

CARDALE NEWS

Stephen steps down and Ashley takes the chair at Cardale



After 40 years in the business of asset management, the time has come to bid farewell to Cardale's Executive Chairman, Stephen Jackson. Stephen, who officially retires on 30 September 2009, has spent the last 12 months ensuring a smooth transition in handing over his private clients to be managed by other Cardale colleagues. Fellow Cardale director, Ashley Alger, will replace Stephen as Executive Chairman.

As many of you will be aware, Stephen was one of the founding directors of Cardale, along with Ashley, Richard Whiteley and Charles Kerr, who have all worked closely together in the industry for 30 years. Under his expert guidance as Executive Chairman and formerly Managing Director, the company has flourished and gone from strength to strength.

"The business has become extremely successful because of the quality of its management, employees and the loyalty of its clients," commented Stephen. "The Cardale ethos is one of team work – its emphasis is always on

Stephen Jackson (right) hands over the role of Executive Chairman to Ashley Alger.

what we can achieve together. I have greatly enjoyed my time at Cardale and am proud to have played a part in its success. I shall be leaving the company in an excellent condition and the role of Executive Chairman in the very safe and capable hands of Ashley."

Said Ashley: "Stephen and I were business partners prior to Cardale and we have always shared the same principles and priorities in managing an investment business. Nobody needs reminding that the last 12 months have been turbulent; however, I can reassure everyone that Cardale has positioned itself positively to meet the challenges which lie ahead. Our client numbers have increased by a double digit percentage over the last 12 months, which is a significant indicator of our success."

He added: "We have been careful to build the business for the future and plans are already in place to continue this, whilst always ensuring we deliver the best possible service to our clients. I would like to take this opportunity to thank Stephen for the huge contribution he has made to the success of the business and on behalf of myself, my fellow directors and staff, to wish Stephen a long, happy and healthy retirement."

Cardale supports St Michael's Hospice



Given our Harrogate roots, we have always prided ourselves in supporting local causes which over the years have included various charity events, sports clubs and individuals. In addition to this, we have recently become a patron of the St Michael's Hospice which we view as a very worthwhile local cause and one familiar to many of us here, and to our clients, and very dear to our hearts. This investment by us and the other patrons will assist the hospice to achieve their financial goals. Whilst people are more familiar with us investing for them, we see this as a great way for us to put something back into the local community.

Focus onfinancial advice and planning

Executive Director Richard Whiteley addresses some of the current investment issues that clients have raised with the Cardale team.

Everyone is well aware of the impact of events in the financial markets over the past eighteen months, particularly on the value of equity-based portfolios. Fortunately, with the exception of the banks and related financial stocks, dividend payments have held up well and investment income flows have largely been maintained at previous levels.

The two principal areas of concern which clients have raised with us have been the income generated on cash deposits, in their bank or building society account(s), and redemption values on with-profit bonds.

Cash Deposits

With the base rate at 0.5% and few, if any, projections which estimate it being any higher than 2.5% by the end of 2010, current rates of return on onshore instant access deposits are very meagre. They will be higher on term deposits, with up to 4.15% on a two year term and 5% on a five year term, subject to a certain minimum deposit and interest penalties on early withdrawal (as at the time of writing).

Given that capital security and ease of access are the primary requirements with regard to cash deposits for most clients, there are limited attractions to tying up cash reserves for a long period, with access subject to hefty interest rate penalties. Likewise, as recent events have shown, desperately hunting for the highest return on offer for deposits can have unfortunate consequences in terms of capital risk.

We encourage all our clients to hold adequate cash reserves to cover unforeseen emergencies and for peace of mind. In the present interest rate climate, however, holding too much of one's capital in cash will reduce the income return on the portion of that money which is surplus to likely requirements.

There are in fact a few innovative products we have looked at recently which combine the increased certainty and protection of deposit accounts but with returns available from equity markets. In addition, we think Index Linked Gilts offer good value for the medium term and whilst there may be little movement in them in the very short term, we think inflation will return in the system over the next 12 – 24 months and this type of investment will once again offer attractive risk adjusted returns for clients, with a yield of around 2.5% and tax free growth linked to the Retail Price Index.

If you find yourself in this position, please do not hesitate to discuss the matter with your usual Cardale contact regarding possible alternative homes for your money

With Profit Bonds

These have been heavily marketed in the past by life assurance companies and financial advisers as appropriate investments for cautious investors. Typically, these bond portfolios consist of a mixture of equities and fixed interest stocks. Returns on the underlying investments are added to the value of the policy in the form of annual bonuses. The assurance company withholds a proportion of the total return in good years in order to ensure that bonuses can be paid to the bond holders in years when markets perform less well; this process is known as smoothing.

On maturity or death, the life company usually pays a terminal bonus out of retained profits. The level of this payment is determined by the firm's actuary.

