



The Street Lamp News

Winter 2011

All stockmarkets have continued to be volatile throughout 2011. This problem is primarily due to investors turning from wealth generation to capital preservation which is understandable in a period of such uncertainty. Compounding this shift are more structural trends. For example pension funds have tended to be the classic long term investor. Regulation has led to focus on the liabilities of the scheme rather than the contributions and returns. This has led to a fundamental shift from equities and riskier assets into bonds and gilts. Furthermore the rise in influence of hedge funds, their high frequency trading and 'shorting' i.e. selling stocks they do not own in the hope it falls in price, for which they are infamous has accentuated volatility. This short-termism is likely to stay and investors should be prepared for continued volatility in all developed markets.

While the UK economy remains subdued awaiting developments in the Eurozone, the outlook for UK equities is positive. UK companies benefit from significant exposure to International economies with global growth an important driver to the UK economy. Many companies enjoy robust balance sheets and the equity market also tends to exhibit defensive characteristics, which are supportive to share prices in times of economic uncertainty. Shares on average are currently trading at just over 8 times next years earnings compared to a longer term average of over 10. The dividend yield also indicates UK equities are undervalued compared to historic levels. Any further quantitative easing could lead to depreciation in the currency which would also benefit UK investors.

However poor management, flawed business models and weak franchises will continue to struggle in these tough economic conditions. 2012 could well prove a year of 'survival of the fittest', leaving the UK in a strong position when the economic recovery starts. This is also an advantage to investors in funds which a robust investment process which looks at the underlying fundamentals of the companies with whom they invest

Prospects for Continental Europe remain dominated by the Eurozone debt crisis and the ability of politicians to arrive at a permanent and successful resolution to the problem. Statistics from the European stockmarkets suggest there are significant returns to be made should a meaningful solution be found. The debt crisis is already having an impact on companies' expenditure. In October manufacturing and services all moved into negative territory. Any break up of the Euro currency would cause significant falls in the markets however we do not envisage this happening. The effect of the ongoing uncertainty on individual companies could vary considerably, particularly given the difference in balance sheet positions.

The outlook for the US economy remains tough, particularly as unemployment is high at around 9%. This is a particular problem in the US given that consumer spending is a key driver of the economy. However there could well be support for US equities given their strength relative to other equity markets and any continued economic stimulus could provide further support. The market stands at around 10 times next years earnings, compared to 8 times in the UK. The US has still not taken the same fiscal austerity as many other developed markets, in part caused by political deadlock. With presidential elections this year realistic ways of resolving budgetary pressures could well come forth in 2012.

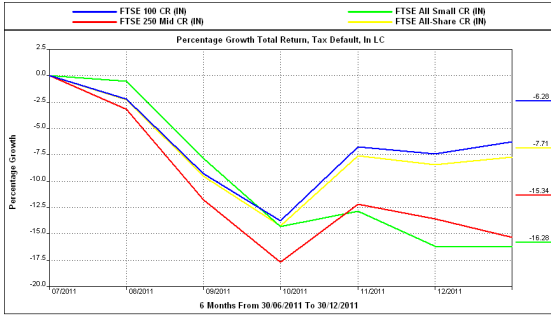
Whilst the rate of growth in emerging markets is now slowing, industrialisation and urbanisation should still underpin their robust fiscal position. Eastern Europe is still at risk from the spread of the Continental European debt crisis. The oil price also represents a key risk which could lead to a more pronounced slowdown of economic growth in these areas. Political risks also remain.

Core Government bond markets have found support as a result of their safe haven status. However outside the US, UK and Germany bond markets have priced in significantly higher risk and this has in turn forced yields in the troubled markets to unsustainable levels. For the 'safe haven' markets yields are now so low there is little scope for and capital growth and yields are generally below inflation, leading to the risk of losses for investors in real terms.

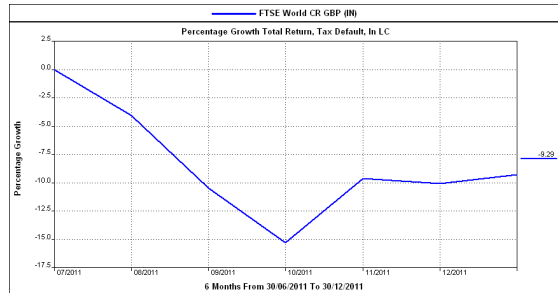
Corporate bonds tend to offer healthy yields and should continue to benefit if stockmarkets remain volatile. Strong company balance sheets and strong cash flow will continue to support this particular asset class.

Property continues to offer attractive yields, especially compared to Government bonds. This should persist as long as central banks maintain an accommodative monetary policy. There is unlikely to be an upturn in property values as mortgage availability remains tight. Again the impact of the Eurozone debt crisis will be felt. An increase in wholesale funding for banks from August to December has led some lenders to increase their mortgage rates. It must be noted that it is not the Central Bank interest rate which affects mortgage rates but instead the London Interbank Borrowing Rate (LIBOR) which reflect the willingness of banks to lend to each other.

