

TALKING SHOP

Inflated Expectations

Whatever the investment climate people still need to invest. It is not a question of “should we invest” but rather “what should we invest in?” Contrary to some commentators investment risk can never be eliminated and in a year when bank executives will be haunted by memories of NINJA loans (to people with No Income, No Jobs, or Assets) investors have to consider their own attitude to risk. This publication intends to examine this question.

TELEPHONE 01509 670918

INDIVIDUAL SAVINGS ACCOUNTS LIMITED

AN ASSOCIATED COMPANY OF THE PEP SHOP LTD

The promoter and publisher of this booklet is Individual Savings Accounts Limited, and its content is representative of the views we hold on investment planning and personal financial structuring. The company operates in association with The PEP Shop Ltd (which pioneered the discount marketing of PEPs in 1992). Both companies are appointed representatives of Expatriate Advisory Services Plc who are regulated by the Financial Services Authority. Each company is, therefore, dedicated to a specialist market whilst operating within a group of independent financial advisors. The companies are registered at, and operate from 16 High Street, Kegworth, Derby DE74 2DA.

“ *To buy when others are despondently selling, and to sell when the herd is greedily buying requires the greatest fortitude, but offers the greatest reward...* ”

Sir John Templeton 1912 - 2008

We are all wise with hindsight. It scarcely takes a genius to conclude that anyone selling out of equities eighteen months ago, and reinvesting the proceeds in a deposit account, would be sitting on more capital than if they had remained in equities throughout.

It is of course more important to form an opinion on the next five years (and beyond) rather than the past, and to do this we need to try and assess why things happen, and learn from those lessons.

Experienced investors are aware that “everything has been seen before” (ie rising oil prices, property crashes, recessions etc). Analysis and knowledge are important aids that investors need, however, the greatest need is an abundance of perseverance. Throughout history the best investments have always been those which were (coincidentally) volatile. The most successful investors are usually those who remain committed throughout the many ups and downs, and never lose the faith.

	Pages		Pages
Probability Test	2 - 3	Windfall Shares	11
The Hidden Danger Of Cash	4 - 6	Promoter's Notice	12
The Real Rate Of Return	7	How To Invest	13
Fund Reviews	8 - 10	Current Recommendations	14 - 16

Many people pay too much attention to the uncertainties in their life, and as a result become over-cautious about investment. It is common for investors to hold excessive amounts on deposit because they take the view that “their future is uncertain”. In fact, no-one’s future is predictable, and having vague notions about the need for caution can be injurious in the long run. All decisions on investment should be made with reference to “the balance of probability”. No one should invest in an ISA unless they consider it a probability that they will be able to commit themselves for a period of at least five years. If it is only a possibility, they should not invest.

Of course there will be occasions when the probability becomes reality, and other occasions when the probability fails to happen. Nevertheless it is still valid to act on probabilities since, by definition; most probabilities come to fruition whilst most possibilities do not. Subconsciously people act on probabilities all the time. In particular they spend money on those products they believe probably represent the best value for money. Unfortunately many people who automatically follow the “probability test” in other respects fail to apply it to their bank deposits. Consequently millions of people go through 20 or 30 years of their lives holding back from more meaningful investment, giving themselves the excuse that they may need the funds for “an emergency”. The cost of doing so over many years is likely to be considerable.

Could've, Would've, Should've:-

The easiest “decision” anyone can take is to do nothing. In the short term lethargy always appears to be a risk free alternative. It is only the passing of time which highlights the cost. Anyone who made a conscious decision to remain in bank deposits many years ago now has much to regret. It seems that the majority of fixed interest investors are blissfully unaware of the superiority of stockmarket-linked investment. Other investors get “cold feet” each time the stockmarket suffers a major fall. In this context, the adage “ignorance is bliss” needs to be questioned. The last fifty years have shown that ignorance can (temporarily) be bliss – until many years later when the investor looks back and compares the returns on equities with those of his deposit. Irrespective of the decade chosen the returns on the UK stockmarket were superior to those of a depositor.

