

Foreign exchange checklist

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- 4. Expert currency analysis** ✓
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- 5. The best service** ✓
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Email Address:	

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If you have provided your email address, you can request not to receive marketing emails from HL by writing to us or emailing us via our website. APITS 0209

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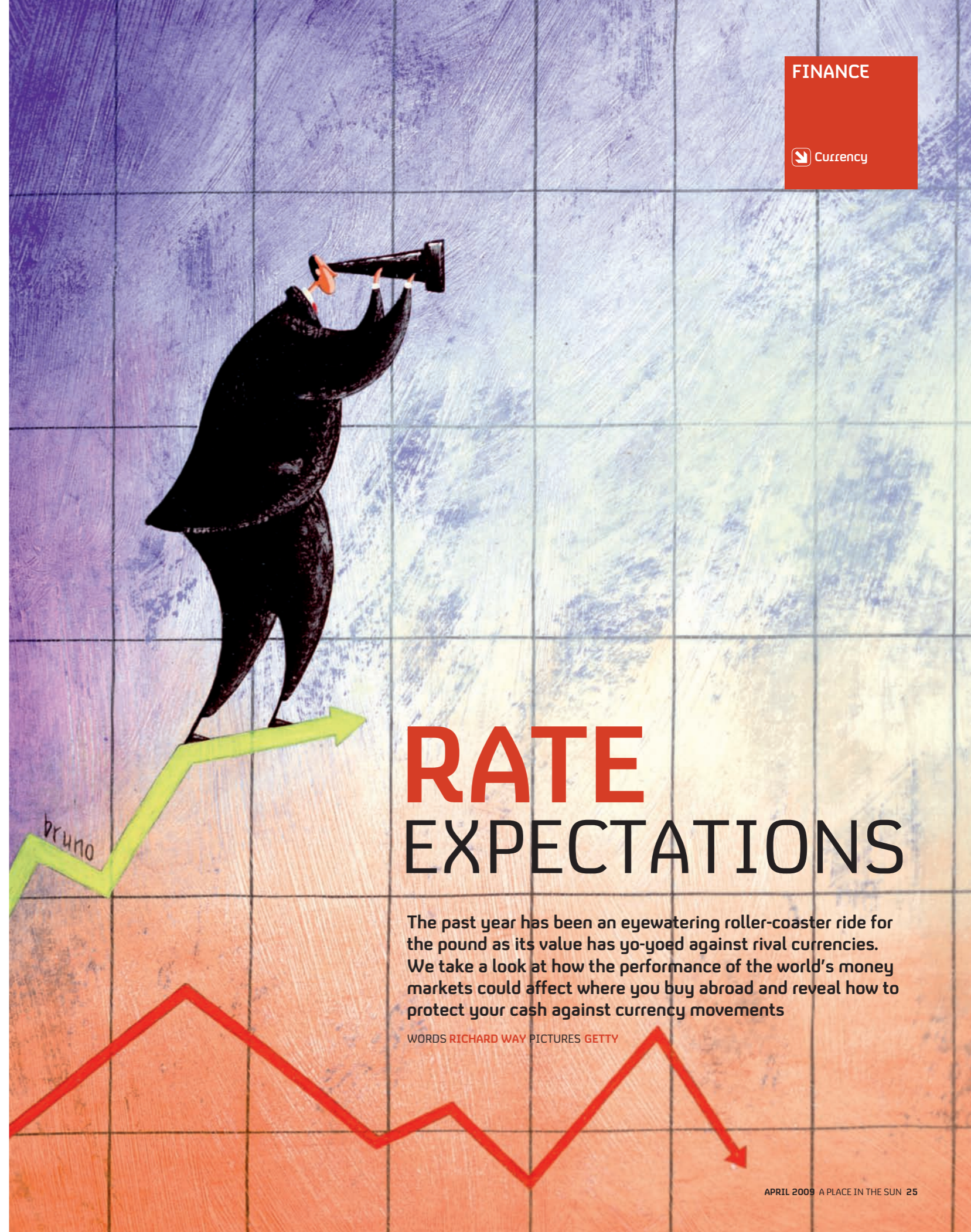
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Currency



RATE EXPECTATIONS

The past year has been an eye-watering roller-coaster ride for the pound as its value has yo-yoed against rival currencies. We take a look at how the performance of the world's money markets could affect where you buy abroad and reveal how to protect your cash against currency movements

WORDS RICHARD WAY PICTURES GETTY

Never before have British property buyers abroad been so affected by exchange rates. The pound's value has dropped to unprecedented levels against the euro and near-record levels against the US dollar.

