

# HEADlines

July, 2008 1st Edition

the route

City wealth club

## WELCOME TO THE ROUTE

### LONDON'S FIRST CITY WEALTH CLUB HAS LAUNCHED

The Route - City wealth club, launched this month, is proud to bring to you its newsletter, Headlines.

Today's volatile market conditions and mercurial government means that it is more difficult than ever to keep track of all the developments in the market place, let alone work out which ones might affect you. Headlines is here to ensure that you're kept fully up to date with all the financial news you need to know about.

Sent in quarterly instalments, we'll provide you with an informative and accessible overview of the relevant issues for you. Every issue will be full of articles by The Route's key spokesmen with their expert outlook on a wide variety of topics as well as commentary from our Managing Director, Mark Worrall.

In this issue you'll find out about:

- Mark's thoughts on the journey so far;
- Where we think the UK's interest rates are heading;
- Recent developments at HMRC that affect those of you who have, or maybe considering, buy-to-let property investments;
- How the government may be looking to tackle the UK's pension deficit.

We hope you find it a useful and interesting read. If you have any comments, suggestions, or just feel like a chat, please drop us an email at: [info@therouteclub.com](mailto:info@therouteclub.com).





## Viewpoint

Managing Director,  
Mark Worrall, talks  
about The Route's  
recent reshuffle:

The Route is now launched, after over a year's research, design, consultation and construction. It has been a great experience from start to finish and, looking back over the past few years, it's amazing the journey the company has undertaken to get here. I am excited about where we've got to and the prospects the future has in store for us all.

Two years ago, when we first launched our Membership proposition, no one else in the market was specialising in a 360° membership based wealth management proposition, so we had no competitors to benchmark ourselves against. This led us to spend a great amount of time listening to our most respected advisers, our Members. With this feedback we have been able to establish a company that services all of their financial needs in a proactive, bespoke manner and most importantly, does so on an ongoing basis. Establishing a new culture within the company has been a large undertaking and one which I am proud to say everyone here took on with enthusiasm.

The launch of The Route has developed the services we offer, as we continue to listen to our Member's needs. Our new look Membership Report is a far more concise and accessible snapshot of their financial situation. It contains a new Lifegoals section which enables you to benchmark where you are now against those all important life ambitions – another innovative tool that enables us to ensure everything is on track. Our Members have also commented on how much they appreciate targeted networking opportunities within the Club. Indeed, some of our most successful investment structures have resulted by syndicating our Members together. As a result, we are now on the look out for more of those lucrative investment opportunities.

So here we are. The Route – City Wealth Club, designed and sculpted entirely by our Members. This is what the essence of wealth management is about, and I am delighted to be a part of a company whose market leading structure and philosophy is setting new standards.

I look forward to us working together towards a successful future.

Mark

# WHERE NEXT FOR INTEREST RATES?

To no one's great surprise, The Bank of England Monetary Policy Committee (MPC) voted to keep interest rates on hold in June and July. Unsurprising, maybe, but it perhaps does give us a fairly healthy indication as to what's likely to happen to interest rates for the foreseeable future. Simon Pimblett, Head of Research & Development at The Route, takes us through the times ahead:

To understand the MPC's mind set, it helps to understand their brief. The Bank of England, through the MPC, is tasked by government "to set interest rates to keep inflation low". The key here is "inflation". The man in the street and the media commentator may worry about mortgage costs, housing values, growth prospects and recession, but in effect these are all things for others to manage using whatever tools they have at their disposal: the MPC's focus is inflation, pure and simple. In fact that's perhaps not quite fair; the Bank can indeed react (and has in the past reacted) to all those other issues, but only when it has the luxury - as has been the case more or less since it was given responsibility for setting interest rates back in 1997 - of having inflation under control.

The problem for the MPC, at the moment, is that inflation is not under control. The target rate of inflation is 2%, but the stated official rate is 3.8%. What's more, factual and anecdotal evidence would seem to point to 'real' inflation being much higher, and the expectation is that the official rate will easily soon push through 4%.

Ordinarily, the MPC would be expected to respond to rising inflation by pushing up interest rates. It's almost a 'no brainer' – and The Bank's Governor has already hinted that if it was solely down to him, that's precisely what would now happen.

However, two factors argue against raising rates: the first is that the MPC, whilst given a narrow brief, is acutely aware that the economy is delicately poised at the moment and pushing up interest rates would precipitate (or accelerate, depending on your view of the current state of the economy) recession; the second is that the MPC feels that many of the drivers behind the current surge in inflation are not things which respond in the classic way to interest rate fine-tuning and are therefore effectively outside the MPC's control – oil prices, food and commodity prices, energy prices, for example.

