

YOUR MONEY

Almary Green Investments

LOVEWELL BLAKE

Is your pension in recovery mode?

JOHN MEE, director of Lovewell Blake Financial Planning, looks at an option for more control of your fund

ALL of us have a pension fund, or ideally should have, as we work all our lives and assume that by putting money away regularly we will create a fund, which should provide us with a worthwhile income when we eventually retire.

Historically, pension funds invested in the stock market have shown remarkable long-term growth – the FT All Share Index has risen by more than 800% over the past 25 years.

However, many existing pension funds have seen negative returns recently through the collapse in the stock market a year ago. Yet, many astute pension clients have benefited from the stock market rebound of almost 50% since the dramatic falls. Like us all, they do not wish to miss out on the opportunities available as markets continue to advance, and there is no need to miss out.

Why not therefore consider the advantages of a Self Invested Personal Pension (SIPP). With a SIPP you are in total control of where your monies are invested, and with advice, you have the choice of thousands of funds. You also have access to some of those managed by the best fund managers in the country, as well as shares, investment trusts, exchange traded funds, bonds and gilts. You can even hold cash if you wish.

Having this fund choice can dramatically improve your pension, as the better the investments inside your pension fund, the more money you should have when you retire.

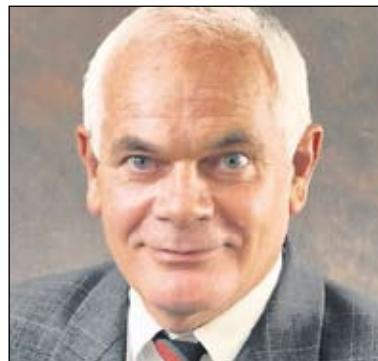
With internet access today, you can view values at any time convenient to you, so you can easily stay in touch with the value of your fund.

It is also quite easy to transfer from low performing pension funds to a SIPP, but there would be a need to check that you may not lose any guaranteed annuity rates, or incur any excessive penalties by doing so. It is therefore important that you take some advice with regard to these points.

So if you wish to improve your pension, possibly amalgamating several small pension funds that you have gathered over the years, this route may be for you as it could have a dramatic effect on your future lifestyle.

Please remember that your pension fund is likely to be one of your most important assets, so take advice and take control.

Finding a safe haven in times of financial turmoil



Independent financial adviser JIM BARR answers questions on corporate bonds

A FRIEND keeps telling me I should think about investing in corporate bonds, but I don't really understand what they are. Can you help?

In simple terms, a corporate bond is company debt. When a company needs to raise funds, one option is to issue an IOU, where in return for investors' capital the company will pay a fixed rate of interest for a set period of time after which the original capital will be repaid.

For example, if Big Company plc issues a 5% 2014 bond, then if you invest £1,000, you will receive £50 a year in interest until 2014, when you will get your original money back. Governments also issue similar IOUs but they are known as Gilts in the UK and Treasury Bonds in the USA.

Why have they been so popular in recent times?

Corporate bonds have always played a part in reducing risk for investors and they have become popular in recent times for two main reasons. Stock markets around the world have plummeted and although cash is considered to be nice and safe, with interest rates at a historic low the returns are minimal at best.

With their fixed rates of interest and return of capital, corporate bonds – for most pension and ISA investors accessible through corporate bond funds – have been viewed as an ideal solution, offering a higher income than cash with capital security lacking in equities. Corporate bond sales in Europe rose to 395 billion euros during 2009 but experts predict



SHELTER: Corporate bonds can provide a secure place to invest during stormy financial times.

that they will fall to 235 billion euros in 2010. Many companies turned to investors for much-needed funds after banks cut lending during the financial crisis.

Private investors, it seems, have been selling up in the past few months. The Investment Management Association recently reported a combined outflow of £25.9 million from UK corporate bond funds in October and November last year. Yet, according to the IMA, corporate bond funds had been the highest selling sector for investments for 10 consecutive months until August.

Are they still a good investment?

Corporate bonds are beginning to look more attractive, as the profits of the businesses issuing bonds improve and default rates are expected to start falling this year. But bond yields – which average 6.2 per cent on sterling corporate bonds – are dropping, making some investors begin to look elsewhere for their income.

In simple terms, corporate bonds remain a good way of

reducing risk in investments but you must be aware that some are riskier than others. Corporate bonds that are issued by large, reputable companies are referred to as investment grade bonds. Those issued by companies with less secure finances are known as non-investment grade, high yield or junk bonds.

Investment grade bonds will usually offer a lower rate of interest but will have higher capital return certainty. Non-investment grade bonds will offer a higher rate of interest (to attract investment) but there is much greater risk to capital return.

The key point to understand about corporate bonds is the higher the rate of income they offer, the riskier the investment will be. A higher rate of income does not mean that one bond is better than another. Most corporate bond funds will have a good mix of investment grade and non-investment grade bonds but it is important you fully understand the risk involved in investing in corporate bonds – either individually or through a fund.

Is there anything else to consider?

My advice is always to take care when considering any investment – particularly in times of uncertainty and turmoil.

There have been huge influxes of money in recent years into with-profit bonds, technology funds and commercial property funds, all of which appeared to offer either security of capital, good levels of income or amazing returns.

Many people have nevertheless had their fingers burned. However solid and 'safe' a corporate bond might seem, I cannot stress enough the importance of seeking independent financial advice before committing to any such investment.

Independent Financial Adviser Jim Barr is based at the Ipswich office of Almary Green Investments. He looks after the financial requirements of individual and corporate clients on a wide range of protection, pension and investment needs. To contact him call 01473 257973 or 01603 706740 or visit www.almarygreen.com.

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