ASSET

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THE NEWSLETTER OF MURDOCH ASSET MANAGEMENT

Murdoch's Investment team, from left to right: Austen Robilliard, Derek White, Chris Birch, Philip Hunt, Tony Dunne, Richard Palmer, Alan Cutbill.

Market Update

The short-term volatility of the stock markets continues to hog the headlines and even the re-election of Barack Obama for a second term did little to quell the concerns that investors have over the forthcoming "fiscal cliff". The poor economic data in Europe, combined with protests against austerity in Portugal, Spain and Greece, has added further fuel to investors' general state of anxiety.

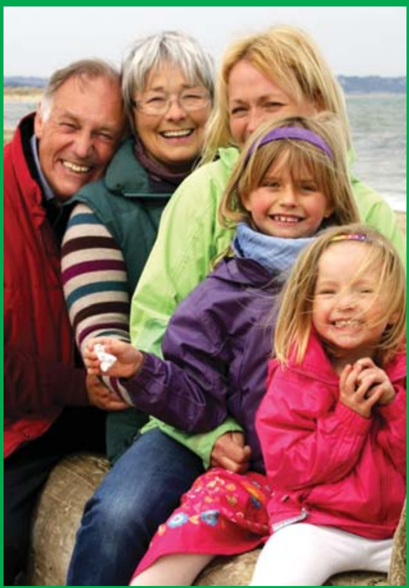
China as a whole struggled, as investors realised the economic miracle may be illusory and much of the future promise was already priced into the shares. Evidence continues to emerge of large-scale fraud in certain Chinese companies and of course the political risk is high too.

As the pace of economic growth stalled, investors have preferred to gain exposure to China's growth indirectly, via commodities and companies with a large presence in the region, but listed on Western stock exchanges. The theories being that, if you want to make money on the growth in mobile telecommunications in China, invest in Vodafone, rather than China Mobile. With Vodafone, you get the high quality corporate governance that comes with a FTSE listing and a fair approach to profit-sharing with its investors. (...cont. on back page)

IN THIS ISSUE

We deal with the tricky subject of Will writing and protecting your assets with trusts. The scale of underperformance in the UK All Companies sector is exposed and there are some tax saving tips too.

Is your Will valid and does it meet your intentions?



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Statistics show that 65% of people die with an invalid Will and their money doesn't necessarily end up where they intended. The legal complications of intestacy are significant.

Debate continues over whether setting up a discretionary trust on first death is still worthwhile. £650,000 of a joint estate can be exempt from inheritance tax (provided the rules don't change in the future and the correct claim is made) whether you establish a trust or not.

Most people want certainty that their money will end up with their children and if they die first, the only way to ensure that happens, is for their money to go into trust, rather than directly to their widow(er). Correctly established, trusts will allow your widow/widower to continue to benefit from the assets in the trust, without it ever forming part of their estate. This gives you comfort in the knowledge that your spouse will be looked after for the remainder of their life and certainty of the final destination of your share of the family money, regardless of what happens to your spouse.

Examples of situations where money left directly to the spouse can be lost are as follows:

> The survivor's health starts to fail and they need personal care, initially at home and then in a care home. At upwards of £750.00 per week this can ravage one's estate, but if your share of the estate is in trust, the Local Authority cannot claim on this to pay for your spouse's care and it would be disregarded in any care assessment.
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> Some years down the line, your widow/widower meets a companion and may even get re-married. Family rifts can develop, particularly if your children think the new partner is "...only after Mum's money". The survivor can do what they like with their money, but they can't give away yours if it is held under trust.
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> As one's mental capacity starts to fail, it is possible to make poor financial decisions and, whilst the Court of Protection can be asked to step in when mental capacity is lost, it is the period up to that point where much of an individual's money can be lost. They could be pressured by greedy relatives or fall prey to some of the less savoury sales tactics employed by certain companies.

When your money goes into trust, you hand over its day to day running to trusted individuals and it is their duty to ensure that all the beneficiaries are treated fairly, including your spouse during their lifetime and your children thereafter.

Giving money directly to your children on first death may be OK to those who are respectful of it, but some children are not so reliable and any money given to them could be lost to their creditors in bankruptcy. Through their divorce, half of the inherited amount could disappear in the financial settlement.

If your wills do not establish trusts on first death, or you are unsure they meet your needs, please call; we will be happy to work with your existing Solicitor or have several trusted firms we can suggest.

The 100 worst performing UK funds have a colossal £26.4bn. of investors' money tied up in them.

Companies spend fortunes building a strong brand name, but when it comes to investing, it seems that it can be the worst marker for a fund. The list below shows the UK's fifteen largest and most persistently underperforming, UK growth funds over the last 3, 5 & 7 years.

