

# TALKING SHOP

## In Perspective

Investing has always entailed risk. This is particularly true of collective investment funds such as unit trust ISAs. Paradoxically however, the further stockmarkets fall, the less risk they present to new investors. Why then do so many people turn their back on the stockmarket whenever it falls?

The emotional impact of the past two years dominates the current thinking of most ISA holders. This is an understandable reaction, but it is counter-productive. No-one can turn the clock back. To any analytical investor all that matters now is to contemplate what strategy is likely to deliver the best returns from today onwards.

Basing your investment decisions exclusively on the facts and ignoring the emotional response of others will make the right decision easier. This booklet addresses the issues in a factual and unemotional manner.

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## INDIVIDUAL SAVINGS ACCOUNTS LIMITED

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“*The degree of one’s emotions varies inversely with one’s knowledge of the facts.*”

Bertrand Russell 1872 - 1970

## Investing In An ISA

Investing in an ISA can be as straightforward or as complex as you would like it to be. To simplify the process we have set out three alternative portfolios each containing six different funds. These packages are described in this booklet on pages 16-21 and if you wish to proceed it should take you no more than five minutes to complete the forms.

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Investment success requires discipline, and this publication is dedicated to the pursuit of the principles, rules and commitment which we believe all investors should adhere to.

Investors need to understand what they should be doing and why. They then need to identify the best system to enable them to achieve their key objectives. As usual we have taken the time to ensure that all of our arguments are presented in a factual manner.

All of our recommendations and philosophies are straightforward. Moreover, we consider that if a view is worth holding, it should be set out in writing.

## NEW ISA RULES

Following the Budget announcement on the 22 April 2009, the government introduced new limits for ISA contributors over and under 50. The details of these new limits along with their effective dates are as follows:

### Aged 50 or over on the 5 April 2010?

- If you are 50 or over on the 5 April 2010, then from the 6 October 2009, you can invest up to £10,200 in ISA accounts overall. Note that before the 6 October 2009 the limits will remain the same as for those aged under 50.
- The full amount may be invested in a Stocks and Shares ISA, or you can invest up to £5,100 (£3,600 prior to the 6 October 2009) in a Cash ISA and the balance in a Stocks and Shares ISA.

### How The Allowance Could Be Split (from Oct 6th 2009)

Stocks & Shares ISA	Cash ISA	Total
£10,200	£0	£10,200
£8,100	£2,100	£10,200
£6,100	£4,100	£10,200
£5,100	£5,100	£10,200

### Aged 49 or under on the 5 April 2010?

- If you are aged 49 or under on the 5th April 2010 you can invest up to £7,200 in ISA accounts overall during the 2009/10 tax year.
- The full amount may be invested in a Stocks and Shares ISA, or you can invest up to £3,600 in a Cash ISA and the balance in a Stocks and Shares ISA.
- **From the 6 April 2010**, you will be able to invest up to £10,200 in ISA accounts overall regardless of your age (so long as you are over 18) of which up to £5,100 can be held in a Cash ISA.

Please note that if you have already invested with a provider for your 2009/10 Stocks & Shares ISA (ie Cofunds or FundsNetwork) any top up must be placed with the same provider.



Making it and keeping it is a simple philosophy and, patriotism apart, there is little point in making a taxable investment return if you can achieve the same profit tax-free.

## Why An ISA?

ISAs currently offer the following tax savings:

### 1. Interest

Whether an ISA is partially or wholly invested in fixed interest (ie a Corporate Bond), there is no tax whatsoever on this (neither at basic nor higher rate).

### 2. Dividends

Whilst there is no income tax saving to taxpayers who are liable at the basic rate, there is **no** higher rate income tax payable on dividends, whether retained by the ISA or paid out. With a new higher rate tax band of 50% and with approximately 4 million people now paying higher rate tax in the UK, this represents a very real saving to these investors.

### 3. Age Allowance

Taxpayers aged over 65 are entitled to age allowance (ie an enhanced personal allowance). In the fiscal year 2009/10 this amounts to an extra £3015 for anyone between 65-75, but this allowance reduces by £1 for every £2 of total income over £22,900. Crucially any income from an ISA does not count towards an individual's "total income", a valuable saving for anyone over 65.

### 4 Tax Credits

ISA income is also ignored in all calculations for the Working Tax Credit (WTC) and Children's Tax Credit (CTC). This delivers a further benefit to higher rate tax payers since the family element of CTC (worth up to £1090 for a child under the age of one) only begins to be reduced when a family's assessable income exceeds £50,000 a year.

### 5. Capital Gains Tax

All capital gains within ISAs remain free of Capital Gains tax.

### 6. Avoidance of Record Keeping

In addition to tax saving, the avoidance of record-keeping via ISAs is a meaningful advantage. This is especially valuable so far as capital gains are concerned, where there is a necessity for the keeping of meticulous long term records.

In our opinion this year's ISA allowance will become more valuable in the future simply because other avenues for tax reduction/avoidance have already been reduced or eliminated completely in previous government budgets. More importantly, if we consider the massive increase in government debt issued over the last twelve months, it is inconceivable that new tax saving products will be introduced and much more likely will be an increase in the level of tax on those products that are already taxable.

## Slowly But Surely

The UK tax system offers taxpayers a number of annual allowances based on the principle of "use them or lose them". One such allowance is the £7,200 (soon to be £10,200) ISA entitlement.

In isolation, the tax which can be saved by making (say) one investment of £7,200 and retaining it thereafter may not appear great. However the effect of the allowance becomes more meaningful to anyone who maintains the discipline, year-in and year-out.

A married couple who had invested the maximum into ISAs each year since their introduction in April 1999 could by May 2009 have invested £154,400. The tax savings on such a sum become more meaningful. Moreover, if the same couple had also placed the maximum investments in the PEP scheme since April 1992 (the first years that the unit trust allocation became £6,000) then the total amount tax sheltered under PEPs and ISAs would have become £238,400. On an annual return of (say) 5%, a 40% taxpaying couple could save £4,768 a year.

Tax planning, by definition, necessitates a “planning” (ie long-term) approach. Below are two examples of the types of investor who would benefit substantially from ISAs in the long term whilst gaining nothing in the early years.

### **1. The long-term income seeker**

Typically this investor is aged around 50. His children are finally “off his hands”, and his mortgage payments are low. He has not been in a position to make substantial annual investments before and has made insufficient provision for retirement. However, he is now close to the peak of his earnings capacity, and at last has money to invest.

Such an investor will probably enjoy progressive tax benefits as the years roll on and he makes his annual ISA contributions. However, it is only in retirement that the real tax savings are likely to be experienced. By having a substantial “ISA income” which is not aggregated with either the investor’s pension or salary income there will be considerable income tax advantages. It may well be that investment income which would otherwise be taxed at 40-50% becomes totally tax-free.

### **2. Investors seeking capital gains**

The existing annual personal capital gains tax allowance of £10,100 sounds plentiful. For example a 50 year old who invests £100,000 and realises annual capital gains of 10% would be below the threshold. Relatively few investors have such investment capital, at age 50.

However, supposing “events” substantially increased his capital? He could, for example, inherit a sum of money or receive a windfall. In these circumstances, he could suddenly discover himself liable to capital gains tax on the margin of his capital.

