Personal finance

EDITED BY SIMON BAIN
Email: simon.bain@theherald.co.uk Tel: 0131 240 0281

The importance of taking a five-year view on investments

FUNDAMENTALS
HARRY MORGAN

THE stock market never fails to surprise. Back in November, the Pensions Regulator announced that, for the first time since the 1950s, leading UK pension funds were holding more of their assets in fixed interest stocks than in equities.

Given the mood of caution among many equity investors, such a story might normally have been expected to trigger further weakness in the stock market. Exactly the opposite happened.

Perhaps assisted by the US presidential election delivering a clear result, UK equities shrugged off the Pension Regulator's update and set off on a mini-rally.

The FTSE All Share Index subsequently posted a 12.3% total return for 2012, ahead of the 2.7% return from UK Treasury stocks.

The rally has continued, with the FTSE 100 clearing the psychologically important 6000 level in January for the first time since July 2011, and already this month the index has been hitting five-year highs above 6300. There is a mood developing that, despite the economic uncertainty, shares have further to run and that the great bull market in bonds is finally running out of steam.

Of course, there is little point trying to make short-term predictions, especially when markets seem to be driven more by the comments and actions of politicians and central bankers than by company news. One must also be wary of over-optimism, although investors could be forgiven for looking at their Isa or personal pension and basking just a little at how much values have increased in recent months.

Welcome though short-term rallies are, what time frame should we use when taking strategic investment decisions?

I am convinced that for the typical private client, five years is an appropriate yardstick. As evidence for this assertion, I dug out the article I wrote for The Herald back in April 2008. Of course, that was the time when economic problems were worsening ahead of the global financial crisis.

I read my article with some nervousness. Had I been complacent about the looming crisis? More importantly, had I dished out hopeless advice? Well, I had clearly not anticipated quite how bad things were going to get: I put my hands up on that one.

However, what I did say back then was that a diligent long-term approach of investing in companies whose strategy was credible and understandable would add value, and that the Asian growth story looked set to continue.

Nearly five years later, and with the global economy wounded but having survived the banking collapse and the sovereign debt crisis, it has been fascinating to assess how markets have performed over the intervening period. In terms of total return from income and capital, and perhaps surprisingly, the FTSE All Share has generated 5.5% per annum. Mid cap and small cap shares did even better.

Overseas markets also did well, with the FTSE World ex UK Index generating an annual return of 6.6%. Investors in bonds did best of all, with Treasury stocks delivering more than 7% per annum, although such outperformance looks unlikely to continue.

Therefore, if you had invested wisely, hung on throughout the crisis, and, crucially, reinvested your income, then you would have done pretty well. Brain power and staying power have been the ideal combination. You have not made a fortune, but your money has grown, and beaten cash. This is what long term investing is all about.

So, when planning your investment strategy, taking a five-year view is a good starting point. You should not be put off from investing now just because equities have done well recently. There are still plenty of opportunities out there, just give them time to perform.

Harry Morgan is director at Thomas Miller Investment in Edinburgh

Over-50s life cover a gamble with high stakes

Premiums often outweigh value of final family payout

HELEN PRIDHAM

A £30 PAYMENT towards winter fuel bills is the latest incentive being used to persuade older people to take out over-50s life cover.

These heavily-advertised life insurance policies are sold direct to the public, so customers decide for themselves whether to buy them or not.

But if they weren't, some insurance experts believe the companies responsible could be accused of mis-selling because of the poor value for money the plans offer.

The Post Office is offering customers money towards their fuel bills if they take out its over-50s policy, as well as persuading them with emotive language such as "guaranteeing loved ones a fixed lump sum".

Normally it is Michael Parkinson promoting Sun Life Direct's Guaranteed Over 50 Plan, which comes with a choice of gifts ranging from a Kindle to a £75 Argos gift card.

Insurers can afford to be generous. Many people pay far more in premiums for these policies than the fixed amounts paid out to their families when they die.

Independent financial adviser (IFA) Roland Oliver, from Musselburgh, said: "These over-50s plans are very lucrative for companies such as Sun Life Direct so it is profitable for them to employ Parkinson who is a trusted figure.

