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SPRING EDITION 2017

YOUR WINDOW ON FINANCIAL MATTERS

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WHY DIVERSIFYING YOUR ASSETS COULD BE THE BEST STRATEGY FOR 2017

As the government begins the process of leaving the EU, this year looks likely to mark a significant watershed for the UK economy and its relationship with the rest of Europe.

On the international stage, there is considerable uncertainty about what the Trump administration will mean for business and trade, both in the US and around the world.

THE US ECONOMY

Donald Trump wants his administration to bring jobs back to the US, and will revisit trade deals the US has with a variety of world partners. Many predict he will be in for a bumpy ride, reasoning that policies that looked workable on the campaign trail may be more difficult to implement in government. However, investment pundit, Warren Buffett, doesn't believe Trump will throw the stock market into chaos, or cause a recession. His advice is to keep the long haul in mind.

THE UK

The International Monetary Fund (IMF) has raised its forecast for the UK's growth this year, following better-than-expected performance since the Brexit vote. It now expects the UK to grow by 1.5%, compared with its previous forecast of 1.1%.

EUROPE

With national elections due in France and Germany, some see signs of a break-up of the Eurozone on the horizon. If these cracks were to deepen, then there would be implications for the financial markets, the economy and business.

DIVERSITY HOLDS THE KEY

So, investors are bound to be thinking about their portfolios, and considering what they need to do to provide a degree of future-proofing for their investments. If markets look likely to experience increased volatility, then the old adage about not putting all your eggs in one basket certainly holds true. Ensuring that your assets are diversified across a range of investments such as equities, bonds and property, in a variety of sectors, and in UK and overseas markets, makes good sense.

Many investment professionals agree that, although it doesn't guarantee there won't be losses, diversification is the most important component in reaching long-range financial goals, while minimising risk.

It makes sense to keep your portfolio under regular review where appropriate; this will help ensure that you are invested in the most suitable assets and that your portfolio is still in line with your investment objectives.

SPRING BUDGET 2017 KEY POINTS

- The Office for Budget Responsibility (OBR) forecasts the UK economy will grow by 2% in 2017
- UK's national debt now stands at almost £1.7 trillion or a sobering £62,000 per household
- Tax-free dividend allowance will be reduced from £5,000 to £2,000 from April 2018
- £425 million investment in the NHS in the next three years
- £536 million for new free schools and to maintain existing schools
- A three-year NS&I Investment Bond with a market-leading interest rate of 2.2% available for 12 months from April 2017
- The Lifetime ISA available from 6 April this year
- £435 million to support businesses affected by the business rates relief revaluation

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

DOES HOW YOU INVEST REFLECT YOUR GENERATION?

The way we view our savings and investment reflects when we were born, to a remarkable degree.

Those aged 51 to 70 (Baby-Boomers), for instance, are more likely to feel that they have been particularly lucky with their cash. This generation saved hard for the future, and relied less on loans and credit card borrowing. They've also lived through periods of very high interest rates – the Bank of England base rate reached 14.875% in October 1989. They understand that economic performance can be cyclical.

They are likely to have a high proportion of their investment money in the stock market, and put their trust in fund management. Not surprisingly, one of their biggest concerns is low interest rates. Overall, they remain relatively optimistic about the economy.

THE FEARS OF THE YOUNG

At the other end of the age range, Millennials are more likely to see the UK's departure from the EU as a major risk to their investment prospects. By contrast, Generation X, who in age fit between Baby-Boomers and Millennials, see low interest rates as a positive force for good, making mortgages and loans more affordable.

PORTFOLIO MANAGEMENT

The under-35s are likely to spend considerable time online researching alternatives and consulting multiple sources before making major investment decisions. They also check up on their portfolio more often. Baby-Boomers tend to feel more able to dabble in shares in markets at home and abroad, while those aged over 70, the so called 'silent generation', are also likely to have 80% of their invested money in the stock market.

CHANGING GOALS

Whatever your current age, it's highly likely that your investment goals will change over the years as you go through different stages of your life. No matter what age you are it is vitally important to keep a close eye on your investments and review them regularly.

ARE YOU FACING A MID-LIFE SAVINGS CRISIS?

Have you started to save for your retirement? If the answer is 'not yet', sadly you are not alone. With the cost of living rising, it seems that many people are putting off saving into a pension, or not saving at all.

Financial pressure in the form of rising rents and escalating house prices, coupled with a period of low wage growth, has taken its toll on would-be savers.

