

The Catt's Eye View

Issue | 2002

September 2002

Services

- Residential Mortgages
- Buy-To-Let Mortgages
- Pensions
- Investments
- Savings
- Individual Savings Accounts
- Life Protection
- Critical Illness Cover
- Income Protection
- Group Protection
- Group Pensions
- Health Insurance
- Long-Term Care

Inside this issue:

<i>The Stock Market Roller-coaster</i>	2
<i>Do you value my independence?</i>	2
<i>Are you paying too much for your mortgage?</i>	3
<i>Safe investment — Myth or possibility?</i>	3
<i>Death — Are you prepared?</i>	3
<i>Internet — The death of advice?</i>	4
<i>Information</i>	4

Interest Rates—where to now?

The questions that I get asked most regularly are whether the housing market can continue to rise and what is going to happen to interest rates.

My view of the housing market is that there are little pockets of activity, where the prices are rising almost irrationally. There are many areas where house prices have evened out and even in some cases, gone backwards .

Even in the active areas, prices will reach a certain point, where they cannot go higher because people cannot afford or are unwilling to pay the prices being asked.

House prices will only drop drastically if people have to sell their properties in a hurry. This is only likely to happen if they cannot afford to keep them. The most likely reason for this, other than personal misfortune, would be if interest rates rise significantly.

In my opinion, this is unlikely to happen because there is still great pressure from manufacturing industries to keep rates down or even reduce them following two quarters in recession. Also, the economy has gone below the target range for inflation in the last two months and finally, the government is keen for us to join the Euro. Rates in Europe are lower than ours and the rates will need to be closer together for us to look to join.

Therefore, I do not expect any significant rate changes for quite a while.

Are you well?

We live our lives on the basis that most of us have to work to pay for our lifestyles. Indeed, all of our lifestyles are entirely dependent on regular income being sufficient for us to afford to do what we do.

What happens if that income stops for any reason? Redundancy! Illness ! Accidents! Any of these can occur at any time to anyone. However, many of the payments that we pay regularly will not stop simply because our income has stopped. Therefore, for peace of mind, we should consider how we would cope with any of these disasters.

Either, you make sure that you build up an emergency fund to provide money while you are unable to generate income yourself or you should investigate income protection plans. You may be pleasantly surprised at how little “peace of mind” may cost.



Your home is a valuable asset.

The Stockmarket Roller-coaster

Just when you thought the market could go no lower, it drops another 100 points. Do you know the feeling? From a height of 6900 + reached at the end of 1999, the market is now at around 4200. A drop of nearly 40%.

However, it is not all gloom and doom. There have been some good performing shares and even sectors, but these have been cancelled by the drops in telecommunications, media and technology stocks.

I was amazed at the rise of the “dotcoms”. At the time, these new companies seemed to be able to buck all the previous principles of accounting and to be valued on some vague promise of astronomical future profits. Of course, as we know, reality finally came home and many of the “dotcom” enterprises were quickly seen to be little more than dreams and their true values are now more realistically shown in their share prices.

More recently, market turbulence has been caused by accounting mistakes, either through incompetence or dishonesty. The incorrect economic data has misled the Markets and has caused a drop in consumer confidence.

The market is still coming out of the back of that bubble and I feel that the current valuations are much more accurate. Indeed, I feel that there is decent value to be had in the market with careful selection. The market would never go down to zero because most companies have intrinsic asset value. One should remember that Marks & Spencer have had disappointing profits, now recovering well, but the company owns the freeholds of its' shops.



Help!
Should I get off? When?

Do you value my independence?

You may well have read in the press that the Financial Services Authority is looking to ensure that all consumers get access to good financial advice. The coverage in the National Press is nothing compared to the detail in the Financial Press. This matter has been the source of great concern within the industry.

The choices that have been placed before us are to do the following.

*I may have to drop the
“independent” from my title*

- Independent Advisers will only be able to work on a fees basis and cannot take commission.
- Authorised Advisers can work on commission only or fees basis.
- Multi-tied Advisers can align themselves to several different providers and distribute products from those companies.
- Tied advisers selling products of only one provider.

The way that I currently operate would be similar to the proposed authorised adviser. However, this would mean that I would have to drop “Independent” from my title. I feel that the independent tag is very important to clients as it currently represents the opportunity for you to get a choice of product to end up with the most suitable to you. To keep the independent title would mean that you would have to pay me for my time — to meet you, to speak on the telephone, writing letters to you — similar to solicitors and accountants. Of course, this could be a good way of dragging financial advisers into the “professional” world.