"Mis-selling is a difficult word. However, it is definitely 'ignorance selling'.

"People who take them out clearly don't understand their options. As an IFA, I wouldn't be able to get away with selling these policies unless there was a clear need, which would only be the case if someone was in very poor health."

Over-50s life plans are a type of 'whole of life' insurance. Premiums are fixed and a fixed cash sum is paid out on the policyholder's death. No medicals are required.

Kevin Carr, speaking on behalf of life insurance adviser Lifesearch, said: "People like the simplicity of these plans but with any product that has auto acceptance it means healthy people will pay too much.

"These policies are okay if you are in poor health, but if you are in good health you can get a better deal elsewhere."

Insurers protect themselves against people taking out policies when they are about to die by having a one or two year period until full cover starts.

Ben Heffer, protection specialist at financial researchers Defaqto, said: "The best case scenario for consumers is to die after two years. But if you are in poor health, you have nothing to lose from taking out one of these policies because if you do die before the two year moratorium the premiums are refunded."

However, for people in normal health the danger is that they will live too long and pay considerably more in premiums than the policy is worth.

The chances of this happening are high. The average life expectancy at age 65 is currently 85.6 for women and 83 for men. But what this means is that half of 65-year-olds will live beyond this age. The number surviving to 100 is growing steadily.

With many insurers, the potential overpayment is at least limited. Mr Heffer points out that most companies allow policyholders to stop paying premiums after age 90. This includes the Post Office's plan which is provided by Aviva. Aviva also underwrites Tesco's Guaranteed Lifelong Protection Plan.

When you get a quote from the Post Office, it also shows clearly how much you can potentially lose.

A 70-year-old paying £20 per month, for example, will be provided with a fixed lump sum of £2732. By the time he or she reaches 82, they will have paid more in premiums than the policy is worth. By age 90, at the end of the premium-paying term, they will have paid £4800.

> For people in normal health, the danger is they will live too long and pay much more in premiums than the policy is worth

