

# Boiler-room swindlers and their unbelievable gall

**WILLIAM KAY**  
COMMENT

Who do you trust? One creeping consequence of today's complicated financial world is that we trust fewer people than did our grandparents, and we are unlikely to have even a bank account, let alone a structured investment based on put and call options.

Marriages may be preceded by prenups, contracts should be scanned for small print, you can't borrow a tenner off a friend in the pub without him saying he wants interest. So the final disgrace of Pacific Continental Securities (PCS) is a timely wake-up call to those of you who sleep-walk into your adviser's office. PCS, a stockbroking firm, was in effect closed by the Financial Services Authority (FSA) in June 2007, before the credit crunch put everyone on guard. It is only now being declared in default, which means that former clients can claim from the Financial Services Compensation Scheme (FSCS).

As a case study in alarm bells, I recommend a visit to the FSA website (fsa.gov.uk) to see how PCS pressured clients. For those cheeky, my favourite is the fellow who tried to get off the hook by saying he would have to consult his wife — to which the PCS man replied: "If you want to ask your wife if you can buy

the stock, I'll ring mine and see if I can sell it to you."

PCS was the worst kind of so-called boiler-room operation, where the sales team had to make call after call on the basis that a percentage would produce business.

Lesson: treat these time-wasters like foot-in-the-door salesmen and say no firmly and unequivocally. Or just put the phone down.

Nearly two years on, the PCS scandal is still extending its bony fingers into investors' wallets, because the FSCS is levying £40m from existing advisory firms to meet the expected costs of repaying the busted firm's customers.

Chris Cummings, director-general of the Association of Independent Financial Advisers, said: "The financial ramifications of the projected high levels of compensation are severe for our members."

This will add to the stream of advisers closing their doors as the recession deters investors, and will force the survivors to be all the more ruthless about drumming up new business — and juicy sales commissions.

A "marketing coach" is already running seminars for IFAs on how to run seminars to woo disillusioned and mistrustful clients. This is financial education of a sort, but not the healthy type that will help people handle their own finances.

Manchester University has just spent three years finding out that learning about money improves teenagers' knowledge, skills and confidence in financial matters.

Now there's a surprise. But if such research helps to persuade the government to give money more classroom time then it will have been worthwhile.

However, while Gordon Brown is pouring money down the throats of bankers and carmakers he might think about doing more to help the generation

who have left school without financial know-how. They need it most.

**Is small beautiful?**

THE public constantly say they are more satisfied with the service from smaller banks and financial firms.

In bank boardrooms, the director in charge of branches has usually been looked down upon by the big corporate players. The recession is changing that.

It has been easy for younger, smaller firms to offer better deals and a more personal touch. Most customers don't help matters, though, by sticking with the stodgy old bank down the street. Our laziness is the banker's greatest asset.

Snobbery comes a close second. It can take guts to tell your pals that you have placed your life savings with the Blenkinsop Society of Oddfellows instead of somewhere your friends have heard of. And going small has risks. The Icelandic banks all looked fine until a few months ago, and now ING is in hot water to the Dutch government (though its deposits are so far safe).

Ambitious and talented bankers often gravitate to the big battalions, so the local building society can seem a little amateurish on occasion. Unless enough people support the tiddlers they will vanish. So if you want choice, choose to lose some cash with the small fry.

**A chilly outlook**

MUCH excitement in the first week of the year as share prices on both sides of the Atlantic began brightly. That was a good omen for devotees of the early version of the January indicator — that the first week, first day even, will forecast the whole year.

Now we have had the full month, and the picture is not so rosy. While the FTSE 100 did well enough last week to come within touching distance of New Year's Eve's 4,434.17 closing level before fading, Wall Street's Dow Jones Average is 700 points adrift of its 8,776.39 starting point in 2009.

Touching distance is not enough. If the indexes end the month above the January 1 position, even by a single point, odds are they will end the year higher, and vice versa.

The barometer says nothing about how much up or down shares will finish next December, but after 2008 another down year will be highly unwelcome, even if only slightly down.

Last autumn, a market rally was pinned on the recovery starting in the second half of 2009. But after one-twelfth of the year many obstacles have yet to be cleared out of the way.