To set the scene, at the start of 2008 one pound was worth \$1.98 (which rose to \$2 later in the year) and €1.36 (having fallen from €1.48 in September 2007). Today (28th January, 2009), according to currency conversion site www.xe.com, one pound will buy you just \$1.431 or €1.078. What will happen next, frankly, no one knows.

Anyone on the verge of buying in the Eurozone is likely to have suddenly backed off, in the hope that a few months or a year down the line, their pounds will be worth more – the strength of the euro has pushed up the cost of purchasing in Europe by around 25 per cent over the past 12 months. On the flip side, anyone who's managed to sell recently will be celebrating – they probably made a few grand, thanks entirely to the weak pound.

One group of people working at the frontline of volatile currency markets – who have had their work cut out of late – are currency specialists.

"December 2008 was busier than December 2007 for us," says Stephen Hughes, Associate Director at Foreign Currency Direct. "Before Christmas, we were moving people's money out of the UK because they had lost faith in the UK economy and just wanted to put their money somewhere safer. But in January it's been the reverse. We've had people repatriating money, either through selling property or simply moving money from a euro account back to the UK to take advantage of the weak pound and re-invest it in the UK where property prices have dropped."

No one likes to predict the future, especially in economic matters, but Hargreaves Lansdown Currency Service, an arm of the Bristol-based financial services company, recently released a survey in which it asked ten leading finance experts what their outlook was for the pound in 2009.

All experts surveyed predicted that the pound would be worth between €1.00 and €1.3 by the end of the year.

Thirty per cent saw a further fall from current levels, but half forecasted a return to the €1.201-€1.3 band.

For the dollar, half of those surveyed predicted the pound would end 2009 in the \$1.351-\$1.5 band. Forty per cent predicted a return to over \$1.5, with the most positive forecast putting it in the \$1.61-\$1.8 band, but one expert predicted a further fall, down to the \$1.201-\$1.35 band.

But in reality, how concerned should people buying a holiday home or retiring abroad be about currency movements?

"If you are buying for lifestyle reasons – not to 'beat the market' – and you can afford to buy the property you want at today's euro-pound or dollar-pound rate, then set up a currency transfer contract and secure that rate now," says Hughes. "Currency specialists can hold your rate for up to two years, so you know you'll still be able to afford your property in six months' or a year's time, whatever happens to the value of the euro or dollar. In all my time I've worked in currency markets, this is the only time I've had no idea which way things will go, so if you can afford it, do it."

David Johnson, Director of Halo Financial, echoes this, saying, "What is crystal clear from the events of the last few months is that expecting the unexpected is crucial because the best exchange rate can come and go in a blink of an eye and can certainly do so during 40 winks!"

You can of course purchase in the Eurozone and avoid the effects of the strong euro – by buying from developers that sell in pounds. Most of these companies have financed their developments in pounds through UK banks so are able to sell in pounds. But always check they haven't adjusted their prices to piggy-back on the pound's devaluation!

Right Property in Australia is good value, thanks to a decent exchange rate against the pound
Opposite below The exchange rate of sterling-Turkish lira is still reasonable, making buying a home in Antalya, for example, well within reach

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One such company is Ultissimo Ltd, whose Managing Director Paul Belcher says: "House prices in Italy have been steady in euros, which means they have risen more than 25 per cent in sterling terms. At the same time, we have maintained our early 2008 sterling prices, which means the devaluation has given sterling purchasers today a 25 per cent discount against current market values."

Similarly, French agent Leggett Immobilier promotes itself as "one of the only agents that favours sterling to sterling transactions". That said, they also point out that now is a prime time to make a below-asking-price offer in euros – specifically to British vendors moving back to the UK, who will directly benefit from the strong euro when they convert back to pounds.

Where the pound is strong

Brave investors looking to squeeze every penny out of an overseas purchase and stretch their pounds as far as possible will be looking for deals outside the Eurozone and countries that operate in US dollars.