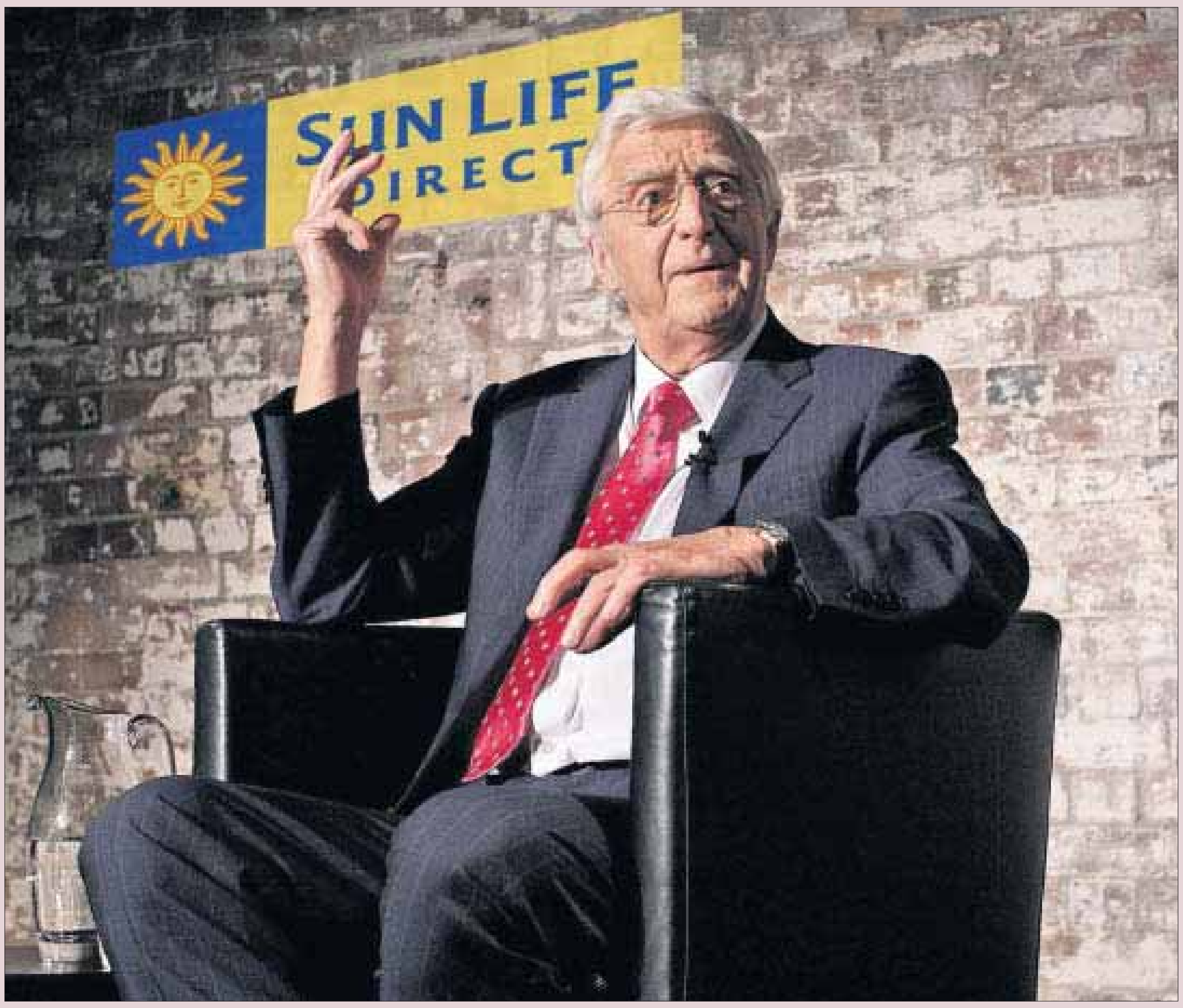
What are the alternatives? One of the reasons people are encouraged to take out over-50s plans is to pay for funeral costs.

But by the time they die there is no guarantee the payouts will cover these costs.

Anyone concerned about funeral costs should consider a pre-paid funeral plan from a company such as Co-operative Funeralcare, which guarantees the funeral costs will be covered. These can be paid for in monthly instalments which start at £34 for a 70-year-old.

Those who want to pass on a nest egg to their children or grandchildren are advised to earmark a savings plan for this purpose.

Mr Oliver said: "It is not good practice to combine savings and life insurance as the over-50s plans suggest. I would advise using your ISA allowance if you want to build up a nest egg."



FAMILIAR FACE: Sir Michael Parkinson is often seen on daytime television fronting the campaign for Sun Life's over-50s plan. Picture: Getty Images

Free pen is little comfort as payments mount up

DAYTIME TV viewers will be familiar with Sir Michael Parkinson offering a "free pen just for inquiring" about the over-50s plan of market leader Sun Life, part of Axa Wealth.

But with this plan, consumers must continue paying premiums until they die otherwise they will not get a penny back, however much they may have paid in.

A 70-year-old paying £20 per month into a Sun Life Guaranteed Over 50 Plan is promised a payout on death of £2670. If he or she lives to 100, they will have paid £7200 in premiums. Other companies requiring premiums to be paid until death include NatWest/RBS and Asda Money, which however has a guarantee that you will pay no more in premiums than the sum assured.

Sun Life said: "We make it very clear that while many receive a sum assured greater than the level of premiums paid in, others may get less."

www.Moneyfacts.co.uk Savers selection

SAVINGS ACCOUNTS WITH INTRODUCTORY BONUS

	Contact	Account	Notice or Term	Deposit	% Gross	Interest Paid
Coventry BS	thecoventry.co.uk	Online Saver (4)	None (H)	£1	2.00%*	Yly
Derbyshire BS	thederbyshire.co.uk	NetSaver Issue 10	None	£1,000	2.00%*	Yly
Nationwide BS	nationwide.co.uk	MySave Online Plus	None	£1,000	2.00%*	Mly
Post Office®	postoffice.co.uk	Online Saver 9	None	£1	1.85%*	Yly
GE Capital Direct	gecapitaldirect.co.uk	GE Bonus Saver 6	None	£500	1.85%*	Yly

