GLOBAL VIEWS

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Secure Asset Management

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QROPS Another Reason Why

Recent figures provide yet more support for expatriate clients to consider a QROPS transfer. Initially, QROPS were deemed only suitable for larger transfers, due simply to the costs involved. Notwithstanding recent years has seen the cost of establishing and maintaining a QROPS fall significantly.

In addition a new breed of low cost QROP has arrived, with limitations on investment opportunities, but providing the ability to establish a QROP with a transfer as low as £20,000.

There are 7658 pension funds in the UK. Over 5 years, 72% have produced a return of less than 5%. Of the remaining 28%, 95% of them have produced a return of more than 5% pa, but less than 9% pa.

In fact only 63 pension funds in the whole of the UK that have performed better than 9% pa over the past 5 years.

Over 10 years the numbers are equally desperate, with only 36 funds out of a total 3571 funds having achieved a return better than 9% per annum.

Now there is clarity provided by Her Majesty's Revenue and Customs as to which jurisdiction we can be assured of as acceptable for QROPS, along with the new breed of excellent value products and with the need to outperform miserly returns, perhaps now is the time to review your old pensions, and consider a transfer.

For a full evaluation, and explanation of the benefits of a QROP contact us without delay and without obligation.

Banks and Lending

So we all know anecdotally that UK Banks, and in fairness banks in many countries seem to have lost the urge to lend. Or if they will consider lending it involves the applicant jumping through hoops of fire, and most likely having onerous conditions imposed, and paying a heinous rate of interest and establishment fees.

What has not been as clear as to why the banks have taken this stance? Clearly there was the need to increase their reserves, and clearly banks being banks have traditionally distributed umbrellas with aplomb when it is sunny, and the moment rain appears, they want them back. Finally, there would have been a general assumption that the banks desired to take increased profits from their customers.

However, according to recent report, it appears that many of the banks have substantial undeclared losses. One estimate suggests that UK Banks are sat on over £40.0 billion of undeclared losses. These undeclared losses are bad loans, which have yet to appear on the balance sheet. The greatest amount appears against HSBC, with £10.0 billion, however Barclays with almost £7.0 billion are not that far behind. Apparently none of the banks mentioned in the report disputed the figures.

So if you have recently applied for a loan of some sort and been declined, or had onerous conditions and a high interest rate imposed, this may be the reason.

Protecting Yourself from a Scam!

It is perhaps surprising how many people still get caught out by investment fraud. Regulation has tightened considerably over the last decade or two, depending upon which country you live in, but unfortunately this is not enough to stop some investors losing money to unauthorised sales people.

The recent fraud to be reported on is a particularly personal one since it appears to involve people who mixed socially with their victims, though the full facts of the case have yet to come out.

Five Britons have been charged in the UK for an alleged “Ponzi” scheme. This is a scheme, which gives investors very attractive returns, however the money is not being invested and the returns are being provided by giving investors their own money back. Once the fraudster has built up sufficient funds they typically run away with the money leaving investors with nothing.

Such a scheme defrauded 70 British residents of a Mallorca municipality out of €12 million. The two alleged ringleaders owned luxury villas in the area and had a very active social life there, including being members of cricket and Rotary clubs. Most of the Mallorca residents who invested in the scheme were retired, with many of them handing over their life savings. The amounts lost ranged between €11,000 and €223,000.

According to the UK’s Serious Fraud Office (SFO) the scheme began in 2001 and investors were promised large profits on the stock market from a company called Gilher Inc. They offered interest of up to 18% a year, plus a 2% bonus if they remained invested for a year.

The scheme extended beyond Mallorca, in all 150 investors (many of them in the UK, France and US) lost money.

The investigation began in November 2009 following complaints by some investors to the SFO. The ringleaders have also been charged with money laundering in Panama and the Seychelles. They deny the charges and plead not guilty. The trial is due to start shortly.

This is not an isolated incident unfortunately. Last November three men were jailed in the UK for their involvement in a boiler-room investment fraud based in Spain and targeting investors in the UK. The previous month seven men were found guilty of another Spanish-based boiler-room fraud. In March 2011 a man was found guilty in a US court for running the UK’s largest boiler room scam so far. Along with his accomplices they were believed to have made £100 million out of the scheme, with one victim losing £800,000.

Remember if it is too good to be true, then it almost certainly is. We have recently been offered numerous funds to offer to clients whom we believe fall into this category. Ask yourself one question if offered a too good to be true fund, if the returns are so “guaranteed” and the investment so “safe”, why are you as an individual being offered it, surely large institutions would be rushing to buy it, along with the Sovereign Funds of China, Kuwait Saudi Arabia, and when they invest they invest multi millions?

