

# HEADlines

February, 2010 5th Edition

the route  
City wealth club

## RETAIL DISTRIBUTION REVIEW...

### How will this affect you?

Here at The Route - City wealth club we recognized, several years ago, the need for a better way for advisers to be paid: one that filled the void between product-based commission and hourly charged fees, that was transparent, and easy for clients to understand. We created the Membership concept which was, and still is, an innovative way of providing comprehensive financial solutions to our Members.

The chief City watchdog has recently announced a dramatic shake-up of the way investment products are sold, in a move which is intended to deal a killer blow to commission-based financial advice.

In its Retail Distribution Review (RDR) the Financial Services Authority has proposed sweeping changes to the investment industry whose reputation has been harmed, over the years, by repeated alleged episodes of commission-driven mis-selling. The RDR proposes to end the existing arrangements where product providers, such as unit trusts and insurance companies, decide on the level of commission they pay advisers for their products, with advisers then deciding which products to

recommend to their clients.

The Route has long argued that this misalignment between client and advisor creates a potential conflict of interest where unscrupulous individuals might be tempted, or appear to be tempted, to recommend products based on the commission they earn rather than what is most appropriate for the client.

The RDR is proposing a new classification of independence, by widening the definition of 'Retail Investment Products'. This means that firms offering independent advice will have to consider more than just packaged products. They will be required to make a recommendation based on a comprehensive and fair analysis of the relevant market, providing unbiased and unrestricted advice. This will create a clear distinction between independent advisers and salesmen. Again, at The Route, we are proud that we have always offered a 'Whole of Market' service to our Members.

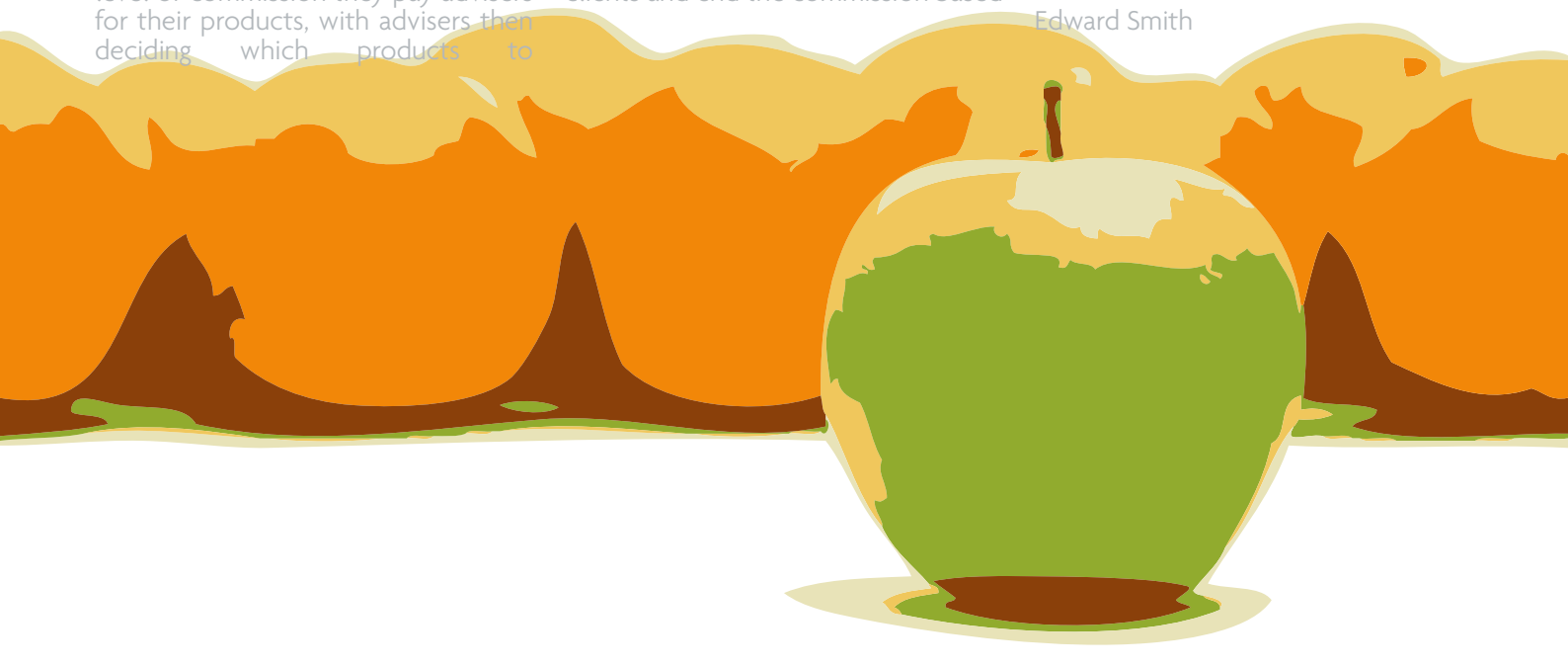
The aim of RDR is for advisers to set their own charges in agreement with clients and end the commission based

