

# THE SAFETY FIRST STRATEGY

## What is the Safety First Strategy (SFS)?

The SFS is a holistic financial planning solution comprising of the following key components:

- A Defensive Investment/Financial Strategy devised in 2003 by Kim Andrew Lincoln Cert PFS CeMAP, Managing Director of K A LINCOLN > INVESTMENTS.
- An Investment Advisory Service – with Independent Financial Advice provided by Kim Andrew Lincoln of K A LINCOLN > INVESTMENTS and Stock Broking & Investment Portfolio Administration Services provided by the UK's largest firm of private client stock brokers, Brewin Dolphin Limited
- A Pension Administration Service (for Self Invested Personal Pensions - SIPP's) provided by the online SIPP provider, the SIPPcentre, which is directly linked to K A LINCOLN > INVESTMENTS and Brewin Dolphins' services.
- A bespoke gilt portfolio selected and managed by K. A. Lincoln

## What are the Aims of the SFS?

1. To provide a 'safe haven' for clients with cash savings so that they may be protected from the adverse effects of any potential future falls in the Bank of England base rate, and to provide an alternative investment vehicle for clients with investments and pensions that are invested in what we consider to be high risk investments - at this time - for the purpose of protecting their capital from any potential future falls in value that may occur as a result of the deteriorating economic situation in the United Kingdom and elsewhere.
2. To secure the highest guaranteed income - for the longest period - without compromising aim three.
3. To position client's investment portfolio's so that they are best placed to benefit from any gilt bubble that may occur due to uncertainty in the investment markets, so as to maximize total potential returns (income plus capital growth).

Please note that the terms: 'safeguard,' 'safe haven' and 'protect' do not mean 'to provide 100% capital security at all times,' as this is not possible with gilts. If you are looking for such a guarantee the SFS is not for you.

## When was the SFS launched?

It was conceived in December 2003 and launched during first half of 2006 after the markets had recovered most of their post 9/11 falls.

## Why is the SFS needed?

To provide a safe haven for savings, investment and pension wealth for as long as the financial system is in a state of collapse.

## What is the real cause of this economic crisis?

What the government and mainstream media will not reveal is that the root cause of this crisis is the 'fractional reserve' banking system, used by most countries in the world today. Essentially what is happening is the unwinding of this giant Ponzi scheme that after two centuries has reached its mathematical limits.

The 'credit crunch' is merely a symptom of the disease that is the 'fractional reserve' banking model.

This banking model is a perversion of the pure (gold backed) money system it replaced because our money is not connected to anything of real value. Instead we have worthless paper money - issued by decree -and created largely as debt on which interest is charged and which we can clearly no longer afford to pay.

This imperfect system was designed by bankers in collusion with the state in order to steal our wealth and exercise power and control over us. It is now breaking down in accordance with the second law of thermodynamics. The bankers - and the politicians who secretly support them - say the solution is to create even more debt - which they are doing. Of course, this is the opposite of what is needed and will only delay the inevitable crash, which they do not want to happen on their watch. So economic hardship will be increased and the depression prolonged.

The problem could be solved by replacing this perverted system with a pure money system that uses money only as a medium of exchange and store of value and not as a means to a perverted end - as it is today. This, combined with strict regulation of the money supply - so that the amount of money in circulation is never more or less than the value of goods and services produced - would eliminate inflation and deflation for all time and enable sustainable economic growth - without limit.

This is the core problem but it is not the only thing that needs changing – see our Golden Age Economy section

The Greed is NOT Good article written by K. A. Lincoln provides an in depth explanation of the issues as do the letters calling for the establishment of a Peoples' Bank in the A Peoples' Bank for Shropshire section.

## What we think will happen to the economy

- 25% unemployment (7 - 8 million)
- The FTSE 100 falling to 1650 with little/no prospect of recovery
- An end to speculative investing but a boom in employee owned companies
- Average house price falls of 40% from their 10/2008 peak
- Deflation of 20% over the next 5 years.
- A zero/ near zero bank base rate and 0% interest on most savings accounts.
- Massive increase in 'hardship' crimes

Our January 2009 [Newsletter](#) gives more detailed forecasts for the economy and investment markets in 2009 and beyond.