Global gilt funds are worth a look. Henderson Overseas Bond fund — which invests in bonds issued by governments, public authorities and international organisations in any area outside the UK — has given a capital return of 40.7% in the past 12 months, and has a yield of 2.23%. It holds stock issued by American, German, Italian and French governments.

M&G International Sovereign Bond, which invests in high-grade bonds dominated in non-sterling currencies, holds Japanese, German, Italian and US gilts. It has risen 50.1% in the past year, and is yielding 1.61%.

Tommy Ahrens at fund-ratings provider MoneySpider, said: "Income, income and more income — that's the holy grail for older investors in today's climate, which means falling currency, and sterling investors in the precious metal have made 33% in the past 12 months as the pound has plummeted.

If you want to buy directly, consider Perth Mint certificates. The gold is stored for you

at Perth Mint in Australia, there is a 2% fee to buy and a 1% fee to sell. Gold Bullion Securities (GBS) tracks the price of gold.

Each GBX share represents one tenth of an ounce of gold and is backed by bullion held in HSBC vaults. The value of the shares should rise roughly in line with the price of gold, after charges of 0.4% a year and dealing costs.

Alternatively, invest through funds that hold mining stocks. Black Rock Gold & General fund is down 20.7% over 12 months, but has rallied 71.8% in the past three months.

Around 7% of its assets are in gold-mining stocks. The FTSE Gold Mines index is up 9% over 12 months.

Quality Corporate Bonds

Corporate bonds are an IOU issued by a company, usually with a face value of £100. They pay a fixed amount of interest for a set term and return your capital at maturity. So if you invested in a 5% bond, you would earn a fixed 5p a year and get your £100 back.

A £100 bond might fall to £90 and, if you bought at that price, you would still get 5p interest — a yield of 5.5% — plus a 10% capital gain at maturity.

Investors poured £1.5 billion into Isa funds in December, of which £1.1 billion went into corporate bonds, figures from the Investment Management Association (IMA) show.

The average sterling

returns when taking inflation into account.

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# Top tips for saving in a slump

## WHERE TO FIND LIFE-SAVING RETURNS



CONSUMERS were urged last week to ditch their greatest asset. Savings accounts and opt for a better home for their cash, as rates continue to plummet and a growing number of providers introduce hidden traps.

Decent interest on cash accounts might be almost extinct, but double-digit returns can still be achieved if you look elsewhere.

"Not that long ago, cash was often king," said Andy Cowan at adviser Towry Law, "but 3.5% has been lopped off official interest rates in just four months and savers looking for low risk are in crisis."

"However, it's not all doom and gloom — there are some great opportunities, although a mix of assets with varying degrees of risk is probably best."

Here, we look at potential homes for your cash, that can yield up to 13% a year, from the lowest to highest-risk.

### UK GILTS

Gilts are bonds issued by the government when it needs to borrow money. Yields have been dropping, as inflation and interest rates fall and investors clamour for the safety of government-backed stock.

Two-year UK gilts were yielding less than 1% last week, but yields on long-dated stock have been far steadier, and you can get 3.65% if you lock in for 10 years and 4.41% for 20 years.

A better bet might be index-linked gilts. These allow investors to hedge against inflation. As measured by the Retail Prices Index, inflation fell to 0.9% in December from 3% in November, but could rise if the government puts its "quantitative easing" plan into action — that is, printing money.

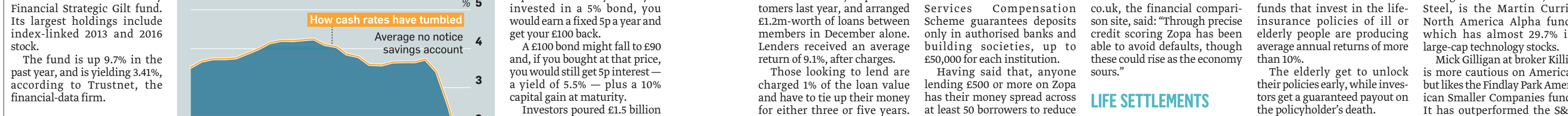
Alex Hoctor-Duncan at fund manager Black Rock said shorted index-linked gilts were priced to expect a 2012 and 2016 stock is yielding 2.5%.

Among funds, Darius McDermott at broker Chelsea Financial Services likes the City Financial Strategic Gilt fund. Its three-quarters is in mortgage debt index-linked 2013 and 2016 stock.

