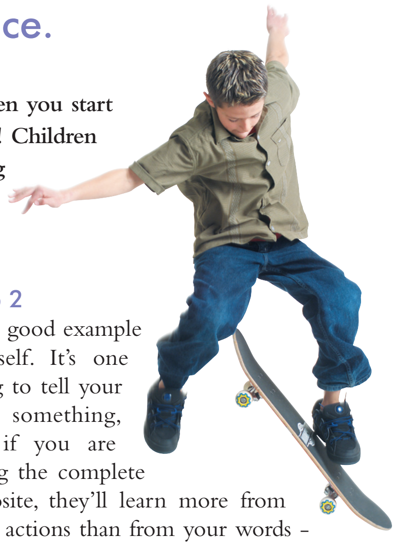
PARAGRAPH

QUARTERLY NEWSLETTER FROM PARADIGM NORTON DECEMBER 2009

Financial Lessons

This is the next article in the 'SKIING' series – Spending Your Kids' Inheritance.

My experience is that children actually ignore you when you start talking to them, or trying to teach them, about money! Children learn by doing. They get strong wealth habits by doing the same thing over and over and over – in an interesting and creative way.



I encourage our boys to have four parts to their money management – investing, giving, spending (they don't need much direction here!) and long-term savings to buy gifts for Christmas/birthdays/Father's and Mother's day and holidays, etc.

I have also observed that a weekly or monthly allowance only works if you have a complete plan to teach money management to your children. An allowance alone, without more, won't do the job.

Richard Child would also pull me up short if I didn't remind you that giving is part of gaining. When you have returns on investments, it's important to keep the flow of money circulating – by more investing, more spending and certainly by more charitable giving. In other words, it's good and helpful to encourage our children to consider others as a part of their money management thinking. Teaching our children about money is a challenging task – no one argues that you should teach them, but the 'how' is a tougher question. In general, I recommend four guiding principles:

Step 1

Educate yourself. You can't teach something you don't know about yourself. Learn as much as possible about budgeting, about saving, about investing, about cutting expenses and about reducing debt. Armed with knowledge, you'll be a good teacher. We can certainly help you with some of these issues if you are not sure where to start.

Step 2

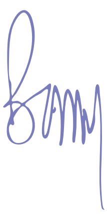
Set a good example yourself. It's one thing to tell your kids something, but if you are doing the complete opposite, they'll learn more from your actions than from your words – this I have learned from bitter experience! To teach them about controlling their spending, you have to do so yourself. Lead by example.

Step 3

Teach them one habit at a time. Your children are not going to become skilled financial planners overnight, or in one month, or even in a year. Your goal should be to teach them these lessons over the course of their childhood and adolescence. So teach one thing at a time, until they've learned the skill and then move on to the next. There's no rush; maybe start off with helping them resist the temptation to go into debt. This can be a big issue if not tackled early on.

Step 4

Let your children learn by doing. You can't teach by telling. You have to tell (briefly) then show, then let them do. Let them make mistakes and then talk about those mistakes. Soon enough, they'll learn why those mistakes were actually mistakes and if you set it up right, they'll learn better habits on their own, by doing.



Barry Horner – CEO

Something to ponder on over the Christmas break

At the heart of what we seek to do at Paradigm Norton is to encourage our clients to evaluate whether they are attaining all they set out to achieve in life. Once they are able to stand back from time to time and answer this bigger question, our job, from a financial standpoint, is to help our clients get there. The Paradigm Norton planning team needs to determine what financial strategies should be deployed to ensure that our clients then remain 'on course' once they have determined and agreed a way forward with us.

Perhaps use the Christmas break, when the pace of life tends to slow down for a period, to re-examine these vital questions.

If you need some guidance from our financial planning team to help you complete this exercise, then please do let us know.

As usual, we are sending a contribution to Hammer Out, one of our favourite charities, instead of sending company Christmas cards. So may I wish you all, on behalf of the Paradigm Norton team, a very Merry Christmas and a prosperous and peaceful New Year!