## What are gilts?

- The word gilt is short for 'gilt edged security.' Gilts are certificates of fixed interest issued by the UK government. They are also known as government stock. Most foreigners, however, call them 'bonds'.
- Gilts are considered to be the safest of investments because they offer specific income and capital guarantees that are underwritten by the UK taxpayer. Gilts have the highest credit rating (AAA) because the UK government has never defaulted on any gilt it has issued.
- Gilts pay a fixed rate of interest called the 'coupon'. The coupon is paid each year in two equal six-monthly installments until the gilts maturity date. The maturity date is called the redemption date. On this date the par value of the gilt is repaid. The gilts par value is £100. The coupon is the amount of income that the gilt pays - expressed as a percentage of the par value. The coupon is the total annual income paid on the gilt.
- If, for example, a gilt has a coupon of 4.25% and redemption date of 7/12/2055 it means that the gilt holder will receive a guaranteed income of £2.125 every December and £2.125 every June until 7/12/2055 when a final payment of £100 will be made. Please note that for gilts held within the SFS ongoing advice and administration charges are usually deducted from this income. Please see our [Safety First Strategy - Fee Agreement](#) for details.
- If you buy a gilt for less than its par price of £100, the 'yield,' which is the coupon divided by the 'market price' of the gilt (expressed as a percentage), is increased. For example, if you paid £93 for the gilt the yield would be  $\frac{£4.25 \times 100}{93} = 4.56\%$ . Conversely, if you paid more than par price, the yield would be less than the coupon of 4.25%. Please note that the above yield calculation formula is has been simplified for the purposes of illustration, but is not technically correct. The internationally recognized formula for calculating gilt yields is very complicated and can be found on the [DMO website](#).

- Gilts are securities like shares that are traded on the stock market. In practice you can only buy gilts from a stockbroker.
- The market price of gilts is affected by a number of factors which include: what the market thinks the future level of interest rates and inflation/deflation will be; the volume of gilts in circulation and the expected future supply; the prospective returns available from competing investments like cash, corporate bonds shares and property and the market's perception of the risk of the government defaulting on gilt coupon and redemption payments. These things affect the demand for gilts and if demand exceeds supply the price will increase and vice versa. There are, however, two other factors that can exert undue influence on gilt prices in troubled times and they are fear and greed. And it is these two incredibly powerful human emotions that could have the greatest effect on prices if the economy deflates to the extent that we think it will. What we could easily experience is a re-run of what happened during the dot com bubble whereby - because of fear of loss and greed for profit - gilts prices soar to an unsustainably high level and then quickly fall back when common sense returns.
- If you pay less than the par price and hold the gilt to its redemption date you will make a guaranteed profit. If you pay more you will make a guaranteed loss. But you do not have to hold the gilt to its redemption date. You are free to sell it for its market price at any time which could be more or less than you paid for it.
- There are two main types of gilt – conventional and index linked.
- Conventional gilts are the most common and most prized when interest rates and inflation are falling - because of their fixed rate returns.
- Index linked gilts protect income and capital from being devalued by the effects inflation. They pay a fixed coupon on top of the official inflation rate as determined by the Retail Prices Index (RPI). These gilts are sought after when inflation is expected to rise.
- Gilts are either: 'short dated;' which will redeem within five years; 'medium dated,' which will redeem between five and fifteen years and long dated which will be redeemed in over fifteen years. You can also buy 'undated gilts' but these carry the risk that the government could redeem them at any time, it considered it was in their interest to do so, which may not coincide with your best interest.
- The income from gilts is paid gross and is subject to income tax
- Gilts are exempt from capital gains tax

For more information please refer to '[A Private Investor's Guide to Gilts](#)' published by the government's Debt Management Office (DMO).

If you are thinking of investing in gilts via our Safety First Strategy we strongly advise you to visit the [DMO website](#), as it explains everything you are likely to want to know about gilts. If you do, we respectfully suggest that pages: 4, 5, 10-12, 14, 22, 24, 25, 30-31 are the most relevant at this time.

