RECORD US INVESTMENTS The bull market across the pond	**ANNUITY OPTIONS** How to guarantee an income throughout your retirement	**ETHICAL FUNDS** Strategies for sustainable investment returns

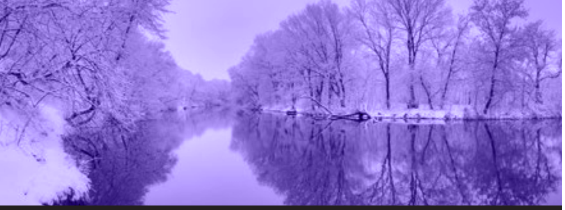
rosan helmsley
WEALTH MANAGEMENT

WINTER 2018

Quarterly Newsletter

The impacts of the 2018 Budget

What the increases and freezes mean for your money



WINTER 2018

In this issue...

Welcome to our winter newsletter, which brings you fresh news and advice on your money and investment opportunities. Our feature story this time looks at the details of the 2018 Budget, and how those headline increases play out across the rest of the tax system. Alongside that we look at the booming US stock market and the growing market for ethical and socially responsible investment funds. With recent data showing increasing life expectancy we offer some guidance on using annuities to guarantee an income in retirement. We also cover the key facts for your credit rating, and offer some tips on how to manage your data.

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Back Blighty – we usually win!

The term Blighty originated from the first world war and strikes me as a suitable metaphor when considering some of our country's current political challenges. Being wounded abroad and 'copping a Blighty' was a way to get back home post foreign inflicted pain! Many of us will be sick to death of the Brexit journey and the seeming inability of Theresa May and Government to negotiate a successful parting of ways with the EU.

The cynic might observe that electing a 'remainer' to strike a deal was only ever going to end up in the hedged deal that Parliament is being asked to consider today – rather reflective of our country's split decision to leave at the time of the vote.

Whatever your persuasion on our country's direction post the EU divorce, my position remains (as I wrote on the web site on June 26th – the morning after the referendum), that Blighty will emerge from this passage a stronger force.

This brings me to the current state of the UK stock market. Recognising when sentiment and fundamentals diverge is the prerequisite for making a good investment decision. Right now the UK stock market is cheap. BlackRock suggests that it has only been cheaper twice during the last 100 years and is on a 30% discount to the MSCI world index. It is at a 15 year low valuation to Europe and Morgan Stanley recognise the UK is at it's cheapest valuation compared to international rivals for 30 years. Some commentators have suggested that the UK is currently 'uninvestable' – I disagree.

All the big economic institutions including the BOE, Treasury and the IMF forecast immediate economic woe if we voted to leave the EU. They were wrong and the BOE had to publicly apologise afterwards. These same institutions missed the financial crisis in 2008. The inability to predict human behaviour when it comes to investment, spending and savings leads to a herd mentality, which merely serves to extrapolate the trends of the recent past.

There is no need to be scared of a so called 'no deal' exit. We know that the UK essentially trades with the rest of the world on WTO terms – and successfully – so there is no reason why it could not do likewise with the EU. The head of the WTO visited the UK last month and reported that an open door awaited the UK. WTO tariffs are modest at around 3-5% - they are not allowed to be higher.

We know 15-16% of our economy is accounted for by imports and exports, of which around half is with Europe. The present narrative against WTO terms creates the impression that the entire economy will be impacted. We also know inward investment is about relative advantage – lower corporation tax, our language and financial expertise, our universities and skilled labour forces- these are the key determinants not 3-5% tariffs.

There are also upsides to WTO terms. No more £40 billion payment to the EU, which instead can be used towards our One Nation agenda. 3-5% tariffs would provide significant additional revenue and no longer having to impose EU tariffs on imported foodstuffs could allow shop prices to fall. Not insignificant gains. So as Rothschild once said, buy when there is blood on the streets. Warren Buffett has made huge returns making contrarian investment decisions too. I will not be surprised to see the UK stock market as one of next year's best performers.

Storm clouds will clear and the UK will emerge a stronger trading force

This newsletter contains a number of articles on current topical industry and financial planning issues. Please do contact us if you wish to review any of the articles, or individual investment portfolios.