It is interesting to note that the Consumers Association has seen that this will not lead to better advice. It may even lead to fewer people seeking advice because they do not want to pay fees.. This goes against the grain of what this Government is trying to achieve - to fill “the savings gap”. At least at present, all of you people know that I am an independent financial adviser and can offer you a choice that a tied adviser cannot. The distinction may not be so clear in the future

I would be delighted to hear of your opinions on this matter.

Are you paying too much for your mortgage?

There are some wonderful schemes available at the moment. With rates as low as they have been for some 30 years and lenders falling over themselves to lend money, there is really no excuse to be paying the standard variable rate.

As well as the traditional mortgage, there are some interesting schemes linking other accounts to your mortgage. Woolwich will offset the balance on your current and savings accounts against your mortgage borrowing so that you are only paying for the net balance outstanding. Intelligent Finance is taking this a step further by allowing you to include credit card borrowing at mortgage rates. Virgin and Britannic Finance offers current account facilities on their mortgage accounts.

All of these schemes can work well for particular clients, but they are not suitable for everybody. It depends on the spending patterns of the individual clients.

If you would like information on these funky offerings or you would simply like to see if you could pay less for your borrowing each month, I would be pleased to discuss your requirements with you.



Safe investment—myth or possibility?

The art of alchemy has many admirers, but no practitioners. The constant search for the “get rich quick at minimal risk” is still on and if anyone does discover it, please tell me.

In the meantime, we will just have to settle for get rich slow products. In this time of turbulence within the financial markets, people are much more likely to want to minimise their investment risk, but they still want a decent return. This is much more difficult to achieve in these times of low interest rates. The rates offered on many bank or building society accounts can only be described as mean.

“The rates offered on many bank and building society accounts can only be described as mean”

So the next up the risk scales takes us to corporate bonds. These are currently the darling of the pension funds and institutions trying to get out of equities, so they are not offering as good value as they have done in the past. However, they are still the next up the risk scale from cash

Death—are you prepared?

This is not going to be a religious sermon.

There are only two things certain in life—death and taxes. Sometimes these go together if the deceased person leaves an estate of more than £250,000. However, there are two things that you may like to consider.

Is your will up to date? Does anyone know that it exists or where to find it? Have you appointed anybody to administer it?

The second is your funeral. Do people know what you want? What type of coffin? Burial or cremation? Flowers or donations? Who will pay for it? It is possible to plan ahead for these eventualities with a Funeral Plan. If you want information, please ask me.



Internet — the death of advice?

The Internet is the most wonderful source of information. Vast amounts of information on any subject that you could possibly imagine. That is, if you can find it or know where to look. The Financial Services sites offer everything from calculators for mortgages and pensions to up to date fund information to online application forms. So why would anybody need an adviser anymore?

It is all very well having all this lovely information, but how do you interpret it? How do you know that you are buying the best product? How do you compare the prices of funds or the growth rates achieved in different sectors.?

There will always be people who are able to get the information and understand it enough to make a decision, but the vast majority of people are simply confused by the choice that is available and need some assistance to make their informed decision.

What advisers can do, is to arrange information into some understandable order, explain the options that are available, provide alternative ideas that the clients may not have considered, answer questions that clients have about the information, give opinion and advice regarding the relative merits of the available choice and the possible consequences of choosing one product over another, make a recommendation, confirm the decision, deal with the providers, follow up proposals, review policies and plans. The advice should be ongoing with probably more after-sales service than pre-sales advice.

What you get from the Internet is information, but this is not advice.



All information in this newsletter is believed to be correct at the time of writing and any references to levels and bases of, and relief from, taxation are based on my understanding of current law and Inland Revenue practice. These are subject to change and their value depends on the individual circumstances of the investor.

The value of investments and the income derived from them can go down as well as up and you may not get back the full amount invested. The past is not necessarily a guide to future performance. If you withdraw from an investment in the early years, you may not get back the full value of your investment because of the charging structure.

Changes in the rates of exchange may have an adverse effect on the value or price of an investment in Sterling terms, if it is denominated in foreign currency.

The Financial Services Authority does not regulate taxation advice.

YOUR HOME IS AT RISK IF YOU DO NOT KEEP UP PAYMENTS ON A MORTGAGE OR OTHER LOAN SECURED ON IT.

As you may know, I have some 22 years of experience in financial services, of which the last 5 have been as an Independent Financial Adviser.

I set up on my own in August 2000, working from my own home and I am directly affiliated to the Financial Services Authority.



**TONY CATT
INDEPENDENT FINANCIAL ADVISER**

201 Nevill Avenue
Hove
East Sussex BN3 7NG

Phone: 01273 728717
Fax: 01273 728439
Email: info@tonycatt.co.uk

**Please feel free to call me
at any time to discuss
any aspect of financial planning**