system of adviser remuneration. Commission will not be totally outlawed, but if an adviser does recommend a commission earning product, this will have to be made clear to the client, who will have to be informed that this money is being paid by him or her directly. The current lack of transparency, over commission, has left some consumers with the mistaken impression that commission-based advice is 'free'.

At The Route - City wealth club, as we have an interest in the long-term relationship with our Members, we have always done things very differently to 'the pack' and the feedback that we have received from our Members is that they value our original, innovative approach.

The FSA plans to publish a Policy Statement containing their final rules in the first quarter of 2010. We look forward to the next updates from the FSA on advice criteria and regulatory changes, and we will of course keep you updated through the usual channels.

Edward Smith





## Viewpoint

**Lisa McLeod**  
Operations Director  
and  
**Richard Roberts**  
Sales Director

New Year is generally considered a time for reflection on the past, planning ahead for the future, breaking old habits and making new ones, and we at The Route are no different in our approach.

Although last year was challenging, in many ways it was very positive for The Route. 2009 saw us release our new and updated Membership reports – the cornerstone component that helped Members with their strategic ‘Life Goal’ planning. Many of you took advantage of the EIS opportunity we presented to you in the summer and most exciting of all... we released our Alternative Investment platform, allowing Members to invest into short term, high-yielding, asset classes whose performance is not expected to correlate with traditional assets. This is a high risk investment and participation is subject to suitability.

And so to 2010. In this edition of Headlines, and as we enter Bonus season, we continue to look at keeping our resolution to help Members improve their financial habits for the forthcoming year and hopefully beyond!

Richard Admiraal discusses what to do with your bonus in line with your ‘Life Goal’ planning and Membership reviews, highlighting how poor strategic planning can have a negative effect on your circumstances.

At last the property market begins to show signs of revival with demand now outstripping supply. Stephen Smith suggests that you resolve to pay less tax this year by utilising one of our Stamp Duty mitigation strategies.

Edward Smith investigates the ever-changing face of regulation within Financial Services, focusing on the challenge to wealth managers across the industry, with the Retail Distribution Review on the horizon, and why we pride ourselves in being ahead of the curve.

Our aim is to continue providing our Members with the highest quality of service, as you have come to expect, and that remains at the heart of what we do.

We look forward to seeing you in the coming months.

Lisa & Richard

# BONUS - WHAT ARE YOU DOING WITH IT?

If you are one of the lucky ones receiving a bonus this year, you are probably in the midst of planning how to blow it!

Advertisers have helpfully been offering up their wares in the shape of sports cars, wrist watches, luxury holidays, ski chalets, maybe you are even thinking about that yacht?

For you and for The Route, as your advisors, ‘What to do with your bonus?’ is a subject worthy of much debate and consideration. We understand that you have worked hard all year and now it is only fair to reward yourself. However, the mainstream commentary and advice, almost without exception, is ‘Premium driven’ - how much money did you receive, leading to what would you like to do with it? The temptation is to spend for the now, and whatever is left over invest... somewhere.

The consequence of approaching your finances from this position is that you could end up with a variety of different products in your kitbag which, although probably worthwhile investments, may not necessarily be appropriate for the tasks in hand.

You may end up with a combination of the following:

1. The asset allocation may not be aligned to the degree of risk you wish to take.
2. Distribution across different investments may not be suitable for the range of short, medium and long term goals you have.
3. Access to the capital may not be appropriate for the goal in mind.
4. The tax efficiency of the product may not be maximised.

5. The flexibility of asset choice, within the product, may not allow you to reduce the risk of the investment as the goal date gets closer.

This approach leads you to pick up product as you go, feeling better about both having not spent everything and having invested for the future. Ultimately, however, you must, as a goal appears, look into your ‘kitbag’ to see if you have something in there that can be encashed to pay the bill.

Here at The Route - City wealth club, having identified this problem, we set about creating a solution and we were proud to have created one we call ‘Life Goal planning’.

We approached the quandary from a different, and ultimately more sensible, place... what are the costs of your life goals and when are they likely to occur? In essence, the ultimate objective is to have the requisite capital and income you need, when you need it.