A happy Christmas and prosperous 2019 to all our readers.

Rob Sandwith | Chief Executive

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INVESTMENT

Lessons from a record bull run

The US stock market recorded its longest ever bull run in August 2018.

A new record was set for the Standard & Poor's 500 (S&P 500) index on 22 August 2018, when the market reached the 3,453rd day of a run that started on 9 March 2009. The index has also achieved numerous all-time highs as part of this run.

Bull markets are typically defined as periods starting with a market low point and ending when the relevant index falls by more than 20% – and they rarely last as long as this.

The S&P 500's current bull market started when the index hit the memorable low of 666 during March 2009. By 22 August 2018 the Index was at 2,871, a 331% increase from the depths of the financial crisis and an annual growth rate of 16.6%, before any dividends are considered.

Although the Dow Jones Industrial Average (DJIA) is often quoted as the performance measure of the US stock market, investment professionals prefer the S&P 500 as a benchmark. As its name suggests, the S&P 500 has 500 constituent companies, whereas the DJIA has just 30.

Over the same period, the UK benchmark the FTSE 100 roughly doubled in value. However, for UK-based investors, returns from the US could be marginally greater than those implied by the S&P 500 because the pound was at \$1.376 on 9 March 2009, whereas it was trading at only \$1.291 by 22 August 2018.

INVESTMENT STRATEGIES

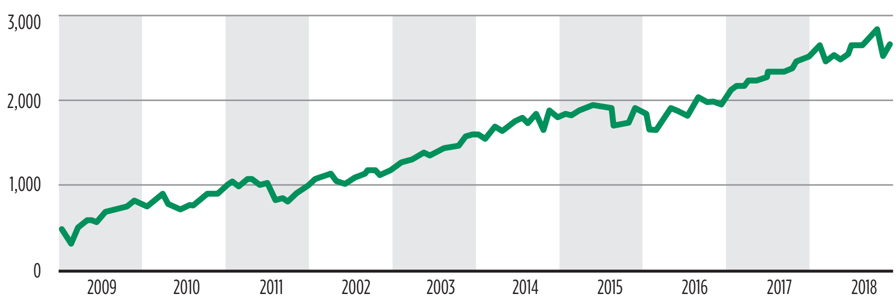
The nine years of a US bull market offer investors some lessons:

- International diversification of investment can deliver rewards. UK-based investors can pay the price of favouring funds investing in their home country. While many of the UK leading companies are multinational, no UK-listed companies have matched the performance of the likes of Apple or Facebook.
- Currency can play a part in adding to returns – or reducing them. Changes in currency valuations impact on both foreign-listed shares and UK-listed shares of companies with overseas earnings.
- Timing entry and exits to a market can be difficult. As the graph shows, US markets have seen a few small dips since 2009. Exploiting them successfully by selling at the high and buying back after the dip may appear easy – but only with hindsight. Staying invested and ignoring the market 'noise' has proved to be a sensible strategy.

Despite the success, the long-term rise in US shares has been labelled the 'most hated bull market' in history. Almost since its start in 2009, many market watchers have predicted its demise. So far, they have all been proven wrong.

If you want to review the global spread of your investments, why not ask us to calculate a geographical breakdown of your portfolio, drilling down into each fund's holdings?

Standard & Poor's 500 Index



The value of your investments and the income from them can go down as well as up and you may not get back the full amount you invested.

Past performance is not a reliable indicator of future performance.

Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

TAX

Headline increases and frozen thresholds in the 2018 Budget

The last Budget before Brexit proved to be more interesting than expected.

The 2018 Budget was delivered five months before the Brexit deadline and the start of the 2019/20 tax year. It threatened to be an interim affair, as decisions announced in October risk appearing seriously out of date by the time April arrives. In the event, Mr Hammond chose to be more radical than expected, declaring that, "austerity is coming to an end, but discipline will remain".