Barry

Gone phishing

HM Revenue & Customs have reported that there have been numerous attempts by fraudsters to deceive taxpayers by pretending to be from HM Revenue & Customs. Typically, individuals will receive an email apparently from a tax office claiming that the person is due a tax refund. They are then invited to click on a link which takes them to a 'phishing' site and are then asked to provide confidential information, including bank or credit card details. We are aware of two clients who have been sent this type of email.

If you receive an email which appears to be from the tax authorities, please delete it. HM Revenue & Customs do not communicate about tax refunds by email. For further information on this sort of scam, visit: http://www.hmrc.gov.uk/security/index.htm

Steve Griffiths – Head of Tax Services

Health Insurance – v – Dipping into your Pocket

Private medical insurance has been around longer than the NHS, but with soaring premiums, some may question whether to self-fund an operation rather than pay insurance premiums.

Best Health UK are specialist full-market medical insurance brokers, who work closely with us in setting up and maintaining appropriate medical insurance cover. Whether you are considering a company or personal scheme, we wholeheartedly recommend Best Health UK's services. They have particular expertise in comparing policies that are already in place against other cheaper options.

So, how much could treatment cost if you were to self-fund?

A case example - one of Best Health's clients had an angina attack whilst in a Harley Street waiting room. He was taken to a nearby private hospital, where he was stabilised and subsequently received the following treatment:-

A CASE EXAMPLE

- An angiogram to assess his heart
- A (quadruple) heart bypass after a week of tests
- 3 weeks in intensive care with use of kidney dialysis machines
- 2 weeks in a private room with ongoing consultations
- A range of drugs
- Advice and monitoring from dieticians and physiotherapists
- Consultations from speech therapists due to a suspected minor stroke on the operating table

The total bill of £250,000 was paid for by his healthcare insurer, Aviva.

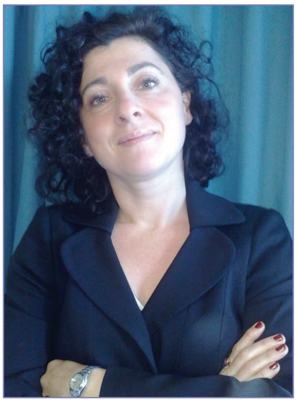
But can you have choice of health treatment, without paying for it? To a degree, yes. However, while the NHS has made improvements to its waiting times, figures released by the Department of Health at the end of November 2008 showed that 32,900 people had been waiting longer than 13 weeks for in-patient treatment. NHS operations can also be cancelled, often for non-clinical reasons.

Private medical insurance can cover you for drugs which may not be available through the NHS. A topical example is that of the NHS banning the use of certain cancer drugs (e.g. Sutent), as they deem that the extra months/years of life afforded are not worth the expense. Private treatment usually also makes for a more comfortable hospital experience with better facilities such as your own serviced single-room instead of a bed on a ward.

If you do decide to pay for insurance, choose a policy that suits your needs and budget.

There are a number of ways to reduce the monthly premium, such as by opting for a higher excess or a shared risk policy.

For companies, medical insurance premiums can be offset against Corporation Tax, thus providing a valuable saving on the premium. There are, of course, other benefits afforded to employers by protecting their staff 's health and wellbeing at work, as highlighted by National Director for Health and Work, Dame Carol Black, in her review of 'the health of the working population'. With the two most common causes of sickness absence being musculoskeletal and psychological problems, private treatment provides prompt access to physiotherapists, specialists, diagnostic tests and psychologists, potentially saving months of employee inactivity.



This guest article was written by

Debbie Kleiner-Gaines, Managing Director, Best Health UK
Telephone: 0117 370 0350
www.besthealthinsurance.co.uk

Giving and philanthropy planning

There are five uses for money: it can be spent, saved, used to repay debt, used to pay tax or given away.

