

# THE ADVISER.

Summer 2010

Welcome to the latest edition of Hughes Financial Services newsletter, our update on developments in the world of financial services.

If you have any questions about the issues raised in this issue, please do not hesitate to contact us.

## A new political dawn

After a couple of nail-chewing weeks, the UK finally has a new government. It may not be quite what markets would have wished for - equally it is not as bad as they might have feared. But this is uncharted territory with the UK coping with an economic crisis and a political set-up not seen for a generation. Do investors need to prepare themselves for a bumpy ride? Or are the new government's policies likely to bring stability?

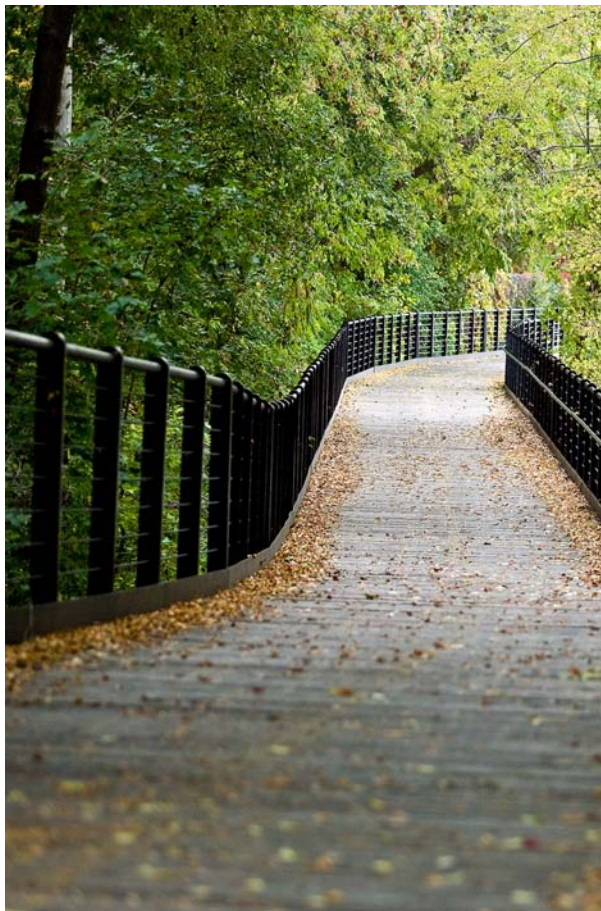
First, it must be said that some measure of certainty is welcome. Markets hate uncertainty and the mere fact that a government has been formed has allowed them to concentrate on other areas (like the crisis in the Eurozone). The pound has seen a small rally against the Euro since the election, though this may be more a function of the potential weakness across Continental Europe than a vote of confidence in the new government.

More certainty of government is good for gilts, as is the fact that all the major rating agencies said that the outcome of the election had not changed their view on the outlook for the UK. That said, many other problems remain: Over-supply continues to be an issue and the rating agencies may not look so favourably if credible steps are not taken relatively quickly to deal with the deficit. All eyes will be on the new budget on 22nd June.

Coalition is not a disaster. Markets had expected a hung parliament and the current compromise is probably as good as they could have hoped for. The true extent of the compromise is unlikely to be seen until the first budget. Watch this space.

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## Planning for success

Step No 4. BE SMART  
Benjamin Franklin's belief that "by failing to prepare, you are preparing to fail" might be something of a cliché in the twenty-first century, but it is worth thinking about before you begin the financial planning process. Not only do you need to make your objectives clear, you can also make them SMART. This is business speak for making sure you are Specific about what you are trying to achieve, can Measure the success (or failure) to keep your plans on track, keep them both Attainable and Realistic given your own circumstances, and that in the end, you will see something Tangible in return for the work you have put in.

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FINANCIAL

## Inflationary pressures rise

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UK interest rates have now remained at their all-time low of 0.5% for over a year. The UK has crept tentatively out of recession but the new Government are now anxiously looking at ways to cut costs without doing anything to derail a very fragile recovery.

However, the UK Consumer Price Index reached 3.4% during March. In his open letter to the Chancellor of the Exchequer back in January, the Governor of the Bank of England (BoE), Mervyn King considered the rise to be a “temporary deviation” and suggested inflation will fall back below the Government-set target level of 2% in the second half of 2010. Even taking King’s explanation for the sudden rise in prices into consideration, it is worth remembering the rate of inflation has almost doubled since November 2009. Indeed, only a few months ago, deflation seemed the more credible risk. In normal circumstances, the BoE would increase the cost of borrowing in order to cool inflation. However, rates are unlikely to rise in the short term because policymakers fear higher interest rates could endanger the UK’s economic recovery.

Low interest rates are generally good news for borrowers, but are bad news for savers, who have already endured a year of exceptionally low interest rates. Returns on cash are meagre and high inflation is eroding the real value of cash. Looking ahead, Britons face the combined problems of high inflation and rising taxes, both of which will put additional – and unwelcome – pressure on disposable income.



## Maintaining your lifestyle

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A recent report from The Pension Policy Institute ([pensionspolicyinstitute.org.uk](http://pensionspolicyinstitute.org.uk)) suggests few retired people are able to replicate the living standards they enjoyed at work through their pension savings alone. Part of a wider study, the report looked at income needs during retirement and how they change over time. It found that not only are pensions seldom sufficient, but also that pensioners suffer later in retirement as their income fails to hold its value in real terms.

The study also highlighted changes in people’s spending patterns over the course of retirement. For example, pensioners tend to spend most in the early years as they make the most of their new-found leisure. Between 75 and 85, however, mobility issues can reduce this amount. Income then ticks back up at 85 as health-related spending begins to climb before it dips once more around 90. Most importantly, however, the study shows that our current ‘one-size-fits-all’ approach to pension planning is inadequate. New retirement products, with greater flexibility and choice, are becoming available to address this, but even simple things like considering inflation-protection can help ensure retirement income retains some of its real value.

If you are saving for retirement, you might also consider supplementing your plans with other tax-efficient products, rather than relying just on a pension plan. Although the tax advantages differ, depending on your circumstances, the different rules about how you can take income and capital might provide more flexibility within your

## The rules of investing

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No 2: NEVER BUY WHAT YOU DON'T UNDERSTAND

Some investments might sound exciting - and even appear to have delivered. Yet history is littered with simple-sounding ideas that, when tested by the pressures of markets, came crashing down. Think Long Term Capital Management, the now defunct hedge fund that traded in bond spreads. Think split capital trusts, which resulted in millions of pounds of investor compensation. And now, think how banks bundling up sub-prime mortgages has affected the whole economy. If you don’t understand something fully, steer clear.



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