The main points of interest to emerge were:

- On 6 April 2019, the personal allowance will rise by £650 to £12,500, reaching the target originally set for 2020/21 in the 2017 Conservative manifesto.
- The basic rate band will increase by £3,000 to £37,500, making the higher rate threshold (personal allowance + basic rate band) £50,000. This also matches the 2020/21 target.
- Both the personal allowance and higher rate threshold will be frozen for 2020/21. They will rise in line with CPI inflation from 2021/22 onwards.
- Despite rumours, there were no changes to inheritance tax (IHT), which means the residence nil rate band rises to £150,000 on 6 April 2019. However, an overhaul of IHT could still emerge when Mr Hammond presents his Spring Statement.
- The pension lifetime allowance will increase to £1,055,000 for 2019/20, in line with CPI annual inflation to September 2018. There were no other adjustments to pension allowances.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- The capital gains tax annual exempt amount will increase to £12,000, in line with inflation, for 2019/20.
- There were minor technical changes to EIS funds, after the many changes to venture capital trusts and enterprise investment schemes in the 2017 Budget.
- The adult ISA contribution limit for 2019/20 was left unchanged at £20,000, although the limit for Junior ISAs did increase £108 to £4,368.

FROZEN THRESHOLDS

Many tax rates and thresholds were frozen, which offers a subtle way of raising

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additional revenue to Chancellors. This will be necessary as an examination of the spending commitments given in the Budget reveals that over £27.6 billion of a total £30.6 billion will be spent on the NHS by 2023/24.

For example, the main IHT nil rate band stays at £325,000, the threshold set back in 2009. The starting points for additional rate tax (£150,000) and the phasing out of the personal allowance (£100,000) also haven't increased since their introduction in April 2010.

Combined with the increase in the personal allowance, these frozen thresholds mean that from April the band of income potentially subject to 60% marginal tax (currently 61.5% in Scotland) covers half of the income between the £100,000 taper starting point and the £150,000 threshold for additional rate tax (45% or 46% in Scotland).

THE HIGHER RATE THRESHOLD

The increase to the higher rate threshold for 2019/20 has three knock-on effects:

- The upper earnings/profits limit for full rate national insurance contributions rises to £50,000, effectively clawing back nearly 40% of your income tax saving if you are an employee with earnings above £50,000.
- The income ceiling for pension automatic enrolment contributions could increase to £50,000, £3,650 above the current limit. Such a rise would coincide with the increase in minimum total contributions from 5% to 8% of 'band earnings' – £6,032–£46,350 in 2018/19.
- The £50,000 income threshold for the high income child benefit charge is unchanged for 2019/20, meaning it will apply once higher rate tax starts to be paid.

If you would like to discuss how the Budget affects you, please get in touch.

+ The value of tax reliefs depends on your individual circumstances.

Tax laws can change.

The Financial Conduct Authority does not regulate tax advice.


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PLANNING

Make your will the right way

Like all legal documents, your will must meet certain requirements.

Firstly, a will must be signed and witnessed to be valid. You must have two witnesses who can't be beneficiaries or be married to a beneficiary.

If your circumstances change – perhaps selling a business or having a child – you will need to update your will. These changes also need to be signed and witnessed.

If you marry, any previous will you have made will usually be invalid, so you must make a new one. Remember, unmarried partners don't automatically inherit, and stepchildren won't automatically be included in provisions for 'children'.

If you are excluding a close family member, make it clear why you are doing this and what you want done with the money. If your reasons aren't clear the individual could contest your will in the courts.

You should name at least two executors to sort out your financial affairs after you die. Executors can be beneficiaries, such as relatives or friends, or you could appoint a solicitor instead. If you don't do this the probate court will appoint an executor on your behalf.

+ The Financial Conduct Authority does not regulate will writing, trusts and some forms of estate planning.

This article is for general information purposes only. Please speak to a will writing professional for advice.

PLANNING

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Don’t ignore your credit report

An impact on your credit history could be one of the unexpected consequences of recent high-profile data breaches. With customers’ personal details being accessed from companies such as Sony and Facebook, fraudsters now have access to a huge amount of data.