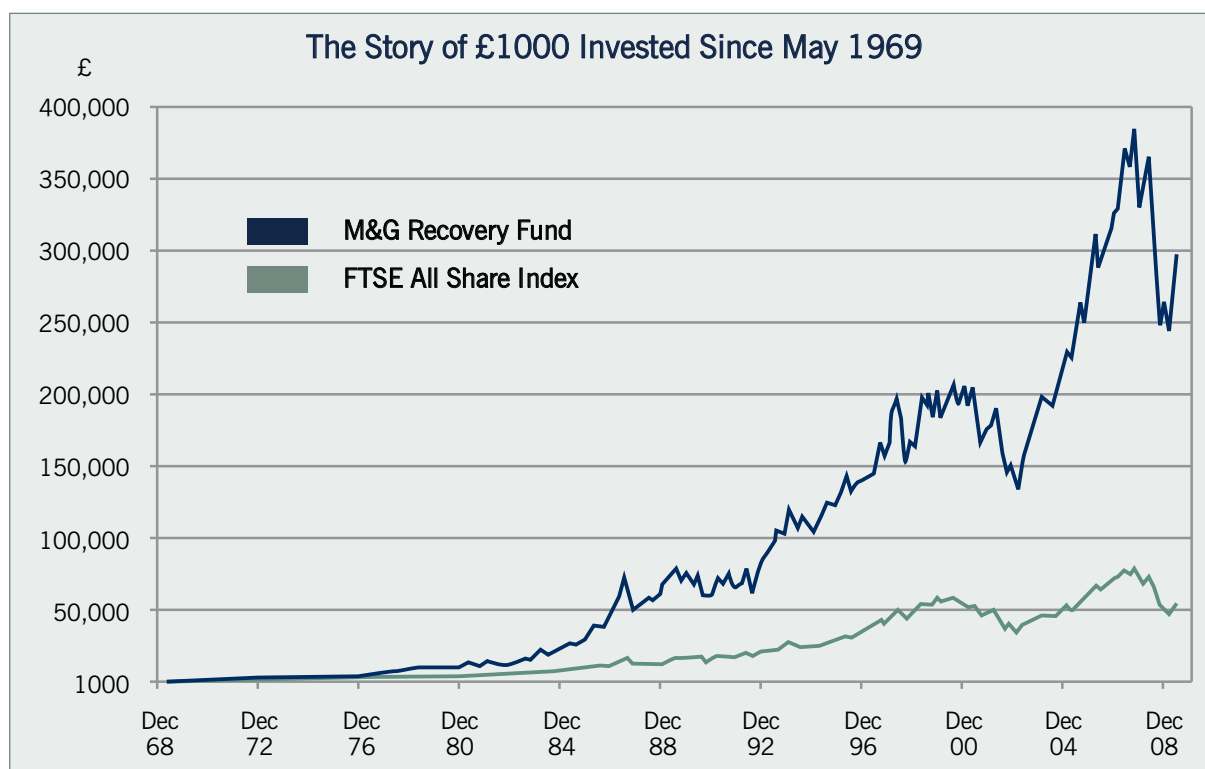
In both instances, these investors may have derived little or nothing in tax advantages during the years of the interest build up. The crucial point is that in later years this could dramatically change as their tax profile alters.

## **Three Facts**

1. From a taxation point of view, no-one can be personally worse off by investing in an ISA.
2. Some investors may temporarily be in a neutral tax position. In later life however they may derive considerable tax advantages from their ISAs, as their circumstances change.
3. A minority of investors who had hoped eventually to mitigate taxation via their ISAs may never do so. However, even for those investors there are no personal tax disadvantages (ie compared to making the same investments outside the ISA structure).

For most people investing is a tedious time consuming exercise. They tolerate it only because of its importance to their long-term future. For anyone with a low boredom threshold the ISA approach is akin to watching paint dry. After all, equities only outperform bank and building society deposits **on average** by a few percentage points each year and because stockmarkets fall 30% of the time, the entire approach is only worthwhile for long-term investors. The harsh reality is that serious investment necessitates a painstaking commitment, along with success in all other forms of human endeavour. The expression “by the inch it’s a cinch” will have resonance with anyone who believes in a systematic and disciplined savings approach.

The rewards of long term investing can be seen in the chart below which shows that an investment of £1,000 into the M&G Recovery fund at its launch in 1969 would amount now to £297,069.



*(Past performance is not necessarily a guide to future performance and may not be repeated.)*

*Source: M&G as at 30/6/09 bid to bid with net income reinvested.)*

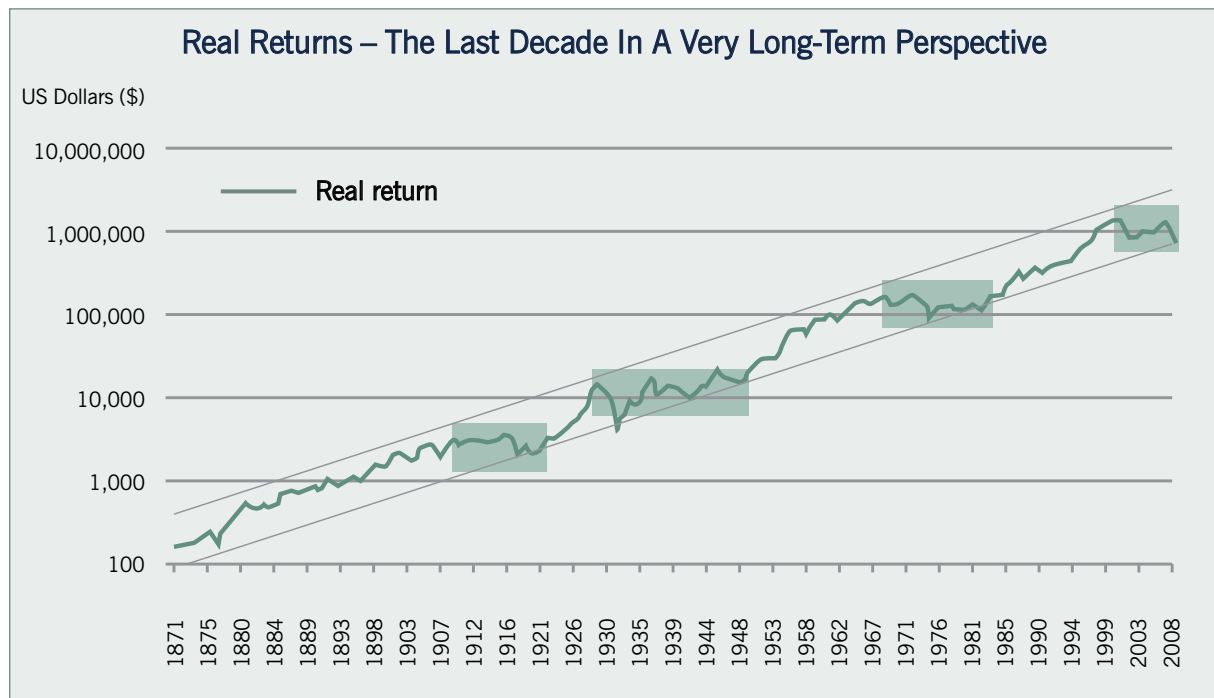
### The Last Decade In Perspective

To understand how difficult the last ten years have been in the stockmarket you must consider the past decade in the context of the long-term history of the stockmarket. Doing so confirms that poor periods are usually followed by good years; in investment, too, feast usually follows famine.

Shares are a volatile investment, it’s a perfectly normal part of investing. Over short periods, they rise and fall, sometimes unpredictably. But over the long haul they have tended to rise steadily. The chart opposite uses US data (which is longer running than UK data and more detailed) to show this. The trend over the past 138 years is clearly upward, but look closely at the trend and you can see long periods of time when shares moved sideways from the top to the bottom of the trend channel: from the turn of the 20th century to the end of the First World War; through the Great Depression and Second World War; and during the inflation shock of the 1970s.

In between these sideways periods, however, are extended periods of rising prices: the first phase of globalisation in the Victorian era; the explosion of US consumerism between the two World Wars; post-war reconstruction and a second phase of globalisation in the 1980s and 1990s.