Average Annual Returns – UK Equities v Deposits

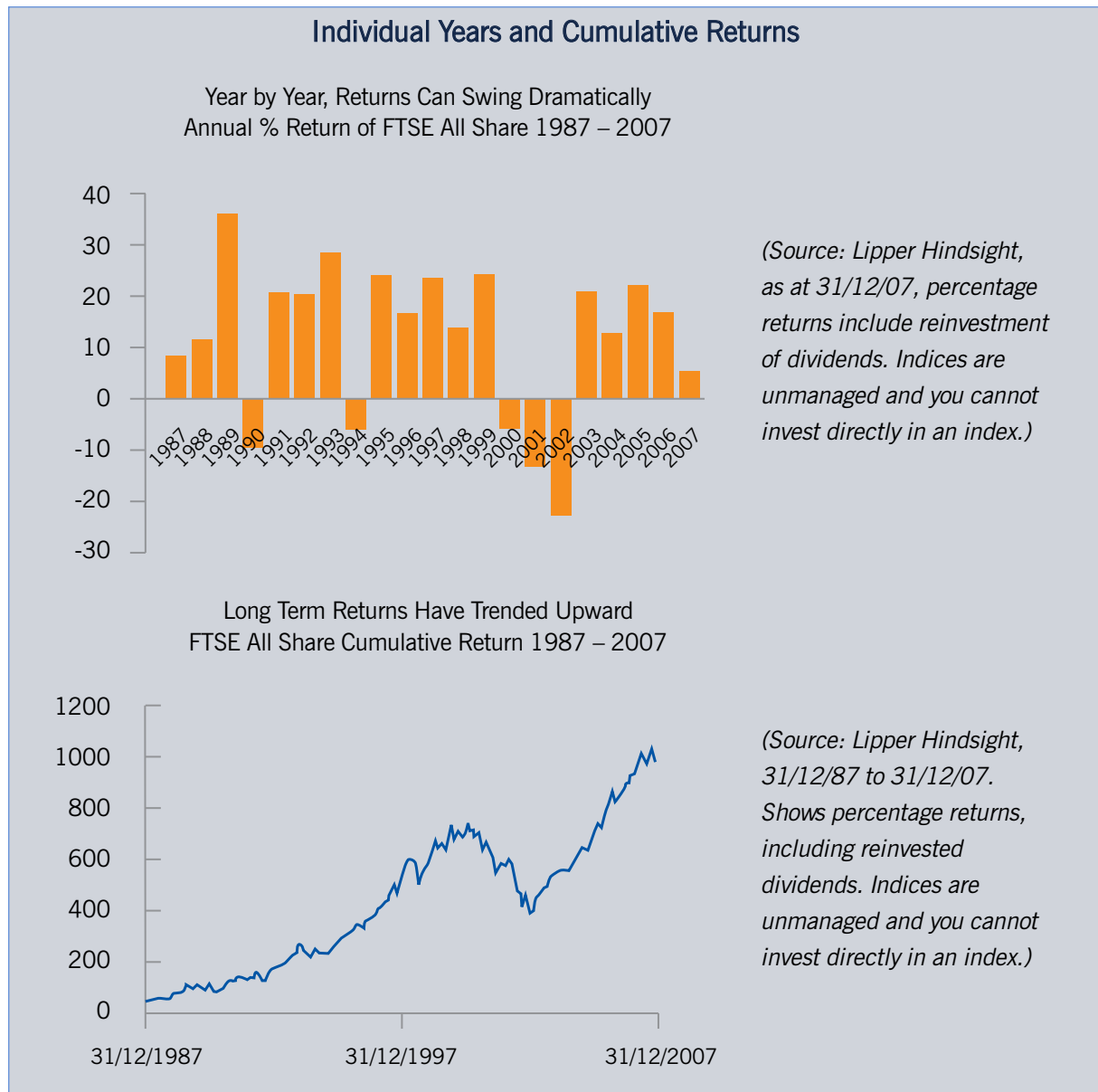
Decade	Equities	Deposits
1950's	19.56	5.28
1960's	9.63	6.52
1970's	20.15	9.95
1980's	24.05	10.97
1990's	15.26	6.05

(Source: Barclays Capital)

So far, the most recent decade (2000's) has been a disappointment for equity investors (4.3% average annual return) and although the returns are still superior to that of deposits (4.28% AAR) the past few years have certainly tested the perseverance of investors. However there is a saying that “the greatest risk is never to take one”. Equally there is at least as much danger in not knowing where the real risks lie!

Short Term Pain, Long Term Gain

Movements over a week, a month and even a year have no relevance whatsoever for any serious investor. This is best illustrated by looking back at stockmarket movements in recent years.



One important caveat, investors should be aware that although the above figures show the superiority of equities over deposits there is an increased level of risk when investing in equities and any investor concerned that their investment may temporarily fall in value should be aware of this when comparing the performance of the two types of investment.

The short term uncertainty of stockmarket investment has to be contrasted with what history proves is its long term reward. However, saving only makes sense if the money saved enables you to buy more tomorrow than it does today, this is where the rationale for deposit investing is seen to be pointless other than as a temporary home for cash, as the next two pages explain.

4 The Hidden Danger Of Cash

As investors we all understand the basic concept of risk i.e. the possibility of suffering a loss, but we also face another kind of risk when making investment decisions, inflation. Investors are often unaware of the risk inflation poses to their investments and economists call this the “money illusion”. This is the belief that the returns we earn on our investments directly correspond to an increase in our purchasing power. In other words, we tend to forget how inflation consistently erodes the purchasing power of our money and eats away at our savings.

For example, consider an investor who chooses to invest £100,000 for 10 years in a “safe” investment option that earns a fixed 6% a year. Assume 20% as the tax payable, and that inflation runs at a constant 5%.

Year	Nominal Value of Investment Yielding 6% p.a.	Effect of Tax at 20%	Money Needed to Buy the Same Basket of Goods and Services (inflation at 5%)	Real Value of Investment (in 1998)
1998	£100,000	£100,000	£100,000	£100,000
1999	£106,000	£104,800	£105,000	£99,800
2000	£112,360	£109,830	£110,250	£99,002
2001	£119,102	£115,102	£115,763	£98,210
2002	£126,248	£120,627	£121,551	£97,424
2003	£133,823	£126,417	£127,628	£96,645
2004	£141,852	£132,485	£134,010	£95,871
2005	£150,363	£138,845	£140,710	£95,104
2006	£159,385	£145,509	£147,746	£94,344
2007	£168,948	£152,494	£155,133	£93,589
2008	£179,085	£159,813	£162,889	£92,840

At the end of 10 years of compounded growth the lump sum has risen to £179,085 (an increase of almost 80%). After 20% tax, the amount stands at £159,813. It may sound unbelievable but it is true – even with a near 60% gain, the net amount of £159,813 is actually worth less today than the original £100,000 of 1998. In 2008, after factoring in inflation at 5%, the investor would need £162,889 to afford the same things he bought for £100,000 in 1998!

