

## Common mistakes

"To err is human" said Alexander Pope - but in investment, to err is expensive. What you can do, however, is look at the mistakes of others and try to avoid the most obvious pitfalls.

Investors can make many mistakes but one of the most common is to follow the herd. When markets are high, they can scramble to invest, thinking they might miss out. Then, when markets are falling, they often sell out. The most recent example of both issues was the 'dot.com' boom. This first persuaded millions of investors to part with their savings thinking they were missing out on a chance to make 'easy' money. Unsurprisingly, the bubble then burst and many scrambled to get out without a thought about what might happen next.

The lesson is not to get carried away in the moment - either to invest or to sell. Stories of large falls in markets can make investors nervous - but this is the nature of equity investment and selling on a short-term dip simply crystallises a loss - and can also mean missing out on both the eventual return to normality and the longer-term benefits. Markets will always go down as well as up - so if you are scared by such volatility, take advice. Perhaps equities are not for you.

Finally, investors often believe they can time markets yet experts agree this is a near-impossibility. Investment should never be gone into lightly. Be clear about your objectives, your timelines and the risks - and make sure your portfolio is run accordingly.

Hodge Bakshi Financial Services

Welcome to the latest edition of e-Update, our update on developments in the world of financial services.

We hope you find the contents of interest. If you have any questions, or would like to discuss any of the points raised, please give us a call.

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## All in the taxation

Is a pension the only way to ensure you have enough to live on when you are older? Rather than depend on it, using an Individual Savings Account (ISA) could offer an additional - or even alternative solution, depending on your situation. The one main difference between a pension and an ISA is tax. Your pension payments qualify for tax rebates on the way in, while the income paid out later is taxable. With an ISA, the money you contribute has paid tax before it goes in but then the withdrawals you make are tax free. It is also useful to know that if you're over 65, your pension income counts towards your tax-free allowance, while your ISA withdrawals do not.

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## House prices still falling

A combination of exceptionally low interest rates and plummeting values has made house prices more affordable now than they have been in years. Figures from Halifax showed that UK house prices fell over 17% in the year to February 2009.

Falling house prices have helped to nurture a tentative recovery in interest from buyers. The Royal Institute of Chartered Surveyors (RICS) reported that the number of potential buyers registering with estate agents has increased, with London reaching levels not seen since October 2006.

Nevertheless, cautious mortgage lenders are still managing to derail the hopes of first-time buyers by insisting on high deposits, and the ongoing shortage of mortgage lending, combined with the effects of the recession and the rising threat of unemployment, is likely to hamper demand. The RICS has complained that, "The lengthy process of obtaining mortgage finance, even for those with large deposits, is contributing towards the blockage in the marketplace."

In addition, falling prices and concerns about negative equity have discouraged many prospective sellers from putting their home up for sale. RICS recently announced that UK house sales fell to their lowest level for over 30 years (since 1978), commenting, "Mortgage finance is still a problem and people are worried about job security because of the recession."

### Did you know?

According to Sainsburys Bank (as at March 07), the average adult is underinsured by £59,000. Do you need to worry? If you are single with no debts and no dependents then probably not. But, if you do have dependents and commitments which depend on your salary, or simply have debts which your next of kin could not pay off, then yes, it probably is. Life cover will ensure your family's financial security should the worst happen. Planning for this is not easy, particularly while we are young. However, this is the time when our commitments and our security are most at risk and our families most vulnerable - and as a result when life cover is most crucial.

