ETHIKOS GAZETTE

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And more…

ISAs and PEPs are Changing

There are a number of changes to ISAs and PEPs which will have taken effect from 6 April 2008.

Starting with ISAs, the overall investment limit for ISAs has been raised from £7,000 per year to £7,200 per year. Up to £3,600 can be in the form of Cash and the balance in Stocks & Shares or the full amount in Stocks & Shares.

Existing PEPs and TESSA only ISAs (TOISAs) will be re-designated Stocks & Shares ISAs and Cash ISAs, respectively. We will have to wait to see how long it takes for the managers to change the names on their statements. Some providers may take the opportunity to amalgamate ISA and PEP accounts where clients have both ISA and PEP holdings with them. Others may still keep in two different ISA accounts; this will depend on how flexible the companies' computer systems are.

The distinction between Mini and Maxi ISAs will be abolished. There will only be ISAs with 'Cash accounts' and ISAs with 'Stocks & Shares accounts'

It will be possible to transfer the cash component of an existing ISA into a Stocks & Shares account and this will not count against the current year's subscription. Care needs to be taken with this as once the transfer has been made from a Cash account to a Stocks & Shares account it cannot be reversed. In other words, it is not possible to transfer from a Stocks & Shares account to a Cash account unless the current year's allowance is used for that purpose.

A change that will have no impact for a good number of years is that money held in a Child Trust Fund (CTF) will be able to roll over into an ISA once the child reaches the age of 18.

Ethical Investment Hits Record High

The latest figures from EIRIS show that at 31 December 2007 there was £8.9bn invested in green and ethical retail funds (i.e., funds open to the public). The £8.9bn is spread over nearly three quarters of a million accounts which is up from 137,000 accounts in 1997 when the total invested in green and ethical funds stood at £1.5bn.

These figures do not include institutional investments which have an ethical mandate such as some local authority pension funds and charities which would, if counted, increase dramatically the amount invested ethically.

At a recent conference on portfolio design I attended one of the main platform speakers was questioned on asset allocation in ethically screened portfolios. In view of the above figures I was amazed when he explained that other than not investing into tobacco shares ethical investing was a waste of time and he would try to persuade clients not to invest ethically. I wonder how many clients he had lost.

This continued and growing interest in ethical investments has prompted the launch of the first ever 'National Ethical Investment Week' (NEIW) which runs from 18th – 24th May 2008.

NEIW will be led by UK Social Investment Forum, the membership network for sustainable and responsible financial services. UKSIF promotes responsible investment and other forms of finance that support economic development, enhance quality of life and safeguard the environment. UKSIF will be supported by Henderson Global Investors, Norwich Union and Friends Provident. It is planned that there will be a high-profile campaign in the press. If you are able to access the internet more details can be found at www.neiw.org.

STOCK MARKETS

The end of 2007 and the beginning of 2008 has seen an extreme amount of turbulence in world stock markets.

The latest panic caused in the main by the sub-prime scandal in the USA. In very brief outline, US banks lent monies at low initial interest rates to borrowers who either lived in rented property or in mobile homes (trailer parks). Typically these mortgagees had a fixed low rate of interest for the first two or three years and the cost of the mortgage was sometimes significantly less than the borrowers had been paying in rent.

As house prices had been rising many of these lenders did not require a deposit sometimes lending more than the house was worth. However, at the end of the fixed rate period interest rates rose very sharply and many of the borrowers could not afford to keep up repayments. That has resulted in many of the houses being repossessed and house prices in certain areas falling sharply.

This would not have been too bad had some of the banks not become even more greedy than usual. The following is a gross oversimplification, if it had of been that simple we would not still be experiencing the backlash. The banks who had made these loans sold them on. Imagine the bank had lent $100million dollars to 1,000 customers. The bank would sell this package of loans to the market. The buyer would be expecting to receive a regular income for say 25 years at the prevailing mortgage rate.

The buyer would be happy to pay a great deal for this package of mortgages as they believed that if anything went wrong their monies were secure. The situation began to unravel when the buyers of these packages of mortgages not only did not receive the income they expected but found that the security backing the loans was often worth substantially less than the loans.

So far, so bad. But what the mathematical geniuses at these banks had done was to mix these mortgages in packages with other good mortgages so disguising them, this means that the buyers did not and do not know whether they have a bundle of good or bad mortgages. Clearly, if you were a buyer of these mortgages you would no longer trust them and would stop buying.