In other words, the investor’s purchasing power has actually **reduced** over the last 10 years and if we recall the definition of risk being “the possibility of a loss” without realising it the investor has suffered an economic loss by remaining in “risk free” cash.

It should be noted that we are not arguing that investors redeem all their deposit investments. We have always maintained holding a contingency fund in cash is important for any serious investor, as equity investment requires long-term commitment and all investors require an emergency fund in order to avoid the necessity of selling shares at an inopportune time.

The “Real” Return

The effect of inflation on savings is seldom spelt out. However, it exposes even more the difference between returns earned by depositors and those of equity investors.

As previously discussed the single most important justification for saving money is that **it should buy more tomorrow than it does today**. A long-term return (say) 10% per annum is worthless if inflation over the period averages 11%. In order to generate a real return on our investments the rate of inflation is the bare minimum that has to be exceeded, it is only then that as investors we increase our store of wealth. It is here where equity investments have proved their ability to combat inflation.

In the UK the stockmarket has provided substantial returns even after allowing for inflation, real average returns (i.e. after deducting the rate of inflation) over the past 100 years were as follows:

Real Investment Returns (% p.a.)			
	Equities	Gilts	Cash
1907-17	(-3.8)	(-7.2)	(-3.8)
1917-27	9.1	6.1	5.2
1927-37	6.1	7.3	2.6
1937-47	4.0	1.3	(-1.8)
1947-57	2.3	(-6.2)	(-2.5)
1957-67	11.4	0.8	2.1
1967-77	(-0.2)	(-3.2)	(-2.5)
1977-87	12.0	4.5	3.4
1987-97	10.4	6.9	4.6
1997-2007	3.1	3.3	2.5

(Source: Barclays Capital)

Equities therefore have provided a hedge against inflation, although there was a price to pay. Patience. It is only over time that equities have outpaced inflation and the price investors have to pay is periods of volatility between when they buy and then eventually sell their holdings. As the table overleaf demonstrates, we believe it is a price that ought to be paid.

Summary

Inflation, often referred to as the silent killer should not be overlooked by any serious thinking investor, it's damaging effect can often creep up on us gradually, but over time can be devastating.

It is important to note that in our example the investors nominal money never fell below the original amount invested whereas an equity investment would have experienced falls in value at some point during the ten years, however the important lesson to learn is that although cash protects our nominal money it cannot guarantee us protection against the effects of high inflation.

