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YOUR WEALTH SUMMER 2020

**INSIDE THIS ISSUE**

BE SCAM AWARE

PORTFOLIO PONDERINGS – KEEP ONE EYE ON THE HORIZON

GLOBAL ECONOMY ON THE ROPES

THINK BEFORE YOUR ACT – PENSION WITHDRAWALS

SAFETY NET FOR SAVERS

NUMBERS WORTH KNOWING IN 2020-21

TIMING PAYS OFF FOR THE EARLY BID INVESTOR

IN THE NEWS

# PROTECT YOUR FAMILY'S FINANCIAL FUTURE

**Taking the time to properly plan your estate involves balancing the goals of ensuring you have sufficient funds to live on, as well as organising your finances so your assets are protected for your loved ones when you are not around anymore.**

Obtaining a comprehensive view of your assets is a good place to start; this will enable you to properly value your estate, whilst checking you have the right documentation in place.

## DOT THE I's AND CROSS THE T's

Detailing your wishes about how you want your estate managed upon your death, once you've valued your estate, will ensure that when the person looking after your estate applies for probate, they will know exactly what your wishes were. Having a valid Will in place and setting up trusts to manage money or other assets on behalf of beneficiaries are vital components of successful estate planning. Different trusts provide an alternative to direct inheritance or transfer of certain parts of an estate, giving you control over who receives what and when. Lasting Powers of Attorney (LPA), covering 'property and financial affairs' and 'health and welfare' are worth establishing sooner rather than later.

## REDUCING YOUR IHT LIABILITY

With careful planning, the amount of Inheritance Tax (IHT) payable on your death can be reduced, enabling assets to pass to your family or other beneficiaries as intended. The current IHT nil-rate threshold is **£325,000** for individuals and **£650,000** for a married couple or civil partners. Any unused portion of the nil-rate band can be passed to a surviving spouse or civil partner on death. Beyond these thresholds, IHT is usually payable at a rate of **40%**.

A main residence nil-rate band applies if you want to pass your main residence to a direct descendant; certain forms of trust may mean disqualification, so take expert advice. This allowance is currently **£175,000**; when added to the existing threshold of £325,000 this could give rise to an overall IHT allowance of **£500,000** for individuals, or **£1m** for those who are married or in civil partnerships. Larger estates will find that residence relief is tapered, reducing by £1 for every £2 by which the net estate's value exceeds £2m.

A relatively straightforward way of passing money on during your lifetime, is gifting from surplus income. Conditions apply, and advice would be needed to ensure that the gifts are made in the right way.

## ADVICE YOU CAN TRUST

To ensure your money ends up with the people you want, for the reasons you choose — we can help, so you pass on assets in the most effective, tax-efficient way.

**The value of investments and income from them may go down. You may not get back the original amount invested. 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.**

# LESSONS FROM THE PAST ON SPREADING RISK

Five decades ago, a little-known company was dominating the headlines as the price of its shares propelled northwards, before plummeting back to earth a couple of months later. Mining company Poseidon announced the discovery of new nickel ore reserves in Western Australia just as world nickel prices hit a new high.

## POSEIDON AND POLLY PECK – THE RISE AND FALL

In the second half of 1969, Poseidon shares had been trading at A$0.80, when all of a sudden, the price climbed week on week as investors pounced. In February 1970, the shares reached A$280.00, before profit-taking ensued and the share price plunged. After nickel prices tailed off, Poseidon nickel ore was regarded low quality and receivership followed in 1974. Twenty years later and a little-known fashion house, Polly Peck, suffered a similar fate. Acquired by new owners in 1980, a number of deals brought such growth that the company's shares entered the FTSE 100, but ten years later, in 1990, Polly Peck shares were suspended amid fraud allegations.

## TOUGH LESSONS LEARNT – DIVERSIFY YOUR PORTFOLIO

With many investors in Polly Peck and Poseidon suffering losses, a painful lesson was learnt about the concentration of risk. As a general principle, investment in individual equities or shares should be spread around, so that if one share price falls heavily it only affects a proportion of your overall portfolio. For many investors, a good way to achieve a spread of risk is through collective investment schemes with risk profiles aligned to their specific requirements. Taking your objectives and needs into consideration, we can advise on the investment strategies and products most appropriate for you.

# BE SCAM AWARE

Several UK bodies, including the Bank of England, National Crime Agency and the Financial Conduct Authority (FCA), have warned people to be particularly vigilant about scams, many of which are targeting vulnerable people, such as those who have lost their jobs or are under greater financial pressure in the current climate.

## MILLIONS OF VICTIMS

Recent figures[1] show that over five million people in the UK had fallen victim to, or knew someone who had been duped by, a financial scam since the beginning of the virus outbreak.

The most common financial scams relate to banking, accounting for 60% of victims. A further 35% had been targeted by an insurance scam. Fraudsters have also been offering free pension reviews and one in five consumers reported having been targeted by a pension scam.

