PARAGRAPH

QUARTERLY NEWSLETTER FROM PARADIGM NORTON SEPTEMBER 2009

Pass on your values, not your valuables

The subject of children and money is an emotional one for many people. Most of us would do anything for our children and often this means doing things like sacrificing our own financial well-being to secure their education. The truth is that if we have managed to raise our offspring with many of our own personal values, they will more than likely put money to good use.

Imagine leaving enough for your children to pay off their mortgages and experience debt freedom for the first time in their lives. These are the types of things that motivate me to build enough wealth to leave behind, not just to my family, but to people and causes that I care about and where I want to leave a legacy.

Helping children while we are still here is one thing, but what about after we are gone? If we have managed to build wealth throughout our lifetimes, should we pass that wealth on to our children, or is to do so to discourage them from becoming self-starters? Our experience, gained from working with many clients over a period of years, is that there is no right or wrong answer here, as much of it has to do with personal situations such as how you were raised and how you came into your own wealth.

I do like Warren Buffet's quote from a couple of years ago. Buffet said about leaving money to children, "Wealthy parents should leave their children with enough money to do anything they want but not so much that they are doomed to do nothing at all."

Buffet goes on to say "If you really want to mitigate the effects of large fortunes on your kids, don't leave them a large fortune. Let them find their own careers and success, rather than using money to dictate from the grave."

Another factor to consider is the 'time value' of your gift as we live longer. Many of us are now living into our 90s and heirs who are in their 60s often have little need for the money. The three most popular ways to give while you are alive are, to help with the purchase of a child's first home, deposit money directly into a child's trust fund, or set up an educational fund for the grandchildren.

Nigella Lawson claims she doesn't plan on leaving any money to her kids when she dies. The TV presenter is worth an estimated £150 million, but has no intentions of leaving money to her children. She says, "You have to work in order to earn money. I am determined that my children should have no financial security. It ruins people not having to earn money."

Although she has not revealed what she would like to do with her money, she has worked closely with cancer charities in the past so she may already be considering that's where the money should go.

Barry Horner - CEO

Our clients speak for themselves

"I do get great peace of mind from the comprehensiveness of the financial planning I receive from Paradigm Norton: it's probably one of the best things about their service.

Their advice has significantly changed the way I think about my finances and I'd like to think I now have a much better understanding of my financial goals.

I imagine most people would want an adviser to be extremely structured and detailed when considering their financial futures and I certainly get this with Paradigm Norton."

Victor Tettmar
Managing Partner of Bond Pearce LLP

Time is running out...

There are HM Revenue & Customs (HMRC) deadlines that you must keep in mind when preparing your tax returns.

If you prepare your own tax return using a paper tax return issued on 6 April 2009, this must be completed and filed by 31 October. However, 31 January is still the submission deadline if your tax return is filed online.

If you would like us to prepare your tax return or need help with your tax affairs, please do give us a call.

Carolyn Farr – Tax Consultant

To file or not to file?

It seems that almost every day we receive something through the post from an investment or insurance company. Following feedback from the recent Client Advisory Board meeting we thought we would highlight which documents you should keep and which you should throw away.

When we place investments on your behalf, you will usually receive a copy of the contract note which sets out the purchase or the sale of an investment. In most cases these will be sent to you by Transact or Tethys as most of our clients will have their investment portfolios on these investment platforms. As we have arranged these transactions, we will receive a copy of these contract notes. Most clients like to keep their contract notes as it provides them with an independent record of their purchases and disposals. However, we do receive copies of these.

Periodically, investment companies will send you valuations of your holdings. Again, we generally receive copies of these and there is no need for you to keep them.

With directly held investments, usually once a year (although it can be more often), investment companies may send you a tax voucher in respect of income or dividends paid by that particular investment fund. You should keep these and send them to us or your accountant if required.

As most of our clients are on an investment platform, either Transact or Tethys, you should receive a consolidated tax voucher a few months after the end of the tax year. We are issued with copies of these, but we recommend that you keep your copy in a safe place.

From time to time you may also receive information relating to Annual General Meetings (AGMs), company takeovers or changes to personnel. Generally speaking we will also receive this information although for more esoteric investments such as VCTs or single shares this may be sent to you directly.

You may receive other documentation in respect of your pension and protection policies. We have set out a list of documents that we recommend you keep and a list that you may want to destroy.