SAVINGS ACCOUNTS WITHOUT INTRODUCTORY BONUS

	Contact	Account	Notice or Term	Deposit	% Gross	Interest Paid
United Bank UK	0800 218 2266	90 Day Notice Gold	90 Day	£1	2.26%	1/2Yly
Ulster Bank	ulsterbank.co.uk	Loyalty Saver	Instant	£25,000	2.25%	Yly
Investec Bank	0845 366 6333	High 5 Issue 2	6 Month (K)	£25,000	2.15%	Yly
Melton Mowbray BS	01664 414141	100 Day Notice	100 Day	£500	2.12%	Mly
Investec Bank	0845 366 6333	High 10	3 Month (K)	£25,000	2.08%	Yly

All rates are shown as AER.
* = Introductory rate for a limted period.
K = Operated by Internet, Telephone or Post. H = Operated by Internet or Telephone.

www.Moneyfacts.co.uk Mortgage & cards

FIXED & VARIABLE DISCOUNTED

	Contact	Rate	Period/	Max LTV	Fee	Incentive	Redemption
ING Direct	0800 032 8800	2.29%	to 30.4.15	60%	£495	House purchase refund valn. Remtgs free valn & free legal fees. No HLC	To 30.4.15
HSBC	0800 077 4178	2.49%D	for 2 yrs	60%	£499	Remortgages free legal fees. No HLC	1st 2 yrs
The Co-operative	0800 633 5286	3.59%F	to 30.4.15	85%	-	Flexible option. Remtgs free valuation. Remtgs free legal fees. No HLC	To 30.4.15
Cumberland BS	0800 032 3030	2.79%D	for 3 yrs	75%	£495	Remortgages free valuation. Remortgages free legal fees. No HLC	1st 3 yrs
Yorkshire BS	0808 252 3325	2.94%F	to 31.3.16	75%	£495	Flexible option. £500 rebate. No HLC	To 31.3.16
Post Office	0800 077 8033	4.55%F	to 31.3.18	90%	-	No HLC	To 31.3.18

VARIABLE RATE

	Contact	Rate	Period/	Max LTV	Fee	Incentive	Redemption
HSBC	0800 077 4178	2.38%	for term	60%	£1499	Remortgages free legal fees. No HLC	None
first direct	0800 482448	3.19%	for term	75%	£499	Remortgages free legal fees. No HLC	None
HSBC	0800 077 4178	4.69%	for term	90%	-	Free valuation. Remortgages free legal fees. No HLC	None

The average Moneyfacts Standard Variable Mortgage rate as at 5th February 2013 was 4.88%

Credit Cards INTRO OFFERS

	Contact	Card type	Introductory - Purchase Mthly	Introductory - Purchase APR	Introductory - Purchase Until	Standard Rate /Mthly	Standard Rate APR	Interest free period	Fee Inc
Halifax	halifax.co.uk	Purchase MC	0.00%	0.0%	1st 17 mths	1.313%	16.9% §	56 days	-
Tesco Bank	0845 300 4278	Clubcard Pur MC	0.00%	0.0%	1st 16 mths	1.313%	16.9% §	51 days	£5K
M&S Bank	0800 997996	MasterCard	0.00%	0.0%	1st 15 mths	1.24%	15.9% §	55 days	-

Credit Cards STANDARD RATES

	Contact	Card type	Introductory - Purchase Mthly	Introductory - Purchase APR	Introductory - Purchase Until	Standard Rate /Mthly	Standard Rate APR	Interest free period	Fee
Sainsbury's Bank	Via website	Low Rate CC M'Card	-	-	-	0.561%	6.9% §	56 days	-
Barclaycard	0844 811 9151	Plat Simplicity Visa	-	-	-	0.639%	7.9%	56 days	£20K
Capital One	0800 952 5358	OneRate M'Card	-	-	-	0.79%	9.9% §	56 days	£10K

