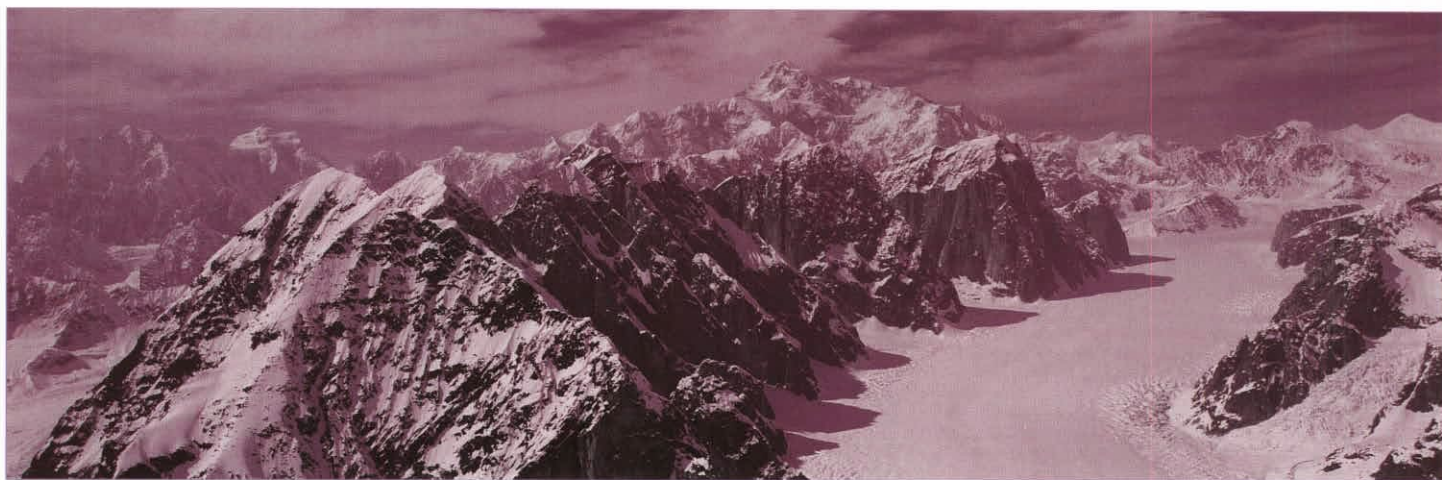


Skiing - Spending the Kids' Inheritance



As I write this article, the UK is coming to a grinding halt following a heavy snowfall, the likes of which we have not seen for many years. The blanket of snow reminded me of a recent article that I read in the US on estate planning entitled 'Skiing - Spending your Kids' Inheritance'.

Anita Roddick, the founder of The Body Shop, left nothing to her children in her will; instead leaving her £51 million fortune to good causes. Why did she do this? Doesn't charity begin at home?

Paradigm Norton has recently engaged several new clients and as we have begun to build a financial planning strategy for them, similar issues regarding money and children have been raised:

- How much money should we leave to the children?
- How do we train our children to be wise with money?
- When, if at all, should we begin transferring our wealth to the next generation?

These are fundamental questions and they go right to the heart of financial planning. They challenge and bring into focus a whole series of issues, ranging from parenting style, to the way we pass our values on to our children and the way in which we ourselves handle the tension between time and money. For example, if money was passed to your children too soon, or they were left too large a sum:

- What might be the worst possible outcome?
- How serious would that be?
- What is the probability of that actually happening?

Over the next few editions of Paragraph we will be addressing these issues. There are no right and wrong answers, but by working through the questions with each client we are able to help them to find the solution which works for them and their family.

So over the course of this year we will be asking:

- Do you know how much money you need for your lifetime - your 'Number'?
- How much influence do you want to have over the way your children run their finances?
- Do you want to retain control and influence?
- How does the wealthy family ensure that future generations are motivated to build their own careers and find independent fulfilment?
- Which is the more important: time or money?

For now I will leave the last word to Warren Buffett who has said:

"A very rich person should leave his kids enough to do anything, but not enough to do nothing."



Barry Horner - CEO



Our clients speak for themselves



"Financial and tax planning advice paid for on a fee basis is clearly the way forward. It is transparent and unambiguous. Paradigm Norton have worked with me on a fee basis for many years and are significantly ahead of the market. This is another example of their visionary forward thinking approach."