Long-Term UK Investment Returns

	Equities %	Gilts %	Cash %	Inflation %		Equities %	Gilts %	Cash %	Inflation %
1900	14.6	1.2	4.0	3.3	1954	46.8	6.0	1.9	4.0
1901	-3.1	-0.9	2.5	0.0	1955	10.6	-9.4	3.5	5.8
1902	6.7	2.1	3.0	3.2	1956	-8.2	-2.8	5.0	3.0
1903	1.9	-2.9	3.4	0.0	1957	-0.7	-5.6	5.0	4.6
1904	12.0	4.0	2.9	0.0	1958	45.9	16.5	5.1	1.8
1905	3.9	3.6	2.2	0.0	1959	53.1	1.1	3.4	0.0
1906	10.8	-0.9	3.0	-6.2	1960	1.9	-6.3	5.0	1.8
1907	0.4	0.1	3.8	10.0	1961	1.8	-7.2	5.1	4.4
1908	4.9	3.6	2.2	3.0	1962	0.6	23.7	4.5	2.6
1909	10.6	1.7	2.1	0.0	1963	19.3	3.8	3.8	1.9
1910	2.1	-1.2	3.1	0.0	1964	-4.9	-1.8	4.4	4.8
1911	1.5	0.4	2.8	2.9	1965	11.1	4.5	6.3	4.5
1912	3.0	0.9	2.0	2.9	1966	-3.5	4.3	6.1	3.7
1913	-3.2	-1.2	3.0	0.0	1967	33.1	2.8	5.9	2.5
1914	-0.3	4.4	3.0	0.0	1968	46.7	-1.7	7.4	5.9
1915	2.6	3.4	3.0	23.6	1969	-11.3	0.9	7.9	4.7
1916	-1.6	-19.3	3.0	18.5	1970	-3.1	4.1	7.5	7.9
1917	9.0	3.2	3.0	20.9	1971	45.2	25.9	6.2	9.0
1918	20.3	12.5	3.0	15.2	1972	16.0	-2.7	5.4	7.7
1919	9.7	-7.9	3.6	2.3	1973	-26.6	-6.7	9.0	10.6
1920	-19.5	-6.6	6.5	19.6	1974	-43.6	-10.5	12.6	19.1
1921	-0.4	16.0	4.7	-26.0	1975	141.8	34.0	10.8	24.9
1922	25.0	15.3	2.6	-9.5	1976	2.5	13.9	1.3	15.1
1923	1.3	4.3	2.7	-1.7	1977	46.5	41.5	9.4	12.1
1924	19.6	7.2	3.5	2.3	1978	8.5	-0.1	8.1	8.4
1925	14.2	0.6	4.2	-2.2	1979	11.2	5.5	13.5	17.2
1926	6.6	3.0	4.6	1.1	1980	35.2	20.1	17.2	15.1
1927	8.2	7.1	4.4	-5.6	1981	13.7	3.7	13.8	12.0
1928	16.1	5.7	4.3	-0.6	1982	29.1	47.3	12.4	5.4
1929	-13.6	-1.3	5.4	-0.6	1983	29.1	15.4	10.1	5.3
1930	-3.8	12.8	2.5	-7.2	1984	31.9	7.2	9.5	4.6
1931	-18.5	-0.2	3.7	-4.5	1985	20.4	10.9	11.9	5.7
1932	32.3	38.9	1.5	-3.4	1986	27.4	10.9	10.9	3.7
1933	24.1	3.2	0.6	0.0	1987	8.0	15.7	9.6	3.7
1934	13.4	27.1	0.7	0.7	1988	11.5	9.3	11.0	6.8
1935	13.6	-2.9	0.5	2.1	1989	36.1	6.3	14.6	7.7
1936	18.5	0.3	0.6	2.7	1990	-9.7	6.1	15.9	9.3
1937	-12.1	-8.9	0.6	6.0	1991	20.7	17.8	11.6	4.5
1938	-9.4	-1.9	0.6	-2.5	1992	20.4	17.4	9.5	2.6
1939	2.3	1.0	1.3	10.9	1993	28.4	25.7	5.9	1.9
1940	-3.9	15.5	1.0	12.7	1994	-5.8	-9.5	5.4	2.9
1941	5.2	10.4	1.0	3.1	1995	23.9	17.9	6.7	3.2
1942	36.2	2.7	2.0	-0.5	1996	16.7	8.2	6.2	2.5
1943	11.2	-0.3	1.0	-0.5	1997	23.6	18.1	6.9	3.6
1944	12.1	5.6	1.0	1.0	1998	13.8	23.0	7.9	2.8
1945	5.8	14.5	0.9	1.0	1999	24.2	-0.9	5.5	1.8
1946	17.4	10.5	0.5	0.5	2000	-5.9	8.7	6.2	2.9
1947	-2.0	-13.8	0.5	3.2	2001	-13.3	3.0	5.5	0.7
1948	-3.4	0.8	0.5	4.9	2002	-22.7	9.2	4.1	2.9
1949	-5.3	-8.5	0.5	3.5	2003	20.9	2.1	3.7	2.8
1950	10.6	4.0	0.5	3.2	2004	12.8	6.6	4.7	3.5
1951	8.4	-9.1	0.5	12.0	2005	22.0	7.9	4.7	2.2
1952	0.2	-0.6	2.1	6.3	2006	16.8	0.7	4.7	3.7
1953	23.2	13.6	2.4	1.1	2007	5.3	5.3	6.0	4.0
Average Annual total Return 1900-2007						9.5	5.2	5.0	3.9

(Source: Barclays Capital / WM / FTSE Actuaries / Sarasin Chiswell)



The old adage goes, “if it looks too good to be true it probably is”, and this timeless piece of advice applies to one of the products currently being advertised by a well-known high street bank.

The latest marketing ploy is to offer a savings account which pays a very impressive headline rate of 8% interest (remember this is at a time when bank base rates are only 5%). Unfortunately what the bank fails to point out is that this is a monthly savings account and the headline rate only applies to the first month's contribution. The rate to the second contribution is, of course 11/12ths of 8%, namely 7.33% reducing down until the final monthly payment is 1/12th of 8% (0.67%) see below.

Month	Amount Saved	Interest Earned Over The Year
Jan	£250	£20.00
Feb	£250	£18.33
Mar	£250	£16.67
Apr	£250	£15.00
May	£250	£13.33
Jun	£250	£11.67
Jul	£250	£10.00
Aug	£250	£8.33
Sep	£250	£6.67
Oct	£250	£5.00
Nov	£250	£3.33
Dec	£250	£1.67
	£3,000	£130.00

An account of this type would therefore only produce an income of £130 based on a £250 monthly savings scheme at the end of the 12-month period. Thus the real rate of return is only **4.33%**.

If this sort of subterfuge was not bad enough there is a caveat to the account, specifically that you must pay your monthly salary or retirement income into the bank's current account, often paying a much smaller interest rate. Sadly this ploy is legal and very successful.

The Proof Of The Pudding Is In The Eating

In a year when the Banks, quite rightly, have received a significant amount of negative press it is a shame that they continue to use this tactic to attract the unaware investor. It may also explain why bank complaints rocketed in 2006/07. According to the Financial Ombudsman Service the number of mortgage and banking disputes has more than tripled, however, over the same time period complaints made against independent financial advisers plummeted 70%.

In periods of stock market volatility the banks are experts at playing on the fear of the investor. Remember therefore, when you next see a bank advertisement, if it looks too good to be true...