Client interest in giving and philanthropy continues to grow. As above, it is often the last on the list, but it is gradually creeping up the table of client priorities as there is a growing awareness of both the massive needs in the world – at home and abroad - and the fulfilment which comes from helping to meet those needs.

How does Paradigm Norton respond when asked to give planning advice in this area?

In our last edition we explained the value in adopting a strategy, listing the questions that need to be posed. Firstly, we aim to discover how a client wishes to give. Do they wish to give regularly, on a monthly basis, via a lump sum, or through a combination of the two? Also, have they considered giving via their estate?

Once we have the answers to these questions, we can prepare a lifetime cash flow model which shows the impact of the type or types of giving under consideration.

Establishing a Giving Account

For some clients, the establishment of a giving fund is the preferred route. By this method they open an account which receives a regular proportion of their income. This can then be used to act as a feeder account for their regular gifts and also as a reservoir from which to make more spontaneous, one-off donations, such as a response to a disaster appeal. Some clients go a stage further and open an account with an organisation such as The Charities Aid Foundation (CAF) or Stewardship. Money paid into these accounts has effectively already been given away, but has yet to be sent to recipients. CAF or Stewardship can obtain the basic rate tax relief which the giving attracts and then send the gross amount to the recipient charity upon receipt of your instructions. This only works if the gift is to a charitable organisation.

The benefits of introducing such an account into your overall financial planning are that you have already made the giving decision before a request for a donation is received. You know how much you have available to give and can retain the same level of control over this area of your planning as you do in other areas, such as saving, mortgage repayment etc.

This does not preclude you from making additional gifts from outside the giving fund, but at least you can be confident that you have set some boundaries which you can choose to adhere to or not.

If you would like to include a giving fund within your overall financial planning, please mention this at your next review meeting and we will be pleased to explain how it can be incorporated, thus enabling you to tick off the 'last one on the list'!

Richard Child - Director

Team news

Lee Dunn: Winner of the 2009 Multi Manager – Financial Planner of the Year Award

This year Barry was determined that Paradigm Norton would take the 2009 Money Management awards more seriously and so he strongly encouraged all the Financial Planners to enter and to 'do it properly'.

Lee Dunn commented "I've been meaning to submit an entry into the Money Management Financial Planning awards for years. This was the one to win because it was the only award that tested financial planning skills – it was the World Cup for financial planners. The problem was finding time and every year there was some pressing client work that took priority. I finally managed to enter a single case study in 2008. I was enormously disappointed not to get any further but I figured, I am competing against the best planners in the UK, I am young and I will get better and so I had every intention to keep on trying."

Lee applied again in 2009. It was our absolute delight to be informed that Lee had been short listed for the 2009 award. Following a rigorous interview process in London, Lee was invited to the awards dinner, having been informed that he was either the winner or runner up. We were delighted when The Right Honourable Michael Portillo made the announcement that, in fact, Lee had won this prestigious award. We are all very proud of him.

Lin Ashurst and 'Talking about Retirement'

Many of you will have enjoyed reading Lin's book – 'Talking about Retirement'. We have been thrilled with the feedback that we have received from you and the numbers of copies of Lin's book sold thus far. Lin will continue to promote the book as her key area of responsibility within the firm, having now handed over her clients to others in the Financial Planning team. This is all part of Lin's wind down (not retirement!) strategy which is working extremely well for Lin and for the firm. Lin will still be in the office from time to time, mainly to continue to work with the Paradigm Norton team on book promotion issues, but also helping with other specific projects. Lin continues to be contactable on the usual phone numbers and e-mail addresses.

A fond farewell to Kathy

Many of you will have spoken to, or had letters from, Kathy Blurton over the past 13 years of her employment, first with Norton Partners and more recently with Paradigm Norton.

Kathy has supported the financial planning teams by handling all of the investment dealing on behalf of you, our valued clients. Kathy retired at the end of October and we took the opportunity to say farewell to her on the last Thursday in the month.