The height of the dot.com boom was the final flourish of this last bullish period. Although the past decade has been painful for investors who have experienced it up close, history may see this as just the latest sideways shift before the next long-term bull run begins.



(Source: "Irrational Exuberance", Robert Shiller, Princeton University Press 2008.  
Shows the real returns, adjusted for inflation and with income reinvested.)

### Buy And Sell Or Buy And Hold

Probably the greatest myth held by the general public is that a successful investment strategy revolves around the constant buying and selling of shares or unit trusts. Regrettably some people still believe that the successful investors are those whose main skill is to carefully time their re-entrance and exit from the stockmarket. Nothing could be further from the truth. There are simply too many unpredictable factors to make this approach worthwhile.

### The Risk Of Missing A Recovery

The graphs on the next page show how the US market has recovered from some of the most severe bear markets in history.

A key point to notice is that, while it takes a long time for the market to recover fully, about half of the losses are recovered in a very short period after the lowest point is reached. This is represented by the "V" shapes in the shaded parts of the graphs.

No one knows for sure when a market has reached the bottom of a trend. So an investor who waits until things look more positive risks missing the initial part of a recovery, when the most significant gains may be made.

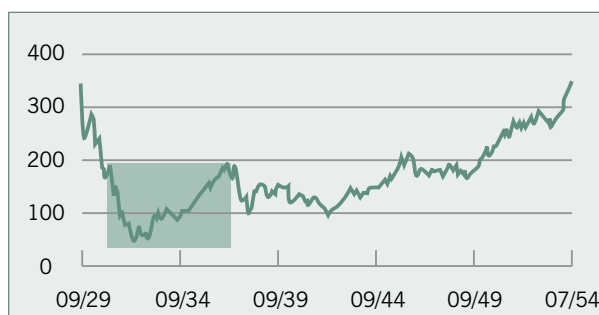
## 1929: The Great Depression

Length of bear market: 31 months

Amount lost: 85%

**Half recovery: 52 months**

**Full recovery: 262 months**



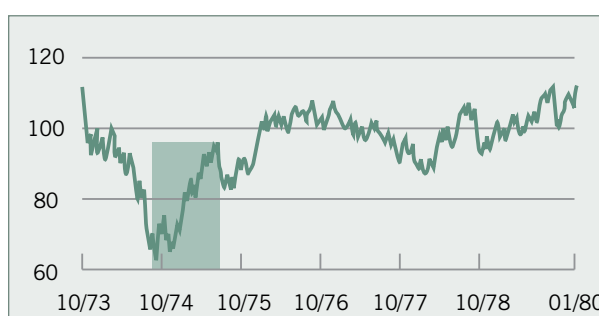
## 1973-74: Oil Crisis

Length of bear market: 11 months

Amount lost: 44%

**Half recovery: 6 months**

**Full recovery: 64 months**



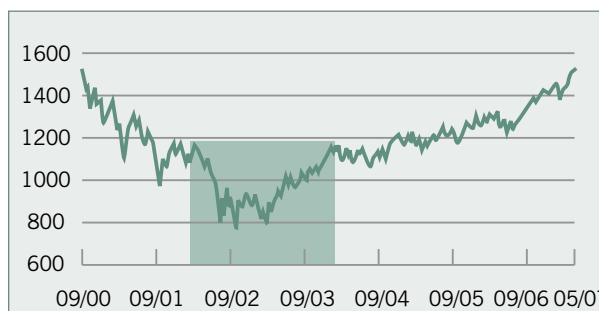
## 2000-03: Dot.com Crash and 9/11 Attacks

Length of bear market: 25 months

Amount lost: 49%

**Half recovery: 16 months**

**Full recovery: 56 months**



*(Source: Fidelity analysis, using Bloomberg data on Dow Jones Price Index and S&P 500 Price Index, to 17.9.08)*

A good investment strategy is more akin to a marathon than a sprint, and short term performance can never provide long term solutions. Only by remaining in the stockmarket can an investor guarantee to be there when it rises.

## The New Way And Old Wisdom

The first rule of investment is (and always has been) diversification. Ensuring that you are not dependant on one stockmarket clearly makes sense for investors seeking growth. The easiest way to diversify is via the use of fund supermarkets.

Prior to their arrival, investors seeking diversification were limited to choosing a different company each year for their ISAs. Fund supermarkets however allow you to invest a £7,200 ISA contribution with up to seven different unit trust groups – without incurring any extra cost.

## Why Diversify?

Over the last 10 years the best geographical areas to invest in have differed as the following tables illustrate.

Developed Market Equity Returns									
Annual (sterling) returns of nine developed equity markets in % terms									
Rank	1	2	3	4	5	6	7	8	9
1989	Germany 63.94	France 52.61	US 45.73	Switz 41.47	Canada 39.32	UK 33.60	Australia 22.51	Hong Kong 21.49	Japan 14.01
1990	UK -7.75	Hong Kong -8.69	US -18.99	Switz -22.7	Germany -24.18	Canada -27.23	France -27.93	Australia -31.03	Japan -46.55
1991	Hong Kong 54.45	Australia 38.04	US 34.35	France 21.71	UK 19.84	Switz 19.58	Canada 14.74	Japan 12.51	Germany 11.72
1992	Hong Kong 63.02	Switz 44.47	US 34.11	France 26.70	UK 18.73	Germany 10.58	Australia 9.91	Canada 8.26	Japan -3.20
1993	Hong Kong 121.89	Switz 49.29	Germany 38.89	Australia 38.42	Japan 28.49	UK 27.42	France 23.81	Canada 20.40	US 11.76
1994	Japan 14.84	Australia -0.32	Germany -1.02	Switz -2.08	US -4.36	UK -6.97	Canada -8.31	France -10.34	Hong Kong -32.76
1995	Switz 45.22	US 38.20	Hong Kong 23.51	UK 22.20	Canada 19.22	Germany 17.31	France 14.99	Australia 12.05	Japan 1.47
1996	Hong Kong 20.73	Canada 16.62	UK 15.60	US 11.81	France 9.95	Australia 5.69	Germany 3.04	Switz -7.21	Japan -23.34
1997	Switz 50.03	US 38.72	Germany 29.56	UK 27.54	Canada 17.32	France 16.43	Australia -6.85	Hong Kong -20.21	Japan -20.61
1998	France 39.98	US 28.70	Germany 28.00	Switz 22.17	UK 16.50	Australia 4.90	Japan 3.89	Hong Kong -3.99	Canada -7.17
1999	Japan 66.74	Hong Kong 64.68	Canada 58.70	France 33.44	US 25.86	Germany 23.92	Australia 21.41	UK 16.08	Switz -4.02
2000	Switz 14.20	Canada 4.36	France 3.24	Australia -2.85	UK -4.55	US -5.96	Hong Kong -8.01	Germany -8.93	Japan -22.49
2001	Australia 4.36	US -10.08	UK -11.78	Hong Kong -16.47	Canada -18.33	Switz -19.31	France -20.31	Germany -20.34	Japan -27.54
2002	Australia -10.80	Japan -18.89	Switz -18.91	Canada -21.52	UK -23.37	Hong Kong -25.68	France -28.74	US -30.47	Germany -39.59
2003	Germany 47.31	Canada 39.03	Australia 34.41	France 26.10	Hong Kong 24.20	Japan 22.22	Switz 20.58	UK 18.76	US 15.48
2004	Australia 21.53	Hong Kong 16.53	Canada 13.95	UK 11.49	France 10.48	Germany 8.32	Japan 8.03	Switz 7.19	US 2.69
2005	Canada 43.49	Japan 40.37	Switz 30.10	Australia 29.75	Germany 22.93	France 22.89	Hong Kong 21.23	UK 20.06	US 17.58
2006	Germany 19.29	France 17.96	Australia 14.79	UK 14.56	Hong Kong 14.34	Switz 11.75	Canada 3.33	US 0.59	Japan -6.81
2007	Hong Kong 38.83	Germany 32.93	Canada 27.39	Australia 26.18	France 11.33	UK 6.54	US 3.67	Switz 3.52	Japan -5.84
2008	Japan -1.99	Switz -3.76	US -13.57	France -21.46	Canada -24.56	Germany -25.05	UK -28.48	Australia -31.71	Hong Kong -32.45

(Source: Morgan Stanley Capital International)

The message is simple. There is no single geographic market, or even regional group of markets (such as Europe, or the Far East) which is capable of consistently outperforming all others. Investing in an internationally diversified portfolio of unit trusts/OEICs is the best way to reduce risk. This might be described as “the old wisdom”, “the balanced approach” or “the new way”. Either way – it makes sense!