The fund is up 9.7% in the past year, and is yielding 3.41%, according to Trustnet, the financial-data firm.

### OVERSEAS GILTS

Looking overseas could yield better returns as well as areas benefiting from the strength of the euro. Greek 2012



### BEATING THE BANKS

COMPUTER consultant Jim Shuker, 40, and daughters Rebecca, 14, and Holly, seven, said: "Returns this big with a default rate of 0.2% makes it a no-brainer. They trounce what you get from the banks, and you help other people in the process."

### SOCIAL LENDING

Zopa.com, the "eBay of money", cuts out the big banks by uniting borrowers with those willing to lend money in exchange for interest.

It saw a 140% jump in customers last year, and arranged £1.2m-worth of loans between members in December alone. Lenders received an average return of 9.1%, after charges.

Those looking to lend are charged 1% of the loan value and have to tie up their money for either three or five years. You can lend between £10 and £25,000.

Bear in mind, however, that there is no statutory safety net to protect your money, as the government-backed Financial

### QUALITY CORPORATE BONDS

Compensation Scheme guarantees deposits only in authorised banks and building societies, up to £50,000 for each institution.

Having said that, anyone lending £500 or more on Zopa has their money spread across at least 50 borrowers to reduce risk. Prospective borrowers are subject to rigorous credit-checking and the default rate has averaged just 0.2% in the three years since launch.

Andrew Hagger of moneynet.co.uk, the financial comparison site, said: "Through precise credit scoring Zopa has been able to avoid defaults, though these could rise as the economy soups."

### LIFE SETTLEMENTS

Traded life policies, also sometimes called "death futures", offer steady, predictable returns that are uncorrelated with other asset classes.

It might sound morbid, but

### US EQUITIES

Despite the economic gloom, analysts believe America — the world's largest economy — could be the first to emerge from the turmoil.

More than a quarter of fund managers expect the US to be the best-performing region in 2009, a poll by the IMA shows, with some forecasting a 20% "Obama boom".

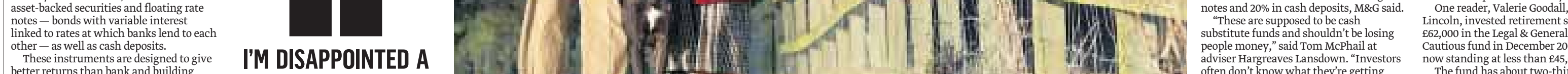
"The US is far from dead," said Alan Steel at Alan Steel Asset Management. "Barack Obama's huge bailout package is going to give it a boost."

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### PROPERTY IN PERIL



### SAFE HAVEN RECOMMENDATIONS

| Fund                        | 1-yr return | 3-yr return | 5-yr return | Yield |
|-----------------------------|-------------|-------------|-------------|-------|
| Aviva Investors Cash        | 1.77%       | -           | -           | 4.05% |
| Black Rock UK Abs Alpha     | 1.8%        | 28%         | -           | 0.77% |
| Cazenove UK Abs Target      | 4.44%       | -           | -           | 0.40% |
| Fidelity Cash               | 4.1%        | 12.3%       | 19.8%       | 1.66% |
| Goldman Sachs Sterling Liq. | 4.83%       | 15.44%      | 25.51%      | 1.98% |
| JP Morgan Sterling Liq.     | 4.95%       | 15.14%      | 24.54%      | 2.20% |

\*Award will be interest-free funding or a cash donation. See website for eligibility criteria and full terms and conditions.

# Is my home in a mortgage blackspot?

## As house prices fall, will you be locked out of top mortgage deals, asks Elizabeth Colman

HOMEOWNERS who took out two-year fixes last year are being urged to take steps to boost the equity in their homes — or face up to £3,000 a year premiums when their mortgage deals expire in 2010.

Exclusive figures from Savills, the broker and estate agent, reveal that hundreds of thousands of borrowers who secured mortgages last year with deposits of nearly 50% are likely to be denied access to the best deals.

House prices have fallen 17% since the start of 2008 and are generally expected to drop another 10% this year — meaning that these homeowners will see their equity fall below the 40% level at which the best mortgages can be achieved.

Melanie Bien at Savills Private Finance said: "Homeowners who thought they were safe could discover they no longer qualify for the cheapest deals. Other risks include the danger zone of trying to get a mortgage with little over 5% equity."