"The few markets that still offer good value for UK investors seem to be Australia, New Zealand and South Africa," says Daniel Wray, Senior Currency Broker at FC Exchange. "These markets still represent decent value for your pound. The currency pair pound-rand has not really been affected by the credit crunch in the same way as pound-euro, pound-dollar and euro-dollar. It has ranged between 16 and 13.5 since 2007." In fact, the rand has fallen eight per cent against the pound over the last year.

Canada still has a very robust economy with fantastic financial fundamentals that support continued economic growth. It also has natural appeal and is an increasingly popular vacation and second-home choice for North Americans and Europeans. The east of the country offers good value for money. For example, in the resort of Mont Tremblant, two-bedroom townhouses close to skiing and golf are available for CAN\$269K (£156K).

Back in Europe, Turkey's affordable Mediterranean lifestyle is attracting an increasing number of British tourists

and the pound-lira rate hasn't moved much since December. There is also the chance to buy in pounds there – something Aegean Resorts offers. "Purchasers looking to buy within the Eurozone are really suffering with the exchange at the moment," says a spokesman for the company. "We sell in sterling and our properties are outside the Eurozone, so spending money goes further when people are in the resort."

And Cameron Deggin of Place Overseas, which sells luxury villas from £219K in Beycik, Antalya, says: "You could enjoy all four seasons amidst sea, forest and mountains for the price of a standard holiday apartment on the Spanish costas, thanks to competitive local pricing and a reasonable exchange rate, currently around £1 to 2.27 Turkish lira. It's also a good prospect for investors looking for stable rental income and medium- to long-term capital growth."

Like Turkey, Egypt is a sunny destination close to Europe but outside the Eurozone and with a growing residential tourism sector. A good example of the type of property available in one of the many Red Sea resorts is the five-star Palme Royale project in Hurghada. Experience International sells apartments, townhouses and hotel suites there in pounds, with prices from £61,772.

The adventurous might consider Tunisia, where the property market is in its infancy, thanks to the government only recently finalising legislation allowing for the transparent freehold ownership of real estate by foreign citizens. A development to consider is The Dunes on the beach at El Kantaoui.

FAST FACT >>

You need to keep an eye on the pound's performance against the dollar not only when buying in the US or the Caribbean, but also when purchasing in Dubai – the United Arab Emirates' dirham tracks the US dollar.

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Within reach of two main airports that offer direct and inexpensive flights to major European cities, on offer there are apartments from £22,578 for a studio. Resort facilities include a spa and swimming pool, Turkish baths, restaurant, bar, supermarket and a rental management company.

Why use a currency specialist?

You can't change what your pounds are worth but you can take precautions against losing money unnecessarily and maximise what you receive when buying foreign currency.

Your starting point for transferring money abroad is to use a currency specialist. Your high-street bank is likely to provide a money-transfer service but beware, banks can charge up to four per cent or more than a currency specialist on exchange rates – a difference that equates to an extra £4,000 on a £100,000 transaction. In addition, banks often add other charges including commission and transfer fees – charges that currency specialists generally waive.

Currency specialists do exactly as their name suggests. This means they understand what affects currency markets around the world and can read how currencies are likely to perform. They have access to 'live' inter-bank prices and buy and sell large volumes of currencies, which means they are able to get the optimum exchange rate for you, their clients.

Currency specialists have solutions geared specifically towards the needs of overseas buyers. Forward contracts

allow you to 'buy now, pay later'. When you buy currency this way, you are able to fix an exchange rate today and hold the rate for up to two years (length of time may vary). Fixing the exchange rate in times of uncertainty means you can effectively protect not just your pounds but the price of the property you are buying. To take advantage of a forward contract, buyers usually pay a deposit of 10 per cent of the total amount being transferred. Forward contracts are especially useful when buying off-plan and your payments are staged.

Another solution offered by currency specialists is for people who need to make regular payments abroad; this could be for mortgage repayments, pensions, salary transfers and property maintenance costs. Currency specialists collect your pounds by Direct Debit and automatically send the foreign currency abroad without charging commission or bank receiving charges – so you won't need to worry about arranging individual transactions through your bank.

"We've seen clients save around £10,000 over a 15-year French mortgage term through using our regular payment plan," says Hughes.