Emerging Market Equity Returns						Emerging Market Equity Returns				
Top five performing country indices						Bottom five performing country indices				
(Ranked by annual % return in sterling)						(Ranked by annual % return in sterling)				
Rank	1	2	3	4	5	5	4	3	2	1
1993	Turkey 215.13	Philippines 126.75	Malaysia 112.23	Indonesia 107.04	Thailand 102.58	Greece 39.68	Chile 34.55	Portugal 32.57	Korea 32.18	Jordan 20.61
1994	Brazil 54.92	Chile 33.50	Korea 15.49	Portugal 2.32	Greece -7.26	Malaysia -25.03	Argentina -29.09	Indonesia -30.95	Mexico -44.68	Turkey -55.14
1995	Peru 23.04	Greece 11.05	Argentina 9.49	Indonesia 8.32	Jordan 6.21	Venezuela -23.47	Columbia -27.20	India -31.38	Sri Lanka -32.15	Pakistan -37.79
1996	Venezuela 106.77	Poland 42.63	Brazil 25.21	Portugal 20.03	Turkey 19.64	Chile -24.18	Pakistan -26.84	S Africa -27.51	Thailand -43.71	Korea -44.10
1997	Turkey 119.87	Hungary 101.18	Mexico 57.72	Columbia 43.32	Greece 37.96	Poland -20.49	Czech Rep -21.11	China -23.45	Phillippines -61.49	Korea -65.94
1998	Korea 134.92	Greece 73.08	Phillippines 11.35	Thailand 10.02	Czech Rep -1.76	Columbia -45.92	Venezuela -53.22	Turkey -54.05	Pakistan -61.00	Russia -83.34
1999	Russia 257.38	Turkey 255.48	Indonesia 98.25	Korea 96.32	India 90.36	Phillippines 5.64	Jordon 5.30	Venezuela 4.96	Sri Lanka -6.82	Colombia -16.53
2000	Israel 34.59	Venezuela 8.73	Czech Rep 8.66	Poland 2.94	Pakistan 6.42	Taiwan -41.03	Turkey -41.92	Korea -46.43	Thailand -53.28	Indonesia -60.12
2001	Russia 57.21	Korea 49.82	Columbia 40.69	Jordan 32.42	Mexico 18.99	China -24.08	Poland -26.81	Israel -30.50	Turkey -31.98	Pakistan -33.28
2002	Pakistan 126.49	Czech Rep 29.88	Indonesia 28.26	Hungary 17.82	Peru 16.72	Phillippines -36.23	Brazil -37.31	Israel -37.87	Turkey -41.99	Argentina -55.43
2003	Thailand 118.99	Turkey 102.62	Brazil 92.82	Argentina 80.18	Peru 76.41	Poland 21.51	Korea 21.42	Mexico 19.44	Hungary 18.74	Malaysia 13.86
2004	Columbia 116.73	Egypt 110.94	Hungary 78.55	Czech Rep 73.08	Jordan 50.24	Taiwan 1.63	Russia -1.67	Peru -3.95	China -5.00	Thailand -7.91
2005	Egypt 192.54	Columbia 131.66	Jordan 94.19	Russia 93.61	Pakistan 83.20	Morocco 26.86	Thailand 21.59	Taiwan 18.97	Malaysia 14.40	Venezuela -15.08
2006	China 60.41	Indonesia 52.43	Morocco 47.35	Argentina 46.76	Peru 42.20	Thailand -2.53	Pakistan -9.62	Israel -16.94	Turkey -18.60	Jordan -39.37
2007	Peru 91.10	Brazil 76.54	Turkey 71.17	India 70.20	China 63.44	Hungary 14.84	Columbia 13.06	Mexico 10.27	Taiwan 6.56	Argentina -5.64
2008	Morocco 23.11	Columbia 3.70	Israel -2.06	Chile -11.10	S Africa -14.01	Hungary -46.74	Turkey -47.79	India -51.03	Russia -63.83	Pakistan -64.26

(Source: FactSet and MSCI)

Past performance is not necessarily a guide to future performance and may not be repeated. An investment into emerging markets or Pacific Rim economies will be more volatile and as such they expose the investor to greater risk than mature markets such as the UK.

### Henderson New Star

The problems of New Star are an example of “the bigger they advertise the harder they fall”.

In April 2007 New Star made the decision to borrow £300m as part of a £350m repayment of capital to existing shareholders. Sadly, New Star picked the height of the market to gear their company and when the markets fell, New Star’s revenues fell also. Simultaneously many of the higher profile New Star funds began a period of underperformance and coupled with the disastrous timing of their property fund launches, New Star found it difficult to finance their large debt.

Regrettably, in spring of this year the banks finally stepped in and via a debt for equity swap acquired 95% of the company equity in exchange for forgiving the debt. Naturally the banks did not want to own the company in the long run and therefore offered the group to the highest bidder.

Henderson acquired New Star in March 2009 and since then has begun a period of rationalisation of the New Star range of funds.

### New Star UK Alpha

The most significant defection from New Star was that of Tim Steer, the manager of the New Star UK Alpha fund; this had been one of our consistent UK growth recommendations and we were very disappointed to learn of his resignation. The sole reason for recommending this fund was the confidence we had in its manager, his investment style has demonstrated a disciplined approach to company research and a focus on long term capital growth, therefore the news that Mr. Steer had resigned from New Star has resulted in us removing our recommendation of this fund.

On March 20th Artemis announced that it had acquired the services of Mr. Steer and confirmed that he would be the manager of the Artemis UK Growth Fund from July 1st 2009.

### New Star European

Although other managers have left since the takeover our other main recommendation with New Star was the European Fund run by Richard Pease. Here the news is more comforting as the manager has committed himself to the new company and therefore we will be continuing to recommend this fund.

For any investor with Henderson New Star funds that wish to receive further information please call Mark Betts on 01509 670918.

### Liontrust First Income

Sadly, it is not just large investment houses that have the problem of managers on the move. In January 2009, in what was a shock to most advisers Jeremy Lang, the manager of the Liontrust First Income fund, handed in his notice. Although Mr Lang’s original notice period was to run until January 2010 Liontrust have confirmed his immediate departure and have subsequently announced that the new managers will be Gary West and James Inglis-Jones, who also run the Liontrust Continental Europe Fund.

Our support of the First Income Fund was based primarily around the system created by Mr Lang and his departure has resulted in us removing our recommendation of the fund. In a sector (Equity Income) with so many good funds why invest with an unproven management team when there are so many proven managers available? For our favoured equity income managers please see pages 18-19.

**Please refer to Promoter’s Notice on page 24.**



## Gartmore (Rensburg) Corporate Bond Fund

In our "Recommendations 2009" brochure we favoured the above fund based on the impressive performance of its manager, John Anderson.