Last week, Nationwide building society blamed low mortgage approvals for a 1.5% fall in house prices in January, or 16.6% in the past 12 months, despite an increase in inquiries from prospective buyers.

More than 100,000 mortgages taken out last year were fixed-rate deals, with the vast majority over two years — so many will come to the end of their deal next year.

Borrowers in Exeter and Brighton took out loans with an average loan-to-value (LTV) — the loan as a proportion of the property price — of 57% and 54% respectively during 2008. With another 10% fall in prices they would be forced to borrow 67% and 64% respectively.

If they took out their loan at the start of last year — before the 16% drop in prices during 2008 — they could see their LTV rise to 83% and 80% respectively.

Last week, Woolwich introduced a market-leading deal fixed at 2.49% for one year — but only for borrowers with a 40% deposit.

Those with that amount of equity in their home can achieve an average rate of 4.43%, while those with just 25% typically pay 4.68%, according to Moneyfacts, the financial-data firm.

On a typical £200,000 mortgage, the difference is £40 a month, or £480 a year.

The picture is worse for borrowers in Bristol and Cambridge, who will see their equity reduced to less

than 25% and face paying an average 6.29%. That will cost an extra £220 a month, or £2,640 a year, on a £200,000 loan, compared with the best deals for those with bigger deposits.

And homeowners in Birmingham could find themselves in the remortgage "danger zone" with as little as 8% remaining when they come to remortgage next year.

We offer some advice.

Overpay to increase equity

You can save thousands of repayments and years of your loan if you overpay — and there are advantages, too, when it comes to remortgaging.

A homeowner with a £200,000 tracker mortgage who maintains repayments despite the 3.5 percentage point Bank rate cut since October could boost their equity by 5% in the next two years, says the broker London & Country (L&C).

Remortgage now — even if you are in mid-deal

The cost of fixed-rate mortgages has been coming down, so if you are locked in at a high rate it can be cheaper to switch to another deal, despite the penalties. For example, borrowers who took out a two-year fix at 6.55% with Nationwide on a £200,000 loan last June will pay a £3,000 penalty for breaking their contract.

However, they could still save £4,303 a year by switching to Alliance & Leicester's (A&L) two-year fix at 3.59% — the cheapest two-year fix for those with a 40% deposit, available through brokers.

Don't rely on the SVR

Some lenders have standard variable rates (SVRs) that are cheaper than taking out a new deal, but some of the biggest lenders have failed to pass on interest-rate cuts, data from Moneyfacts show.

Barclays-owned Woolwich, A&L and Norwich & Peterborough building society have SVRs above 5%, while Nationwide's is just 3.5%.

Time your remortgage

Falling house prices mean delaying arranging a new mortgage can limit you to more expensive deals — so get a mortgage offer a few months before your current deal expires to achieve a higher valuation.

Nationwide, for example, allows borrowers to book a rate six months in advance without another valuation.

An offer from Cheltenham & Gloucester is valid for four months with no need for another valuation, but you could lose your arrangement fee.

Richard Morea at L&C said: "Borrowers need to be realistic about the value of their home, then they can assess whether they have time to wait and see if they need to book a deal now."

Check the small print

Those who took out an A&L two-year tracker in June, for example, will pay 0.99 points above Bank rate when the deal ends next year — a 2.9% better than the cheapest tracker.

Those who opt to roll on to these reversion rates avoid paying upfront fees.

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# Investors lose as millions are wiped off 'safe' investment funds

## Big cuts on payouts over firms' exposure to toxic mortgages, writes Ali Hussain

INVESTORS with billions of pounds in funds they thought were safe have seen millions wiped off the value of their holdings — and more pain is on the way.

Standard Life made a shock revaluation of its supposedly ultra-safe cash pension fund earlier this month, due to investments in toxic mortgage debt. And The Sunday Times has learnt that many other funds in the £28 billion cash pension fund sector have similar holdings — and could be set to follow suit.

Nearly 100,000 investors have pension savings in the Standard Life Sterling fund, which wrote off 5% — more than £100m — of its £2.4 billion assets due to investments in asset-backed securities, whose returns have been linked to the mortgage markets.