Ian Meakins - CEO, Travelex

The state we're in

A bit of history: The State pension has just had a birthday – it's 100 years old. The first State pension was introduced in 1909 for the over 70s. It was known as the 'Lloyd George Pension' and paid the princely sum of 5 shillings per week, 25p in today's money.

It was means tested; to be eligible to receive a State pension workers had to be earning less than £31.50 per annum. They also had to be of 'good character'. Those in receipt of poor relief, 'lunatics' in asylums, persons convicted of drunkenness and any person who was guilty of an 'habitual failure to work' were excluded from receiving the State pension. Persons sentenced to prison were not entitled to receive the pension for a decade after their release.

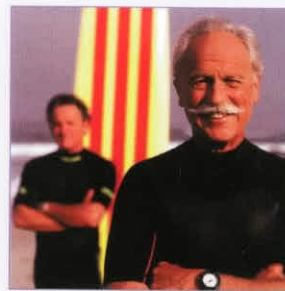
The current basic State pension scheme was introduced in 1948. Whilst it has undergone several changes since then it is roughly the same as it was in 1948 but demographics, lifestyles and expectations have changed.

What's changed? Employment patterns have. People no longer spend their working lives with just one employer, they are likely to have a mix of several employers or employments, time off for travelling or to study, time out to care for children or elderly relatives.

Relationships have changed. People are far more likely to get divorced and remarry and have financial responsibility for more than one family. Also we now have the legal entity of same sex partners.

And people are living longer. In 1950 a man aged 65, the current State pension age, lived on average to age 76; now he can expect to live to 85 and it is projected that by 2050 it will be 89. Women can expect to live even longer.

The State pension scheme is a pay as you go scheme; today's pensions are being paid for out of the money that today's workers contribute to the Chancellor's coffers. But the number of workers as a ratio to



retired people is falling so there will be less going into the coffers to meet an increasing demand for payment. In 1950 there were 5 taxpaying workers for every pensioner, today there are 3 taxpaying workers for every pensioner and by 2050 it is projected that there will be one taxpaying worker for every pensioner.

The current State pension scheme is rooted in the society of the 1940s and society has moved on since then. Women in particular are disadvantaged by the current system which does not work in favour of lower paid, part-time workers who are likely to take time out of the workplace to care for children and elderly relatives. Indeed, of those recently reaching retirement age 85% of men are entitled to full State pension but only 30% of women are.

What are the Government doing about it? Under the banner of 'Security in retirement: towards a new pensions system', several reforms are taking place to the State pension to make it fairer for all. The reforms will not start to take effect until 6 April 2010. They include: increasing the basic State pension by the rate of the increase in earnings rather than in line with RPI (if they can afford to!), introducing a new system of credits that will increase the number of people who would become entitled to a State pension and increasing the State pension age from 65 to 68 between 2024 and 2046.

But.....keep saving for retirement. Don't rely on what the Government may or may not be able to afford to pay you in retirement. Even if they can afford to keep their promises the basic State pension will remain just that – basic.

Lin Ashurst - Head of Practice Development

The impact of charitable giving

Usually such a title would cause the reader to anticipate learning about the way in which money given to good causes has a beneficial effect upon the fortunate recipients. Our job as financial planners, however, is to focus, not upon the receiving person, but upon the giver – our client.



Understandably, we respect our clients' privacy with regard to all their financial dealings and this includes their giving. However, from our privileged position as financial planners we are

able to observe the impact which the act of giving has upon our clients themselves and therefore feel qualified to provide some insight into the whole giving experience.

The decision to give away money or assets beyond the family is a brave one. To give something up, however wealthy you might be and however tax efficient the transaction, involves losing control of something that previously belonged to you, the loss of which, potentially, threatens your security. Indeed, it is a widely reported fact that those owning most give least. This is, of course, a broad statement which applies only to sectors of society rather than to individuals. Many wealthy people are extremely generous, whereas some with very little give away nothing. Nevertheless, the message is that those with most to lose are more concerned about hanging on to what they have!

However, once the 'giving threshold' has been crossed, the new giver is in a position to enter a new dimension. All of a sudden they are

beginning to invest in a different commodity. It is not valued in £s; it is valued in other ways. Seeing their money having a positive impact on the lives of others can have a major impact upon the donor. The process appears to be at the same time liberating and inspiring.