## **We believe that a gilt based investment strategy is most suited for these unstable times because:**

- Gilts are one of the safest investments as they are guaranteed by the UK taxpayer. Gilts issued by HMG are one of only two in the world where the issuer has never defaulted.
- You can invest an unlimited amount in gilts, which is especially important now given the uncertainty surrounding the safety of cash deposits and the £50,000 individual protection ceiling for FSA regulated savings providers. This means that a single person with £1,000,000 to invest would struggle to get a good overall return from cash savings - and be fully protected. This is because there are few savings providers who offer competitive rates and even fewer who offer rates that beat the best paying gilts.
- There is no minimum notice period for withdrawals if you need to convert part or all of your investment into cash. You will receive the money you need in your bank account as cleared funds, usually, within three days of your instruction being received by us.
- There is a wide choice of gilts and the interest rate is fixed for periods of less than a year to over 45 years - so you can guarantee future income streams. Deposit accounts, however, usually have a five year fixed rate maximum.
- The highest yielding gilts currently provide a comparable income to the best paying 'easy access' deposit and cash ISA accounts.
- Income is paid gross which gives taxpayers a cash flow advantage and non taxpayers do not have the bother of reclaiming the tax as they do with cash deposit accounts.
- Gilts are exempt from Capital Gains Tax. This is particularly important at this time because we think that potential for substantial capital gains is probably better than as it has ever been! Infact we believe that there will come a time soon when a wall of money is likely to hit the gilts market forcing prices up.
- Gilts have held their own during this crisis by providing clients with a stable income and a high degree of capital security, whereas the other major asset classes (shares, commercial property, and corporate bonds have all fallen substantially in value. Broadly speaking gilts and cash are the only asset classes where clients have not lost out.
- When you own gilts directly as opposed to owning them via a gilt fund provided by an investment management company you eliminate the risk that the fund manager could go down and take your gilt investment with them.
- Gilts are ethical investments because when you buy them you are lending money to your fellow citizens with the assurance of a predetermined capital return and guaranteed income.
- We believe that some gilts are under priced because the huge falls in the base rate since October 2008 have not yet had time to work through the system and because there is no consensus on the severity of the problems we face. And even though the government is issuing more gilts (to help pay the additional costs of the recession) their policy of 'quantitive easing is likely to offset this to some extent. In any event, we think that as the recession turns into a depression the flight to safety in gilts will be on such a scale that it will dwarf all new issues of gilts and drive their prices up. With this combination of events a gilt bubble could occur - and if it does - our plan for clients invested in

our 'Safety First Strategy' is to sell all their gilt holdings - at what we judge to be the top of the market - and then buy them back again once the price has fallen to a sustainable level. In this way income will be boosted - in absolute terms - and clients will benefit from an increase in their wealth.

NB: If you are thinking about transferring cash savings to the SFS our SAVINGS section may be helpful as we compare the advantages and disadvantages of gilts with cash deposits accounts. Please [click here](#)

## **How does the SFS differ from other gilt strategies or gilt funds?**

- ❖ As our clients have different attitudes to investment risk, investment time horizons and investment objectives, the gilt/s we recommend may differ from one client portfolio to another.
- ❖ The gilt/s we use in the SFS are picked to achieve the best results for clients in the economic conditions we foresee. As our views are generally at variance with how others see things the way we construct our client's portfolios are usually different.
- ❖ The SFS is continuously monitored by K. A. Lincoln so that he can quickly spot changes in the economic situation that may require him to alter the strategy. Any changes would be made in full consultation with clients. One possible reason for recommending changes to client's gilt portfolios would be if we thought that inflation was likely to return. We think that this is highly unlikely, however -but not impossible.
- ❖ To date most of the key forecasts that K. A. Lincoln made in 2003 have proved to be correct but there is no accounting for what the government might do in its desperation to dig itself out of the political mire and the effects that those actions might have on the gilt market. All we can say at this time is that we planned for what we thought would be the worst case economic scenario and that plan is working well.

## **Has K A LINCOLN INVESTMENTS invested in the SFS?**

YES! The directors have put their money where their mouth is - so to speak.

## **How flexible is the SFS?**

It is as flexible as it needs to be! Most of the restrictions are those laid down by the tax and regulatory authorities and relate mostly to SIPP's.

The important point to note is that there are no restrictions or time limits on your gilt portfolio. You have unlimited access to your money at all times unless it is held within a SIPP where mainly age and tax related restrictions apply.

