

# TONY BARBER

## FINANCIAL LTD

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### Contact Us:

Corner House  
High Street  
St Dogmaels  
Cardigan  
Pembrokeshire  
SA43 3EQ

T:01239 612007

E:tony@tonybarber.com

## Monthly Digest

November 2008

Hi,

It seems that so much has happened in October it is difficult to know where to start. There is obviously a lot to write about at present, but as the press do such a good job of telling us the bad news I want to focus on the positive.

### But first a little housekeeping.

If you have received this email you are either a current client, an old client, or we have met on my travels. I hope to be able to bring you interesting and useful news each month, but if you would prefer not to receive future issues, feel free to click on the unsubscribe link at the bottom of this email.

Conversely, if you know anyone who you think would be interested in receiving this newsletter in future, please feel free to use the link below to forward on a copy.

 Forward to a Friend

## Financial Planning News - 10 Difficult Questions

When things are going to plan the tendency is to go with the flow. However it can be in the times when things aren't going to plan that we start to reassess what it is that's important to us.

I spend a lot of time explaining the difference between a Financial Planning and a Financial Advice and the following 10 questions go right to the heart of what Financial Planning is all about.

Have a go at answering them:

1. To whom do you want to leave your money, at what age and with what conditions? (Especially if the sums are large). How much money is the right amount for your children to inherit?
2. What do you believe to be the right balance between enjoying money now; preserving and investing it for future security; leaving it to family members; and using it to make a long term difference in some way?
3. If you knew you only had 6 months to live, what would you do differently in the next 6 months? If you knew you only had 5 years to live, what would you do differently in the next 5 years?
4. How would you deal with the situation if you/your spouse/your

parents became incapacitated, both now and in old age?

5. How will you exit from your business? (For business owners)

6. What will motivate you once you achieve financial independence?

7. What will you do then? At what age are you aiming, and why?

8. What is really important for you to achieve? And why?

9. If you received a massive cash windfall, how would you spend it? This is your hypothetical shopping spree! And if you had all the money that you could ever need, how would you live your life?

10. What would you like your obituary to say? Why? When you review your life, will you say, "I'm glad I did" or "I wish I had"? With these questions in mind, will you change anything?

That should keep you busy for a while!

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## Investment News - When doing nothing is best

The fall in the FTSE All Share Index from its peak on 8th October 2007 to its low on 20th October 2008 has totaled 43.5%. I would hope that no one reading this was 100% invested in the stock market as that it a large fall in anyone's book! Many clients are asking what should I do, stick with it or encash my investments and look for something safer?

My response is that 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 this current period of uncertainty.

Few investors would dispute the fact that, over the longer term, stock market investments have significantly outperformed the returns available from bank and building society deposit accounts. Investors also know that stock markets are prone to short-term fluctuations and sometimes these can appear to be quite sharp. It can be tempting during times of stock market 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.

Just as the sharp falls in stock markets 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.

Missing the best 10 days from the last 15 years\* has reduced annualised returns from the US and UK stock markets by around a third, and even more in other markets. Missing the best 40 days has had an even more dramatic affect on all 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 in the market, NOT timing, is the key to investing.

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## **Pension News - In-specie contributions**

This is an area which is not often talked about, however it is possible to transfer the ownership of existing investments and property into a Self Invested Personal Pension (SIPP) and have them qualify for tax relief.

The big drawback with this is usually that on the transfer, a capital gain is triggered which could attract a capital gain tax liability.

However with many investment and property prices depressed at the moment, any capital gain is likely to be lower than it was and with careful planning can be kept within your annual CGT allowance.

### **Its easiest to demonstrate this by way of an example:**

Sally Jones has some shares which are currently worth £15,000. They have fallen in value dramatically over the past 12 months, however Sally is confident that they provide good growth opportunities in the long term and would like to keep hold of them.

If she were to move her shares into her SIPP as an in-specie contribution it would mean the following:

#### ***Tax relief***

Sally is treated as having made a net pension contribution of the market value of the shares, which is £15,000 at the date of transfer.

- This all qualifies for basic rate tax relief, so a further £3,750 is credited to Sally's SIPP.
- As Sally earns £80,000 a year, she will also receive a further £3,750 in higher-rate tax relief via her tax return.

#### ***Capital gains tax***

Sally only paid £6,000 for her shares.

- The in-specie transfer of ownership to the SIPP is treated as a sale, so Sally's "gain" of £9,000 is assessable to CGT.
- Sally has no other gains for this tax year, so as this gain is within her annual CGT allowance of £9,600 she has no CGT liability.
- Once inside the SIPP, any future gains are completely sheltered from CGT.

#### ***Stamp duty***

Share purchases are subject to Stamp Duty of 0.5% (rounded-up to the next £5). This means that Sally's SIPP will have to pay Stamp Duty of £80 on receipt of the shares.

#### ***Therefore in summary Sally has:***

- Increased the value of her shares by £3,750

- Reduced her income tax liability by £3,750
- Sheltered any future growth in the value of the shares from capital gains tax.

Whoever said pensions were boring!

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## What have I been up to?

This is where I plan to keep you up to date with what's been going on in my world over the last month. If you interested, read on. If you couldn't care less feel free to hit delete now!

Have you ever noticed how difficult it can be to think when someone asks you "what have you been up to?" Well that's what I'm experiencing now. Maybe it's easier to tell you what's coming up.

Well it's Friday and on Fridays I always try to make sure I'm in the office. Our Children, Leo (7) & Madeleine (5), look forward to Fridays as they go to "Kids Club" at our [Church](#). Why is it that going in the mini bus is much more exciting than Daddy giving them a lift?

The rest of the weekend will be a mixture of the usual jobs around the house and trying to get out in the fresh air. Oh, at some point I need to deflate a large dinghy and try to man handle it into the shed. Not looking forward the that one.

I'm really enjoying having Mondays off, which is something I have been doing for about 2 months now. The weekend goes so quickly that it's nice to get an extra day with the children. You know what they say, on their deathbed nobody says "I wish I'd spent more time at the office!".

I've been reading a really good book this week. Its called "[Your Money Map](#)" and gives a great action plan for achieving "Financial Freedom". The Your Money Map course is something that I might run on a voluntary basis in the future. If you know of anyone that needs to get out of a financial hole please forward the above link on to them.

Have a great weekend!

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If you would like any further information or if I can be of any help please do not hesitate to contact me.

Assuring you of my best attention at all times.

Regards,



**Tony Barber CFP® AIFP**  
**Certified Financial Planner™**

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Tony Barber Financial Ltd | Corner House | High Street | St Dogmaels | Cardigan | Pembrokeshire | SA43 3EQ | United Kingdom