A number of Paradigm Norton clients give quietly to charitable causes. Some are involved in their locality and others overseas. Some are deeply immersed in the projects they support, whilst others adopt the 'lighter touch' approach. Some give sacrificially, whilst for others it does not affect their lifestyle – but it still reduces their legacy! Our role is simply to alert our clients to the principle of giving, which is a core aspect of financial planning, to guide them through the process from the perspectives of personal lifetime cashflow, estate planning and tax efficiency, and then to observe as they begin investing in their 'alternative' portfolio.

Richard Child - Director

Dead loss?

In the present economic climate, many investments (and perhaps investment properties) will be standing at a loss, compared with their cost.

Many individuals will continue to hold these, with the hope or expectation that they will increase in value again. Others may have sold assets at a gain early in the tax year, and may be looking to mitigate capital gains tax by utilising the, as yet, unrealised loss on other investments.



It is worth mentioning that a change in the tax rules introduced in the 2007 Finance Act may limit the planning actions that individuals can now take.

The Government introduced a 'Targeted Anti-Avoidance Rule' (TAAR) for capital losses in 2007, but this has received limited publicity. The stated aim of the rule is to prevent the 'artificial' creation and use of losses where the main purpose is to secure a tax advantage.

Whilst the legislation was intended to counter complex schemes that create losses artificially, it is very widely drafted and potentially affects fairly straightforward disposals. The effect of the rule is that any capital loss will not be an 'allowable' loss if it is caught by the TAAR.

HM Revenue & Customs (HMRC) have published guidance on how they intend to apply the rule and state, in particular, that ordinary transactions that give rise to a real loss as a result of a genuine disposal will not be affected by the TAAR. Generally, where losses are realised because of an investment led decision to reinvest in other assets, the loss should be available to reduce current gains, or carried forward to set against gains in future years, but fairly simple tax planning arrangements may be caught.

One fairly simple planning arrangement that the HMRC guidance seems to indicate is acceptable is the commonly used transfer of assets between spouses, so that on sale both gains and losses are realised by the same person. Reading the legislation, this sort of transaction would appear to be caught, but the guidance notes seem to indicate otherwise.

On the other hand, another simple tax planning arrangement (known as a 'bed and spouse' transaction) appears to have the 'thumbs down' from HMRC. Their example is as follows:

Mr H sells shares in a company, in order to crystallise a loss which can then be set against his chargeable gains arising in the year. Mr H makes arrangements for his wife Mrs H to purchase the same number and class of shares. Mrs H then transfers the shares back to Mr H on the following day.

In this case the objection by HMRC appears to be the immediate repurchase and the transfer of shares back to the original owner. In another example, they appear to accept that a sale to a genuine third party, followed by a repurchase a month later, when prices are subject to change in the intervening period, means that there is a genuine disposal and an economic loss.

If you are thinking of undertaking a transaction which will generate a capital loss, please bear the TAAR in mind.

In looking at mitigating capital gains tax liabilities, we will take note of the published guidance on the TAAR and where HMRC state that a particular transaction is not 'caught' we will use their interpretation of the legislation. This could mean that a transaction may technically fall within the TAAR and, in theory, could be reviewed later by HM Revenue & Customs.

For further information, please contact the Tax & Estates team.

Steve Griffiths - Head of Tax Services

Team news

Running out of challenges!

After completing my first London marathon in 2008 and being unsuccessful in the 2009 marathon ballot I decided to look for another running challenge.

I was looking for something that would push me as hard, if not harder, than the marathon but that would be enjoyable at the same timeand then it came to me ...fell running! Along with a friend, I have entered a 25 mile fell run, incorporating three 1,000 feet plus hills, to be run around the Yorkshire Dales in April 2009.

Fell running is a whole new challenge compared to road running and much harder, as I am finding out. Training has begun in earnest with 3 or 4 training runs each week. Every weekend now sees me and some fellow fanatics out on the hills and tracks of the Yorkshire Dales – come rain or shine, or in fact over the last week, snow as well!

Training is going well and it is amazing to discover how much fun it can be running uphill and through mud and bogs! The target we have set ourselves is to complete the run in around four and a half hours which is a huge challenge but one we hope we can get close to.