Recommendation List

The fundamental problem with any short list is the fact that by its very nature it is short. Whenever we have a list of our favourite things if asked to put these in order we often find it difficult, especially if we have a limited amount we can select.

We experience the same difficulty when compiling our recommendation for clients. Although the market is not awash with funds that perform brilliantly year in year out, there are often many funds which catch our eye, and when arriving at the final seven funds it is often at the expense of a fund that we really like but has just not been good enough.

We have previously received many calls from clients concerned that a fund is not currently on our recommendation list and that this is a sign that they should sell the fund. This is not the correct strategy to adopt.

Our core philosophies are based **entirely** on what we believe are the best long term strategies. Judging investment performance over the last week, last month or even last year is never a sound platform on which to plan your future – yet many do. Ignoring the lessons of history, and disregarding economic analysis is unlikely to work in the long run. For this reason and following the favourable response we received from our Fund Review section in the October 2007 Talking Shop publication we have commented below on a selection of funds previously discussed in editions of “Talking Shop”.

New Star UK Special Situations

Having a fantastic start to your career is obviously something most managers aspire to achieve however staying at the top is even harder to accomplish (simply ask Antony Bolton and Neil Woodford). With this in mind hopefully James Ridgewell the ex-manager of the New Star UK Special Situations fund followed the advice of Wilson Mizner who said “Be nice to people on your way up because you’ll meet them on your way down”. This is because John Duffield, chairman of New Star known for his impatience with poor performance recently wielded the axe on this fund and merged it with one of our favoured UK holdings, the New Star UK Alpha. Although New Star itself has recently received some poor media coverage this is one fund that has stood out with consistently good performance and one we continue to recommend.

Artemis UK Smaller Companies

On a worldwide basis, smaller companies outperform their larger brethren. There is nothing strange in this, entrepreneurs typically perceive better, faster and cheaper ways to produce goods and services and the statistics back this claim.

The long term outperformance of Smaller Companies is well established and as the Hoare Govett Smaller Companies index (HGSC) indicates the returns are impressive. Over the last nine years the HGSC has returned 156% beating the FTSE all share by 95%. A £1,000 investment in 1955 in the HGSC index with dividends re-invested would, in January 2008 be worth £2.76 million as compared to £0.59 million if the investment had been in the FTSE All Share.

Although Smaller Companies have underperformed their larger Cap counterparts over the past year, as seen above they have a superior long term track record and this fund has continued to perform well compared to its peers. We expect this outperformance to continue when smaller companies come back into favour.



Rathbone Income

Having a CV which includes working as a chef in the Middle East will hopefully help the manager Carl Stick cope with the heat being generated by his fund's recent underperformance. While acknowledging disappointing performance over the past twelve months Carl is adamant that the philosophy which has brought him success over the past eight years will continue when the market picks up and as the table below shows the fund's past performance speaks for itself.

Initial Investment	Income Taken				Income Reinvested	
	Net Income Paid During Year (£)		Capital Value 1st January (£)		Capital Value 1st January (£)	
Year to 1st Jan	Fund Income	Building Society Interest	Fund Bid Price Value	Building Society	Fund Bid Price Value	Building Society
01.01.94	–	–	9,400	10,000		
1995	389	447	8,070	10,000	8,453	10,447
1996	402	458	9,157	10,000	10,080	10,926
1997	423	389	10,223	10,000	11,631	11,351
1998	461	460	12,201	10,000	14,393	11,873
1999	515	538	13,227	10,000	16,184	12,512
2000	568	363	14,247	10,000	18,100	12,966
2001	595	387	16,040	10,000	21,124	13,468
2002	640	312	16,412	10,000	22,409	13,889
2003	664	222	14,244	10,000	20,265	14,197
2004	691	196	16,906	10,000	25,016	14,476
2005	720	241	19,287	10,000	29,585	14,825
2006	740	256	22,945	10,000	36,328	15,205
2007	823	247	26,950	10,000	43,943	15,580
2008	929	314	25,330	10,000	41,629	16,070
To 01.07.08	320*	139				
Totals @ 01.07.08	£8,880	£4969	£21,202	£10,000	£36,181	£16,294
Sum of income & capital value @ 01.07.08	£30,082	£14,969			£36,181	£16,294

*(The value of your investment and any income from it may fall as well as rise and you may not get back the original amount invested. Past performance should not be seen as an indication of future performance. Figures, offer to bid, income reinvested (where applicable) at basic rate. £10,000 would have bought 324.59 units at 01.01.94, at an offer price of £3.083. Prices and dividends, source Rathbone Unit Trust Management Limited. *Half year distribution only, assumes distribution paid on 15.06.08 was reinvested on 16.06.08.)*

AXA Framlington Health

For any investor holding the AXA Framlington Health Fund recent performance has been very disappointing. However while it would be tempting to switch from a poor performing fund to say, the latest hot sector, we believe the market is beginning to recognise the value of the health sector again. Indeed many general fund managers are now starting to increase their weightings in this particular sector, the reasons for this are twofold.