UNSECURED PERSONAL LOANS

	Contact	APR	Fixed Monthly payment on £5K for 3 years			
Hitachi Personal Fin	Via website	6.8% C, G	no insurance	£153.47	redemption penalty	Yes
Sainsbury's Bank	sainsburysbank.co.uk	6.9% C, N	no insurance	£153.68	redemption penalty	Yes
M&S Bank	0800 363400	7.1% C, H	no insurance	£154.10	redemption penalty	Yes

ASU = Accident, sickness & unemployment insurance. **B+C** = Buildings & contents insurance. **F** = Fixed Rate **U** = Unemployment insurance. **C** = APR dependent on credit rating. **HP** = House Purchase. **D** = Discounted rate **N** = Nectarcard holders only. **§** = Alternative terms or card products may be offered according to credit status. **V** = Variable Rate. **HLC** = High Lending Charge. Lenders standard redemption conditions may also apply at any time. Incentive of free legal fees may only be available through Lender's nominated solicitor. All rates and terms subject to change without notice and should be checked before finalising any arrangement. No liability can be accepted for any direct or consequential loss arising from the use of, or reliance upon, this information. Readers who are not financial professionals should seek expert advice.

Figures compiled: 07.02.2013

moneyfacts.co.uk

Year of the Snake offers opportunities in China

SIMON BAIN

TOMORROW is the start of the Chinese New Year of the Snake, but private investors seem to see only upward ladders ahead as sentiment towards China takes a turn for the better.

Last month saw three Asia-Pacific funds among the top 10 bought by clients of TD Direct Investing – Fidelity South East Asia, Aberdeen Asia Pacific, and First State Asia Pacific Leaders.

Stuart Welch, chief executive at TD Direct, said: "Positive news in recent weeks about China's recovering economy seems to have prompted an appetite for the land of the rising sun among investors."

Darius McDermott, managing director at broker Chelsea Financial Services, said: "Despite all the talk of a hard landing in China last year, the market did very well during the year of the Dragon, with the MSCI China index returning 15.95% – much better than the previous year of the Rabbit when the market fell by 8.11%."

Mr McDermott said the market was still at a substantial discount to its long-term history and well below the five-year average.

He said: "Just because valuations are cheap it doesn't mean they can't get cheaper.

"But I'm a firm believer that if you buy at a low price, you have a decent chance of making better returns than if you buy when stocks are more expensive. However, China is one of the highest risk markets and there is corruption, so investors should be aware of the risks before they commit to the asset class.

"For people willing to take the risk, I think now may be a decent time to buy. Looking at the funds available to new investors, I prefer Invesco Perpetual Hong Kong & China and First State's off-shore fund, China Growth."

For a wider spread, Mr McDermott liked Liontrust Asian Income and M&G Global Emerging Markets, funds where he said the managers were very positive on China.

Philip Ehrmann, manager of the Jupiter China Fund, believes a recovering economy, a more stable political backdrop and attractively-priced stocks make a solid case for investing in China.

He said: "For much of last year it seemed fashionable among economists, political commentators and analysts to talk about China as an accident waiting to happen.

"A sharp slowdown in economic growth, worries about inflation, the threat of a housing bubble and a tricky change of leadership for the Communist Party were all cited as reasons for investor caution.

"Fast forward to 2013 and these fears now appear overblown.

"Shares in Chinese companies are cheap at a time when stock market performance is set to improve markedly."

"With such varying reports in the news – such as talk of China recovering combined with ongoing pessimism about the UK economy – investors should take heed from the snake and remember to remain focused and disciplined when it comes to investing."

BEST in 2012	% return
JP Morgan Chinese IT	25.2
First State Greater China Growth	21.8
Fidelity China Consumer	19.2
WORST in 2012	
Baring China Growth	11.9
Neptune China Max Alpha	11.3
Henderson China Opportunities	7.7

OPPORTUNITY: China's market performed well in the year of the Dragon, and the forthcoming year is also expected to be a success.