Wendy Marks - Client Planner



The 2009 Citywire New Model Adviser award

Once again we have been honoured by Citywire. On 15 January, William and I collected their 2009 award for the best 'New Model Adviser' firm in the South West.

Paradigm Norton is one of only two companies to have won such an award three times – an external validation of the consistent quality of our work and a positive endorsement for the firm as a whole.

The award goes to practices which genuinely put their clients first, are financially robust, have invested in quality qualified people and which are thus regarded as the model to the profession.

As I write this article we have been short listed for three other awards so more of these in the next edition of Paragraph.

Barry Horner - CEO

Fun in the snow

The arrival of the snow at the beginning of February allowed us to try a little creative marketing....



No you don't get what you pay for!



Sadly, the conventional wisdom that "you get what you pay for" can not always be relied upon within the world of investment management. It is no doubt true when you buy a car (a Mercedes compared with a Ford) or go out for a meal (Pizza Express over McDonalds). But buying a car is a world away from buying an investment, where not only is it unclear what you pay (the annual management charge is only part of the story) but you absolutely do not know in advance what performance you will get for your money.

The claim frustrates me because it is often used to justify high fund management charges. The last time was in an article in the FT "Trackers are Crackers". The article was so tainted by vested interest that we felt compelled to reply and the letter was published in the FT on 12 December 2008 (you can see a copy on our website).

The basic point is that you can buy a low cost fund that tracks the market for a fraction of the cost of an active fund (perhaps a tenth when you factor in hidden trading charges). If it were true that you get what you pay for, you would expect to see dreadful comparative long term performance. However, there is a mountain of academic research that demonstrates that the vast majority of active funds fail to beat the market and the failure rate grows the longer the period of comparison.

Of course, we have to be careful here of hypocrisy because Paradigm Norton are not cheap, but then nor should we be with the expertise we bring as one of the UK's leading firms of financial planners. The point is that we seek to charge a fair fee for the level of service and expertise we offer. Unfortunately, it is not only funds which levy excessive charges, many advisers are still able to draw commissions of between 3% and 7% from client portfolios, for executing an investment transaction without providing a comprehensive investment and financial planning context to that transaction. I can state with some confidence that those investors don't get what they pay for either!

Lee Dunn - Senior Financial Planner

A success story (from a self confessed 'skiver')

In these financially troubled times, it is good for us to profile the achievements of one of our successful clients. Many of us with children taking exams will have heard of the web based education aid, SAM Learning – this is the story of SAM Learning's founder, David Jaffa.

David graduated from the University of Cambridge where he studied law. He quickly learned that there was an art to preparing for and passing exams despite being a bit of a self confessed 'skiver' both at university and with professional exams. After a stint in the career world, he considered that his academic success was down to a sound study methodology so he decided to turn his attention to education and ways to improve student learning. The result of his efforts and research was the Self-Assessment Method of Learning, which then became the name of his company in the United Kingdom.

David started SAM Learning in 1994 with £10,000 redundancy money. Having realised his forte for passing exams, David penned the book 'The Skiver's Guide – How to succeed at exams if you haven't done enough work'. The

book sets out the Self-Assessment Method (SAM), a uniquely powerful learning methodology based on exam practice and self marking. The company proceeded to produce CD Roms to this effect and then evolved to its current form of online study. SAM Learning provided Freeserve's National Curriculum resources during the 1998–2000 dot-com boom.



In less than eight years, the SAM Learning service has become the most prevalent learning service in UK with over 50% of the market share in secondary schools. SAM Learning also has over 90 local authorities as partners. Independent research by the Fischer Family Trust shows that using SAM Learning improves student GCSE results by 4.6%.

In September 2008, David changed his role from Managing Director to Chairman, a transformation that is proving to be an interesting and exciting challenge. Going forward the target of the company is to be the leading educational resource company worldwide. To this end, the company has a number of pilots in the USA and has imminent plans to expand the business there, which is an exciting phase in the development of the company.

David's long term vision is for SAM Learning to be the company that changed the education paradigm to Student Driven Learning worldwide and in the process change the nature of curriculum, learning resources, assessment and the role of the teacher. The aim is to give children a better opportunity to succeed academically regardless of background or social economic circumstances. A key factor in achieving this is SAM Learning's expansion from exam revision to online resources that support learning throughout the year.



Check out SAM Learning's website on <http://www.samlearning.com>

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