Documents to keep:
Policy documents
Pension contributions certificates
Trust forms

May be destroyed:
Periodic valuations
Renewal notices

This is by no means an exhaustive list but an indication of some of the documentation you might receive as a result of us carrying out work on your behalf. If you are in any doubt about what is important, please call your usual Paradigm Norton adviser.

As many of you may already know, it is possible to stop unsolicited mail from being sent to you by signing up with the Mail Preference Service at www.mpsonline.org.uk

Matthew Kneller
– Senior Financial Planner

Another tax amnesty

On 28 July, HM Revenue & Customs (HMRC) announced a new amnesty to encourage individuals with offshore income, or gains from offshore assets, to give them full details of any unpaid UK tax liability, where this has not already been disclosed.

To take advantage of the New Disclosure Opportunity (NDO), individuals will need to register their intention to disclose (but without stating any amounts) between 1 September and 30 November 2009; they will then have until 31 January 2010 (or 12 March 2010 if submitting details online) to make a full disclosure and pay any tax, interest and penalty.

HMRC will ask for a 10% penalty on any tax due, unless the unpaid tax liability is less than £1,000, in which case only the tax (and interest on the tax) needs to be paid. This 10% penalty compares favourably to penalties charged when voluntary disclosure has not been made. A 20% penalty will be applied if you have received a letter from HMRC under the 2007 amnesty and failed to take action and HMRC have threatened to charge penalties of 30% or higher where individuals fail to take advantage of this NDO.

Please ask for further information if you are unsure whether this affects you.

Steve Griffiths – Head of Tax Services

Give generously, but wisely

We believe that there is more to Giving and Philanthropy than just responding to appeals and making ad hoc donations. More and more individuals are planning their giving in the same way that they plan for their retirement or plan how to finance the education of their children or grandchildren.

It is easy to give your money or time to charities without thinking about what impact this has on the recipient, or whether it is a good use of your money or time. An effective 'giving strategy' will help you to make informed choices and help you to feel more confident that your gift will make a difference.

There is no 'right' strategy. This depends on what matters to you and those most close to you. Increasingly families are making these decisions together, but it is important to realise that different individuals will have differing views on this, which means that you may decide to make key decisions alone!

Before identifying a strategy, it is worth asking yourself a number of questions about your attitude to giving:

- What are your goals and objectives?
- Will you involve others (eg friends and family) in deciding on a strategy?
- What causes are important to you?
- What areas, if any, are off limits?
- What type of recipient will you support (eg local community projects, individuals, overseas relief agencies)?
- What type of funding will you provide (eg grants, loans)?
- How much money are you likely to want to give away; is there a maximum or minimum?
- What is the timescale for any commitment?
- What non-financial support will you give (eg time and expertise)?
- What giving mechanism will you use (eg direct gifts, personal charitable trust, charity account)?
- What will determine your decision making process and giving criteria?

It is useful to look at all of these questions as part of a wider financial planning exercise. In this way you will be confident that you can afford to continue what you have started. Our financial planning service can help you make the right decisions. It is also worth looking at the tax efficiency of your strategy. After all, if Government has decided to offer tax incentives to encourage charitable giving, it would be foolish not to use them.

Steve Griffiths - Head of Tax Services

A great relief

For some time now it has been very difficult to 'have your cake and eat it' when it comes to mitigating inheritance tax (IHT) using real property - mainly because of two significant anti-avoidance rules to stop individuals giving property away (typically their homes to their children or other relatives) whilst continuing to occupy or benefit from the property.

In 1986, HM Revenue & Customs introduced a 'gift with reservation of benefit' (GWR) rule. Before then it was possible to make a gift of property, which (as a potentially exempt transfer (PET)) would fall outside of your estate after 7 years and would not be liable for IHT on your death. The GWR rule applies where an individual continues to receive a benefit from property that they have given away and the effect of the rule is to treat the property as continuing to remain subject to IHT until 7 years after the benefit ceases.

Whilst fairly widely drawn, it was possible to get around the GWR rule by splitting property ownership into various different rights (eg freehold and leasehold) and giving away the most valuable part of those rights, whilst continuing to live in the property. However, because of these schemes, HMRC introduced a new income tax charge where they could not plug the IHT hole. Broadly, with effect from 2005/06, income tax is charged (under the 'pre-owned asset' regime) on benefits retained by former owners of property (including gifts of cash).