In recent years, the volatility of investment returns has had a considerable negative impact on the returns received by investors on with-profits plans. Bonus rates have fallen substantially and terminal bonuses have been



Richard Whiteley

relegated to an optional extra. To add insult to financial injury, investors looking to cash in their with-profits bonds have seen the realisable value substantially reduced by Market Value Adjustments (MVAs).

These are levied by the life assurance companies at times when stock markets have fallen, or are falling, ostensibly to protect the position of continuing investors in the fund. The realisable value of an investment in a fund where an MVA is operating can be anywhere between 5% and 20% below its apparent market value.

The problems of poor performance, allied to a lack of transparency, marketability and, in consequence, liquidity, mean that investors with with-profits bonds should seek advice regarding the wisdom of retaining their investment when there are alternatives available which are not subject to these disadvantages. We are happy to provide this advice. Again, get in touch with your usual Cardale contact if you want to discuss your own bond investments.



Giles Fairburn

Hull team are upbeat

The Hull office continues to offer a wide range of investment services and has recently seen a dramatic increase in the number of solicitors, both local and out of town, using its probate service. This has continued to enhance the sound standing of the office in the local business community.

"Our key focus is on providing a bespoke service to our existing clientele," said Giles Fairburn, head of the team. "We are also expanding the business, thanks to referrals from existing clients, solicitors and accountants who appreciate the very high standard of service.

"Although the city has been affected by the recession, there are signs of renewal with some major companies relocating to the new Humber Quays development. And on a forward-looking note, Hull is bidding to become a host city as part of the official England bid for the FIFA World Cup in 2018."

Added Giles: "Given the absurdly low interest rates from money on deposit, these funds are moving into quality corporate bonds, usually in medium-to-long-dated securities with a gross redemption yield in the region of 4.5% to 5.5%. Clients are also making full use of our financial planning capabilities, given the need to regularly review existing insurance and pension products and the very complex nature of the pension and offshore bond markets."

Game, set and match to Cardale!

Cardale Asset Management are delighted to announce their sponsorship of the Harrogate & District Tennis League following a last minute withdrawal of the previous sponsor. The League, now to be called Cardale Asset Management Harrogate and District Tennis League, is being supported by Cardale's Investment Director, Richard Whiteley, who jumped at the chance of helping the league.

Richard has been a well known figure on the local tennis circuit over the last 20 years having represented St George's Tennis Club, The Low Harrogate Tennis Club and the Harrogate Racket Club following the various mergers of the three clubs and also represented the Academy. He is also a former Harrogate Men's singles champion – Yorkshire's answer to Roger Federer (in his younger days!)

Richard said: "Having played tennis in the Harrogate League for so many years, it is nice to be able to put something back into the local community especially considering our long standing business profile in the town as well." There are currently over 600 players registered throughout the Harrogate & District area and Cardale is looking forward to an ongoing relationship with the league.



Richard with Ian Hargreaves, the Secretary of the new Cardale Asset Management Harrogate & District Tennis League

Market Commentary

The Cardale research team of Mark Puleikis and Ian Wood look at the current investment climate.

The stockmarket got rather excited about the 'green shoots' of recovery in spring and we experienced a 28% rise in the value of the FTSE 100 in the three months ending early June. However, this simply brought us back to the level at which we started 2009. Much of the market rally was focused on companies that had experienced the most severe de-rating in previous months. A number of companies with weak balance sheets, underperforming business models and those with perceived 'early cycle' exposure were the biggest beneficiaries. In many cases their survival and future prosperity was saved by tapping existing shareholders for additional cash via rights issues. Following the spring rally, the market has consolidated and much of the early spring hype has been reined back.



Ian Wood and Mark Puleikis

Economic news flow has been mixed in recent months but generally slightly better than many feared. This was largely achieved through huge international government monetary intervention. The very real fears of banking collapse and an economic depression to rival that of the 1930's now look to have been averted. The outlook is brighter than anticipated just a few months ago, but we would not underestimate the long term hurdles in re-invigorating a global economy whilst simultaneously getting the balance between inflation and deflation just right.

In our opinion, the UK economy will continue to face a number of challenges. These include rising unemployment, a depressed housing market and a continuing difficult capital-raising environment for individuals and companies. Our biggest concern remains the huge level of government and personal indebtedness. Without major cutbacks in government spending and rising taxes (both of which will hamper economic recovery) we continue to expect a slow path back to growth.

This is not to say that there are not great opportunities available to buy quality businesses with strong franchises on very compelling valuations. For well-managed market leaders, this kind of environment is a once in a generation opportunity to win market share, substantially improve the relative merits of their business models and acquire weaker rivals on historically low valuations. It is worth noting that three companies (BP, Shell and Vodafone) now account for over a third of the total dividend payment of the UK equity market.

As a consequence, our focus is on those companies with strong international business models, robust balance sheets and visible cash flow. We therefore favour international market leaders who we believe have the business models, balance sheets and cash generation to continue paying dividends, grow market share and also stand on compelling long term valuations. In such an environment we have a strong bias towards long term quality rather than the 'dash for trash' that earmarked the spring recovery.