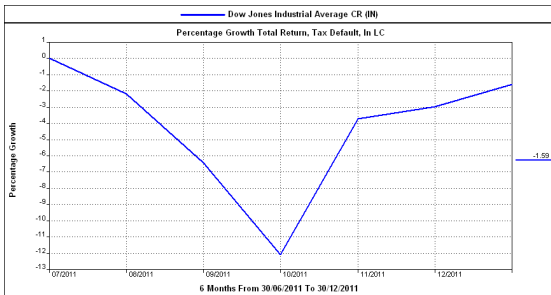
The Government announced a new-build mortgage indemnity scheme which is expected to boost the number of 95 per cent loans available when it launches in April. The take up of the scheme is likely to be determined by the interest rate available, which is yet to be announced. From March 24 changes in stamp duty take place which means all property purchases over £125,000 will be subject to stamp duty, a further deterrent for first time buyers.



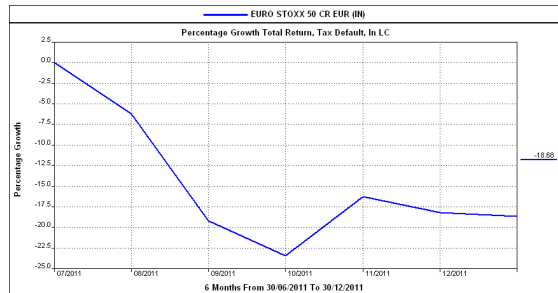
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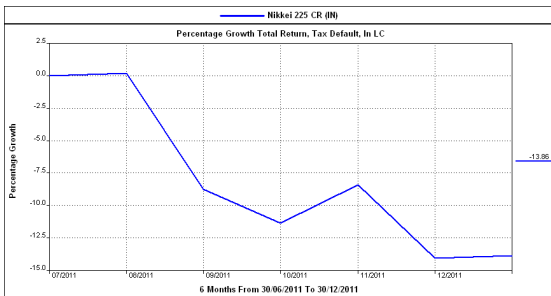
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MARKET REVIEW

During the six months ending 31st December 2011 capital changes in the main markets have been as follows: -

	30/06/2011	31/12/2011	% Change	£
<u>United Kingdom</u>				
FTSE 100 Index	5945.71	5572.28	- 6.28	
FTSE All Share Index	3096.72	3857.88	- 7.71	
FTSE Mid 250 Index	12579.40	10580.10	-15.89	
FTSE Small Cap. Index	2658.71	2164.45	-18.59	
FTA Brit. Gov. Securities Index				
Fixed Interest - All Stocks	155.68	173.57	+11.49	
Index Linked - All Stocks	395.00	451.98	+14.43	
<u>North America</u>				
Standard & Poors Composite	1320.64	1257.60	- 4.77	- 1.63
<u>Japan</u>				
Topix Index	849.22	728.61	-14.20	- 6.97
<u>France</u>				
CAC 40 Index	3982.21	3159.81	-20.65	-26.61
<u>Germany</u>				
DAX Index	7376.24	5898.35	-20.04	-26.04
<u>Switzerland</u>				
Swiss Industrial Index	6187.07	5936.23	- 4.05	-10.75
<u>World</u>				
FT World Index	362.15	328.49	- 9.29	- 9.29

*This column adjusts the capital changes to reflect the movement of Sterling against the relevant local currency.

Composite Index - 5.28 %

This Index is calculated on the basis that a client's Portfolio is invested as detailed below with net income re-invested at the payment date:-

Cash Deposits	30.00%
UK Government Stocks	10.00%
UK Equities	40.00%
Overseas Equities	20.00%

BULLS & BEARS

Equities

UK Equities	Companies increasingly face headwinds from weak consumer spending and slower European export demand, while commodity prices force more downward pressure.
US Equities	Good cost control and continued export demand have supported strong earnings growth, although consumer debt and the housing market overhang limit many domestic stocks.
European Equities	Despite concerns about recession in some countries, valuations have become more supportive compared with other markets, while many exporters still benefit from strong export demand.
Japanese Equities	While the reconstruction budget will support economic momentum in early 2012, this has been well flagged in advance and the market is expensive on many measures.
Developed Asian Equities	Slower economic growth in key economies such as China affects the wider region, while monetary policy is only slowly being eased in response to continued inflationary pressures.
Emerging Market Equities	Selection is increasingly required; while some markets benefit from strong commodities demand and upgrades to sovereign-debt ratings, others face growing inflationary pressures and valuation concerns.

Corporate Bonds

Investment Grade	Positive corporate cashflows should enable a renewed decline in historically wide spreads, although the volatility of the underlying government bond markets will periodically affect total returns.
High Yield Debt	The asset class still benefits from healthy balance sheets and low levels of default, although concerns about future economic growth have affected valuations.

