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YOUR WEALTH WINTER 2019

INSIDE THIS ISSUE

2018 WAS A DAMP SQUIB AND MORE VOLATILITY IS EXPECTED DURING 2019

2018 saw renewed volatility in global stockmarkets caused by the ongoing uncertainty with regards to Brexit as well as the trade wars between the US and China which spooked investors. World stock markets experienced sharp declines in the last quarter of 2018 and in fact, all major indices were in negative territory for the year (the FTSE 100 Index was down by more than 12% on a capital basis).

During the recovery from February's stock market correction, it felt that the upsurge in equities, particularly in the US, was uncomfortable. This was because the correction had not followed the usual pattern such corrections are known to follow and therefore did not seem to provide a particularly solid base for a durable upturn. Sadly, this was justified and in the first two weeks of October we witnessed global markets experience a meaningful sell off, which continued into November and December.

Regrettably the whole of 2018 has turned into a disappointment for investors across almost all asset classes. According to a study by JP Morgan none of the 17 major asset classes (equities, bonds, etc.) has outperformed the rate of inflation (something that has not happened since they started tracking these figures in 1992).

The correction to lower valuation levels means that stocks no longer look expensive relative to earnings and the historic context. It can be argued that they are now pricing in a considerable amount of economic slowdown for 2019, which is by no means a given. However, compared to the end of 2017, the outlook for 2019 is fraught with more uncertainties.

Economic growth momentum has slowed everywhere, even in the US where Trump's fiscal stimulus continues to boost the economy at the expense of creating public debt burdens for future generations. The trade uncertainties from Trump's 'America First' trade wars and a still unclear shape of Brexit can no longer be expected to be neutralised by elevated business activity levels.

We have no crystal ball but moving forward it is reasonable to expect that, in this late phase of the economic cycle, investors need to brace for slightly lower overall investment returns and higher levels of volatility. Lower overall returns because fixed interest bond holdings, while still reducing risk, struggle to contribute positive returns when interest rates and yields rise back to more normal levels and profit margins of stock market quoted companies come under pressure (as rising wages from tightening labour markets and higher cost of capital increase the cost of business activity).

This episode is obviously painful for investors who have only recently invested from cash. For long term investors, it is just another period of volatility which is part and parcel of healthy capital markets and the risk discomfort factor that rewards equity investors with higher long-term returns than lower risk bond investors.

So, after two quite pleasing years for investors, 2018 turned out to be an even more damp squib than we had anticipated. However, as the froth is removed, we suspect that more active, fundamentally-driven investment approaches have a genuine opportunity to add value in the coming years.

The general view is it is likely that we will see further market volatility in the coming months and therefore having a well-diversified portfolio is more important than ever. This is done by proper diversification, at an asset class, geographic, market cap and fund level. Unfortunately, there is no one silver bullet in ensuring portfolios are protected against market moves.

BUY-TO-LET – WHAT DOES THE FUTURE HOLD?

Being a buy-to-let landlord is much tougher than it once was. Many landlords entered the market a few years ago, attracted by the low interest rates they were charged for borrowing money, and the tax relief that was available to them on their mortgage interest payments.

However, during George Osborne's Chancellorship, changes in the tax rules were announced that reduced the mortgage interest tax relief available, and additional rates of Stamp Duty (and equivalent taxes in Wales and Scotland) were imposed on those buying second homes or buy-to-let properties. This means that landlords are set to find their income tax relief on mortgage interest restricted to 20% by 2020. Plus, the recent rise in interest rates has meant the cost of borrowing has gone up. More landlords are setting up as limited companies for tax reasons; 18% of private rentals in England are now owned by limited companies.

BUY-TO-LET ISN'T DEAD YET

Despite the tax changes and the potential for buy-to-let mortgage costs to rise, landlords are still entering the market. Renting remains buoyant; plenty of people prefer to rent or feel priced out of the property ownership market and need somewhere to live.

If you're thinking of becoming a buy-to-let landlord, it makes sense to begin by working out how much it is likely to cost to buy a property, what your borrowing costs will be, and what expenses you'll incur putting it on the rental market.

You'll need to factor in all the associated costs, such as gas and electricity safety inspections, insurance, regular maintenance and any agent's costs, if you intend to use a letting agent. Then you'll need to work out how much rental income you're likely to make, including any periods where the property might be empty, and you won't be receiving rent. This calculation will help you assess whether this type of investment is worthwhile for you.