How Safe is Your Money

The smart thing to do with anything you hold dear is to insure it! We insure our lives, our health, our houses and cars, holidays, works of art and even our pets, but what about our money?

Major investors such as Banks, Pension funds and Governments do indeed insure their cash using something called Credit Default Swaps (CDS).

In essence they take out an insurance policy with other institutions against the event of the Institution where they have their money defaulting.

So how much does this cost? Well this is the interesting part. Like all insurances it depends on the perceived or actuarial risk involved.

The CDS rate is quoted in basis points, which is 1/100th of one present. So an institution with a 100 rating will cost 1% of the investment to insure. Therefore the institution should be paying you 1% more interest to compensate for this cost.

Okay to the nitty gritty, where do the Institutions dear to our heart fit on the rating scale.

HSBC	147.29
Deutsche Bank	199.87
Bank of America	311.32
Lloyds TSB	336.50
Santander	442.76

So far so good!

Marfin Laiki	1400.00
Cyprus Government	1489.68
Alpha Bank	2053.00
Greek Government	11453.66
Hellenic Bank	12218.70
Bank of Cyprus	Cannot even get figures!

Information from Bloomberg

Not good reading for anyone with money held in Greece or Cyprus. We are well aware that Cyprus has depositors compensation scheme of up to 100,000 but as this is backed by a Government who’s own rating is far from acceptable how secure can that be deemed as? It may well be that you hold money in other countries, with other institutions, you may be surprised at just how vulnerable your money in a savings account for “safe keeping” really is.

The Case for Equities

The result of the doomsday prophecies for the Euro zone has created some interesting opportunities. Stock exchanges in emerging markets are now ridiculously cheap, according to Sam Vecht, Head of Emerging Markets Group at BlackRock. Sam states: “Right now I see a superb buying opportunity. Stock markets have priced in an almost catastrophic scenario, but I expect the crisis in Europe will have a solution.”

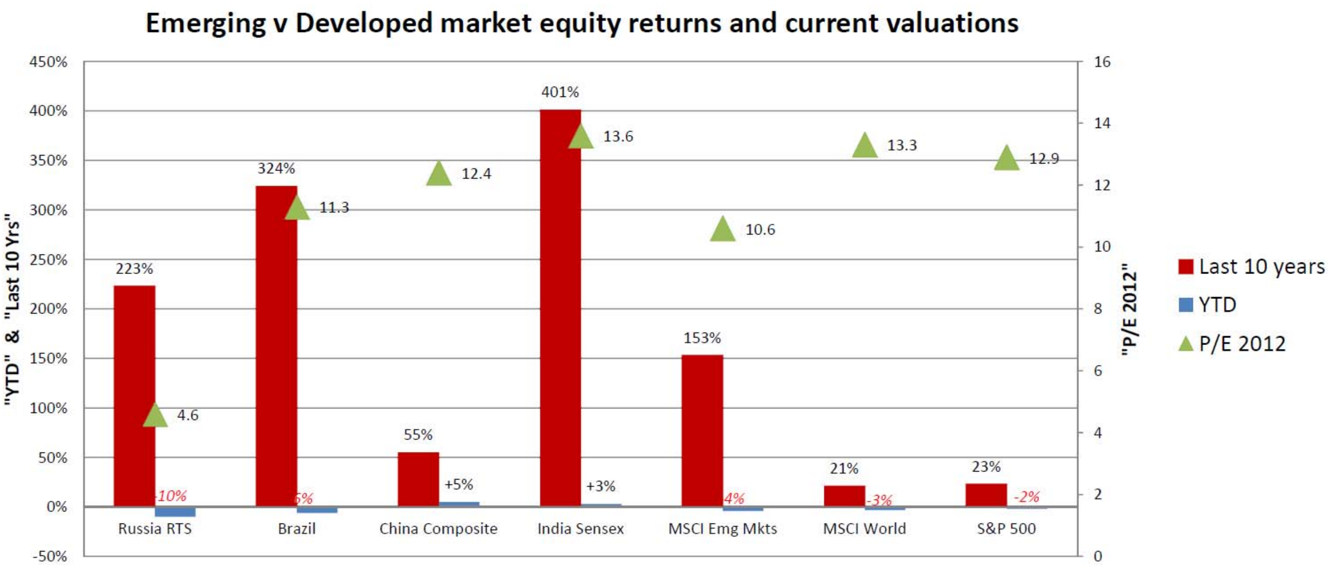
Today’ investors in e.g. German and U.S. government bonds earn zero yields and let us not forget that all bonds can lose value. Stock markets turn extremely fast. Ten weeks ago, most investors were optimists and now all of a sudden deep pessimists. With the world’s eyes and brains on finding a focus on the European debt crisis, a satisfactory solution will be found.