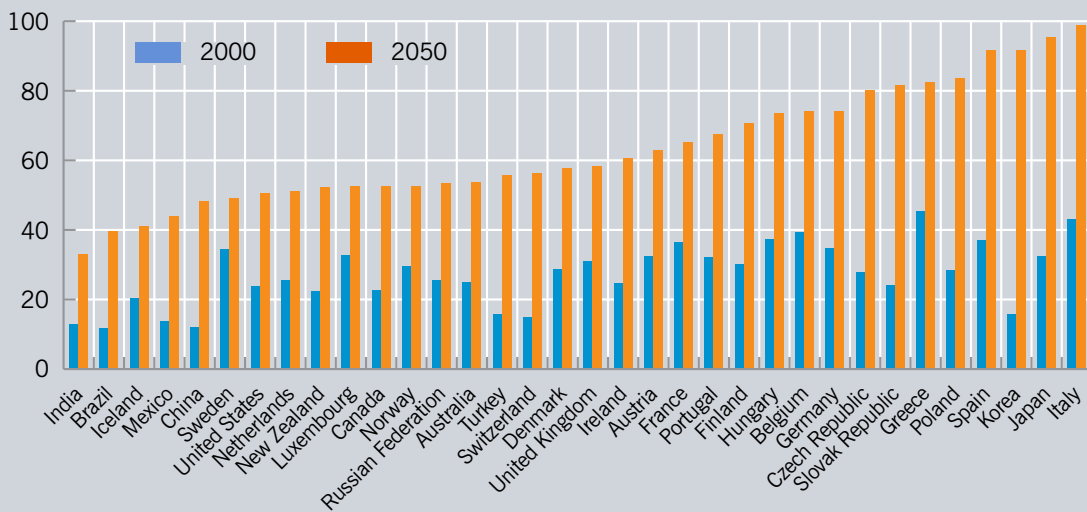
Safe Haven

The health sector, after several years of underperformance relative to other areas of the market that have been geared to economic expansion (e.g. commodities), is starting to reclaim its safe haven status as investors start selling out of the more cyclical sectors and move to areas not as dependent on the overall economy.

Demographics

We are all now familiar with the statistics (see below) showing the ratio of the inactive elderly population against that of 15 - 64 age group, and this summer the National Statistics Office produced research which shows that pensioners now exceed under 16's, the first time this has ever been recorded. Unsurprisingly the over 65's on average spend three times as much on healthcare as the under 65's.

Ratio of the inactive elderly population aged 65 and over to the labour force



The real expenditure boost for healthcare shares will arise from changing longevity. Inter alia, one person in three will require some form of structured long term care and this will provide opportunities for the private sector.

Summary

The healthcare sector is under owned and undervalued relative to other sectors and demographic trends are increasing demand for healthcare products and services.

With this specialist sector however comes greater risk and this fund is not suitable for "first time investors" (such investors are better suited to less focused funds) but is most suitable for those investors who already have a substantial portfolio of different funds providing an international spread.

The summer of 1997 was an exceptional year for the building society sector in the UK, as 4 different building societies decided to demutualise and 13 million savers received shares in the new companies. It is estimated that over 10 million savers and mortgage-holders received windfall shares that summer, worth an average £2,000 with many savers collecting payouts from more than one institution. “Carpetbagging” was the order of the day, with savvy investors opening saving accounts with various sleepy building societies in the hope that they would be the next to try their luck as a stock market listed bank.

HBOS (Halifax Bank Of Scotland)

Some 7.5m Halifax customers received windfall shares. The average payout was 333 shares, which were worth £2,439 in June 1997, when they floated at 732.5p.

Alliance & Leicester

Its 3m members received a flat bonus of 250 shares each, worth £1,332 when the company floated on April 1997 at 533p.

Northern Rock

The infamous Newcastle-based organisation floated in October 1997 and its 885,000 members received a windfall of £2,260, based on a flat distribution of 500 free shares worth 452p.

Woolwich

Woolwich customers received an average of 657 shares, priced at 296p, when the society floated in July 1997, giving them an average windfall of £1,944. However the bank was taken over by Barclays in 2000, whereupon they received £1,080 in cash and 308 Barclays shares in exchange for their Woolwich holdings.

At the time we wrote to clients talking about “42 days of opportunity”, it is not often that the Inland Revenue makes an illogical interpretation of the tax rules which favour the taxpayer at its own expense, but their ruling on “Pepping” the demutualisation windfalls was one such occasion. Sensing the opportunity many companies offered a service where investors could hold their shares alongside their unit trust ISAs and many of our clients took advantage of this offer.

For us, the decision was simple, we encouraged all of our clients to exchange the shares that they had received for “free” and place the proceeds into a diversified unit trust. The rest as they say is history, although most of these shares performed reasonably well in the early years since demutualisation the past twelve months have provided a stark reminder to the dangers of holding individual shares.

Recent Performance of Windfall Shares

Share	1st Sept 2007	1st Sept 2008	Fall
Alliance & Leicester	£10.53	£3.27	-69%
HBOS	£8.79	£3.16	-64%
Northern Rock	£7.36	–	-100%
Barclays	£6.13	£3.53	-42%

Obviously the attraction of holding an individual share is its ability to rise quickly in value and therefore produce instant gratification. It is this temptation that led many clients to hang on to the shares and experience the rollercoaster ride of direct equity investing.

All opinions expressed are those of Individual Savings Accounts Limited (the promoters and publishers of this booklet).