Fund / Benchmark	Jul '04	Jul '05	Jul '06	Jul '07	Jul '08
	Jun '05	Jun '06	Jun '07	Jun '08	Jun '09
Rensburg Corporate Bond	10.81	1.05	1.18	4.11	12.11
Merrill Lynch Sterling Corporate Bond TR	12.88	1.92	0.38	-1.83	-1.92
Merrill Lynch Sterling Non Gilt All Stock TR	12.66	1.93	0.24	0.16	1.82

It would appear we were not the only people impressed with the manager's record and during the summer Gartmore not only poached the manager but also managed to acquire the fund itself! This has resulted in the fund now being re-named the Gartmore Corporate Bond and we have been informed that it will continue to be managed in exactly the same way by Mr Anderson. The speed with which the process was completed has resulted in one of the most painless fund manager moves we can remember and therefore we will be continuing to recommend this fund.

## Gartmore European Selected Opportunities

Gartmore have also recently announced that both Roger Guy and Guillaume Rambourg will be stepping down from the European Select Opportunities Fund. While a disappointment to all unit holders Gartmore have sought to lessen the blow by announcing an immediate replacement for the managers. John Bennett will be taking over the management in early 2010, having resigned from GAM, in the meantime Roger and Guillaume have confirmed they will remain in place until then. John Bennett has spent the last 16 years with GAM managing the successful Star European Equity and Star Continental European Equity funds.

Based on his established track record we believe that this fund should be retained by investors.

Fund / Benchmark	Jul '04	Jul '05	Jul '06	Jul '07	Jul '08
	Jun '05	Jun '06	Jun '07	Jun '08	Jun '09
Gartmore European Selected Opps Ret Acc	17.68	22.85	27.02	-20.13	-22.14
GAM Star Continental European Equity GBP Acc	24.44	21.11	28.54	-22.32	-21.30
GAM Star European Equity	21.75	19.62	23.45	-10.39	-18.19
MSCI Europe ex UK TR USD	18.34	21.01	28.88	-22.55	-25.87
FTSE Europe ex UK TR EUR	18.24	21.17	29.25	-22.50	-25.74

*Discrete yearly performance (%) for the 60 month period from Jul 2004 to Jun 2009 (month end to month end, bid/bid, gross income reinvested). Past performance is not necessarily a guide to future performance and may not be repeated.*

Please refer to Promoter's Notice on page 24. 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 then please telephone us. 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.

Since their inception in 1956, Premium Bonds have been popular with the British public.

A Premium Bond works much like a savings account. You can invest between £100 and £30,000 and you can withdraw your money at any time. The difference is that rather than receiving interest on your money, it is entered into a monthly draw. Any return on your investment comes in the form of prizes which you may or may not win.

A Premium Bond costs £1 so if you invest £100 you get 100 bonds. Each of these is then entered into the monthly prize draw and will continue to be entered each month until you encash the bonds.

The attraction of Premium Bonds has always been their safety. Unlike the National Lottery, of course, you get your money back. On top of this Premium Bonds are backed by the Treasury so your money is considered to be safer than with the banks. Hence the last 12 months have seen record inflows into Premium Bonds.

### The Catch

This safety comes at a cost though. Low risk equals low return and this is increasingly the case with Premium Bonds. From April 2009 onwards the prizes have substantially fallen. Instead of two £1m prizes each month there is now only one, with the other £1m being split into lots of smaller prizes including a new £25 bracket.

The size of the overall prize is also shrinking. The prize fund is currently only 1% of the total amount invested in Premium Bonds, this is a direct consequence of the recent interest rate cuts. Your chances of winning any prize in any one month are 36,000 to 1 for each premium bond you hold. But you have a disastrous 19 billion to 1 chance of winning the Premium Bond jackpot.

If we strip out the thrill factor then quite simply Premium Bonds are not an attractive investment proposition. Although tax free, with “average luck” investors can expect a return of only 1%, plus the outside chance of a windfall.

Premium Bonds are easy money for the government but currently a poor deal for most people, for a saver who does not believe they will be one of the lucky few, a building society account should offer a superior return.

Prize Draw in April 2009 (estimated)		
Prize Band	Prize Value	Number of Prizes
<b>Higher Value</b> (6% of prize fund)	£1 million	1
	£100,000	2
	£50,000	3
	£25,000	8
	£10,000	20
	£5,000	37
<b>Medium Value</b> (5% of prize fund)	£1,000	645
	£500	1,935
<b>Lower Value</b> (89% of prize fund)	£100	18,941
	£50	18,941
	£25	1,034,532
<b>Total Value for April 2009</b>	<b>£32.2 million</b>	<b>1,075,065</b>

(Source: NS&I)



In our Autumn 2008 edition of Talking Shop we featured an article on bank interest and how it is applied to a monthly savings account. Following publication a number of clients contacted us pointing out that the account **did** pay an interest of 8% and we were incorrect to suggest a reduced figure.

### Quantum Of Solace

The purpose of the article was to demonstrate how a headline interest rate of 8% per annum is applied when the quantum of investing is limited to monthly payments. We stated explicitly in the article that the interest rate used was 8% and that the reduced return was based on the frequency of payments and not a reduction in the interest rate.

Therefore to clarify our position, we confirm that the account pays an interest rate of 8% **per annum**, however if a depositor is comparing this rate to a rate applied to a lump sum investment they need to be wary of falling into the intended trap, specifically they will be restricted as to when their own investment will benefit from such high rates of interest.

In conclusion, we used the figure of 4.33% to show clients what the equivalent rate of return would have been had they invested £3,000 as a lump sum at the beginning of the period and we apologise to any client if this was not made clear.

We stand by our assertion that when reviewing deposit based accounts the further the interest rate offered deviates from the current bank base rate the more scepticism it is wise to show. For any depositors in the failed Icelandic banks, this basic philosophy would have saved them a lot of heartache.

### Feedback

We were grateful to all the clients who contacted us and would encourage anyone who wishes to discuss any article in our publication to contact us with their thoughts. In order to facilitate this we have introduced a feedback section on our website which allows clients to make comments on this publication and also to indicate topics they wish to be discussed in future editions of Talking Shop.

### Pick Your Own ISA

Clients who wish to construct their own portfolio from the full list of options which the fund supermarkets offer can either invest online ([www.isa-ltd.co.uk](http://www.isa-ltd.co.uk)) or contact us for the necessary forms.

#### Application Form Checklist

Prior to posting your application form to ourselves, have you:

1. Provided your National Insurance Number?
2. Supplied your date of birth?
3. Completed the Direct Debit mandate and included a cheque for the first month's payment (applicable to monthly savings only).
4. Signed and dated the application?
5. Included your Bank/Building Society details (if you have chosen to receive income payments from your ISA)?
6. Enclosed your personal cheque payable to either "Cofunds Ltd" or "Fidelity"?

You can invest online by going to our website [www.isa-ltd.co.uk](http://www.isa-ltd.co.uk). To proceed click on the icon of your selected supermarket and confirm you have read our terms and conditions (a copy is available on the website).



If you are a new client simply click “New Customer?” – you will need to input your name, address, date of birth and National Insurance Number.

**Select next >**

Now select the product you wish to invest in (ie Cofunds Investment ISA) followed by your selected Manager and Fund.

Click “add fund” and if required select any additional funds, then either add in the amount you wish to invest into each fund or split them by %, ensuring the total is 100%.

**Select next >**

In this section you need to:

1. Input your debit card details.
2. Complete income details (income investors).
3. Provide your bank details in the redemption section (all investors).

**Select next >**

Read fully the declaration and confirm this by ticking that you are in agreement.

**Select next >**

This section is a summary of the personal and investment information you have input into our system, again please double check this is correct and then:

**Press submit** to complete your application.



If you are a new client click on “open an ISA” which can be found under the heading “New Customer”.

Now enter your personal details, complete the PIN and password section with memorable details and answer the four security questions.