There are a number of exemptions from the GWR and pre-owned asset (POA) rules:

- The POA charge does not apply where an asset stays within the IHT charging regime (eg because of the GWR rule);
- Neither the GWR rule nor the POA charge applies where an individual pays full market rent (under a legal obligation) for the continued use of the property;
- There is an exemption under both rules for shared property in certain circumstances.

This final rule could be of interest to parents who own second homes or holiday properties and wish to give away a share in the property to their children, whilst continuing to use the property themselves for certain periods.

As drafted, the exemption was intended to benefit elderly taxpayers who wished to give away a share of their home to a son or daughter who would live with them and share the expenses of running the home.

However, the legislation does not seem to be restricted to just that circumstance and a number of professionals have suggested that the exemption might also apply to holiday homes used by various family members.

For example, let's imagine that you have a holiday property in Scotland which is used by you and your children, but not necessarily at the same time. You use the property for approximately one month of the year and your children, between them, use it for three months (the rest of the time it is used by friends or let out). It should be possible for you to give away (say) 60% of the property and provided you each pay for a proportionate share of the upkeep there should be no GWR or POA charge.

Please bear in mind that if you give property away there is a potential capital gains tax liability and so you will need to ensure that you do not escape one tax, only to pay another!

Steve Griffiths – Head of Tax Services

Team news

Welcome Tracey

We had used Tracey Reed at John Charcol as our mortgage consultant for a number of years with both clients and staff being delighted with the service, so when we heard she wanted a change of career to financial planning, we were delighted to offer her a position as a trainee financial planner in William's team. Tracey says:

"I feel very fortunate to have been offered a job as a Financial Planner at Paradigm Norton, particularly in the current economic climate. Paradigm Norton has always been a company I have held in high esteem both in terms of their business approach and as a great environment in which to work. After having worked at John Charcol as a mortgage consultant for nine years, I felt it was time to further my career down the financial planning route. I could not think of a better place to do this than at Paradigm Norton and I am looking forward to a long and rewarding career here." And we are looking forward to working with you too, Tracey!

And a very well done to Emma and Matt…

Emma passed CF1 in June which is the first of five exams to achieve her Certificate in Financial Planning – you are off to a good start Emma - one down four to go.

And Matt has recently been made a Fellow of the Personal Finance Society.

What's new on the website?

We are in the process of creating a completely new website with many of the current articles and features being retained but with a slightly new look and new format. We plan to launch the new site in the fourth quarter of 2009.

I have now updated my CEO page, with an article primarily covering the impending FSA Retail Distribution Review which will be upon us in three years time.

You will also be aware from our recent communications with you that Macquarie Bank has taken a small non controlling equity stake in the practice to help strengthen our balance sheet and create capital to enable the firm to acquire another small financial planning firm should such an opportunity arise over the coming months and years. I also mention this excellent strategic development in my CEO article.

Barry Horner – CEO

Client news - Grassroots follow up!

You may remember that our June edition featured an article about the Government's initiative to match any charitable donations made by individuals (or companies) to set up endowment funds within Community Foundations - the 'Grassroots Challenge' scheme.

Two of our clients, Chris and Heather from Chard, took advantage of the scheme even before our newsletter was sent out - as we found out when we saw a photograph of them presenting a cheque in the Somerset Community Foundation's spring newsletter.

As Chris and Heather said "The fact that we are giving to local charities and we can easily see some of the work the Foundation carries out was a big incentive for us to give our donation. We also liked the idea that whatever we gave would be enhanced by the Government, it seemed like a win win situation to us." - We could not agree more!

The Government's initiative runs until 31 March 2011 so there is still plenty of time for your endowment donation to your local Community Foundation to benefit from the 'Grassroots Challenge'.

To find your local Community Foundation look on the following website:
www.communityfoundations.org.uk/finding_uk_community_foundations/

Our partnership with **Macquarie**

We are delighted to announce that Paradigm Norton has entered into a strategic partnership with Macquarie Bank Limited by way of Macquarie taking a minority equity stake in the business.

The financial services industry is undergoing a period of significant change and the pace of this change will quicken between now and 2012 when the outworkings of the FSA's Retail Distribution Review (RDR) are implemented.