## **K A LINCOLN > INVESTMENTS's role**

As the creators and managers of the SFS our job is to recommend what gilt/s we think clients should have in their investment portfolios and when those gilts should be bought and sold so that clients derive the maximum financial benefit.

And, should the economy change in a way that could be detrimental to those gilt holdings our role will be to advise our clients what to do to, firstly protect their financial position and secondly, to maximise their returns.

We would argue that it is only because we believe that we understand what is really going on with the economy and can see how things are likely to play out that we have been able to deliver the excellent results we have achieved so far.

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We are not aware of any other IFA firms in the UK who devised a defensive financial strategy to protect their clients from a collapsing economy three years before it began and then launched that strategy after the markets had recovered their post 9/11 losses thus enabling clients to consolidate gains and then exit the markets before they went into freefall.

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We also act as an intermediary between our clients and the stock brokers as once the client has agreed to our recommendations all instructions for the purchase and sale of the recommended gilt/s are passed to Brewin Dolphin to be carried out. We also manage clients SIPP accounts via the SIPPcentre online facility.

K A Lincoln is the director who clients deal with on all matters relating to the SFS.

## **Brewin Dolphin's role**

Brewin Dolphin Limited is the largest firm of private client stockbrokers in the UK. Their primary function is to buy and sell the gilts in client's portfolios and hold them in a nominee account being Giltspur Nominees Ltd. The holding is held electronically within the Crest settlement system rather than in a certificated form. This is done to protect your investment in the unlikely event that Brewin Dolphin becomes insolvent and to facilitate the fast completion of transactions.

Brewin Dolphin provides a comprehensive administration service which includes sending clients a quarterly valuation report and annual consolidated tax voucher. They are also responsible for paying any income into your nominated bank account where requested.

Brewin Dolphin only acts on written instructions from K A LINCOLN INVESTMENTS and does not offer financial advice and will not comment on individual clients investments held within the SFS.

## **The SIPPcentre role**

The SIPPcentre acts purely as a pension scheme administrator and trustee for clients who wish to transfer their pensions from other providers into the SFS and/or make new contributions on a single or monthly basis. As the SIPP Independent Financial Adviser, K A LINCOLN INVESTMENTS has online access to the clients SIPP account and is responsible for instructing the Investment Manager, Brewin Dolphin to invest the money. The funds to be invested are then transferred on line from The SIPPcentre to Brewin Dolphin.

## **What are costs of investing in the SFS?**

Please see the [Safety First Strategy - Fee Agreement](#)

## **How is the SFS taxed?**

UK individual investors are taxable on the interest receivable on the gilt/s held within the investment portfolio. Interest is payable gross. Gilts are not subject to capital gains tax, stamp duty or stamp duty reserve tax. No tax is payable on money invested within a SIPP.

Please refer to page 22 of the '[Investing in Gilts](#)' guide for more information.

Bank deposit interest payable on cash held within your portfolio is taxed at source at the 20% rate.

Please note that where applicable a 'Consolidated Tax Voucher' is included in the Valuation and Year End Tax Report - dated 5<sup>th</sup> April - so that you have the relevant information to complete a tax return.

## **Can I transfer my existing ISAs & Pensions to the SFS?**

Yes.

Please note that you can transfer your Cash ISA's into an ISA invested in gilts within the Safety First Strategy. This is an important point for savers who need income because with the dramatic falls in the base rate the income that some gilts provide is comparable (after charges) to the best paying 'easy access' savings accounts.

## Can I utilize my annual ISA allowance with the SFS?

Yes. This is currently £7,200 for a Maxi ISA

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BY THE FINANCIAL SERVICES AUTHORITY. IF YOU ARE UNSURE ABOUT THE SUITABILITY OF INVESTMENTS**

**PLEASE CONTACT US FOR ADVICE**

K A LINCOLN > INVESTMENTS is a trading style of MortgageMaude Limited  
Registered office: 11 Leeses Close, Shawbirch, Telford, Shropshire TF5 0NN.  
Registered in England and Wales Company No. 4946156.  
Authorised and regulated by The Financial Services Authority No. 303708

**t:** (01952) 249737  
**f:** (01952) 416867  
**e:** kim@kalincolninvestments.co.uk  
**w:** kalincolninvestments.co.uk

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