Britons are facing a mid-life savings crisis, according to research from a major insurance group[1]. A third of British adults aged 35-39, equivalent to 1.3 million people nationwide, report having no pension cash saved, despite fast approaching their peak earning years.

The picture is equally bleak for Millennials; almost two in five adults aged 25 to 34, equating to 3.2 million people across the UK, aren't saving into a pension either.

RETIREMENT PROSPECTS

Putting off making proper provision for retirement could mean financial hardship in later life. Even delaying saving for a couple of years can have a major impact on the level of income you can expect at retirement. The earlier you can start saving into a pension, the more time your money has to grow. Saving into a workplace scheme, such as under auto-enrolment, has the added benefit of employer contributions, which means extra free cash goes into your pension fund. Any money you contribute yourself, within HMRC annual and lifetime allowances, is also boosted by tax relief.

It's important to remember that the state pension was only ever intended to be a safety net, and is unlikely on its own to be sufficient to provide a comfortable retirement. Plus, the state pension age continues to rise and will reach 67 by 2028. So, put starkly, not saving in your younger years could mean that you will have to work for longer in order to be able to afford to retire.

[1] Zurich, 2016

INVESTMENT RISK AND VOLATILITY – HOW TO KEEP YOUR COOL

With interest rates currently at very low levels, and inflation starting to climb, savers aren't seeing great returns. So, many are considering putting their money into the stock market.

However, adjusting to a world where stock prices can rise and fall, often by a wide margin on just one day, can take a bit of getting used to, and volatile markets can feel like an unsettling roller-coaster ride. So, what is the key to managing your investment portfolio during turbulent times?

KEEP A CLEAR HEAD

Firstly, as Rudyard Kipling wrote, it's important *"to keep your head when all about you are losing theirs."* Investment requires a disciplined approach, and a degree of holding your nerve if markets drop. Investment professionals know that markets can be volatile and will inevitably go down as well as up from time to time. They know the worst investment strategy you can adopt is to jump in and out of the stock market, panic when prices fall and sell investments at the bottom of the market.

HAVE A PLAN IN PLACE

So, instead of being worried by volatility, the best strategy is to be prepared and speak to an adviser. A well-defined investment plan, tailored to your goals, that takes into account your financial situation, your income requirements and your capital needs can help you weather short-term fluctuations in markets. Market volatility is also a timely reminder to keep your investments under regular review, so that you can help ensure that you have the right exposure and weighting to different stocks in a variety of markets – UK and global.

Your risk profile should be visited on a regular basis with your adviser. Much depends on your investment time horizon. Younger investors may be happy to invest in assets with a higher potential for growth, but those closer to or in retirement may want to opt for a more conservative approach that offers less risk and reduced volatility.

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PENSION SAVERS SET TO MISS OUT ON UNCLAIMED TAX RELIEF

Are you in a Defined Contribution Pension, such as a Stakeholder Pension or Personal Pension, or a SIPP? If you're a higher rate taxpayer, you could be missing out on free cash because you haven't claimed the correct tax relief on your pension contributions. This would be a shame, as tax relief on contributions represents a major reason for investing in a pension.

TAX RELIEF EXPLAINED

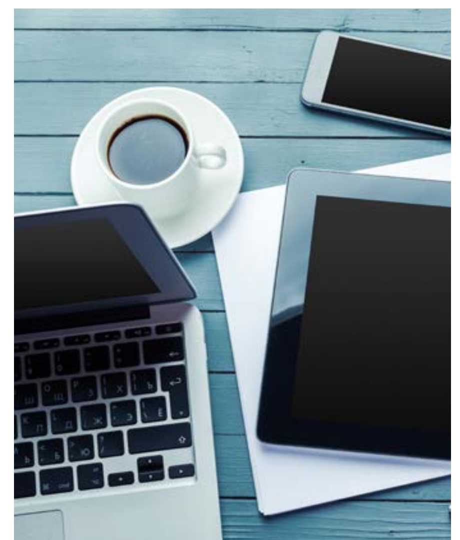
For every £80 you contribute to your pension, your pension company will reclaim a further £20 in tax relief, meaning they invest £100 on your behalf. If you are a higher rate taxpayer, you are entitled to tax relief at the higher rate of 40%.

With a large number of the UK's 7.9m personal pension savers failing to claim the full amount of tax relief that they are entitled to receive on their pension savings, this could add up to a substantial sum over the course of an average working life.

