

Your Window on  
**Wealth**

AUTUMN 2019



## Tending your portfolio will make it bloom

All successful gardeners will understand the need to regularly tend their plants, shrubs and lawns in order to ensure a garden can flourish. And, for investors, taking a similar approach with their financial affairs can also bear fruit by ensuring their investment portfolios don't become neglected and, as a result, underperform.

### Weeding, sowing...

As with a garden, your investment portfolio requires regular careful attention in order to ensure it continues to grow. Typical tasks include weeding out any perennially underperforming funds and switching to potentially more profitable ones and, for those with new money to invest, sowing the seeds of your portfolio with carefully selected additional new investments.

### ...pruning and trimming

Another important task is pruning. This will ensure your investment portfolio stays balanced and continues to fully reflect both your current and long-term financial goals as well as any changes in your appetite for risk.

It may also require taking profits at certain points in time to ensure you are using any potential tax allowances.

However carefully your initial range of investments were selected, your portfolio will also inevitably get out of shape over time. This creates an ongoing need to regularly review the allocation of different asset classes, such as cash, equities, bonds and property. And such a review may result in the trimming back of certain assets in order to restore balance to your portfolio.

### Help is at hand

Many people now seek professional help to create and maintain their garden and it's obviously wise for investors to do the same thing. Indeed, with ongoing political and economic uncertainties causing increased market volatility, there has arguably never been a more important time to seek professional financial advice. Keep in touch, so that we can help you keep your investment portfolio in full bloom.



## The growing appeal of multi-asset funds

It's no secret that, in recent times, a combination of geopolitical uncertainties, weaker growth and increased volatility has heightened awareness of risk amongst investors. And this, in turn, has sparked fresh interest in multi-asset funds, as investors try to manage risk and protect capital whilst also seeking growth opportunities.

### Why invest in multi-asset funds?

Multi-asset funds invest in a combination of asset classes, which typically include equities and bonds, but can also cover a wider range of assets such as property and commodities. Their appeal is that they provide diversification and thus ensure investors 'do not put all their eggs in one basket'.

### Surge in sales

Increased interest in this sector has fuelled a surge of new money into existing funds and a flurry of new fund launches too. According to Morningstar, there are now 1,027 UK domiciled multi-asset funds, while Investment Association data shows the mixed-asset sector was last year's best-selling asset class with net retail sales of £7.9 billion.

While the wide choice of funds is clearly great news for investors, it has enhanced the need to seek advice.

**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.**

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### FCA TO TACKLE WEB FRAUD

The Financial Conduct Authority (FCA) has established a 'war room' to tackle suspect investment schemes advertised online. This follows a wave of internet scams, often targeting vulnerable pensioners. The team aims to curtail the increasing number of internet-enabled fraudulent schemes, often operated by small groups of criminals, which are defrauding consumers out of hundreds of millions of pounds.

### NS&I ATTRACTING YOUNGSTERS

National Savings & Investments (NS&I) has seen a sharp rise in new customers under the age of 16. This increase is partly attributed to a raft of Premium Bond rule changes, including lowering the minimum investment from £100 to £25. And further rises are expected later this year when, for the first time, any adult will be able to buy Premium Bonds for any child.

### HMRC 'CLUELESS'

A Freedom of Information response obtained by Royal London<sup>1</sup> has revealed that HMRC 'hasn't got a clue' how many fines have been issued for breaches to pension tax relief rules. The rules are complex and Royal London is arguing that, if large numbers of people are being fined, the industry needs to know so customers can be alerted to the issue.

<sup>1</sup>Royal London, July 2019



## Over-55s struggle with pensions jargon

**A recent study<sup>2</sup> has found that a significant proportion of over-55s struggle to understand a range of key terms and rules relating to pensions. The survey asked 2,002 UK adults to identify and define various pension-related terms and acronyms.**

### Baffled...

Findings from the survey highlighted a serious lack of pensions knowledge, even amongst those people who have already reached an age where they can access any defined contribution personal pensions savings they have accumulated. With only one in five baby boomers (aged 55 to 75) able to correctly identify the definition of the Lifetime Allowance and almost two in three incorrectly defining the Annual Allowance, it is clear that many people are struggling to understand the terminology relating to their pensions.

### ...and confused

In addition, very few respondents were able to correctly identify key pension acronyms.

For example, only 4.5% recognised TVAs (transfer value analysis) and just 1% identified TVCs (transfer value comparator) as pensions acronyms. Adding to the confusion, around 4% of respondents in each case thought that the texting acronym LOL, the television shopping channel QVC and the footballing term 'offside' were all pension-related terms.

### Cutting through the jargon

If you are one of the baffled and confused, then don't panic, you're certainly not alone! We know that many people view pensions as complex products and are often bemused by the complicated array of acronyms and jargon pension providers use. Funding your retirement and feeling confident that you understand your pension products is vitally important. So, we're here to help. We'll cut through the jargon, explain everything in plain English and help guide you through the pensions maze using language you'll understand.

<sup>2</sup>Portafina, June 2019

# Drawdown retirees unaware of income flexibility

**A YouGov survey commissioned by Zurich<sup>3</sup> has revealed that most retirees in drawdown are unaware they can vary their level of income. And, perhaps unsurprisingly, the research also found those not receiving financial advice were more likely to be in the dark.**

## Importance of advice

The study suggests over half of individuals who have unlocked their savings since the introduction of pension freedoms in 2015 were unaware they could scale back or stop withdrawals from their pension funds despite flexible income being a key feature of drawdown.