Through this major review of Financial Services in the UK, the FSA are seeking to ensure that financial advice is delivered to clients by technically competent advisers, operating truly independently, with clients' best interests demonstrably at heart and on a remuneration basis which is transparent, fair and unbiased with regards to products.

Whilst Paradigm Norton already operates this way, we recognise that as the industry undergoes a period of significant change, this will present both opportunities and challenges which we want to be ready and positioned to deal with.

The Australian financial planning profession underwent a similar 'growing up' ten years ago and, as an Australian headquartered Bank, Macquarie has been both a provider of products and services to a maturing financial planning profession and also a supporter of quality financial planning firms.

It is this that attracted us to Macquarie and it is Paradigm Norton's position and reputation within the emerging financial planning profession in the UK that attracted Macquarie to us.

Their investment is of both cash and expertise. Having been there, seen it, done it in Australia, Macquarie brings invaluable experience and learning to us as we look to navigate a period of change in the UK.

The RDR will also, however, present financial challenges as firms are required by the FSA to hold considerably more capital reserves to support their businesses than has historically been the case. Macquarie's financial investment in Paradigm Norton means that we are now already fully RDR compliant with regard to 'capital adequacy'.

What this also provides, however, is the opportunity for Paradigm Norton to grow and develop in the future, possibly by taking stakes in other businesses, as well as by further developing and enhancing what we already do.

All of this provides the business case for our partnership, but ultimately, our decision to partner with Macquarie was because they are 'people like us'. Whatever theories and names you hang on business strategies, running a financial planning business is all about people. It is relationships more than smart theories that make businesses succeed; we know that from the merger of Paradigm Capital Management and Norton Partners.

The team at Macquarie share our passion for financial planning and our vision for the future of financial planning in the UK; they share our commitment to excellent client service and reach the very high bar we set in terms of ethics, integrity and honesty. It is this more than anything that excites me about this relationship and our future together, and makes me absolutely sure this is the start of something special.

William Pratt - Chief Operating Officer

Diet fads and investment pornography

I am running out of things to write in these Paragraph articles on investing. You see, there are only a limited number of really important timeless investment principles to cover and the rest is just speculative noise. It's a bit like revealing the secret to weight loss - only two things matter, eating less and exercising more; although you wouldn't think so from the mountain of books on the subject.

The timeless investment principles are:

- Markets are broadly efficient and as a result consistently beating the market is incredibly difficult
- Risk and return go hand in hand – there are no investment 'free lunches'
- Diversification works – it can reduce portfolio risk without reducing reward
- Asset allocation largely determines the risk and reward of a portfolio
- Market timing and performance chasing may work once or twice but are losing strategies over the long run
- Minimising costs and taxes is absolutely key
- Maintain discipline, patience and a long term view because there will be prolonged painful periods along the way, as sure as night follows day

And yet you rarely see these principles espoused in the money supplements of the 'so called' quality weekend press. What you will more likely find are sexy stories about the latest 'hot' asset class - what we call investment pornography.

Investment pornography is the equivalent of the diet pills of the diet quacks, except in place of 'how to lose two stone in two weeks', read:

'Double your wealth over the next twelve months'; or 'Six stocks/sectors to outperform in the coming year'; or 'How to make money in a bear market'.

In some ways I sympathise with the journalists. They are tasked with grabbing the reader's attention and coming up with something new each week and as I am finding it would be rather dull to regurgitate the above crucial principles each week. Nevertheless, investment pornography is likely to be extremely damaging for their readers' wealth; indeed much more dangerous than diet pills are for the dieter's health.

Lee Dunn – Senior Financial Planner

Half marathon man

As our publication goes to press, William is increasing his training for the Bristol half marathon which he will run on 6th September.

He is running for the Paradigm Norton Trust and if you would like to sponsor him you can either visit his Just Giving website page: www.justgiving.co.uk/williampratt1

Or send a cheque made payable to: 'Paradigm Norton Trust' to Paradigm House, Macrae Road, Ham Green, Bristol BS20 0DD.

Good luck William!

Paradigm Norton Paradigm House, Macrae Road, Ham Green, Bristol BS20 0DD
Tel: 01275 370 670 • Fax: 01275 370 671 • Email: info@paradigmnorton.co.uk • Web: www.paradigmnorton.co.uk