When you use a currency specialist you will be asked to open an account with them and you'll probably be given a personal account manager, who you can contact at any time to make a transaction or simply for advice. You will also need to have set up a bank account in the country you are buying or where you need the currency to be paid. ☺



FAST FACT >>

Crucial factors influencing exchange rates in 2009 include: relative speed of recovery from the recession, government borrowing and spending, risk aversion, currency speculation and interest rates.

ESSENTIALS



Card tricks

A number of foreign currency specialists have introduced prepaid 'currency cards' that work like debit cards abroad and do away with the hassle and expense of carrying cash or travellers' cheques. One example is the Travel Money Card from TorFX. This is a prepaid MasterCard that allows you to buy euros or US dollars at commercial exchange rates simply by registering online and paying by debit card. TorFX then sends you the credited currency card, which can be used at MasterCard outlets and ATMs worldwide. Topping up the card can be done via the TorFX website or an SMS text message.

As well as being convenient, with the Travel Money Card you benefit from highly competitive commercial exchange rates (which are based on the live "interbank" market price), no commission charges, and using Chip and PIN for security.

Turn over to see how one couple saved thousands of pounds by using forward contracts





A villa at Monte Pego, similar to the one the Prices have bought

"HOW WE SAVED THOUSANDS USING A CURRENCY SPECIALIST"

When Chris and Sue Price purchased their Spanish property last year they fixed the rates for their stage payments. As the value of the pound has plummeted, it's turned out to be a very wise decision...

INTERVIEW **RICHARD WAY**



Tell us a bit about yourselves.

We live in a small village in the Cotswolds overlooking Gloucester. We have three children and three grandchildren – so far!

I [Chris] am a company director of a business that produces safety and drainage products for the building industry. Sue is a retired company secretary.

Tell us about your overseas purchase.

We've bought a villa at Monte Pego, a development near Denia on the Costa Blanca. The property, which cost around €400,000 (£320,000 at the time of purchase or £371,000 on 28.01.09) is on a hillside overlooking orange groves, two miles from the sea.

Once finished it will have three bedrooms. We are hoping for completion in June this year. We are

buying the property initially as a holiday home but hope to retire there in the not too distant future.

How did you finance your property?

The property has been financed from life savings.

What is the payment structure for your purchase?

The payment structure comprises two contracts with the builder, one for the land and one for the construction.

After purchasing the land, we agreed with the builder before signing to make five stage payments.

The final payment will be made just over a year from the signing of the contract last March. We used an English-speaking solicitor based in Denia to look after our interests.

Why did you use a currency specialist?

We had some concerns as to how any exchange rate fluctuations would affect our purchase and so discussed this with currency specialist Foreign

Currency Direct (FCD). We decided that by buying the currency with forward contracts at fixed rates we would know exactly what our commitment was in sterling and could therefore budget efficiently.

FCD offered a transparent way of purchasing fixed rates of exchange for specific amounts of money at a series of future dates. The system has worked very effectively. We're so glad we agreed the contracts last March, as back then we had no idea that the credit crunch was coming or that the exchange rate would drop through the floor.

We've been very lucky buying the currency ahead as these transactions have saved us a considerable amount of money [see box below].

Do you have any advice for readers?

Anyone purchasing a property abroad should do as much research as possible. Talk to as many people as you can who have already purchased abroad and take plenty of time to think everything through. Become an expert for a short time as you would with any product. ⚙

The Prices' forward contracts

Here are the dates and rates the Prices fixed last March for their five currency transfers compared to the live market rates at the time of each payment. Today's (28.01.09) market rate is £1=€1.078, so it's looking like they'll be quids in on their final payment!

Date of transfer	Prices' fixed rates	Market rates
30th Apr, 2008	£1=€1.2544	£1=€1.274
13th Jun, 2008	£1=€1.2455	£1=€1.268
15th Sep, 2008	£1=€1.2326	£1=€1.261
19th Dec, 2008	£1=€1.2201	£1=€1.070
30th Apr, 2009	£1=€1.2040	

Historic market rates from www.x-rates.com. Forward contracts are designed to help you budget; they are not guaranteed to save you money and should not be used to gamble on currency markets. Fixed rates tend to be less favourable than live rates.

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