As with all accurate planning, this requires more forethought. Rather than adopting a generic approach to paying off debt, keeping some money in cash and building up capital for the future, ‘Life Goals planning’ requires a careful analysis of your life plan, answering these questions:

1. What are your life goals?
2. When are they likely to occur?
3. What are they likely to cost in today’s terms?
4. Should that cost be indexed in some way?
5. Have you made a start in saving for these goals, and if so which assets are earmarked for this goal specifically?

Thus, the distribution of your existing monies, disposable monthly income and capital can be applied as part of a plan to ensure you have sufficient money to pay for these goals as they emerge. It also tailors the selection of the product and assets to when the event is due to occur. There is no point having a huge pension fund, not accessible until age 55, for paying your children’s school fees due in your forties.

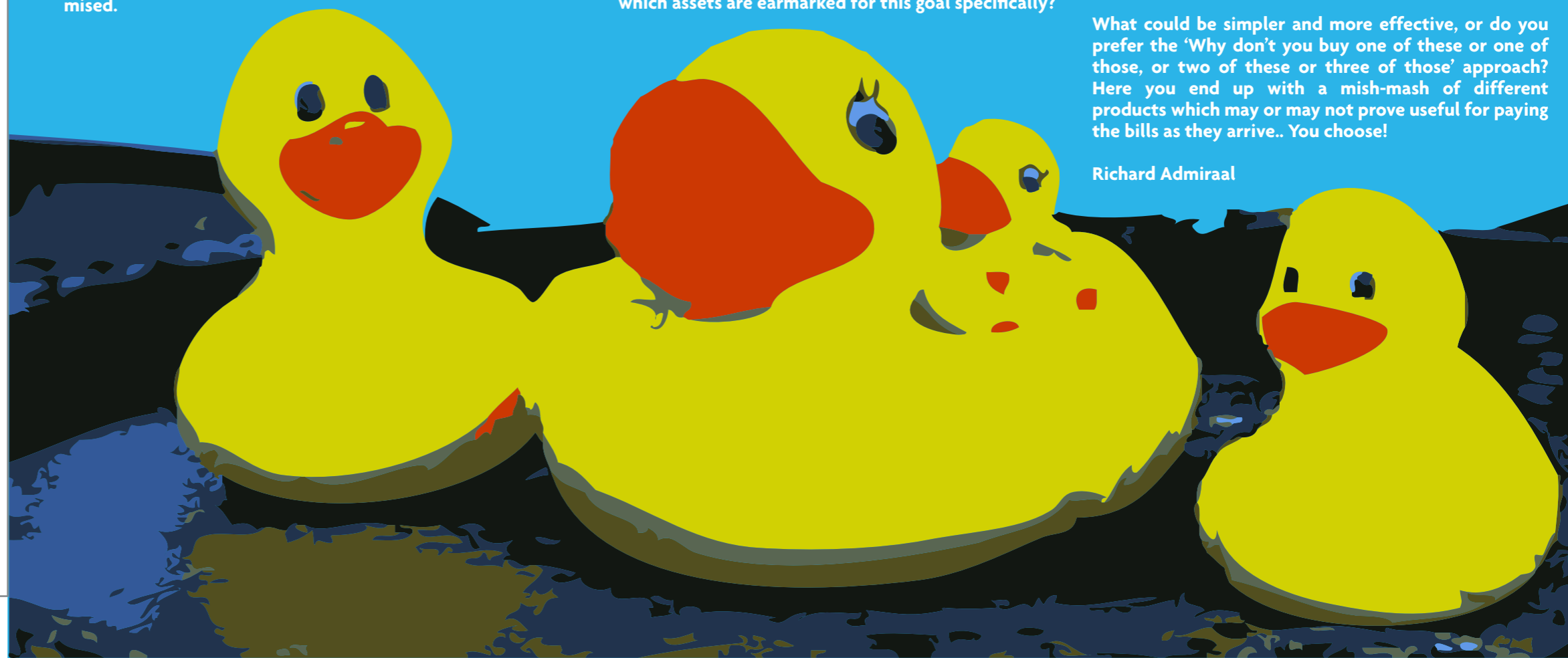
Using this approach our Members will be able to make the correct distribution decisions. Just as importantly they, with Route, will be monitoring the progress to meeting these financial staging posts. Clearly, however carefully the ‘Life Goals’ assessment is made, it is only a forecast and many factors may occur which will mean that the original estimates need to be revised as life unfolds. I list two examples below but I am sure we could all think of many more:

You may decide to have more or fewer children and/or change the way you plan to educate them - or for how long. Things could be ‘thrown out’ by leaving your City career earlier or later than anticipated.