## SCAMSMART

To check whether an investment or pension opportunity is legitimate, you can use the FCA online scam checker, which can be found here: www.fca.org.uk/scamsmart

## ADVICE FROM THE GOVERNMENT

Government advice for consumers to protect themselves from fraud includes checking the company's credentials via a reliable source such as the FCA's Financial Services Register, being wary of deals that sound too good to be true, not giving out personal details, not clicking on links from unknown senders and seeking professional financial advice before making any decisions. The official advice can be found here: www.gov.uk/government/news/be-vigilant-against-coronavirus-scams

## GUIDANCE IN UNCERTAIN TIMES

We are more vulnerable and likely to fall victim to scams when anxious, stressed or suffering financial pressures, so if you are unsure about any financial opportunities that come your way, please contact us. Rest assured, we're here to keep you and your finances safe during this period of uncertainty.

[1]Canada Life, 2020

**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. The value of investments and income from them may go down. You may not get back the original amount invested.**

# PORTFOLIO PONDERINGS – KEEP ONE EYE ON THE HORIZON

**As economic challenges endure, it's good to maintain the mindset with your investments, it's 'time in the market, not timing the market' that really matters. Research[2] has explored the concept and the numbers make some compelling reading.**

In the midst of the dot-com boom (March 2000), if someone invested £1,000 in the average investment company* and reinvested the dividends, the original investment would have been worth £3,665 as at 6 April 2020, a 267% return. The 20-year period includes the dot-com crash, the global financial crisis and COVID-19 related market falls.

The Association of Investment Companies' Annabel Brodie-Smith reflected on these findings: *"The bursting of the tech bubble and the global financial crisis saw huge falls in markets… However, investors who were able to stay invested or even invest during the downturn would have been richly rewarded over the long term. No one has a crystal ball, but these returns show the power of long-term investment and why it can often pay to have one eye on your portfolio and the other on the horizon."*

[2]AIC, April 2020

*'Investment company' includes investment trusts and other closed-ended investment companies but excludes venture capital trusts and 3i Group plc

## GLOBAL ECONOMY – ON THE ROPES

**The response to the pandemic, involving governments imposing a range of lockdown measures, will inevitably have an enormous impact on economic activity around the globe.**

On home shores, early data for the first quarter provides an indication of the economic damage, showing GDP fell by 2% in the UK, with the economy shrinking by 5.8% in March alone. An even larger decline was registered in the 19-country Eurozone, with output across the bloc dropping 3.8% in Q1. Italy and France plummeted into recession, with quarterly contractions of 5.8% and 4.7% respectively. In addition, the German economy also tipped into recession with GDP down 2.2% in Q1.

### US AND CHINA ECONOMIES CONTRACT AND HOSTILITIES INTENSIFY

Preliminary estimates on the US economy suggest the record streak of expansion experienced since 2014 had ended, with a contraction of 4.8% in the first quarter.

Meanwhile, the world's second-largest economy, China, shrank at an annualised rate of 6.8% during Q1. The Chinese authorities have abandoned setting a growth target, acknowledging the challenges facing its economy amid heightened international disquiet due to the fallout from the pandemic.

### WHAT DOES THE FUTURE HOLD?

Ongoing uncertainty surrounding the virus and the likelihood of developing a successful vaccine, make it challenging to predict the future path of the global economy. A recent assessment from the International Monetary Fund (IMF), suggests we are facing the steepest economic downturn since the Great Depression. While the IMF has emphasised its predictions are marked by '*a higher-than-usual degree of uncertainty*', it is forecasting a rebound in 2021, with the global economy expected to grow at a rate of 5.4% as activity normalises. They have stressed though, that if a second global wave did occur, that could effectively keep the world in recession for a second consecutive year.

## THINK BEFORE YOU ACT – PENSIONS WITHDRAWALS

**In the first quarter of the year, nearly £2.5bn was withdrawn from pensions. This represents a 19% increase on Q1 2019 withdrawals and the highest recorded Q1 of any year since pensions freedoms began[3].**

The total value of flexible withdrawals from pensions, since flexibility changes in 2015, has now exceeded £35bn.

### TAKE YOUR TIME TO MAKE THE RIGHT DECISION

With pensions designed to provide you with an income throughout your retirement, it is sensible to consider all your options before making any decisions. You will have less to live on in the future if you take out more money than you need or start to withdraw funds sooner.

[3]HMRC, Apr 2020

## SAFETY NET FOR SAVERS

The number of people enquiring about and opening savings accounts surged in the spring, as they sought to secure a safe home for their money and to lock into favourable rates before interest rate cuts fed through to savings rates.

The good news is that the Financial Services Compensation Scheme (FSCS) can provide a safeguard adding a valuable level of reassurance for UK savers. For any money you hold in an account with a UK-authorised bank, building society or credit union that fails, the FSCS will compensate you:

- up to **£85,000** per eligible person, per bank, building society or credit union
- up to **£170,000** for joint accounts.