The three main credit reference agencies (CRAs) are Experian, Equifax and TransUnion. They all have a statutory duty to provide consumers with a copy of their credit report and you can easily obtain a copy of your report online

It pays to be aware of your credit history. You can find out if your data has been compromised, and it will also help you understand your current credit status – which could turn out to be useful if you know you will soon be applying for a mortgage, loan or credit card.

The three main credit reference agencies (CRAs) are Experian, Equifax and TransUnion. They all have a statutory duty to provide consumers with a copy of their credit report and you can easily obtain a copy of your report online. It could be worth getting copies from all three agencies, because they may hold slightly different data, although there is bound to be significant overlap.

Lenders use the information in these reports to determine whether or not to grant you credit – and potentially what rate of interest will apply to you.

WHAT GOES INTO A CREDIT REPORT?

Your credit report will probably go back at least six years and will include:

- A list of all your current and previous credit accounts. This includes bank accounts, overdrafts, credit cards, mortgages, store cards and mobile phone contracts.
- Details of all late or missed payments. This will include details of other debts you have accrued, for example outstanding balances with utility companies.
- Records of any county court judgements against you, or if you have been declared bankrupt, had a home repossessed or entered into an Individual Voluntary Arrangement to clear debts.
- Details of any joint financial relationships, such as a joint mortgage or bank account.
- Whether you are on the electoral register.

It is worth paying attention to your credit history. If you have unpaid debts or a history of missed payments, you are less likely to get credit, at least at preferential rates. But there are other things that can count against you, including putting in a lot of credit applications in a short space of time or having no credit history at all.

You can use price comparison sites to do a ‘soft search’, which could help you find out which credit deals you are likely to be accepted for before putting in a formal application.

If the information held by the CRAs is incorrect, you can contact them to have it amended. It is also possible to add a note to your file, for example explaining the circumstances that led to a missed payment.

Credit reports should show if anyone has tried to apply for credit in your name. If this has happened to you, it is important to contact the agencies as soon as possible and alert the relevant financial company that this is a fraudulent application.

Most of these credit reference agencies also offer premium services for a monthly fee, which will alert you to any sudden change in your circumstances. This may be useful if you are concerned about your report or are preparing to make an important credit application.

INVESTMENT

Growing ethical investment for sustainable returns

Demand from investors has been growing for funds that combine financial returns with a social conscience. Over £16.7 billion is under management in ethical funds, a threefold increase over the past 10 years, according to figures from the Investment Association published in July.

While this is a very small proportion of the total amount invested in funds, many mainstream funds are starting to look at environmental, social and governance (ESG) factors as part of their investment process.

Recent legislation from the Department for Work and Pensions stipulates that pension trustees must now look at longer-term risk factors such as climate change. The FCA will also be consulting on this issue during 2019 in relation to pension funds.

Those that support responsible investment approaches argue this isn't just about doing the right thing: it is about managing longer-term risks and generating sustainable returns.

For example, some share prices may be adversely affected by such factors as climate change, or a poor health and safety record. Applying ESG factors may also help identify companies that could benefit by switching from investing in fossil fuels to renewables.

UNDERSTANDING THE ETHICAL MARKET

For those seeking a more principled approach to their pension or ISA savings, it is important to understand some of the different terms and approaches used.

Dark Green Funds: These funds follow strict ethical guidelines and typically screen out certain sectors completely, such as armaments, fossil fuels, tobacco or gambling industries.

Light Green Funds: These funds have a less strict remit. 'Light green' funds take a 'best of breed' approach. For example, rather than avoiding all oil companies they may invest in those with the best track record of developing renewable energy, or the most ethically responsible companies in their field.

ESG Factors: Fund managers may look at ESG factors as part of their stock selection process. This means looking at a company's track record on issues such as climate change, waste and pollution, deforestation, working conditions, employee diversity, health and safety, executive pay, board structure and tax strategy. Funds that apply an ESG process don't necessarily screen out any sectors, but they aim to invest in companies that have good ESG practices.

Impact Investing: Rather than avoiding certain sectors, your money can be invested in companies or projects that have the potential to deliver positive social or environmental outcomes.