Kathy will be missed by us and we now have the challenge of maintaining the discipline of quick and accurate placement of deals that she has maintained during her time here.

Kathy will soon move with her husband to be nearer her family on the Isle of Wight.

We wish them both well.

Welcome to Matt Fowler, who joined our Operations Team in September

Matt is a chartered accountant who joins us from the performance team at KPMG, where, as a management consultant, he advised leading blue chip financial services firms. Prior to this, he was director of a financial planning services company which provided operational support to a range of clients including Paradigm Norton. Matt says:

"In building a strategic partnership with Macquarie Bank, Paradigm Norton has demonstrated real vision, intent and capability to consolidate their position as one of the UK's leading financial planning firms. Having watched Paradigm Norton develop over the last eight years, I am thrilled to be joining the team at this point and support them in further enhancing their excellent client offering."

Welcome to Will Driver, who joined our financial planning team in October. Will says:

"I am very excited by the prospect of working at Paradigm Norton. The firm has a fantastic reputation within the financial planning community as a highly professional and progressive practice and was the first firm that came to mind when my wife and I decided to return to the South West after a stint in London.

I can't wait to start learning from Barry and the team. As a graduate in Law from Durham University, with experience working within several of the top accountancy practices and having spent the past six years working as a financial planner with a leading City of London financial planning firm advising high net worth professionals, I hope to offer a considerable amount of experience and expertise in return."

Will has completed the Advanced Diploma in Financial Planning, Investment Management Certificate and Diploma in Insurance and holds both the Certified Financial Planner and Chartered Financial Planner qualifications.

What's new on the website?

Over the last two months we have continued to work on the new 'offline' Paradigm Norton website which will be launched in early 2010.

Many of our clients have expressed their appreciation for alerting them to the services of Green Park Insurance Services. We have now added another service offered by one of our legal partners. Clients do from time to time need the services of a lawyer especially when they wish to complete a high value property transaction in excess of £1,000,000. Burges Salmon LLP, based in Bristol, has a team who specialise in this area and we commend them to you [See the Residential Property Services section in the Comprehensive Financial Planning menu].

Barry Horner – CEO

Message from half marathon man

I would like to pass on my sincere thanks to all the clients and professional contacts who sponsored me for the 2009 Bristol Half Marathon. This took place on 6 September and I completed the race in 1 hour and 35 minutes; a personal best time. More importantly, I raised over £3,500 for the Paradigm Norton Trust which will make a profound difference to the lives of many people both in the UK and internationally. Thank you to everyone for your support.

William Pratt – COO

Residential Property Services

The residential property team at Burges Salmon LLP is known nationally and internationally for its expertise and top level experience in high net worth UK residential property transactions.

The firm's aim and philosophy is to provide 'City Style' quality and experience, with a bespoke service tailored to an individual client's needs whilst retaining a competitive advantage on costs over London firms. As well as providing straightforward, professional and practical advice on all aspects of residential property, Burges Salmon pride themselves on providing a swift, efficient and responsive service.

The lawyers within the team will guide buyers throughout the whole transaction process, whether the property in question is a family home, a rental investment or a development venture and have many years' experience in identifying and resolving the various issues that may be faced by both UK and overseas clients in respect of such transactions. The team works closely with other departments across the firm to provide advice on matters such as tax planning, listed building and planning issues and property litigation in order to provide a complete solution.

Range of Services

The range of services in this area include:

- Purchase and sale of freehold and leasehold residential property.
- Mortgaging and re-financing of residential property.
- Advice to landlords, tenants and management companies on all aspects of enfranchisement, including lease extensions and freehold purchases.
- Advising on tax-effective ownership structures for high value properties.

The main emphasis of the work carried out by the firm's residential property team is in respect of properties worth in excess of £1million and complex residential property transaction work.

