30

Mkt.Cap. £4528m High/Low 1425p/610p

Wolseley is the world's largest builders merchant/distributor. It is market leader in North America and in the UK is the largest plumbing and heating merchant. More recently it has expanded in France and the Nordic region.

Profits fell in the year to July 2007 mainly due to the slowdown in the US housing market and weakness in the US dollar (half of group sales are in dollars). Management acted quickly to cut costs, reducing employee numbers in North America by 3,000 and closing marginal branches. European operations showed a 15% increase in trading profit.

An additional reduction in profits for this year is expected, but we believe that this is more than priced-in by the shares. We also see clear evidence of a new trend of dollar strength against sterling, which may provide an unexpected positive for Wolseley.

Return of an old favourite! – JP Morgan Fleming Mercantile Investment Trust

Sector – Closed End Funds

Price 959p Yield 2.9% PE n/a

Mkt.Cap. £999m High/Low 1404p/930p

The fund aims to achieve long-term capital growth from a UK portfolio of medium and smaller companies.

In the past this fund has been ideal for providing investors with access to UK mid and smaller cap shares – an area where it is often difficult to invest due to research, monitoring and liquidity issues.

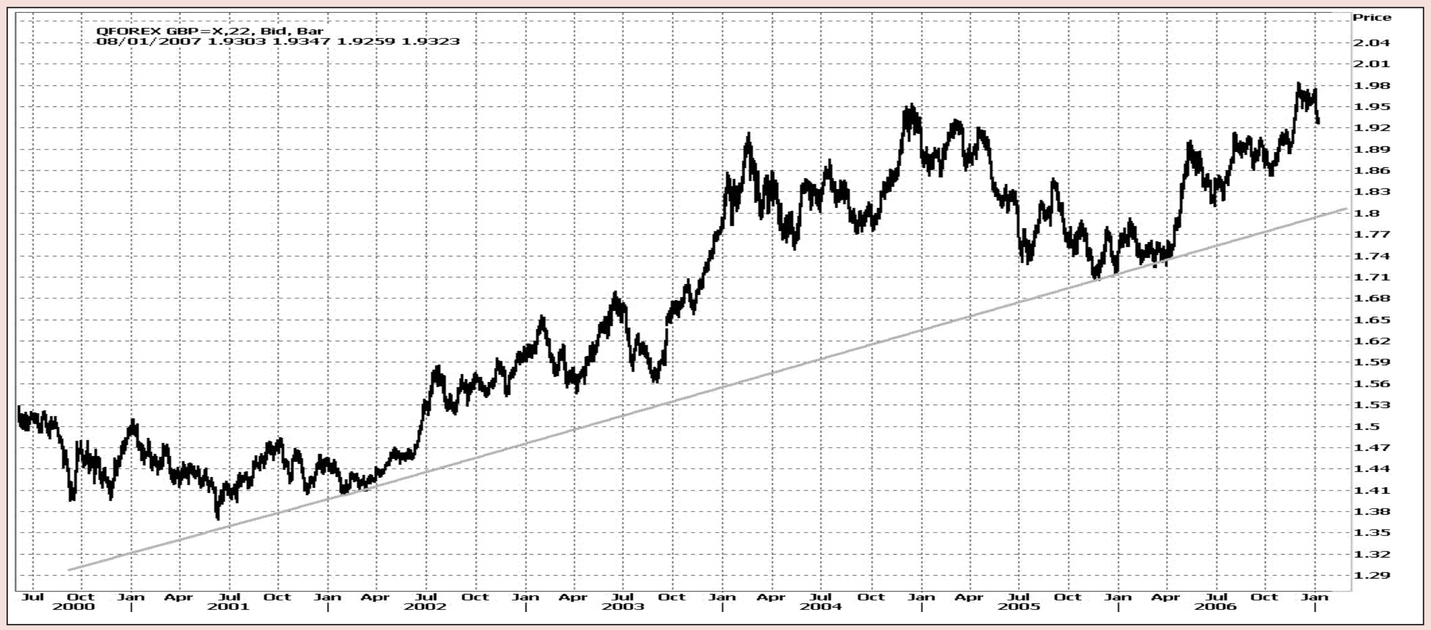
The managers have a long-term track record of out-performing the fund's benchmark – the FTSE All Share (ex-FTSE 100, ex-investment companies).

For most of 2007 we were cautious about buying, despite the fund remaining on our 'collectives buy list'. The caution was simply due to the fund's share price reaching all-time highs. With the price now over 30% below last year's peak level, we may be presented with a buying opportunity.

DOLLAR EARNERS TO BENEFIT IN 2008 AS STERLING WEAKENS ?

The UK's blue chip index – the FTSE 100 – contains a large number of companies who derive substantial earnings from the US. The rise in sterling against the dollar over the last 6 years has impacted negatively on the earnings and profits of these companies. Sterling has risen from a low of $1.40 to the pound in 2000, to a peak of over $2.10 in November 2007. We feel that this trend has changed direction and the dollar will strengthen during 2008.

On a Purchasing Power Parity (PPP) basis, sterling has been viewed as overvalued against the dollar for over a year. This is reflected in record numbers of UK tourists visiting the US in 2007, particularly for the shopping! These anomalies never last for ever and eventually are self-correcting. Sterling is currently just under $2.00. Fair value is probably somewhere in the range $1.70 to $1.80, and we expect sterling to move into this range during 2008.



The share prices of several UK blue chip companies (with substantial dollar earnings) are at very depressed levels. A general market recovery coupled with the expected improvement in the dollar, could see these share prices improve dramatically.

Company	Share price 12 month change	Group sales in North America
Experian (359p)	-39%	57.3% (Americas)
Yell Group (332p)	-45%	48.9%
Taylor Wimpey (170p)	-59%	31%
Intercontinental Hotels (740p)	-41%	48% (Americas)