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GLOBAL VIEWS

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Outlook for Sterling Savers

One aspect about having a new Governor of the Bank of England is that it has been decreed that the BOE will follow the US System whereby the Governor will lay out plans for the future. Previously analysts could guess which way the Bank was heading; now the Bank will be public.

Thus according to The Bank, interest rates will stay at 0.5% until the jobless rate falls from 7.8% to 7% or less, unless there are significant changes in the economy. It is reckoned that is highly unlikely to happen until at least 2016 or later.

So what does this mean for sterling savers? Simply, it means bad news. Unless you are prepared to tie your capital up for a considerable time, you will receive paltry rates of return, and even if you agree to lock in for 5 years, the highest rate you are likely to receive will almost certainly be less than 3%, and that is if you tie your money up for 5 years. Clearly the risk remains that before 5 years general rates could be higher than your fixed return.

Paltry returns on cash remains a common theme. If you find any institution paying considerably more be careful. Final piece of advice, under UK legislation an investor is protected by a Government Guarantee under what is termed FSCS (Financial Service Compensation Scheme), in the event of an institution failing you are protected up to £85,000. Thus the recommendation is that you invest no more than say £80,000 in any institution. As an example Nationwide also own The Coventry, you only have protection of up to £85,000 across the two institutions.

Pension Crisis

There are many factors which should drive an expatriate to consider a QROPS. Freedom to invest as you wish, currency considerations, improved methods of payout, no IHT, no earnings cap, improved death benefits. Now a further one, which has been brewing for years. Many pension schemes are bust. It was estimated in 2012 that 86% of UK Private Final Salary Schemes were in deficit. Putting that in simple real terms, they do not have enough money to meet their obligations, the estimate of shortfall is that to cover these liabilities every UK Tax Payer will need to contribute £12,000 each. So if we continue to think that The UK Government is going to step in and help, we may be mistaken. However, this is just the tip of the iceberg, these numbers do not account for Public Sector, MPs, Police, NHS etc. As I can recall my Dad saying, “it will end in tears”

In the US Detroit has filed for bankruptcy! Yes a whole city is broke; the pension deficit stands at an estimated 241%. The Detroit story is a financial disaster story. Some aspects occurred which were out of the cities control, the failure of the major employers, mostly motor manufacturers. Detroit also has a story of cronies, one crony helping another milk what they perceived to be the bottomless pit of the city coffers, ineptitude, and financial mishandling. Detroit incidentally is not the first US City to take this route. Once again the principle culprit was pensions.

We have been warned, the signs are most certainly there. Ignore the possibility of moving your pension at your peril

How £150 per month Can Grow to £275,000 Over 25 Years

OK for many of us 25 years is too large a time span, but it is probably not for our kids.

OK £275,000 in 25 years will be worth very little, what will it buy. Today it may buy a house but in 25 years perhaps just a caravan. Well by the same token the £150.00 per month paid in will have lowered in value equally, so solve that problem by increasing contributions so the amount going in represents the same purchasing power.

Stock markets can loose you money. Yes they can, but if you are paying in on a regular basis you benefit from buying cheap units when the prices are low.

The table below is factual, not hypothesis, the last 25 years we have been through some pretty torrid economic times, yet £150.00 per month over 25 years, total contributions of £45,000 has returned £275,000. Fact

Saved monthly	Value after 10 years	Value after 15 years	Value after 20 years	Value after 25 years
£150	£32,257	£64,901	£127,464	£276,261
£300	£64,514	£129,802	£254,929	£552,523
£600	£129,029	£259,605	£509,858	£1,105,045

BRICS. What Next?

It was Jim O'Neil of Goldman Sacs who created the acronym in 2001. I heard him recently on Desert Island Discs, and he is rightfully proud of his legacy.

Just taking India and China, in 1919 they represented 38% of the worlds population but just 7% of the worlds output. Whereas six countries representing 12% of the worlds population produced 50% of the worlds production.

If we look at individual purchasing power, in 1890 an average American was about six times better off than the average Chinese or Indian, by the 1990s he was 25 times. There then followed what was generally deemed a convergence where America stalled, and India and China stormed. Both India and China saw huge growth, sometimes double digit growth. The BRICS saw their foreign deposits swell; China in particular now sits on top of $3.5 trillion.