The mountain of cash earning zero interest will be attracted to equities and here are a few reasons why. Take the blue chip company in Russia, Gazprom as an example. Gazprom is the largest natural gas producer in the world. Profit of 40 billion dollars in 2011, but valued at only 100 billion now and a dividend yield in the high single digits. Strong earnings can be found in this environment like Russia’s DIXY Group of Companies, one of Russia's leading retailers of food and everyday household supplies. Announced first quarter 2012 EBITDA increasing 112% and net income rose 116% year-over-year.

FMG has similar examples from its other regions that we focus on. Given the 17 year history of investing in Russia as an example, we have seen similar dislocations before between fair value and superb buying opportunities when equities are almost completely ignored. The returns from historical bottoms have been more than rewarding. Bottom-fishing is extremely difficult but allocating a portion of ones investment into the market at current levels will enable some of those funds to hit the bottom levels. Being early investors into China, India and now Iraq and Mongolia have thought FMG invaluable lessons of being early investors into markets offering outsized return potential.

Greece in the big scheme of things, from the man who made the famous BRIC label, Jim O’Neill: “China is creating a Greece every 11 ½ weeks and a Spain every 15 months. There is money to be made in the market.”

FMG Fund Managers run a range of single and multi-manager emerging and frontier market equity funds, from China and Russia to Iraq and Mongolia. All FMG funds are available to GlobalNet members via the Insurance company Portfolio Bonds.



Buying Overseas Property

Buying a property in another country be it for holiday let, or for part or full time residence, is the dream of many people. Clearly in the past banks have been more than willing to advance monies against ever increasing values of a main residence. However, in recent times, banks are not keen to lend on anything, and many countries property values are at best stagnant, at worst depressed. However, notwithstanding those issues, the purchase of overseas property continues, albeit at a reduced rate.

There are various issues with different countries, which buyers should be aware of, and this article and future articles will focus on one particular country. This is not intended to be a definitive guide, but will perhaps help any proposed buyers in their selection process.

Cyprus

Cyprus has been a popular holiday destination for many years. There remains a significant heritage from the British, they drive on the left, post boxes are red, and English is widely spoken.

Like many EU countries there are little enclaves of expats settled, British, German, French, Dutch, and increasingly Russians and expats from Eastern Europe.

The country is primarily Christian, Greek Orthodox, but other religious practices are accepted and practiced.

The country is split into two distinct areas, following the Turkish invasion in 1974. In fact the border is policed by The UN, and whilst in the past there have been some disturbances, currently the mood is far more relaxed, with easy access across the border at several points without issue.

Buying property in the North brings with it risks. The principle problem being, the ability to obtain good title deeds. Remember these lands were taken by military force, and the previous owner is most likely the one with rights on the land. There have been some high profile court cases, which have meant that some people have lost their homes, since they were bought effectively from someone who did not own the land.

In the South, The Republic of Cyprus, the country is a full independent member of the EU and at the time of writing the main currency is the Euro!

The main locations for holiday or retirement appear to be Larnaca, Limassol, Paphos and Nicosia, including the infamous Aya Napa. Holiday lets are popular in all these areas, with a warm climate, an estimated 360 days of sunshine a year, bundles of history in particular from the Crusades and the Romans, plus the normal range of holiday needs, with the added attraction of skiing in the winter. In fact Cyprus is one of the few countries in the world where at the right time of the year you can ski in the morning, and within an hour be swimming in the sea, without the need of a wet suit.

Legal Issues

It states that no foreigner is allowed to purchase property without the permission of The Council of Ministers; this appears to be a formality as no one is ever denied. There are costs to consider, of course. Immoveable Property Tax paid annually, at 0.4% of the property value. Land Registry Fees Transfer Fees range from 3% to 8% depending upon the value of the property. Finally foreigners are only permitted to own one property, unless they seek permission, and this is generally only granted to a long term resident.

The outlook for growth, difficult to assess, Cyprus is in a financial pickle, perhaps not to the extent of Greece, but a pickle nonetheless. However, traditionally locals tend to have property left within the family, and expatriates moving into the country have driven the market in recent years, thus the real driver for the future is what is happening outside of Cyprus. One aspect, which fills the country with hope, is the possibility of oil and gas finds off the coast. Initial exploration is, we are told, very positive. If natural resources are found and are viable, anything could happen.

Next time we will review the opportunities and problems of buying in Spain.