AUTUMN BUDGET STATEMENT

There were a wide range of announcements in the Pre Budget statement but I am just going to cover those most relevant to personal finance and they can be categorised under five main headings: state pensions, welfare benefits, tax credits, business initiatives and taxes (including National Insurance Contributions).

State Pensions

The Chancellor confirmed that from April 2012 the basic state pension will rise by 5.2%, in line with the Consumer Prices Index (CPI). This will take the single pension to £107.45 a week and the full couple rate to £171.85 per week.

Mr Osborne also announced the next stage of the increases to the State Pension Age (SPA). A State Pension Age (SPA) of 67 (for men and women) will be phased in between April 2026 and April 2028, just five and a half years after the move to an SPA of 66 is completed. There could even more increases in the SPA and these will be based 'on demographic evidence'.

Welfare Benefits

The Autumn Statement said that 'most working age and disability benefits will be uprated in line with CPI'. Further details will emerge from the DWP in due course: the phraseology suggests that some benefits will be under-indexed. This will certainly be the case for Pension Credit, where the standard minimum income guarantee will only increase by 3.9%.

As previously announced, Child Benefit will be frozen for 2012/13. In any event Child Benefit is due to be withdrawn from higher rate taxpayers in January 2013.

Tax Credits

The June 2010 Budget made several sweeping changes to Working Tax Credit (WTC) and Child Tax Credit (CTC). A second stage of reforms/cuts was announced in October 2011, alongside the Comprehensive Spending Review. The Autumn statement revealed several further amendments.

Business Initiatives

A variety of proposals to help businesses were announced or re-announced, including the launch of the National Loan Guarantee Scheme. Up to £20 billion of guarantees will be available to businesses with turnover of less than £50m.

There will also be a new 100% capital allowance for plant and machinery investment in Enterprise Zones in six particular areas from April 2012.

Perhaps the most interesting announcement for individual investors was the release of further details on the Seed Enterprise Investment Scheme (SEIS) to encourage investment in start-up companies.

From April 2012 the SEIS will provide income tax relief of 50% for individuals who invest in shares in qualifying companies, regardless of the rate at which the investor pays income tax, with an annual investment limit for individuals of £100,000.

There will also be a number of minor changes to Enterprise Investment Schemes (EISs) and Venture Capital Trusts (VCTs).

Taxes (including National Insurance Contributions)

Very little was said by the Chancellor on taxes, but after he finished his statement the Treasury posted up details of the main tax bands and rates for 2012/13:

- Income tax: the personal allowance will rise by £630 in 2012/13 to £8,105. However, the basic rate band will shrink by the same amount, leaving the higher rate threshold unchanged at £42,475. Other income tax allowances are increased in line with RPI.
- National Insurance: the thresholds have generally been increased in line with inflation, but the Class 1 upper earnings limit and Class 4 upper profits limit remain unchanged because they are linked to the unaltered higher rate threshold.
- Capital Gains Tax: the annual exemption will be frozen for 2012/13 at £10,600.
- ISAs: the overall investment limit for ISAs will rise by £600 to £11,280 for 2012/13. Up to £5,640 may be invested in cash.

Main income tax allowances and reliefs

	2011/12 £	2012/13 £
Personal allowance - standard	7,475	8,105
Personal allowance - age 65 - 74	9,940	10,500
Personal allowance - age 75 and over	10,090	10,660
Personal allowance reduced if total income exceeds*	100,000	100,000
Married couple's allowance** - maximum amount	7,295	7,705
Married couple's allowance** - minimum amount	2,800	2,960
Age-related allowances reduced if total income exceeds***	24,000	25,400

*For 2012/13 the reduction is £1 for every £2 additional income over £100,000. As a result there is no personal allowance if total income exceeds £116,210 (£114,950 for 2010/11).

** Relief at 10%. Minimum amount applies for age allowance purposes only. Relief available only if at least one of the couple was born before 6 April 1935.

*** For 2012/13 and 2011/12 the reduction is £1 for every £2 additional income over the total income threshold.

Income tax rates

	2011/12 £	2012/13 £
Starting rate on savings income - 10%*	1 - 2,560	1 - 2,710
Basic rate - 20%	1 - 35,000	1 - 34,370
Higher rate - 40%	35,001-150,000	34,371-150,000
Additional rate - 50%	Over 150,000	Over 150,000
Ordinary rate on dividends	10%	10%
Higher rate on dividends	32.5%	32.5%
Additional rate on dividends	42.5%	42.5%
Discretionary and accumulation trusts (not dividends)**	50%	50%
Discretionary and accumulation trusts (dividends)**	42.5%	42.5%

*If an individual's taxable non-savings income exceeds the starting rate limit, then the 10 per cent starting rate for savings will not be available for savings income.

**Up to the first £1,000 of gross income is generally taxed at the standard rate, i.e. 20%, or 10% as appropriate.

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