**Click continue >**

Choose your investment provider and then your selected fund. To add more than one provider press “save and add” which is at the bottom of the screen. (Repeat as necessary.)

Once all your funds have been added successfully:

**Click continue >**

In this section you will be able to check your selected funds are correct.

In order to advance further you need to read and confirm you have read the “Key Features Document and Terms”, “ISA Declaration” and “Online Terms and Conditions”.

**In the next section** you need to input the details for your debit card from the account which you wish to make the payment.

**The final section** is a summary of your details, which you need to do a final check on and then:

**Press submit** to complete your application.

Please be aware that in order to invest online you will require a debit card (not credit card). All online applications and paper based applications will receive the same levels of discount.

### Q. Can I invest online?

Yes, (see page 14). Please note, a debit card (not credit card) will be required to invest online.

### Q. What is the difference between Income (Inc) and Accumulation (Acc) units?

**Income (Inc)** units pay out income in the form of dividends/interest and therefore are more suited to people who wish to invest in order to generate a stream of income.

Of course, it is possible to hold income units and reinvest the dividends if you do not immediately need the income.

**Accumulation (Acc)** units do not pay out any income (income generated by the investment will be retained within the fund) and are more suited for investors who are primarily seeking capital growth.

On rare occasions a growth fund may only be available in inc units (e.g. Jupiter European), in this instance you must select income units on the application form.

### Q. What is an OEIC?

An OEIC is an Open Ended Investment Company. First made available in 1997, they were introduced as a more flexible alternative to established unit trusts.

### Q. Who do I make the cheque payable to?

Cheques should be made payable to **either** "Cofunds Ltd" **or** "Fidelity" as appropriate.

Personal cheques must be drawn either on your own bank account or one held jointly with your spouse.

Cheques issued by building societies or internet banks must identify your name on the cheque itself. Please telephone us if you are unsure of the correct procedure. Investors contemplating other forms of payment are advised to contact us first.

### Q. Where do I post my application?

Please post your application form and cheque to: **INDIVIDUAL SAVINGS ACCOUNTS LTD, 16 HIGH STREET, KEGWORTH, DERBY, DE74 2DA.**

### Q. Can I invest monthly?

For anyone investing on a monthly basis the direct debit mandate must be completed on the application form. A cheque for the first month's payment should also accompany the application, this cheque must be drawn in the applicant's name and from the same account shown on the direct debit mandate.

### Q. Who do I contact if I have any queries?

We can be contacted on 01509 670918 or via e-mail at [enquiries@isa-ltd.co.uk](mailto:enquiries@isa-ltd.co.uk)

### Q. Do I need to include any identification (anti-money laundering) documents?

No. As a result of recent amendments in the anti-money laundering rules we, as authorised agents, are now required to take additional steps to assist in verifying the identity and place of residence of each investor. In some circumstances we may need to request additional evidence from you, especially if you have moved house during the last two years. Whilst we cannot accept responsibility for delays arising from these new procedures, we will endeavour to assist if requested. Anti-money laundering vetting procedures will not usually result in a delay in the allocation of your investment.

We have always believed that there are two predominant investment strategies which most investors should consider (Equity Income and Core Growth). However, a proportion of our clients have an immediate need for maximum income and are unconcerned with capital growth.

In our opinion Corporate Bonds are a logical “next step” for depositors who are concerned with their current level of income. Albeit with an additional risk, Corporate Bonds can provide an increased level of income in a time of low interest rates. The funds below pay income quarterly, except Invesco Perpetual which pays monthly.

FUND	DISCRETE ANNUAL PERFORMANCE % (to 30th June)					Yield*
	2009	2008	2007	2006	2005	
Artemis Strategic Bond	(-9.6)	(-3.0)	6.4	4.9	-	6.7
Gartmore Corporate Bond#	12.2	4.3	1.2	1.0	10.8	6.6
Invesco Perpetual Monthly Income Plus	(-7.4)	(-4.5)	7.2	8.8	13.6	8.5
Investec Sterling Bond	5.8	(-0.4)	(-0.6)	(-0.1)	10.7	5.7
M&G Corporate Bond	10.9	1.0	(-0.7)	0.8	12.1	5.0
Standard Life Corporate Bond	(-4.7)	(-2.4)	(-0.9)	0.9	11.2	5.5

Where funds have less than a five year record the periods quoted are those in respect of complete 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. Investments in fixed interest securities and bonds are subject to credit and market risk. The value of underlying assets and therefore the value of the units in the funds will be impacted by fluctuations in interest rates and the perceived credit risk of an issuer. In addition, under certain circumstances investors may suffer if the underlying investments become illiquid.

#Previously known as “Rensburg Corporate Bond” (see page 11).

\*Current yields are not indicative of future yields. As at 30th June 2009.

### Remember, Cash is Still King

Any client contemplating switching some of their cash deposits into Corporate Bonds first must consider the argument for holding cash. Holding a contingency fund is important for any serious investor as stockmarket investment represents a long term commitment; **all** investors require an emergency cash fund in order to avoid the necessity of selling at an inopportune time.

<b>Artemis Strategic Bond</b> Manager: James Foster	Date of Inception June 2005	Discount To Investor 5.25%
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This fund takes a more aggressive stance on bond selection and has a higher risk profile than that of a more conservative Corporate Bond fund. James Foster joined Artemis in April 2005 from F & C Asset Management where he was the Head of Credit and was ultimately responsible for over £15 billion of assets. He has 15 years experience of managing bond funds and was one of the first to establish a retail bond fund in the UK. He has managed all the major bond asset classes focussing more recently on discretionary bond portfolios.

<b>Gartmore Corporate Bond</b> Manager: John Anderson	Date of Inception July 2009	Discount To Investor 3.5%
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Continuing in the same style as he developed at Rensburg, the manager seeks to provide a secure income from investments in Corporate Bonds, Eurobonds, Gilts and other fixed interest or preference shares. The fund concentrates on highly rated investment grade bonds and eliminates foreign currency risk through exclusive investments in sterling denominated issues. The aim is to produce a portfolio which yields a high and secure income whilst avoiding capital erosion.

<b>Invesco Perpetual Monthly Income Plus</b> Managers: Paul Causer, Paul Read & Neil Woodford	Date of Inception February 1999	Discount To Investor 5%
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As this Bond fund combines bonds and equities its risk profile is higher than the other bonds recommended. Within the fixed interest allocation – typically around 80% of the fund – the management team of Paul Causer and Paul Read invest primarily in high yielding corporate and government bonds. For the equity allocation, Neil Woodford's active management philosophy, based on sound fundamental analysis and strength of conviction, allows him to exploit investment opportunities in all areas of the market.

<b>Investec Sterling Bond</b> Managers: Harsha Patel & John Stopford	Date of Inception October 1991	Discount To Investor 3.5%
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Constructed as a conservative investment, this fund aims to provide an income primarily through investment in high quality bonds. The portfolio is managed to minimise any currency risk. While concentrating on high quality bonds the fund can invest in Gilts, high yield and emerging market debt.

<b>M&amp;G Corporate Bond</b> Manager: Richard Woolnough	Date of Inception April 1994	Discount To Investor 3%
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This fund invests in Sterling denominated Investment Grade debt. The fund manager aims to identify Corporate Bonds that offer sufficient compensation for the risk of owning them.

<b>Standard Life Corporate Bond</b> Manager: Andrew Sutherland	Date of Inception July 1995	Discount To Investor 4%
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This fund invests in a wide variety of fixed interest securities and Corporate Bonds. Its aim is to provide a high and stable income and seek to minimise any reduction in the income distributed. The strategy of this fund is driven by the expectations of inflation and the level of real yields available.