If you wish to know more, or discuss any particular requirements, please contact:

Zoe Longman at Burges Salmon LLP on: 0117 939 2269 or email: zoe.longman@burges-salmon.com

More or less than half

In his budget report, The Chancellor announced that from 6 April 2010 savings and non savings income above £150,000 will be subject to tax at a new rate of 50% and dividends will be taxed at a new higher rate of 42.5%. These rates have not yet been confirmed by legislation, but we are expecting them to become law.

The Chancellor also announced that as from 2010/11 the full basic personal tax allowance will only be given where an individual has income (net of losses etc) below £100,000. Where the individual's income exceeds £100,000, the allowance will be reduced by £1 for every £2 above the limit, until the allowance is reduced to nil. This proposal was included in the 2009 Finance Act.

This combination will have a significant impact on individuals or couples with high incomes and you may be wondering whether you should take action to mitigate the extra tax.

There are a number of relatively simple things that you might consider. For example:

Married couples (or civil partners) where one spouse is a higher earner and one is not, could rearrange their investments so that income producing investments are held by the spouse with least income. Any such transfer would have to be an unconditional gift.

If you have not already made full use of tax favoured investments, such as ISAs, consider investing the maximum amount. Individuals who are over 50 can now invest up to £10,200 each in ISAs (ie £20,400 per couple).

Consider investing in assets that produce a capital gain, rather than high income. Capital gains are currently tax free up to £10,100 (per individual) and the excess is only taxed at 18%.

If you have a flexible employment package, consider sacrificing some of your salary in exchange for tax free benefits, such as childcare vouchers, workplace car parking, etc.

If you are likely to receive an employment bonus and can influence when this is paid, consider requesting payment before 6 April 2010. Alternatively, it might be possible to arrange to receive a loan from your employer with the possibility that it might be repaid from a bonus that you receive in a later year (hopefully after tax rates reduce!).

If you can influence when dividends are paid by a family company, consider arranging for these to be paid before 6 April 2010.

If you are considering any of the above strategies, it is worth taking specific advice before implementing them, as there are some tax traps that you will want to avoid. Also, please bear in mind that tax rates may not reduce in the foreseeable future and may well increase.

Steve Griffiths – Head of Tax Services

Rebalancing portfolios in a very uncertain world, revisited

Back in April, when the world was still engulfed in financial crisis hysteria and the talk was of the very survival of the capitalist system and the market timing brigade - so typical in the financial press and always so wise in hindsight - were advising investors to sell out of risky assets (assuming they had been foolish enough not to have sold already), we wrote the following in a Paragraph article on the importance of rebalancing portfolios in a very uncertain world:

"Probably the question I am asked most often is - what is going to happen to the markets over the next week/month/six months/year? My answer is always the same – I have absolutely no idea, short term market movements are completely and utterly random…. We have a single strategy for dealing with the complete uncertainty of markets in the short term. We determine the most suitable investment strategy for the client (this is influenced by two key factors: risk tolerance and the level of investment returns necessary to achieve the client's life goals). We then stick to the strategy through thick and thin by rebalancing at each portfolio review, so that if equity markets have fallen 30%, we must recommend that clients top up equities (and to sell whatever is overweight) to get them back to the target allocation. Of course, the reverse is required when the markets rise and it is this discipline that we believe is vital to 'buy low sell high', which is the opposite of what most investors do."

As we recognised at the time, unfortunately, this is very much easier said than done and indeed one client said to me that this feels like throwing money down the drain. Nevertheless, I'm pleased to report that most clients took the necessary, but brave, rebalancing steps that we advised and have enjoyed a very strong recovery in recent months.

Following on from the strong recent gains, we are now finding, at current portfolio reviews, that clients are again required to rebalance, but this time in the opposite direction - to reduce equity exposure and overall risk levels. Fortunately, you should find this is the rather easier side of the rebalancing coin.

Lee Dunn – Senior Financial Planner

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