Stop Press

From 6 October 2009, the ISA subscription limit will increase to £10,200 for anyone eligible to invest in an ISA who was born on or before 5 April 1960 (i.e. who will be aged 50 or over in the current tax year). Up to £5,100 of the new ISA allowance can be saved in a cash ISA with one provider. The remainder can be invested in a stocks and shares ISA with either the same or another provider. Alternatively, the full £10,200 can be invested in a stocks and shares ISA with one provider. These higher limits will apply to all eligible ISA investors from 6 April 2010.

Approaching the challenges of change

Managing Director Andrew Smith outlines how Cardale is preparing itself in the face of ever increasing regulatory challenges

In the last few weeks I have had the opportunity to review the FSA's latest consultation paper '*Distribution of retail investments: delivering the Retail Distribution Review (RDR)*'.

This was no easy task; the document runs to 165 close typed pages of dry technical material which will be of huge significance to both wealth managers and financial advisers when the FSA's proposals move from consultation to implementation.

Cardale supports the FSA's proposals for two important reasons:

- **They are designed to make the regulatory status, responsibilities and, importantly, charging structures of businesses involved in advising ordinary people much clearer; and**
- **They promote a level playing field of acceptable business standards and practices within regulated financial services businesses – an initiative that is long overdue.**

As a member of FSA's Smaller Businesses Practitioner Panel (the SBPP) I am committed to promoting transparency, professionalism and good business practice for the benefit of our clients. In my view the RDR is intended to give still greater levels of protection to Cardale's clients and for this reason cannot be argued against.

Nevertheless some businesses are lobbying against the proposals because of the costs associated with implementation and the impact they will have on the way they are remunerated and the transparency with which they will have to disclose their charging. This is perhaps not surprising as the FSA itself acknowledges that the RDR may well result in smaller independent financial advice firms leaving the market on the basis they cannot satisfy the new, higher standards.

Of course significant change does not come without a cost but then so does regulatory failure. The recent banking crisis and the large increase in consumer complaints to the Financial Ombudsman have little to do with Cardale but still directly impact on us in terms of our duty to contribute to the financial services compensation scheme and fund the various regulatory bodies; our direct regulatory costs have risen by 90% in the last year as a result of these problems.

So we welcome the FSA's initiative to raise standards and intensify scrutiny in order to provide an appropriate level of protection across the entire retail financial services market place; whilst we would prefer not to face the related costs, if we are to spend money we would rather spend it on prevention than cure. With this in mind our approach will be:



Andrew Smith

- **To interact directly with the FSA, via my position on the SBPP, and challenge them with our views;**
- **To embrace the changes and challenges we face to the benefit of our clients (as it is without doubt the businesses who take a passive approach that will suffer and fail to deliver); and**
- **To continue to invest in the highest quality professionals with the technical skills to properly address future change in a proactive manner.**

In the months ahead it may be necessary for us to contact you as we begin to move the FSA's RDR project forward. When we do please bear with us – we believe it is in our clients' best interests.

High earners to fund spending deficit

In recent years the Chancellor's Budget speech has introduced tax changes which do not come into immediate effect and 2009 is no exception, says tax manager Colin Bradley.

From 6 April 2010, the basic personal allowance will be subject to a single income limit of £100,000. If the 'adjusted net income' is £100,000 or less, then full entitlement to the basic allowance is due. Where the adjusted income exceeds £100,000 the allowance will be reduced by £1 for every £2 above £100,000. Consequently, people with income over £112,950 (based on 2009-10 personal allowances) will not receive any personal allowances in 2010-2011.



Colin Bradley

An individual's adjusted net income is the sum of all taxable income less specified deductions, including trading losses and gross payments to pension schemes. Further adjustment is made for gift aid payments and pension premiums where tax relief has already been received at the time of payment.

As well as the loss of basic personal allowances, taxable incomes over £150,000 will incur a tax charge at 50% on the excess. Dividends are treated as the top slice of an individual's income; those dividends above the £150,000 threshold will be subject to a tax charge of 42.5% (previously 32.5%).

People may consider increasing pension contributions for the current and next tax year to keep their adjusted net income below £150,000. However, the Chancellor introduced special rules to prevent large additional contributions to obtain higher rate tax relief while still available. These anti-forestalling rules will apply to anyone whose income for the years 2007-2008 to 2010-2011 inclusive is over £150,000. He also announced that from 6 April 2011 people with incomes over £150,000 will only receive tax relief on their pension contributions at 20%, half the current top rate of 40%.

From 6 April 2011 employer, employee and self-employed rates of national insurance contributions go up 0.5%. The effect is to introduce a new overall rate of taxation of 51.5% for those with income above £150,000. We seem to be returning to the days when higher earners had the pleasure of paying surtax to HM Revenue & Customs.

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