However, the pace has stalled, hit by a combination of a flat world economy, and in some cases asset bubbles. In 2007 China's economy grew by a whopping 14.2% India by 10.1%, Russia 8.5% and Brazil 6.1%. Now the estimates that China will grow by 7.8%, India by 5.6%, and the rest by about 2.5%.

Predictions by The IMF suggest that the big BRICS Party is over, certainly there will still be growth, but at much lower levels, and with far less an impact on the worlds economy.

Where next? Well we are not likely to see anything like the impact of BRICS, but Goldman Sacs are touting the N11 (Next 11). Countries such as Bangladesh, Mexico, Nigeria, Turkey, to name a few. These economies are significantly smaller than BRICS, with a population of just about half of the BRICS at 1.3 billion. Another crucial point is that the N11 will not be starting from the same point, most of these countries are infinitely wealthier than BRICS were before the rise. Finally of course the world's economy is much larger than pre BRICS so any impact will be further dissipated.

Is this a sector to consider for a portfolio? Well maybe, most certainly not without risks, with additional risks thrown into the pot of political uncertainty in some locations, and corruption, in some cases on a vast scale. So any investors should enter this sector with the old stock market adage. "Only invest as much as you can afford to loose".

More Problems for some Cyprus Home Buyers

More Problems for some Cyprus Home Buyers

As property prices in Cyprus spiraled, many investors seeking to purchase with a mortgage chose to purchase property using a Swiss Franc Mortgage. There were compelling reasons for many people to consider this option, for the most part it gave the borrower the ability to reduce the interest rates from that charged under a Cyprus Pound, to that under a Swiss Franc.

However, as we all realize, sometimes too late, there is no such thing as a free lunch. Thus in recent times as the financial crisis hit Cyprus we have seen a significant drop in the value of property, coupled with a strengthening of the Swiss Franc. Those investors in this position are caught with a double hit.

It is estimated as many as 30,000 properties are involved, with values in the multi millions. Many of these borrowers are now caught in negative equity, their debt growing, the value of their properties certainly not.

Now 200 expats and second homeowners are mounting a legal challenge, and an initial court date is set for October. Their claims are that the full implication of a Swiss Franc Mortgage was not explained to them. It is said many investors never set foot on the island, but bought these properties off plan in London, and that the whole transaction process from mortgages to property transfers was never explained, and thus they maintain the contracts are void. Another crucial aspect is that in many cases a power of attorney was raised, but as the investors signatures were not certified, these powers are not valid, thus any action taken using the powers are not valid.

Always remember, if it's too good to be true……..

Buying Overseas Property – New Zealand

It's a long way from UK, in fact it's a long way from everywhere, except Australia, even then it's a three-hour flight from Australia to New Zealand. It's the bottom of the world, and one of the most beautiful places in the world, with towns like Rotorua with its thermal spa waters, sitting on active volcanoes. The colder and less populated South Island is famous for its magnificent mountains, glaciers, mile high water falls, fjords, and famed for Lord of the Rings rolling landscapes.

The largest city is the capital Auckland, most of the population live in the North Island, and a quarter of them live in Auckland. Other major cities Wellington and Christchurch.

New Zealand is roughly the same size as Britain, but with less than 5% of population of Britain. And as we all know, lots of sheep!

Property Hotspots

Auckland as the capital, and the largest populated area has the highest prices. The majority of people seeking detached homes with large gardens, few opt for apartment living.

Buy To Let Market

Students, and tourists and a constant stream of people seeking a new life ensure that Auckland has maintained a buoyant market place. Rental hotspots are Dunedin and Christchurch, and Wellington also sees a high intake of new arrivals.

If you go down the Buy to Let ensure you have a contract in place, with a fixed term, without this it can be very difficult to remove tenants.

Tax

New Zealand is a very attractive place to conduct property investment with no CGT no Stamp Duty and no Inheritance Tax. However, care must be taken that none of the above taxes are imposed in your own country of residence, if you are tax resident elsewhere.

Legal Issues

Whether you buy as a resident or non-resident it matters not, there are obvious restrictions on buying in national heritage sites. It is crucial, however, to establish whether you buy as a resident or non-resident before you complete the purchase. The buying process is simple and easy, rules exist to prevent gazumping, and to ensure the process moves at a swift pace. As always seek local legal advice.

Top Tips

Older New Zealand homes tend to be mainly wooden, with poor insulation. Mortgages are available, generally with a deposit in excess of 30%. Legal fees will add around 5% to the purchase price.

**** The images are New Zealand Tourism posters from HBO TV series "Flight of the Conchords"***