### FINER DETAIL

The FSCS will automatically cover you; you do not need to take any action. You need to be on top of your cash balances because the cover applies to the total sum of money held, and because some banks share a banking licence, this will affect how much of your money is protected. So, if you hold over £85,000 / £170,000, it needs to be spread across different banks that don't share a licence to benefit from the protection. If you hold multiple accounts with banks that share the same banking licence, anything you hold over £85,000 / £170,000 in aggregate will not be protected. Keep on top of your cash balances with our help.

## NUMBERS WORTH KNOWING IN 2020-21

**Knowing the various tax allowances and exemptions available in 2020-21 can help you maximise their use for your own individual financial planning. These are some of the numbers worth knowing:**

### PERSONAL TAXATION

The National Insurance threshold is now **£9,500**. The Personal Allowance has remained at **£12,500**, while the **£50,000** higher-rate threshold remains unchanged in parts of the UK where Income Tax is not devolved.

### INHERITANCE TAX (IHT)

The current IHT nil-rate threshold is **£325,000** for individuals and **£650,000** for a married couple or civil partners. IHT is usually payable at a rate of 40% beyond these thresholds. The main residence nil-rate band, which applies if you want to pass your main residence to a direct descendant, has increased to **£175,000** per individual.

### PENSIONS

A major attraction of paying into a pension is the tax relief available. This is 20% for basic rate taxpayers, 40% for higher rate and 45% for additional rate taxpayers.

The Annual Allowance for pensions has remained at **£40,000**. For those with an income above **£240,000** (£200,000 threshold income plus the £40,000 you can save into a pension) the Annual Allowance begins to taper; for every £2 of adjusted income above £240,000, the Annual Allowance for that year reduces by £1. The minimum Annual Allowance has reduced from £10,000 to **£4,000**.

The Lifetime Allowance – the maximum amount you can have in a pension over a lifetime – has increased to **£1,073,100**.

From 6 April, the new single-tier State Pension increased to **£175.20** per week and the older basic State Pension rose to **£134.25** per week.

### INDIVIDUAL SAVINGS ACCOUNTS (ISAs)

The ISA allowance, including the Lifetime ISA allowance if used, remains unchanged at **£20,000**. The annual amount you can save into a JISA (Junior Individual Savings Account) or Child Trust Fund has increased substantially, from £4,368 to **£9,000**. ISAs represent a tax-efficient way of saving or investing and the JISA is a great way of building up funds for your child.

### PLANNING PAYS

The choice of tax-efficient products plays an important part in successful saving and investing, but it should not be the sole driver of your savings or investment decisions or steer you away from achieving your core goals.

Our advice will consider the sensible steps you can take to reduce the amount of tax you pay, safeguarding your wealth in the future.

## TIMING PAYS OFF FOR THE EARLY BIRD ISA INVESTOR

**Investors could be thousands of pounds better off by investing their full ISA allowance at the start of the tax year, compared to a last-minute ISA investor or even one who drip feeds money each month, according to research[4] which examined the investing habits of hypothetical ISA investors over the last 10 and 20 years.**

The study concludes that if you were an 'Early Shirley' and invested your full allowance on 6 April for the past 20 tax years, you would be nearly £12,000 better off now than 'Last Minute Lara' — someone who had waited to invest on the last day of each tax year.

For those unable to afford the full ISA investment in one lump sum, consider investing like 'Monthly Monty', who uses a monthly savings plan to drip-feed money into an ISA. This approach is also likely to achieve better returns than investing it all at the last minute. The research figures show that by splitting your annual ISA allowance into 12 monthly investments, your investment would have grown to £296,247 over 20 years, which is still £7,496 more than if you had waited until the last minute.

[4]Fidelity International, April 2020. Total Return in GBP of FTSE All Share

## IN THE NEWS...

### CONTACTLESS PAYMENTS – THE 'NEW NORMAL'

The shift to contactless payments has accelerated in recent years and even more so during the pandemic, helped by an increase in the contactless limit from £30 to £45 on 1 April. Research[5] conducted between 10-12 April has revealed that two thirds (66%) of card transactions in the UK were contactless and almost half (45%) of UK adults admit their use of cash has decreased throughout the pandemic; 76% of respondents say they will continue using contactless payments after the crisis.

### £20 SELLS FOR £7.5K

A new polymer £20 note has changed hands for £7,500 after going under the hammer at a secret auction. Listed with a guide price of between £3,000 and £4,000, the note sold for 375 times its face value, with the proceeds going to charity. The plastic £20, featuring artist JMW Turner, had a serial number of AA01 000010 and is likely to be the lowest numbered note in circulation. Whenever a new note enters circulation, the Queen is gifted the first one, which contains the AA01 000001 serial number.

### CHANGES TO LISA WITHDRAWAL RULES

Temporary changes to the Lifetime ISA (LISA) withdrawal rules have been announced to help people who want to access their funds earlier than planned. You can use a LISA to save up to £4,000 a year towards your first home or retirement and the government adds a 25% cash bonus of up to £1,000 a year on top. Previously, if you made a withdrawal and you weren't aged 60 or over, a charge of 25% was applied to the amount withdrawn. The withdrawal charge has been reduced to 20% between 6 March 2020 and 5 April 2021.

[5]Mastercard, 2020