Sustainable, responsible and impact investing (SRI): This umbrella term covers an investment strategy that accounts for both ESG factors, and a positive societal impact. The aim is to deliver long-term returns for investors.

Remember when choosing funds that these terms aren't necessarily mutually exclusive. It is possible to have a dark green ethical fund, which screens out certain sectors, but also considers ESG factors to help decide which other companies to invest in.

Please get in touch to discuss your ethical investment options.

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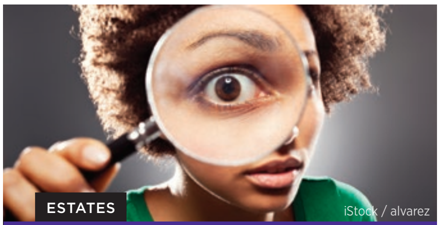


ESTATES

Focus on inheritance tax returns

HMRC investigated almost one in four inheritance tax (IHT) returns in 2017/18, according to research published in September by UHY Hacker Young.

HMRC can impose penalties of up to 100% of the tax due on UK estates that underpay. These penalties apply even though it is often a family member who acts as executor after a relative has died. Executors have a legal duty to ensure all information is correct when applying for probate or filing an IHT return.

Particular care should be taken to ensure property values reflect current market conditions, and that assets are not omitted from the return. Not all estates will be liable for IHT. The rules can be complex, so seek advice if necessary.

✢ *Levels and bases of taxation and tax reliefs are subject to change and their value depends on individual circumstances.*

The Financial Conduct Authority does not regulate tax advice.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

PENSIONS

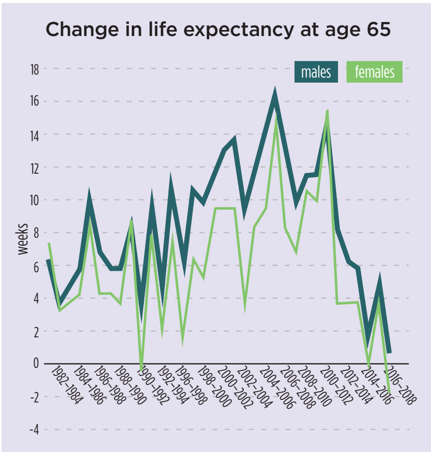
Annuity options for long-life planning

Life expectancy has stopped increasing, according to a report from the Office for National Statistics (ONS) issued in September, but we are still living longer than ever before.

Between 2000 and 2010, average life expectancy at age 65 rose by 2.4 years for men and by 1.8 years for women. However, since 2010 improvements have slowed markedly and the latest figures from the ONS show almost no change from those issued a year ago. On average, a man aged 65 in 2015-2017 could expect to live for another 18.6 years, while a woman aged 65 could survive for a further 20.9 years.

The important word here is 'average'. Other calculations by the ONS suggest that a man aged 65 now has a one-in-four chance of living for another 29 years, to 94, while a woman has the same chance of living another 31 years, to 96. There is a 7% chance that a man aged 65 now could survive to 100, and an 11% chance for a woman.

Such long terms are challenging if you are considering how to invest your pension fund to provide an income throughout your retirement.



THE ANNUITY OPTION

For those with a pension fund to invest, taking out an annuity is the only way to guarantee income for however long you live. However, since the introduction of pension flexibility, annuities have fallen out of favour. The latest FCA figures suggest over five times as much money is placed in income drawdown as annuities, despite the investment risks and ongoing management involved in drawdown.

While drawdown does have major benefits in many circumstances, the important role of annuities in providing secure income is in danger of being ignored.

Annuity income can be structured in a variety of ways to incorporate automatic increases – for instance in line with inflation – minimum payment terms and/or continuing until the second death of you and your partner. Importantly, once the framework is chosen, there are normally no future changes. That gives security but makes the initial choice of annuity design all the more important.

If you would like more information on annuities, perhaps to provide a core level of retirement income alongside drawdown, please talk to us. We can supply guidance based on your health and lifestyle circumstances.

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WEALTH MANAGEMENT

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