This often happens because payments into pension schemes are made after deducting basic rate tax at 20%, and many savers who are higher-rate taxpayers overlook the fact that they are entitled to receive 40% tax relief, but may not be aware that they need to claim it via their tax return.

CLAIMING TAX RELIEF

If you complete an annual return, then you should include your personal pension contributions. HMRC will then give you higher-rate income tax relief through your tax calculation. If you don't complete a tax return, then you should write to them and detail your pension contributions. HMRC should then update your tax code to take account of this, and include an allowance for your contributions in your tax calculation.



Tax treatment depends on the individual circumstances of each client and may be subject to change in the future.

WHAT FAMILIES NEED TO KNOW ABOUT THE RESIDENCE NIL-RATE BAND

April 2017 sees the introduction of a new Inheritance Tax (IHT) nil-rate band that is available in addition to an individual's own nil-rate band of £325,000. It covers the main residence (or other qualifying property the deceased had lived in) when it is passed to descendants.

The new Residence Nil Rate Band (RNRB) will apply if you want to pass such property to a child or grandchild. It's important to note that only direct descendants (including adopted, foster and step-children) can benefit, and that doesn't include nieces and nephews for example. So not everyone will be able to rely on it for IHT planning purposes.

GRADUAL IMPLEMENTATION

The allowance is being introduced in stages over four years, with a limit of £100,000 from April 2017, rising to £175,000 per person in 2020. This is in addition to the individual allowance for IHT, which currently remains unchanged at £325,000.

HOW IT WORKS

Once the changes are fully implemented, they will mean that each parent will be able to leave £500,000 in assets that include a 'family home' component of at least £175,000. As the allowance can be passed from one partner to another on death, when the first partner dies their allowance can be transferred to the surviving partner, meaning that they will then have an allowance of £1 million. Where an estate is worth over £2 million, the family home allowance (but not the individual allowance of £325,000) reduces by £1 for every £2 of value above £2 million.

POINTS TO NOTE

Only one residential property will qualify for the relief, but it is possible to nominate which property is to qualify if there is more than one in the estate. Properties that the deceased has never lived in, such as buy-to-let properties, will not qualify.

DOWNSIZING PROVISIONS

The family home doesn't need to be owned on death to qualify. This is a help to those who may have downsized or sold their property to move into care or to live with a relative. The RNRB will still be available, provided that the property disposed of was owned by the individual and would have qualified for the RNRB had the individual retained it, and provided that the replacement property or assets form part of the estate passed to the descendants.

To qualify, the downsizing or the disposal of the property must have taken place after 8 July 2015. There is no time limit on the period between the disposal and the date of death.

REVIEWING YOUR WILLS

It makes good sense to review the terms of your Will. The RNRB may be lost if the main residence is placed into a Discretionary Will Trust for the benefit of children or grandchildren. However, the rules surrounding the operation of the RNRB and the use of trusts is a complex area of law, and professional advice should be taken.

Tax treatment depends on the individual circumstances of each client and may be subject to change in the future. Not all Inheritance Tax Planning solutions are authorised and regulated by the Financial Conduct Authority.

SIMPLY PUT

Alpha explained

Maybe it's terminology you are familiar with, if not, here's what Alpha means in the investment world – in a nutshell.

Alpha basically indicates to the investor whether the manager of a fund is doing his or her job successfully.

It tells you how the fund is performing relative to the benchmark it is aiming to beat. Alpha takes the volatility of a fund and compares its risk adjusted performance versus a benchmark. The return of the fund versus the benchmark will determine whether the fund and manager have either a positive or negative Alpha.

So, in practice, if a fund's selected benchmark is the FTSE 100 and the index returned 7% over a defined period of time whilst the fund returned 10%, the fund will have a positive Alpha (this is a good thing). If another fund returned 5% over the same period, that fund would have a negative Alpha versus the index (this is a bad thing).

When used as a longer term comparison versus the index, the Alpha will tell you the value that the active fund manager brings, compared with the benchmark he/she is aiming to outperform.

It is important to take professional advice before making any decision relating to your personal finances. Information within this newsletter is based on our current understanding of taxation and can be subject to change in future. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK; please ask for details. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from taxation, are those currently applying or proposed and are subject to change; their value depends on the individual circumstances of the investor.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated. If you withdraw from an investment in the early years, you may not get back the full amount you invested. Changes in the rates of exchange may have an adverse effect on the value or price of an investment in sterling terms if it is denominated in a foreign currency. Taxation depends on individual circumstances as well as tax law and HMRC practice which can change.

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