When looking for a property, one near good transport links and with easy access to local amenities is always likely to be attractive, so choosing the right area is important. It also pays to form a view of the type of tenant you expect to attract; that way you can opt for the right décor. If you're aiming to attract students, clean and comfortable would work, but if you're thinking of young professionals, something more modern and stylish might be more appropriate.

A mortgage is a loan secured against your home or property. Your home or property may be repossessed if you do not keep up repayments on your mortgage or any other debt secured on it.

PENSION SCAMS LOSSES JUMP 71%

You may have seen the TV advert addressing pension scams. The figures make stark reading, with the average amount lost being £91,000[1].

The government had planned to introduce a ban on cold-calling, one of the most frequent ways in which scammers contact their victims, but this is now unlikely to come into effect until next year. Many of the scams that are currently in operation start with an unexpected phone call, email, text or social media approach.

April 2015 saw the introduction of changes to the pension regulations that gave people greater freedom to access money held in their pension funds. Since then, fraudsters have been attempting to separate people from their hard-earned pension savings, and the losses reported have risen alarmingly.

In the light of the recent rise in scams, City regulators are redoubling their efforts to warn people in their 40s, 50s and 60s of the tell-tale signs that they are being conned, and alert them to the risk of pension fraud.

IF IT SEEMS TOO GOOD TO BE TRUE…

Fraudsters invariably put forward what on the face of it are convincing stories. However, beneath all the smooth sales talk, many of the scams turn out to promise unfeasibly high levels of return, or offer novel investment opportunities that are unauthorised or simply don't exist.

HERE ARE SOME SIMPLE TIPS FOR AVOIDING FRAUD:

- Reject unexpected pension offers whether made on social media, online, or over the phone
- Check out anybody you intend to deal with on the Financial Conduct Authority register. Here you'll be able to see if they are authorised
- Don't be put under pressure; making victims feel they must act swiftly is all part of the scam
- Seek financial advice before taking any action involving your pension.

[1]Action Fraud 2018

A pension is a long-term investment. The fund value may fluctuate and can go down. Your eventual income may depend on the size of the fund at retirement, future interest rates and tax legislation.

TRIGGER MOMENTS – HIGHLIGHTING THE NEED FOR PROTECTION

Have you got the protection policies that you need? It pays to begin thinking about insurance cover once you take on financial responsibilities such as buying a house, or starting a family.

If you weren't able to work and earn money due to illness or injury, how long would you and your family be able to survive financially?

We can offer advice about cost-effective policies, that can provide peace of mind and protect your lifestyle.

FAMILIES NEED FUTURES

Starting a family is an exciting and fulfilling time. Having children is a big responsibility, and every parent's top priority is to protect and nurture them. You'll want to plan as wisely as possible for their future too. You'll need life assurance to ensure that if anything were to happen to you, your family wouldn't be left struggling financially.

If you haven't already done so by this stage, you might want to think about income protection and critical illness cover, as well as private health insurance.

A big promotion, a larger mortgage, further additions to your family are all times when you should think about the amount of insurance protection you have, and get some good advice about the plans you need.

EMPTY NESTERS

It can be easy to think that your days of needing insurance are behind you, but you may find life policies have a valuable part to play in passing on your wealth to future generations. If your spouse depends on your pension, you may want to take out a policy that would provide funds on your death.

If policies are written in trust, the proceeds can be paid to the beneficiary without the need to wait for probate to be obtained.

Income protection (with no investment link) has no cash in value at any time and will cease at the end of the term. If you stop paying premiums your cover may end.

HURRAH! PENSION TAX RELIEF UNCHANGED

Although there had been much speculation, the Chancellor stopped short of major pension changes in his 2018 Budget speech, leaving pension tax relief unchanged. Other than the raising of the Lifetime Allowance in line with the Consumer Prices Index to £1,055,000 for the 2019-20 tax year, the rules surrounding pensions will stay the same.