*Discount Effect: A client investing in any of the above funds via this brochure during 2009 will pay no initial charge.*

## 18 The Equity-Income Portfolio

While we acknowledge the opportunities available in Corporate Bonds we continue to believe the equity income approach is the most effective retirement income system in the UK today. The prospect of a rising income with rising capital (over the long term) is one that has stood the test of time and survived all previous recessions.

Many different categories of Unit Trusts have produced good investment returns. What sets "Equity Income" apart is not the extent of their returns but the timing of them, since in contrast to other types of equity funds investors enjoy the immediate benefit of a half yearly tax free (in the hands of the investor) income, as well as the expectation of long term capital gains.

The portfolio below is, in our view appropriate to an equity income investor wishing to allocate their ISA allowance. However, investors intending to transfer existing holdings into equity income funds may wish to broaden their portfolio by including some additional funds, in particular Invesco Perpetual Income, PSigma Income, Schroder Income and Rensburg Income.

FUND	DISCRETE ANNUAL PERFORMANCE % (to 30th June)					Yield*
	2009	2008	2007	2006	2005	
Artemis Income	(-12.2)	(-16.4)	20.1	17.2	22.4	5.3
Invesco Perpetual High Income	(-12.5)	(-14.0)	26.1	23.5	23.0	4.7
Jupiter Income Trust	(-15.0)	(-20.2)	16.0	23.7	19.5	5.7
Neptune Income	(-19.1)	(-11.6)	17.0	22.7	18.9	5.3
Newton Higher Income	(-11.6)	(-18.2)	15.2	15.7	18.4	7.1
Standard Life UK Equity High Income	(-20.9)	(-13.2)	18.8	21.9	21.7	5.8

*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. The value of an investment, and any income from it, can fall as well as rise as a result of market and currency fluctuations and you may not get back the original amount invested. Investors electing to receive an annual income should be aware that the dividends (on which the investor's income is based) are not guaranteed.*

*The above funds' annual management charges are charged to capital. This has the effect of increasing the distribution and constricting the funds' capital performance to an equal extent.*

*\*Current yields are not indicative of future yields. As at 30th June 2009.*



<b>Artemis Income</b> Managers: Adrian Frost & Adrian Gosden	<b>Date of Inception</b> June 2000	<b>Discount To Investor</b> 5.25%
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This fund offers good potential for both rising income and capital growth. In essence, shares can have an above average yield when their share price is depressed because they are out of fashion, unpopular or unloved. A good income fund manager will spot these companies before the herd who will drive up the share price, then take any profits and re-invest, waiting patiently for the process to be repeated, we believe Adrian Frost to be such a manager.

<b>Invesco Perpetual High Income</b> Manager: Neil Woodford	<b>Date of Inception</b> February 1988	<b>Discount To Investor</b> 5%
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Run by Neil Woodford, this fund has consistently delivered star performance, which is why it has proved so popular among investors. Woodford adopts a fairly cautious approach and invests a lot of money in less risky sectors – such as utilities – which are typically less affected by any market volatility.

<b>Jupiter Income Trust</b> Manager: Anthony Nutt	<b>Date of Inception</b> August 1987	<b>Discount To Investor</b> 5%
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Anthony Nutt pays great attention to a company's dividend policy when selecting from large and medium sized businesses for investment opportunities. The fund's objective is to produce a high income, increasing at least in line with inflation.

<b>Neptune Income</b> Manager: Robin Geffen	<b>Date of Inception</b> December 2002	<b>Discount To Investor</b> 5%
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Neptune are a relatively new fund management group, but have enjoyed considerable success in their formative years. The objective of this fund is to generate a continually rising level of income. The portfolio invests predominately in UK securities and UK fixed interest stocks with some overseas exposure.

<b>Newton Higher Income</b> Manager: Tineke Frikkee	<b>Date of Inception</b> June 1987	<b>Discount To Investor</b> 4%
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One of the most consistent performers in the equity income sector, this fund invests in stocks drawn from the largest 350 companies in the UK and is one of the most popular funds in the industry. It aims to achieve increasing distributions on a calendar year basis and is managed within Newton's highly regarded UK equity investment team.

<b>Standard Life UK Equity High Income</b> Manager: Karen Robertson	<b>Date of Inception</b> May 1986	<b>Discount To Investor</b> 4%
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This fund focuses on identifying situations where the manager disagrees with the current consensus of opinion, therefore when the consensus changes the fund can benefit from the improved position when fully recognised by the market.

*Discount Effect: A client investing in any of the above funds via this brochure during 2009 will pay no initial charge.*

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

Over the years we have maintained a consistent stance on the most effective approach for clients who are investing for capital growth. For growth investors the key elements of diversification and patience are as valid today as they were ten, twenty and thirty years ago. It will doubtless be the same in the years and decades ahead. To obtain a truly international spread, investors should invest in different geographical markets (such as Europe, Asia & emerging markets).

Whilst we continue to recommend emerging market funds we would caution that these funds are traditionally more volatile (as experienced in 2008) than the established markets of the Western World. Nevertheless, we believe that experiencing periods of extreme volatility is a price worth paying in return for better long-term opportunities.

FUND	DISCRETE ANNUAL PERFORMANCE % (to 30th June)				
	2009	2008	2007	2006	2005
<b>Aberdeen Asia Pacific*</b>	(-1.2)	(-0.6)	27.3	22.3	27.8
<b>First State Global Emerging Market Leaders</b>	4.2	4.1	36.0	23.2	29.4
<b>Jupiter European</b>	(-14.2)	(-2.3)	24.0	18.7	15.5
<b>Martin Currie North American</b>	(-22.5)	(-0.9)	14.9	9.5	13.6
<b>M &amp; G Recovery</b>	(-15.2)	(-7.3)	25.1	26.4	18.9
<b>Neptune Global Equity</b>	(-29.0)	6.2	28.1	45.8	18.5

*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 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.*

<b>Aberdeen Asia Pacific</b>	<b>Date of Inception</b>	<b>Discount</b>	<b>4.25%</b>
<b>Managers: Asian Equities Team</b>	<b>April 2006* (February 1987)</b>	<b>To Investor</b>	

This fund's strength continues to be lead by the diversity within the portfolio. Geographically 70% is held within five Far East stock markets, Singapore, Hong Kong, India, China and South Korea.

<b>First State Global Emerging Market Leaders</b>	<b>Date of Inception</b>	<b>Discount</b>	<b>4%</b>
<b>Manager: Jonathan Asante</b>	<b>December 2003</b>	<b>To Investor</b>	

This fund invests in large and mid capitalisation equities in emerging economies. This includes those companies listed on developed market exchanges, whose activities predominantly take place in emerging market countries, in order to help it achieve its objective of long term capital growth.

<b>Jupiter European</b>	<b>Date of Inception</b>	<b>Discount</b>	<b>5%</b>
<b>Manager: Alex Darwall</b>	<b>August 1987</b>	<b>To Investor</b>	

This fund's objective is to build a portfolio of companies with a good track record of profitability, a proven product and business model, combined with evidence of entrepreneurial endeavour and the prospects of above average growth opportunities.

<b>Martin Currie North American</b>	<b>Date of Inception</b>	<b>Discount</b>	<b>5%</b>
<b>Manager: Tom Walker &amp; David Forsyth</b>	<b>September 1983</b>	<b>To Investor</b>	

Although not normally one of our favoured areas the American market was the first to go into recession and it is widely believed it will be the first market to rebound. The investment objective of this fund is to produce capital growth by investing in the United States of America and Canada. This fund's investment strategy is based on a high conviction approach consistently challenging market consensus and emphasises four factors: quality, value, growth and positive change.