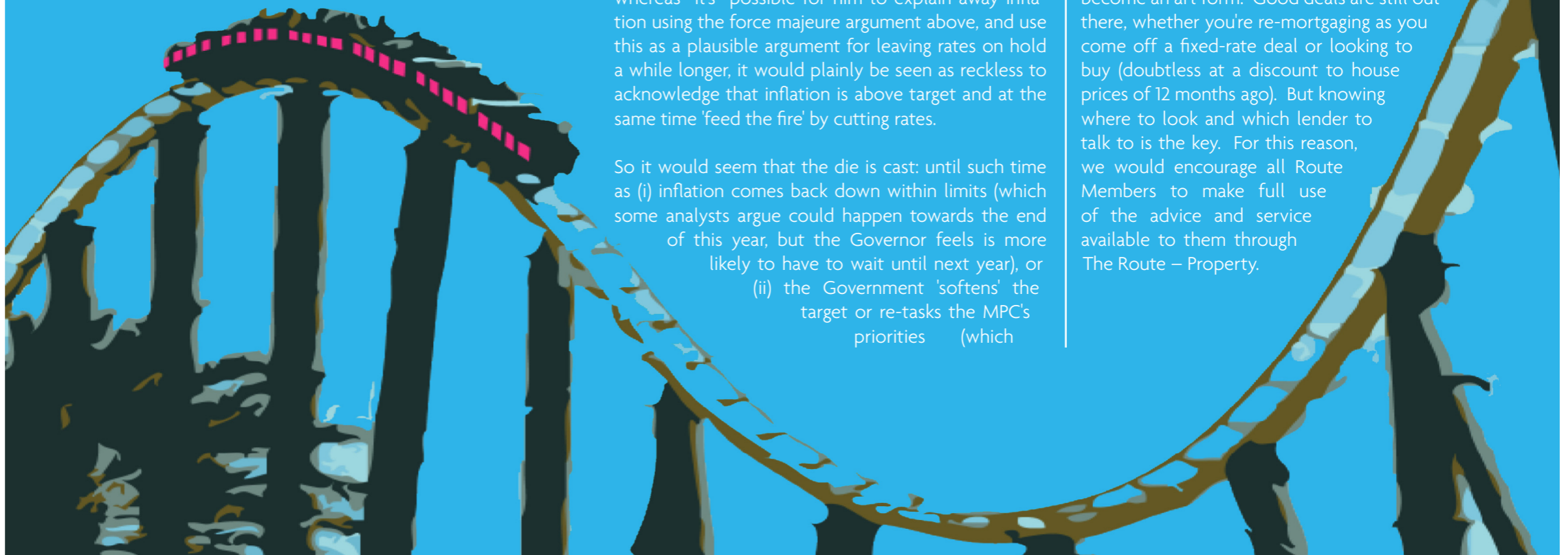
When inflation exceeds target by more than 1% in any one quarter (i.e. when it reaches 3.1% or more), the Governor of the Bank of England, famously, has to put pen to paper and write a letter to the Chancellor telling him what's gone wrong and what the Bank intends to do about it. This happened in June, and both Governor and Chancellor acknowledged that this was likely to be the start of many such exchanges of letters. Sitting down to write an open letter to the Chancellor is doubtless not a task that the Governor relishes, but whereas it's possible for him to explain away inflation using the force majeure argument above, and use this as a plausible argument for leaving rates on hold a while longer, it would plainly be seen as reckless to acknowledge that inflation is above target and at the same time 'feed the fire' by cutting rates.

So it would seem that the die is cast: until such time as (i) inflation comes back down within limits (which some analysts argue could happen towards the end of this year, but the Governor feels is more likely to have to wait until next year), or (ii) the Government 'softens' the target or re-tasks the MPC's priorities (which

could happen any time), the MPC will continue to respond to finding itself between a rock and a hard place by sitting on the fence (or as many other metaphors as it can think of). This would also suggest that unless inflation gets really hairy (in which case rate rises must surely follow), future cuts in base rate remain the objective – but that this may not be possible until well into 2009 as inflation, we hope, finally comes back within limits.

What does this all mean for mortgage borrowers? Well, for some period of time now, mortgage rates have effectively been de-coupled from base rate – which is to say that movements in base rate do not necessarily produce corresponding movement in mortgage lenders' standard variable rates. If lenders increase mortgage rates independently of bank base rate movements, thereby increasing most people's primary exposure to the real effects of interest rate increases, The Bank and the Chancellor may paradoxically find the brakes being put on spending and their work being done for them – albeit at the cost of an undermining of confidence in the housing market.