Remuneration Declaration

In our capacity as independent financial advisors we are entitled to receive commissions on investments entered into through this publication. However, in line with our usual practice we have waived all initial commissions on investments made via this promotion. This enables you to receive a discount on each fund purchased.

We are also entitled to receive the standard annual commission of up to 0.5% on the value of each of the funds quoted in this publication. This is paid out of the annual management charge of the unit trust/OEIC, and does not therefore constitute an extra charge to the investor. If you elect to make an investment via either Cofunds or Fidelity Funds Network, our sole remuneration will, therefore, be 0.5% p.a. For example if your investment is worth £1000 we will receive £5 per annum, if it is worth £7,200 we would receive £36 per annum.

Restrictions and Regulations

The information contained in this publication is intended to enable investors to make their own decisions. If you require further information in respect of any of the products mentioned simply contact us on 01509 670918. Please be aware, however, that we cannot offer personal advice and if you are uncertain as to the suitability of any product offered, it may be advisable for you to obtain independent advice (elsewhere) on a "face to face" basis. Cancellation rights are not applicable to applications made via this promotion. Individual Savings Accounts are long-term investments, and if you withdraw your investment in the early years you may suffer a loss. The value of shares, and the income from them, may fluctuate or fall. Past performance is not necessarily a guide to the future. The value of any tax relief conferred by ISAs and PEPs is dependant on the investor's tax position. Levels, bases of and relief from taxation are all subject to legislative change. The 10% dividend tax credit ceased to be available in April 2004 (but not the freedom from taxation on capital gains or gross interest). Yields are variable and neither capital values nor income are guaranteed. This publication has been issued by Individual Savings Accounts Limited. Our FSA authorisation references are 125686 and 188474.

Where companies have adopted the OEIC system, any performance statistics quoted represent the unit trust return (up to the date when the funds ceased to be operated as unit trusts) and the OEIC return thereafter. Unit trust statistics are in all cases quoted in accordance with the guidelines of the FSA, and the OEIC returns are quoted to reflect a similar position.

Group Structure and Approach

Individual Savings Accounts Limited is an "information and discount broker" specialising in ISA investments. The company operates in association with The PEP Shop Limited, which pioneered the discount-marketing of PEPs in 1992. Both companies are appointed representatives of Expatriate Advisory Services Plc who are regulated by the Financial Services Authority. The group structure therefore includes three financial services companies each dedicated to a particular market. All companies are registered at, and operate from 16 High Street, Kegworth, Derby DE74 2DA.

We are independent financial advisors, and as such our advice is required to be uncompromised and impartial. However our approach is to provide information on products rather than advice to individuals. In this way we eliminate both the time and expense associated with "personalised" advice. This service is governed by the direct offer advertisement rule (where clients purchase an investment which we have promoted in our literature). Alternatively, if a client requests us to arrange the execution of an investment which he himself has independently researched and selected, this is deemed to be "execution-only".



Clients wishing to invest in an ISA have two choices:

1. You can invest online by going to our website www.isa-ltd.co.uk and selecting the supermarket you wish to invest with (ie Cofunds or FundsNetwork).



For clients wishing to invest via Cofunds:

Simply click on the Cofunds icon and confirm that you have read our terms and conditions (a copy is available on our website for you to read).

Existing users should log in and proceed with their investment.

New users to the online service simply need to select “New Customer”. You will then be asked to provide your full name and address, date of birth, and National Insurance Number.

The next screen will ask you if you wish to invest in an ISA, and then to select the fund(s) you wish to invest in and how much you wish to invest.

Finally you will be asked to input your debit card details and confirm where you wish any sales proceeds to be sent (this account can be changed at a later date).



For clients wishing to invest via FundsNetwork:

Simply click on the FundsNetwork icon and confirm that you have read our terms and conditions (a copy is available on our website for you to read).

To invest in an ISA simply click on “Open an ISA”.

You will then be asked to provide your full name and address, date of birth, and National Insurance Number. Under the heading “Account Status” if you are new to FundsNetwork select “I am a new client”. Existing clients will be asked for their account number and customer number at this point.

The next screen will ask you to select the fund(s) you wish to invest in and how much you wish to invest.

Finally you will be asked to input your debit card details.

Please note, in order to invest online you will require a debit card (not credit card). All deals placed online will receive the same amount of discount as those of paper based applications.

2. Online investing is simply an addition to our existing service and if you would prefer to use an application form and cheque simply contact us on 01509 670918 and we will send you the necessary forms.

The Equity-Income Portfolio

Since 2004 equity income investors have enjoyed the “double whammy” of a rising income accompanied by rising capital. Last year however proved to be a tougher year for equity income managers primarily because many high yielding sectors (e.g. financials and real estate) had significant capital falls. The most important aspect of the recent volatility is that although capital values fluctuated, all of our recommended equity income managers increased their dividend in 2007. Thus proving one of the great arguments for equity income investing, that of the consistency of dividend payments, even in volatile markets.