<b>M &amp; G Recovery</b>	<b>Date of Inception</b>	<b>Discount</b>	<b>4%</b>
<b>Manager: Tom Dobell</b>	<b>May 1969</b>	<b>To Investor</b>	

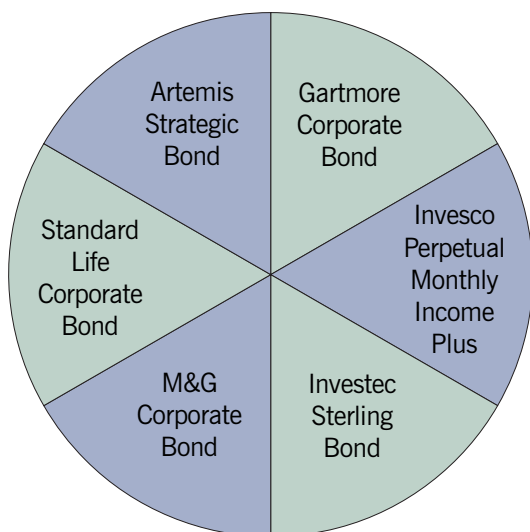
The main focus of this fund are companies with a good management team focusing their efforts to turn the business around; this view is often out of favour with other investment managers and as a consequence usually has an increased exposure to medium and smaller UK companies.

<b>Neptune Global Equity</b>	<b>Date of Inception</b>	<b>Discount</b>	<b>5%</b>
<b>Manager: Robin Geffen</b>	<b>December 2001</b>	<b>To Investor</b>	

Robin Geffen founded Neptune Investment Management at the beginning of the decade and has managed this fund since its inception. He has been investing in stock markets around the world for nearly 30 years and is the architect of Neptune's global sector investment approach.

*Discount Effect: A client investing in any of the above funds via this brochure during 2009 will pay no initial charge.*

### The Corporate Bond Portfolio



#### COFUNDS INVESTORS ONLY

By selecting to invest in any of the portfolios on this page your ISA investment will be split equally across the corresponding six funds.

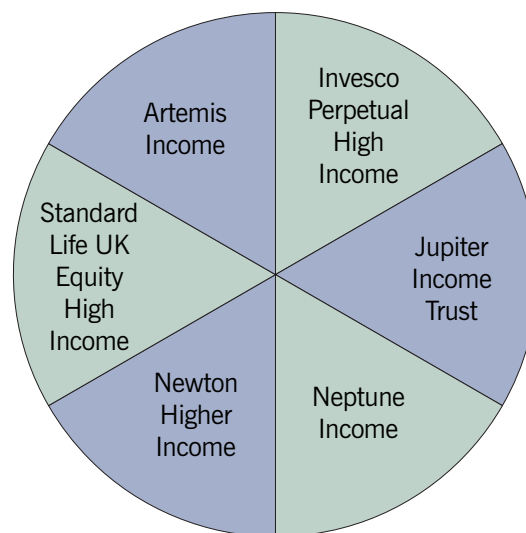
Please note the minimum investment is £3,000 lump sum or £200 per month into one of the portfolios.

#### DISCOUNT EFFECT

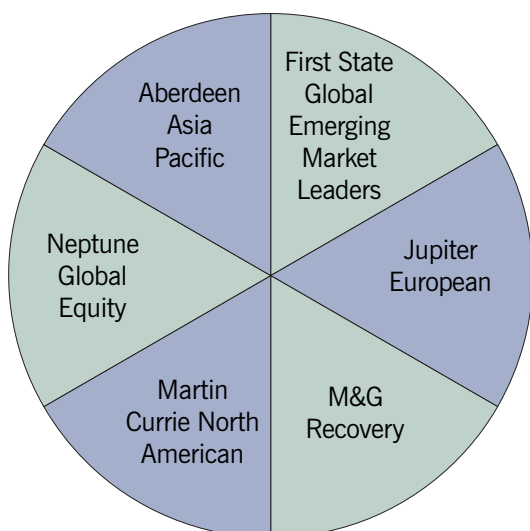
A client investing in any of the portfolios on this page during 2009 will pay **NO INITIAL CHARGE**. This discount equates to the following savings (based on a £7,200 ISA investment):

	Saving
Corporate Bond Portfolio	£291
Equity Income Portfolio	£339
Growth Portfolio	£327

### The Equity-Income Portfolio



### The Growth Portfolio



#### IMPORTANT INFORMATION

The portfolios described on these pages are not managed for you. It will be your responsibility if you wish to switch or sell any particular fund.

ISA Ltd select the funds for these portfolios but it is up to you to decide whether the selection will suit your investment requirements. Returns cannot be guaranteed and your attention is drawn to the promoters notice on page 24.

## The Most Important Rule Of All

Imagine someone trying to convey an important message to you in (say) Swahili, which you did not understand. This would not mean you were incapable of understanding the subject matter, only that the chosen means of communication was inappropriate for you.

Effectively this epitomises the dilemma of millions of inexperienced investors. They wish to make the best use of their savings but often give up trying to understand the main principles of investment simply because the financial services industry conveys its message in a confused way. It is hard to establish confidence in something you do not understand. For this reason an effective investment approach must deliver more than good returns – it must also deliver clarity and comfort.

Despite their desire to understand, investors should beware of the perils of pseudo-simplification. Many ISA promoters concentrate their efforts on persuading people to make over-simplified investment choices (which are not in the investors' interests) instead of trying to simplify and explain the decision making process (which benefits investors by empowering them). The most obvious manifestation of this technique can be seen with ISA advertisements, over 90% of which are geared to persuading you to place your entire £7,200 in just one fund.

## Confidence – Real And Superficial

Superficial confidence leads people to pursue artificial investment solutions the most common of which is the selection of funds which have performed exceptionally well over a short period of time (ie so-called “king for a day” funds). Investors should resist the temptation to get drawn into this spider's web. Instead of listening to promotional messages which emphasise “what's new and promising”, they should ask “what's old and proven”.

Real confidence and realistic expectations go hand in hand, and the best way to develop both is to scrutinise the long-term past performance statistics. These provide the best foundation for any worthwhile investment strategy. Investors who expect to much too quickly will be brought down to earth by these long-term statistics. In contrast, those with a little knowledge will gain confidence in the system.

## Keep It Simple

Nothing will change the reality that stockmarkets rise 70% of the time and fall during other periods. Learning to live with these falls is a mental adjustment that all unit trust investors have to make. What ought to make this easier to accept is the realisation that periods of falling stockmarkets do not last forever. Since 1929 the average bear market has lasted only 17 months.

The dictionary defines risk as “the chance of loss”. However, the history of the last fifty years has proven conclusively that there is little chance of loss for any unit trust investor who combines the two key disciplines of diversification and time. Above all it is worthwhile repeating that no-one can get hurt by falling stockmarkets unless he sells his fund in the brief periods when share prices are down. Each decade since 1950 has provided irrefutable evidence that the greatest risks were taken by those investors who ignored the lessons of history. Arguably, in the face of this evidence it is they, rather than the unit trust investor, who are exposing themselves to the greatest “chance of loss” today.

Anyone who wishes to be guided by simple investment principles need to look no further than the lessons of history. It gets no simpler than that!

Past performance is not necessarily a guide to future performance and may not be repeated.

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 (typically 0.5% but in respect of some Corporate Bond funds this reduces to 0.25%) on the ongoing value of each of the funds quoted in this publication. If you elect to make an investment via either Cofunds or Fidelity FundsNetwork, our sole remuneration will, therefore, be a maximum of 0.5% p.a. For example if your fund is worth £3,600, we would receive £18 per annum. If it is worth £7,200 we would receive £36 per annum. Discounts are subject to receipt of commission and may be subject to change if commission levels are altered.

### 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 then please telephone us. 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 investment management companies have, in recent years, adopted the OEIC system, any long-term 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. 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".