A sensible distribution must be twinned with an ongoing, proactive and regular monitoring of progress to each goal. Here again The Route Members can enjoy, via the Membership Reports and review meetings, this monitoring process and make appropriate adjustments to reflect each and every twist and turn along the way. If you can provide the information and the money, The Route can provide the tools to plan effectively for YOUR life plan.

What could be simpler and more effective, or do you prefer the ‘Why don’t you buy one of these or one of those, or two of these or three of those’ approach? Here you end up with a mish-mash of different products which may or may not prove useful for paying the bills as they arrive.. You choose!

Richard Admiraal



# END OF THE

## Amsept/Genien - A Review

In June 2009, as part of The Route - Alternative Investments continued commitment to offer a range of diverse alternative, 'Non Core' investments to our Members, we introduced a mezzanine loan for Amsept/Genien.

Amsept (now trading as Genien) is a new business which was established to exploit a range of Government policies focused on decarbonising the way we heat our homes and businesses. These policies, published in the Climate Change Act 2008, placed obligations on energy suppliers and users to meet a CO2 reduction target through energy saving changes, and more pertinently, penalties for small and medium sized (SME) businesses if they did not. It was this area of opportunity which Amsept chose to exploit – assisting SMEs to implement energy saving programs.

The investment took the structure of a syndicated £900,000 loan into the start up business for a 12 month term, yielding an interest return of 24%.

DISCLAIMER:- This project is now closed. Past performance should not be a guide to future performance. This is a high risk investment and participation is subject to suitability. Once invested you will not have access to your capital and your capital may be at risk.

The Route arranged additional protection for its Member investors in that any changes to the business plan need to be agreed by The Route. Secondly, if the loan did not pay, in full, after twelve months The Route could, on behalf of investors, convert the loan to 100% of the equity of the company. A powerful incentive to repay the loan on time!

So, where is it now?

The first six months of trading saw Genien focusing on the servicing of a pilot contract with British Gas for their SME customer base, developing new leads and revenue streams from companies, such as, The Carbon Trust, Worcester Bosch, ICS and others, along with establishing a large network of energy assessors and engineers throughout the UK to implement the solutions. This diversified lead base has enabled the quality and size of contracts to increase drastically from the £15,000 per order forecast in June, to £30,000 per order by the start of 2010.

The close working relationship with The Carbon Trust has evolved to see Genien seeking formal accreditation by the Trust, which should be granted in Q1 2010. This will mean that all initial assessment work carried out, on SMEs, will now be paid for directly from the Trust. This has a significant and extremely positive impact on cash flow and will allow further and more rapid exploitation of this and other areas. The Genien marketing strategy in Q1 2010 will expand to care homes, food processing centres and dairy farms which are business areas which have high energy usage and wastage and a high need to reduce their running costs through an energy assessment.

The forecast for Genien moving into 2010 is strong and the business model is continuing to evolve and become more robust – all of which is great news for our investors!

Richard Roberts

## Why Pay Stamp Duty?

Exercise more, eat better, stop smoking, spend more time with the family, learn something new..... all good resolutions for the New Year, but how many of them really last beyond January?

This year, if you are going to make any resolution at all, make just one which you will stick to - saving some money through paying less tax!

For our Members who are looking into purchasing a property over the next few months and throughout the year we, at The Route – Property, consider it a good time to remind you of the biggest cost you will incur when buying a house – Stamp Duty Land Tax (SDLT) and, more importantly, how to mitigate it!

When purchasing, you will pay 4% of the property value in tax to HMRC if the purchase price is above £500,000. On a £2,000,000 property this is £80,000 – not an insubstantial amount, especially when you consider you've paid tax on that money already! At The Route – Property our resolution is, and always has been, to ensure our Members have options to reduce this tax to zero by utilising one of our Stamp Duty mitigation strategies.

These strategies have been specifically developed to be 'user friendly' for residential properties and require no vendor involvement and low upfront set up costs. In 2009 we mitigated substantial amounts of stamp duty land tax for our Members.

We expect to be able to continue to offer these schemes despite the Pre-Budget announcement that SDLT schemes are to be disclosed as part of the Disclosure of Tax Avoidance Schemes (DOTAS). This means that all new Stamp Duty Land Tax mitigation schemes from 1st April 2010 need to be registered with HMRC. But the disclosure of these schemes is restricted only to new and innovative schemes and any scheme that was first made available for implementation before the 1st April 2010 will be exempt.

Stephen Smith

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