FUND	DISCRETE YEAR PERFORMANCE % (TO 30th JUNE)				
	2008	2007	2006	2005	2004
Artemis Income	(-16.3)	20.3	17.3	22.6	19.8
F&C UK Growth & Income	(-20.4)	28.1	20.8	13.3	14.3
Invesco Perpetual Income	(-13.8)	25.8	24.6	22.6	20.0
Jupiter Income	(-20.0)	16.2	23.9	19.6	20.5
PSigma Income	(-21.8)	-	-	-	-
Rathbone Income	(-20.4)	16.9	24.9	16.5	20.1
Standard Life UK Equity High Income	(-12.8)	20.1	22.4	22.2	24.6

All statistics are quoted “bid to bid”, or its OEIC equivalent (in both cases with net dividends reinvested). Where funds have less than a five year record the periods quoted are those in respect of complete calendar years only. Past performance is not necessarily a guide to future performance and may not be repeated. Investors electing to receive an annual income should be aware that the dividends (on which the investor’s income is based) are not guaranteed. This income is likely to fluctuate and may fall in value.

Discount Effect: The total cost of investing £7,200 in the above portfolio (spread equally into each fund) is £18.00. This represents a true initial charge to the investor of 0.25%.

The Core Growth Portfolio

For those investors not in need of an immediate income we recommend a portfolio based on an internationally diversified selection of unit trusts/OEICs.

The discipline of diversification should be paramount, and extend to every level of the investment process. The concept of the collective investment is to reduce the investor's risk by holding a wide spread of shares (typically over 100). Beyond that, to obtain a truly international spread, investors should invest in different geographical markets (such as Europe, Asia & emerging markets).

FUND	DISCRETE YEAR PERFORMANCE % (TO 30th JUNE)				
	2008	2007	2006	2005	2004
Aberdeen Asia Pacific*	(-0.4)	27.3	20.5	26.5	24.0
Artemis European Growth	(-15.3)	25.7	28.4	26.6	27.7
AXA Framlington UK Select Opportunities	(-8.9)	17.3	23.2	17.3	37.3
M & G Global Leaders	(-9.4)	17.5	30.5	26.7	19.4
M & G Recovery	(-7.2)	25.2	26.5	19.1	22.6
New Star UK Alpha	(-8.9)	23.0	24.7	14.7	31.2
SVM Continental Europe	(-10.6)	31.3	35.2	24.7	10.3

All statistics are quoted "bid to bid", or its OEIC equivalent (in both cases with net dividends reinvested). Past performance is not necessarily a guide to future performance and may not be repeated.

Some of the funds listed above invest in emerging markets or Pacific Rim economies. These investments are more volatile and as such they expose the investor to greater risks than mature markets such as the UK. These risks include currency movements and exchange control restrictions, as well as political and economic instability in the countries concerned. In addition, under certain circumstances investors may suffer if the underlying investments become illiquid, or experience other problems due to the underdeveloped nature of the securities markets in some emerging countries.

* On 21st April 2006 Aberdeen Far East Emerging Economies Unit Trust converted into the Aberdeen Asia Pacific Fund. The ongoing fund has a similar investment objective to the historic fund. Historic performance figures quoted are those of Aberdeen Far East Emerging Economies Unit Trust, launched February 1987.

Discount Effect: The total cost of investing £7,200 in the above portfolio (spread equally into each fund) is £8.00. This represents a true initial charge to the investor of under 0.15%.

The Aggressive Growth Portfolio

While in previous years we have concentrated our “star manager” portfolios to the UK, we have now constructed an international “aggressive” portfolio for such investors. There is a compelling argument in favour of international diversification. Quite simply there is no single geographical market which has consistently outperformed all others. Consequently there are no advantages to be gained from investing exclusively in any one market (such as the UK).

As the name suggests the “aggressive” portfolio will often invest in highly volatile areas which offer the greatest opportunity therefore the investor will be motivated by a sense of adventure rather than the orthodox one of portfolio discipline.

FUND	DISCRETE YEAR PERFORMANCE % (TO 30th JUNE)				
	2008	2007	2006	2005	2004
AXA Talents	(-23.1)	-	-	-	-
BlackRock (Merrill Lynch) UK Dynamic	1.6	14.9	24.8	25.1	23.8
First State Asia Pacific Leaders	7.5	36.5	19.5	34.2	-
Jupiter UK Growth	(-16.2)	21.9	38.8	15.9	23.6
Lazard Emerging Markets	4.5	35.0	31.5	46.5	21.0
New Star European Growth	(-10.7)	24.8	29.2	24.6	24.7
Rensburg UK Select Growth	(-14.5)	20.3	22.8	23.9	24.5

Where funds have less than a five year record the periods quoted are those in respect of complete calendar years only. All statistics are quoted “bid to bid”, or its OEIC equivalent (with net dividends reinvested). Past performance is not necessarily a guide to future performance and may not be repeated. The market for securities in smaller companies is often less liquid than that for larger companies, meaning above average price movements both positive and negative can be expected.

Some of the funds listed above invest in emerging markets or the Pacific rim economies. These investments are more volatile and as such they expose the investor to greater risks than mature markets such as the UK. These risks include currency movements and exchange control restrictions, as well as political and economic instability in the countries concerned. In addition, under certain circumstances investors may suffer if the underlying investments become illiquid, or experience other problems due to the underdeveloped nature of the securities markets in some emerging countries.

Discount Effect: The total cost of investing £7,200 in the above portfolio (spread equally into each fund) is £13.00. This represents a true initial charge to the investor of under 0.20%.