A stark difference was also revealed in the knowledge of those who had sought advice and those who hadn't. Indeed, while only 35% of non-advised retirees knew they could reduce drawdown income, 77% of respondents receiving ongoing advice were aware of this fact.

## 'Pound-cost-ravaging' trap

There is a danger to this ignorance as it puts investors unwittingly at risk of draining their pension pots if stock markets fall. This is known as 'pound-cost-ravaging' (not to be confused with 'pound cost averaging') and is where people are forced to sell more investments to achieve unsustainable income levels. Engaging with your drawdown savings is vitally important; we're here to help you plan effectively.

<sup>3</sup>Zurich, June 2019

*...over half of individuals who have unlocked their savings since the introduction of pension freedoms in 2015 were unaware they could scale back or stop withdrawals from their pension funds...*



## Making the most of your time and money

**Analysis of HMRC data<sup>4</sup> has highlighted the fact that a majority of pensioners are continuing to save for their future. The latest HMRC statistics reveal that the average value of an ISA held by someone aged over 65 now stands at £47,000, an increase of £4,500 on the previous year.**

### A cautious approach

The data indicates that many pensioners may be putting aside money to cover unforeseen costs, such as a broken boiler and to buy more expensive one-off items rather than relying on their day-to-day income to pay for such things.

It seems other over-65s are continuing to save through fear of running out of money and whilst this may be a good idea in many cases, some over-65s could be living unnecessarily frugal lives as a result of this fear.

### Finding the right balance

It is always a fine balancing act ensuring you plan for your future without forgetting to live in the present. Seeking sound financial advice can help to ensure you achieve the right balance.

<sup>4</sup>Just Group, May 2019



# Interesting times ahead

**Recent data shows the global economy faltered in the second quarter of 2019. Policymakers have begun to respond, with the US Federal Reserve (Fed) cutting rates for the first time in a decade, but with the US-China trade dispute rumbling on and another Brexit deadline looming, fears of a global recession have increased.**

## Economic growth

Second-quarter gross domestic product (GDP) statistics have revealed a significant weakening in growth across most major economies. In the US, for example, GDP rose at an annualised rate of 2.1%, significantly below the 3.1% recorded in the first quarter, while China's annualised growth rate of 6.2% was the country's weakest since records began in 1992.

## Fed reduces rates

With fears of a potential downturn growing, the Fed cut its key benchmark interest rate by a quarter of a percentage point on 31 July, the first reduction in US borrowing costs since 2008. It also signalled a readiness to provide further support if the economic outlook deteriorated further.

## Recessionary fears

Global growth momentum has clearly waned in recent months and the balance of risks to the world economy appear skewed to the downside. The US-China trade war continues to cast a shadow over growth prospects, while the increased likelihood of a disorderly Brexit is also causing consternation.

***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.***

***The information contained within this newsletter is for information only purposes and does not constitute financial advice. The purpose of this newsletter is to provide technical and general guidance and should not be interpreted as a personal recommendation or advice.***

## INHERITANCE TAX UPDATE

The Office of Tax Simplification (OTS) has published a second report in relation to its Inheritance Tax (IHT) review. The report, published in July, spans 103 pages and is entitled 'Simplifying the design of Inheritance Tax'.

### Recommendations

The report explores the main complexities and technical issues associated with IHT, making 11 recommendations which the OTS believes would make the tax easier to understand. Four of these relate specifically to lifetime gifts and aim to streamline gift exemptions and change the way the tax works in this area to make it simpler and more intuitive.

Other recommendations consider IHT in relation to businesses and farms,

addressing distortions in the operation and scope of reliefs such as those for business property and agricultural property. A further recommendation focuses on the interaction between IHT and Capital Gains Tax.

### An unpopular tax

The OTS has acknowledged that IHT remains unpopular and raises strong emotions amongst the public. The Treasury, who commissioned the report, said it will respond to the recommendations in due course. We'll keep you updated on any further developments.

***The Financial Conduct Authority does not regulate some forms of taxation advice.***

## Focus on what really matters

Many investors are getting used to a variety of political, financial and economic factors and learning to look through the 'noise' to focus on what really matters. Portfolio diversity holds the key to approaching your investments and managing risk. Having different assets in your portfolio from different sectors and global regions is helpful in achieving this. It is important to think about longer-term timescales instead of focusing too intently on short-term events and market fluctuations.

What is clear is that financial advice is essential to help position your portfolio in line with your objectives and attitude to risk. Remember to get in touch if you have any changes in your personal circumstances which may affect your objectives, risk and capacity for loss.

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## UK DIVIDEND OUTLOOK

**Although the overall level of dividend payments recently rose to another all-time high, the outlook is less favourable, and it may be time to temper expectations.**

### Underlying weakness

According to data<sup>5</sup>, total dividends paid by UK listed firms rose to £37.8 billion in the second quarter of 2019, a rise of 14.5%. This can be attributed to the continued Brexit-related weakness in sterling and buoyant special dividends. The exchange-rate effect accounts for half the underlying growth rate. UK dividends benefit from the weaker pound because multinationals earn the majority of their profits overseas.

The data also revealed a distinct weakening in the underlying growth of UK company payouts. And this weakness implies a more cautious outlook for future dividend payments.

<sup>5</sup>Link Asset Services, July 2019

**IF YOU WOULD LIKE ADVICE OR INFORMATION ON ANY OF THE AREAS HIGHLIGHTED IN THIS NEWSLETTER, PLEASE GET IN TOUCH.**