Fund Name	% Return 3 Years	Quartile Ranking	% Return 5 Years	Quartile Ranking	% Return 7 Years	Quartile Ranking	Fund Size (£m)
Halifax – UK Growth TR	34.77	4	-2.70	3	30.58	4	£3,746.10
Halifax – UK FTSE All Share Index Tracker TR	37.24	3	-2.07	3	30.63	4	£1,743.80
Scottish Widows – UK Growth TR	29.56	4	-11.76	4	25.90	4	£1,297.60
Schroder – UK Mid 250 TR	44.38	2	-21.82	4	33.05	3	£1,165.70
Standard Life TM – UK Equity General TR	35.39	3	-4.26	3	40.23	3	£1,125.60
SWIP – MultiManager UK Equity Focus TR	29.79	4	-7.50	4	31.25	4	£1,100.00
CIS – UK Growth TR	29.66	4	-3.56	3	36.62	3	£1,040.00
Halifax – UK FTSE 100 Index Tracking TR	33.01	4	-2.48	3	25.05	4	£986.00
Invesco Perpetual – UK Growth TR	28.50	4	-12.09	4	24.23	4	£801.50
BlackRock – UK Dynamic TR	34.61	4	-4.86	3	36.70	3	£687.90
Santander – Premium UK Equity TR	37.68	3	-2.92	3	38.27	3	£682.10
SJP – UK & General Progressive TR	46.24	2	-10.92	4	18.60	4	£536.00
F&C – Stewardship Growth TR	32.90	4	-21.30	4	14.64	4	£505.10
BlackRock – UK TR	35.02	4	-7.60	4	34.60	3	£449.50
Henderson – UK Alpha TR	32.03	4	-17.57	4	20.86	4	£446.80

These fifteen funds alone have £16.3 billion invested in them.

Looking at the bottom third of the sector, the UK's best known multi-brand (Halifax, Bank of Scotland, Lloyds Bank and Scottish Widows) dominate the "Hall of Shame", with a combined £9.1 billion shared across just seven funds.

Maybe the investors do not know how bad it is, perhaps their financial adviser is not incentivised to makes changes or even works for the company itself.

If you know of anyone who holds any of these funds, perhaps they should be told and we would be more than happy to provide them a review and advice.

This is not to say that companies like Henderson and Invesco Perpetual are all bad, indeed they have some of the best performing funds in the market place. In order to maximise your long-term returns, you need to ensure your money is invested with the select few, consistently high returning fund managers and be ready to make timely switches if anything changes.

Warning: Do not rush out and sell these funds before you have sought advice, as there may now be good reasons to keep some of them.

Source: FE Analytics IMA UK All Companies Sector, total return, net of charges to 30th September 2012

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(Market Update cont.) The on-going investment discipline that underpins our portfolio managers' daily activity is unaffected. The British economy and the FTSE 100 have made little progress over the last five years, but there are some very good UK, European and global businesses that have continued to grow. We only need to look at Nigel Thomas's AXA Farmington UK Select Opportunities Fund to see a 26% total return over the last five years, compared to the FTSE 100 at only 4.02%. Old Mutual has seen similar returns in the mid-cap and small-cap areas (26.8% & 24.6% respectively).

The daily market volatility has scant relevance to the underlying investment story and the press only make matters worse. We advise investors to ignore the daily noise, in favour of remembering the fundamentals of investing: you only share in the long-term profits of a business by remaining invested. Therefore in keeping with history's most successful investors, we prefer to take the longer view in our client's holdings.

We switched out of the Standard Life Higher Income fund following a period of poor performance and a manager change, with the proceeds allocated to the Threadneedle High Yield Bond fund. Since this change occurred, the Threadneedle fund has performed in line with our expectations and we are confident that it can deliver above average returns in the long run.

Asset rich, cash poor – an inheritance tax solution.

It is very difficult to avoid inheritance tax if your largest asset is your home, but a joint life, second death life assurance policy could be just the ticket. Instead of taking out a cash ISA each year or building up excess income in low-interest savings accounts, you can use the money to provide a guaranteed lump sum, free of all taxes (income tax, capital gains tax and inheritance tax).

The premium could be exempt from inheritance tax if it is within your annual exemption (£3,000 each) or is "out of income" and the payout is not subject to probate. Your health needs to be good enough to qualify for the cover, so the earlier you start, the more likely you are to be accepted and the lower your contribution. A couple who are 68 and 65 would need to contribute £1,920 per annum for a payout of £100,000. At 75 and 72 the premium would be £3,283

You would need to live a very long time to have paid the full amount and there are no saving plans on earth that offer such high guarantees. What's more, your other assets remain yours without restriction.

Top Tax Tips

Phased Income Drawdown. When taking your pension benefits by means of income drawdown, instead of taking all the tax-free lump sum at once, consider phasing it over a number of years. You could reduce your income tax in the early years, increase the total tax-free cash and bolster the death benefits in the future.

Asset switching. If you hold corporate bonds or gilts directly and stocks and shares in your ISA, consider "Asset Switching", because tax on fixed interest is reclaimable in an ISA, but tax on stocks & shares is not.

Bed & ISA. Even if you don't intend to make a new investment, consider "BED and ISA" – sell some of your stocks & shares and buy them back in an ISA. This keeps your capital gains under control, uses your annual capital gains tax exemption and maximises your ISA allowance.

Examination update

The last quarter has been a very busy time for examinations and we are pleased to confirm the following passes:

Advanced Diploma – Chris Birch and Phil Hunt both passed AF5 Financial Planning Process

Investment Advice Diploma – Austin passed Investment, Risk and Taxation (CISI)

Certificate in Financial Planning – Christine Harris, Marie Dinsdale and Mark Collard passed CF1 UK Financial Services, Regulation and Ethics

Mark Collard also passed CF2 Investment and Risk.

Our congratulations go to Christine Harris who has been made a permanent member of our administration team.

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