This has lead to a general lack of trust and panic in the world stock markets. What we are going through is not unique or even unusual. Whilst we do not know how long the uncertainty and panic will last we do know that it will end and confidence will return to the market.

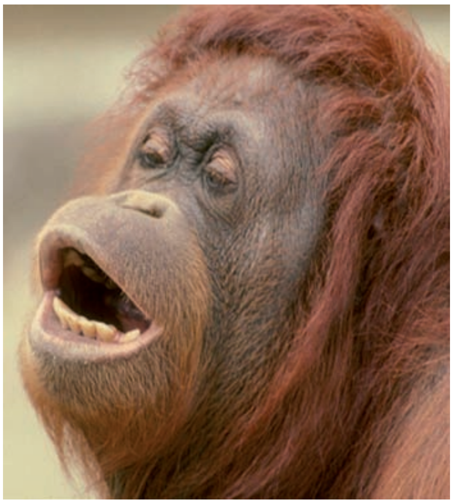
BIOFUEL

"There is always an easy solution to every human problem--neat, plausible, and wrong." (H L Mencken "The Divine Afflatus," 1917)

It is apparent that biofuel could very easily come within the compass of H L Hencken's aphorism. There is a very real danger that the rush towards biofuel will hasten the extinction in the wild of the critically endangered Sumatran orangutan as more and more of the tropical rainforest is cleared for oil palm plantations.

Worldwide, agriculture is already under pressure from climate change and there is genuine concern that precious food growing capacity will be diverted into growing more profitable bio mass.

There are biofuels which do not have a negative impact in their production, the trick



is distinguishing between biofuels with an overall positive impact and those which are not sustainable.

One small positive initiative has been undertaken by our local bus company in Reading that is in the process of introducing 14 new buses which will run off ethanol which has been produced from sugar beet waste.

Inheritance Tax Changes

The nil rate band for the 2008/2009 tax year has been increased to £312,000. Any estate below this figure will not have to pay any inheritance tax (IHT) but any estate over £312,000 will have to pay IHT at 40%.

An example may help: the valuations for this hypothetical case are at the date of death as they would be in reality.

Value of house	£ 375,000
Investments	£ 112,000
Personal chattels	£ 15,000
	£ 502,000

IHT is calculated on the amount above the Nil Rate band

£ 502,000 – £ 312,000 = £ 190,000

IHT payable is 40% of £ 190,000 = £ 76,000

The biggest change announced in the pre-budget report on 9 October 2007 was that from that date any part of the Nil Rate band available to a deceased person that is not used on death can be transferred to their spouse/civil partner.

Existing widow(ers) and bereaved civil partners will also be able to benefit from this change regardless of when their partner died.

The telling phrase is "that is not used on death" so that if IHT planning had taken place on first death all of the Nil Rate band may not be available.

Ethikos Website

Ethikos has at last joined the internet age and published its own website. At the moment it is in its infancy stage, providing basic details of who we are and what we do.

It is hoped that over the coming months (or more probably years considering how long it has taken us to get thus far) that we will increase the content considerably. If you do have access to the Internet you will be able to find us at www.ethikos.co.uk

Any suggestions for future content for the website or even subjects to be covered in the newsletter will be gratefully received.

Pensions Changes

From 6 April the basic rate of tax will change from 22% to 20%. For those making personal pension contributions this means that net premiums will increase.

For an investor making a £100 per month contribution the net cost was £78 per month, the net cost will rise to £80 per month. Higher rate tax payers will have to reclaim the additional 20% tax relief through their self-assessment.

DECUMULATION

It is usually the computer or entertainments industries that invent new words but the financial services industry are now trying to muscle in.

The use of decumulation has grown in professional financial planning circles in the last four or five years and as such its meaning seems to be readily understood in those circles. However, decumulation has not yet made it into the Oxford English Dictionary and I have been unable to find any formal definition. At its simplest decumulation is really the phase after retirement when rather than accumulating wealth, your investments are put to work to provide an income.

Financial services are beset by jargon and it is very easy for those involved in the day to day use of these terms to forget that most sensible people are not constantly thinking about Section 226a policies, OMOs, MVRs, MVAs etc etc etc. Am I confusing you? If I do forget and use unfamiliar terms in letters or when we speak please shout at me. It's my fault if you don't understand these technical terms. It's all about treating customers fairly.

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