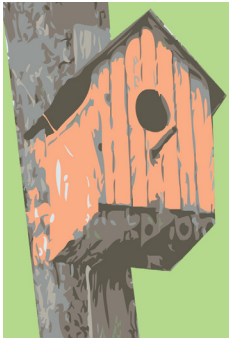
However, many will argue that the issue in the mortgage market at the moment is not price – rates are still relatively low when viewed against a historical context – instead the issue is mortgage supply. As lenders have got spooked, or been forced to re-evaluate their lending strategy, 2008 has become the year when tracking down a good mortgage deal has become an art form. Good deals are still out there, whether you're re-mortgaging as you come off a fixed-rate deal or looking to buy (doubtless at a discount to house prices of 12 months ago). But knowing where to look and which lender to talk to is the key. For this reason, we would encourage all Route Members to make full use of the advice and service available to them through The Route – Property.



# END OF THE



## Property Lets: Coming Home To Roost



Following its recent crackdown on those with offshore accounts, Her Majesty's Revenue & Customs is now turning the spotlight on possibly the oldest game in the book: undeclared rental income.

Advances in information technology, coupled with increased database access, mean that HMRC can now cross-reference information from the Land Registry, and its own records on Stamp Duty Land Tax, with property agents' records, and then compare this information to taxpayers' Self Assessment records. Where it is evident (or suspected) that an individual owns property which is being let out, and yet

there is no record of this on the individual's tax return, action will follow. Of course, the individual has an obligation to file rental income details, whether or not costs and overheads (mortgage interest for example) negate that income or even end up creating a loss (which it would be in the individual's interests to record anyway).

Although HMRC's ability to make use of the information it has at its disposal is presently somewhat limited by a lack of manpower to follow it through, it has started the process rolling by writing to selected taxpayers asking them to complete a form detailing income and expenses from property letting for the last six years. At the moment the letter is in the form of an informal request, and as such there is, strictly speaking, no obligation to reply to or even acknowledge the letter. However, failure to respond in a satisfactory manner may of course lead HMRC to come

back with a more formal 'request' in the form of an Enquiry.

It will be interesting to see how this one develops. If HMRC follows the lead set by its earlier Offshore Disclosure Regime, then it's likely to consider bringing in some sort of amnesty facility: this is not quite the 'let's draw a line and move on' approach that many would hope – it would simply mean that taxpayers would be given a certain amount of time to bring their records up to date and pay the appropriate tax without further penalty. Failure to take advantage of any amnesty would then entail the risk that draconian penalties would be applied as and when HMRC caught up.

If you think you are likely to be affected by this issue, now is the time to discuss the matter with your Relationship Manager, who will help you seek appropriate advice.

Richard Roberts, The Route - Property

## Pensions: This Time It's Personal

By now, most people will be reasonably familiar with the changes made to pensions as a result of the new 'Pension Simplification' regime – ushered in on 'A-Day', 6 April 2006. Foremost amongst those changes were standardised annual contribution limits (which most people find less restrictive than before) and the concept of a lifetime limit on the maximum pension rights that can accrue (which some people will find more restrictive than before). We also now enjoy a wider choice of investment options (which would have been greater still had the rules gone through in anything like their original form...).

Fewer people will be aware of the major sea change to pensions which will occur four years from now, in 2012, with the introduction of 'Personal Accounts'. Then, for the first time, we will experience something which has been on the cards for a long time but no one has yet quite had the courage to implement: pensions compulsion.

Those tracking the nation's demographics have long pointed out that even though we have record employment in the country, more people are making it to retirement and are living longer when they get there. This will put

inevitable strain on the State system should it be that those people arrive at retirement without adequate provision of their own.

To date, successive governments have responded to this problem by trying to make the business of funding pensions more attractive: personal pensions, SIPPs, stakeholder pensions, National Insurance rebate incentives – all have been introduced with a view to trying to encourage people to think positively about saving for their retirement. However, as is often the case, the actual experience seems to be that those who already took their retirement seriously now find themselves benefiting from additional flexibility and reaping extra rewards, whereas those who failed to see the benefit (or who felt unable to make the commitment) remain unmoved.

Part of the problem has always been that allocating 'spare cash' is one thing, but when lined up against things with immediate appeal (a holiday, a new car, etc) or against things which are a pressing need (paying the bills, clearing the overdraft etc) long term arrangements like pensions, no matter how 'worthy', always come a poor second.

The problem is that if you give people too many options, there's always the danger that they'll take the easy option.

The new Personal Accounts, when they arrive in 2012, will, for the first time mean that participation in a pension plan is automatic for every employee – unless that employee makes a conscious decision to opt out. The precise details of where the contribution level will be pitched are to be confirmed, and will doubtless change between now and 2012 anyway, but currently a tripartite arrangement with the employee contributing 4% of salary, the employer funding 3%, and government funding 1% is being mooted. Also likely is that the employee's contribution will only relate to earnings in the basic rate tax band, and that the contributions should be phased in over a number of years, rather than run the political risk which full implementation from Day One would entail.

Setting the 'default option' to Automatic Enrolment represents a major shift in philosophy, and may well herald the start of similar compulsion elsewhere, as the State's willingness (ability?) to support its citizens through good times and bad declines.

Simon Pimblett, Research & Development

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