AN INCENTIVE TO SAVE

Pensions continue to offer enticing tax breaks aimed at encouraging us all to provide for our later years. If you contribute to a pension, or if your employer deducts your payments from your salary, you automatically get 20% tax relief as an additional deposit into your pension pot. Higher-rate taxpayers can claim an extra 20%, while those paying additional-rate tax can claim back an extra 25%. At age 55, you can take 25% of your savings as a tax-free lump sum. There are different ways of doing this, including taking the tax-free cash only, taking part of the tax-free cash, taking a lump sum including the tax-free element and taking the whole pension fund including the tax-free cash.

BAN ON PENSIONS COLD-CALLING

The Chancellor announced that the long-awaited ban on pensions cold calling would at last be implemented following Parliamentary review. Cold calling is a common tactic used by scammers to try and access pension pots and has resulted in people losing substantial amounts to fraud.

The government's new rules make it illegal for companies to call people out of the blue and discuss their pension plans. Unsolicited calls are banned and only companies authorised by the Financial Conduct Authority who have your prior permission, or a trustee of your workplace scheme, will be allowed to call about your pension.

KEEPING YOUR PENSION PLANNING ON TRACK

If you're self-employed, an employee, work part-time, run your own business or have accumulated pension pots with past employers, we can offer you the advice you need. If it's been a while since you checked out your pension, then why not arrange to see us for a review?

A pension is a long-term investment. The fund value may fluctuate and can go down. Your eventual income may depend on the size of the fund at retirement, future interest rates and tax legislation.

RETIREMENT MORTGAGES: WHAT YOU NEED TO KNOW

Banks and building societies are increasingly aware that people want to borrow later in life, and many are developing new ways to support them.

The rules on retirement mortgages have been changed and lenders can now grant interest-only mortgages on the basis that the property will be sold to repay the loan when the borrower dies or moves into care. This means that, for instance, retired borrowers can now re-mortgage their interest-only loan when it comes to an end, using one of the newer mortgage products on offer.

The money borrowed through retirement mortgages can be used to pay off an existing loan, boost pension income, fund home improvements, travel the world or help a family member onto the housing ladder.

RETIREMENT INTEREST-ONLY MORTGAGES

Similar in many ways to standard interest-only mortgages, you pay interest on the loan each month. Borrowers are required to meet affordability criteria and be able to demonstrate that they have sufficient income to be able to make regular interest payments for life. There is no set end date and the loan is redeemed when you die, go into care or sell the property.

LIFETIME MORTGAGES

Lifetime mortgages, also known as equity release mortgages, are available to those aged 55 and over. The loan is secured against your home, allowing you to release some of the equity, the cash value you've built up in your property. The mortgage loan and the accumulated interest is paid off when the last surviving owner of the property dies, sells the home or goes into residential care.

PROFESSIONAL ADVICE PAYS

If you're an older borrower looking for a mortgage, it makes sense to work with us. We know the market well and can recommend the right deal for your circumstances.

A mortgage is a loan secured against your home or property. Your home or property may be repossessed if you do not keep up repayments on your mortgage or any other debt secured on it.

Think carefully before securing other debts against your home.

IHT IN FOCUS

Inheritance Tax (IHT) receipts hit £5.2bn in the 2017-18 tax year according to statistics from HM Revenue & Customs, an increase of 8% on the previous year's figure.

IHT is a complex tax that many believe needs a complete overhaul. Earlier this year, Chancellor Philip Hammond announced a review of the tax and its operation, asking the Office of Tax Simplification, an independent adviser to the Treasury, to put forward proposals to ensure that the tax was fit for purpose, and more streamlined in its operation. The results of the consultation are expected back in time for the Autumn Budget.

AREAS OF CONCERN

Two areas of the IHT rules that many people can find unfair and difficult are the operation of the residence nil-rate band and the rules surrounding making gifts.

As it currently stands, the regulations governing the operation of the residence nil-rate band penalise those who don't have direct descendants and so wish to leave a property to, say, a niece or nephew. They don't have this allowance at their disposal when IHT on their estate is calculated.

Those calling for a review of the rules on gifting often express the view that the annual gift allowances have remained at the same level for many years and are now out of date, citing as an example the rather arbitrary annual tax-exempt gift allowance of just £3,000.

The individual tax-free threshold which has remained at £325,000 since 2009 comes under criticism for failing to keep in line with inflation, and with rising property values has meant more families have been drawn into the IHT net.

Many would opt for combining all the many allowances and reliefs into one larger allowance. However, for now we will have to wait and see.