



When doing nothing is best

Should stockmarket uncertainty affect your investment strategy?

During times of stockmarket uncertainty, it's only natural to be concerned about how this affects the value of your investments. Investors often ask what action they should take in response. Many experts agree that investors will usually be better off resisting the temptation to make changes to their long-term investments simply because of short-term stockmarket movements. If your personal circumstances and investment goals are unaltered, and you are still able to take a medium to long term view, then it is probably appropriate to 'sit tight' through any periods of uncertainty.

Why market timing doesn't work

Few investors would dispute the fact that, over the longer term, stockmarket investments have significantly outperformed the returns available from bank and building society deposit accounts. Investors also know that stockmarkets are prone to short-term fluctuations and sometimes these can appear to be quite sharp. It can be tempting during times of stockmarket uncertainty to delay making new investments or even consider selling existing investments and try investing again when values are lower – this strategy is known as 'Market Timing'.

Whilst 'market timing' sounds fine in theory, it seldom works in practice.

Market Timing – It's too easy to miss the gains

Just as the sharp falls in stockmarkets tend to be concentrated in short periods of time, the best gains are similarly concentrated. Because these gains often occur just before, or after, a market fall – an investor who tries to time investments is highly likely to miss the best gains.

The Leading investment company Fidelity has analysed the returns from the UK, US and other stockmarkets over the period 1992 – 2007. This shows that missing just a few days' stockmarket performance can significantly impact performance.

Average Annualised Returns over 15 years effect of missing best days

market	index	stayed fully invested	best 10 days missed	best 20 days missed	best 30 days missed	best 40 days missed
UK	FTSE All-Share	10.9%	7.9%	5.6%	3.7%	2.0%
USA	S&P 500	10.7%	7.2%	4.6%	2.3%	0.4%
Germany	DAX 30	10.9%	6.1%	2.5%	-0.4%	-2.9%
France	CAC 40	11.2%	6.8%	3.7%	1.0%	-1.4%
Hong Kong	Hang Seng	13.4%	6.8%	2.9%	-0.4%	-3.2%

All figures show annualised, total returns, taken from 15 year periods, starting each consecutive month, from 31.7.92 to 31.7.07, in local currency terms. Source: Fidelity

Missing the best 10 days has reduced annualised returns from the US and UK stockmarkets by around a third, and even more in other markets. Missing the best 40 days has seen UK and US market returns cut by

around 90%, with even greater lost returns in the other markets. Far from minimising investment risk, market timing is in fact a high risk strategy. Naturally if you were able to miss the worst days of the stock market

you would see a higher return than staying invested. However this would be more a case of luck than strategy as stock market falls are notoriously difficult to predict.

Remember time, NOT timing, is the key to investing.

Please note that past performance is not a reliable indicator of future results, and you should be aware that the value of an investment can fall as well as rise. This article is for general information only and is not intended to be advice to any specific person. You are recommended to seek competent, professional advice before taking or refraining from any action on the basis of the contents of this publication ■

Using the Private Residence Exemption to save tax

At Page Consulting we have helped several clients to save large amounts of tax on property disposals in the last year.

With careful planning it is often possible to secure exemption from CGT based on the law that allows your private residence to be sold tax-free. We are surprised that the government have not tightened the rules and expect them to do so before long. At the moment though, with careful planning and early advice, there are tried and tested ways to reduce or wipe out CGT bills on property sales ■

All change on the tax merry-go-round

Played out against a highly charged political backdrop, there are huge changes being made to our tax system at the moment.

These changes can represent either an opportunity or a threat, depending upon your position. In other words, there are winners and losers. The key questions to ask yourself are:

- Do I know about the changes and how they affect me ?
- Can I do something now to improve my tax position ?
- Who can help me to ensure that I don't miss out ?

Rather by surprise, in October last year the government made a number of bold moves. For now we will just look at capital gains tax (CGT), but there were also sweeping reforms in inheritance tax and the way that internationally mobile people are

taxed in the UK.

Back to CGT. From 6 April 2008, this will be a flat rate tax charged at 18%. On the face of it this sounds like good news. But there are other changes that are not so good.

For example, taper relief and indexation relief are both abolished on 5 April 2008. These are valuable reliefs and their effect has been such that people often now pay a much lower rate of CGT – maybe as low as 8% or 9% in practice. So, an 18% tax rate will be an increase in tax for some. Those people should consider what they might do before the new changes take effect. Can they bring forward a sale? Maybe a trust structure will help to trigger a sale before April 2008, but enable a degree of ownership and control over a property for a longer period? That can be tricky but well worthwhile if the amounts are large.

Whatever happens, anyone with an asset that has gone up in value needs to take tax advice and do what they can before April next year ■

It's a nightmare

Recently, the UK was judged to have the most complex tax system anywhere in the world, alongside India and the US. The sheer scale of the law is amazing. In the last 15 years the number of pages of UK tax law has jumped from 2,000 to 10,000.

The complexity is becoming an enormous burden on everyone. On a practical level, many high street accountants don't touch tax planning any more. It's simply too difficult to stay up to date and give good advice. Individuals increasingly need to find specialist tax advisers to make sure they have access to the latest thinking that can steer them through the choppy waters ■

Explore your options

In recent years, there has been a rush of new lenders entering the buy-to-let market. There is now a lot of choice available, and careful selection is important.

There are a few general rules to note: A buy-to-let mortgage will require a larger deposit, usually 15% of the property's value. In some cases, a 10% deposit is permitted – but lenders may charge a higher rate of interest. In addition, the lender will want to know the property's rental potential. Landlords should usually look to achieve a gross rent of around 130% of a rented property's interest-only mortgage repayment, however these days there are specific lenders that will work on yields as low as 100% some will even work on combined rent and earned income. While some will allow a lower rental yield, you could again find such loans are more expensive. Landlords have the choice of either interest-only, or repayment products. There are also some flexible mortgages that combine both. One advantage is these provide access to cash if this is needed at short notice, and surpluses can be used to repay capital. However, such loans tend to be slightly more expensive and need to be carefully managed. From a lender's perspective, they will need to know the borrower's salary details and about any other properties owned. Each lender will have their own criteria and the ins and outs can be complex. The interest rate on the loan can make a big difference to your final repayments, so shop around ■