Many cash funds, also known as "money market" funds, invest in asset-backed securities and floating rate notes — bonds with variable interest linked to rates at which banks lend to each other — as well as cash deposits.

These instruments are designed to give better returns than bank and building society deposits, but without adding much risk. The dangers are increasingly being exposed, however. About 3% — 13 out of 200 — money market pension funds have lost money in the past year, according to Trustnet, the financial-data firm.

The worst-performing fund is

Threadneedle UK Money Securities, which has lost investors up to 17% in the past 12 months. The £200m fund — also sold to pension savers with Skandia, Legal & General and Axa, as well as retail investors saving outside a pension — has 25% in asset-backed securities, of which three-quarters is in mortgage debt, a spokeswoman for Threadneedle said.

Pension investors have ploughed £30m into this fund, and just 10% of their money is held in actual cash.

Threadneedle was unable to rule out following Standard Life in revaluing the fund's assets. "The ongoing illiquidity in

"I'M DISAPPOINTED A CAUTIOUS FUND COULD LOSE SO MUCH MONEY SO QUICKLY"

Nursing a loss: Valerie Goodall, 66, and husband Bill, 64, from Lincoln, are disappointed over the performance of their 'cautious' managed fund

the market makes it very difficult to price these assets," Threadneedle said.

Pension investors in the M&G High Interest cash fund have also lost money. Skandia, Prudential and Legal & General offer pensions with this as the underlying fund, and savers have lost up to 3.7% in the past year, according to Trustnet.

About 80% of the fund is in floating rate notes and 20% in cash deposits, M&G said.

"These are supposed to be cash substitute funds and shouldn't be losing people money," said Tom McPhail at adviser Hargreaves Lansdown. "Investors often don't know what they're getting into: information on underlying holdings isn't readily available, but the downturn is starting to expose the often huge inherent risks."

Money market funds were the 13th most popular sector among retail investors last year, with sales of £242m,

lose me so much money so quickly," said Goodall. She sent a formal letter of complaint to Barclays last week.

Barclays spokesman said the bank would be investigating the matter in due course.

Complaints to the Financial Ombudsman Service about investments rose more than 40% last year. Upheld complaints rose 20% from 38% in 2007. A spokesman for the Ombudsman service said a "large proportion" of complaints related to investors being unaware of potential risks.

Here, we help the latest casualties of the credit crunch.

KNOW YOUR HOLDINGS

Many people approaching retirement could find their pension has been automatically moved into a money market fund if they are in a "lifestyling" scheme — a technique designed to reduce risk.

So make sure you know what you hold.

"People need to be aware of the exposure they have to floating rate notes and mortgage-backed securities, as these are causing huge problems in cash funds," said Hugo Shaw at broker Bestinvest.

Ask your fund provider for details and look at trustnet.com or morningstar.co.uk.

SWITCH TO BETTER FUNDS

Most occupational and stakeholder personal pensions have access to just one or two cash funds — which will be the lowest risk funds on offer. The alternative is to switch to a self-invested personal pension (Sipp), where cash can be held

directly on deposit with a bank. If you have a Sipp or hold funds outside a pension wrapper you should have greater flexibility to switch. Most providers need you to complete a "switch instruction form", usually downloaded from their websites. Some, such as Standard Life, allow changes to be submitted online.

The Abbey Hill Samuel Target Deposit fund, up 10.7% over 12 months, is the top performer in the cash pension-fund sector over that period. In the cautious-managed sector, Axa Global Distribution has made 2.5% in 12 months and is yielding 4.5%.

Shaw likes Aviva and Fidelity's cash funds, as well as Goldman Sachs Sterling Liquid Reserve fund and the JP Morgan Sterling Liquidity fund, which can both be accessed through a Sipp.

LOOK TO OTHER SECTORS

Absolute-return funds aim to achieve a positive return, even when markets are falling, through the use of derivatives.

Managers aim to outperform measures such as Libor — the rate at which banks lend to each other — whatever the market conditions. Ben Yearlesay at Hargreaves Lansdown said: "These funds are a relatively new addition to the fund world, but in many cases do what investors want from a cautious fund — protect downside risk while giving potential for profit."

Threadneedle Absolute Return Bond is the sector's top performer over one year, up 11.3%. Yearley likes Cazenove UK Absolute Target fund and Black Rock UK Absolute Alpha, both in positive territory since they were launched.