360

from *AW Financial Management*

April 2022

Welcome to our Easter edition of 360 which, for Christians, is a time to celebrate the hope symbolised by Christ's death and resurrection. Yet, this year, it comes at a time of intense pain and hardship for the citizens of Ukraine as they endure the brutal and criminal invasion by their neighbour. There currently seems to be no obvious resolution to this aggression as Ukrainian forces— military and civilian — continue steadfastly to defend their nation so we pray for them and to an end to the unjustified suffering being inflicted on their men, women and children.

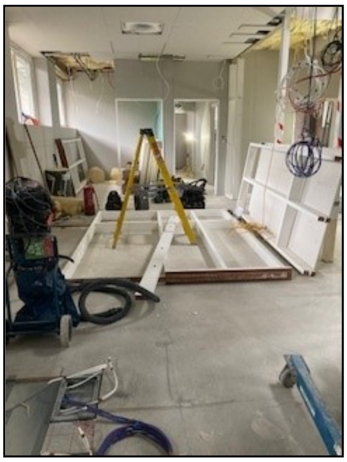
To all of our clients, we wish you every blessing for a peaceful and happy Easter break.

In this issue

Premises Update

It is now over two years since the Partners first identified potential new office premises for AW Financial management and the vision is now approaching reality. Much of the co-ordination needed has been expertly handled by Harin although at some personal cost — he tells us sleep was recently disturbed by dreams of colour schemes, soft furnishings and carpet samples!

Inevitably timescales have needed to be reviewed and adjusted but we are pleased to report that the slippage has been relatively minor and (tentatively) we are now envisaging moving in early June.



No - Martin wasn't about to jump in this earlier image (above) of external works on site! In fact, we have been very pleased with all of the progress made to date — almost on time and budget, which is a rare feat.

Over the next month or so the internal spaces will be transformed from their current appearance (ground floor, right) as the plasterers and decorators get to work. We will be communicating with you our new address as soon as we have a confirmed moving date. Thereafter, you can look forward to the usual welcome in our new, Farningham, surroundings.

Global Markets and Your Portfolio

This table reflects performance of the ten AWFM-managed investment strategies over the course of the last three and 12 months.

Description	AWFM Risk Model	Ethical		Unrestricted	
		3m	1yr	3m	1yr
Low Risk	1	-6.78%	-3.95%	-6.16%	-3.46%
Low to Medium Risk	2	-7.09%	-2.60%	-7.59%	-4.59%
Medium Risk	3	-7.32%	-1.48%	-7.35%	-3.22%
Medium to High Risk	4	-8.25%	-1.04%	-6.81%	-0.31%
High Risk	5	-7.91%	-1.23%	-9.33%	-8.90%

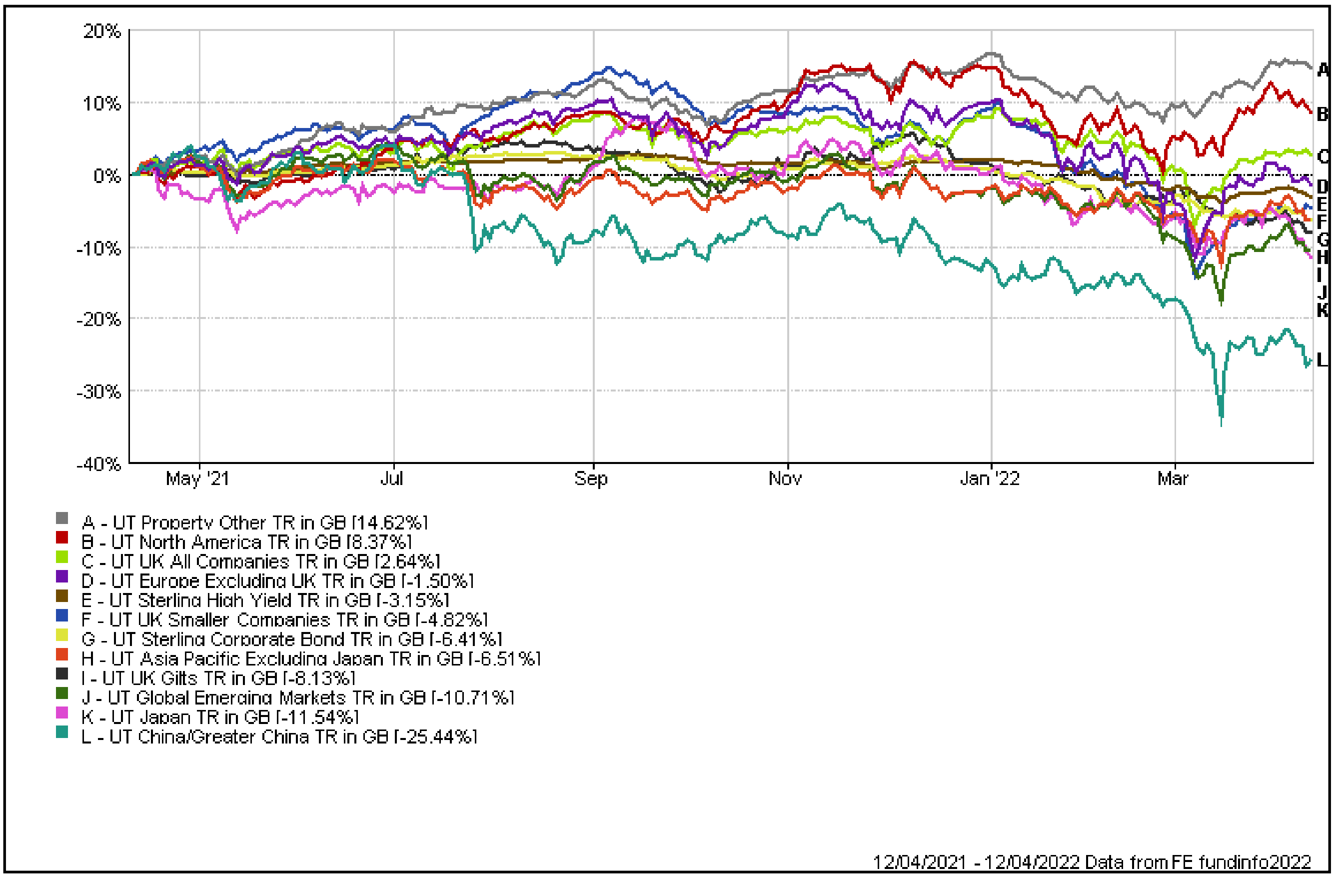
Just under two months ago, President Putin defied all reasonable expectations and began his assault on Ukraine. The horror of what has been, and still is, unfolding there is clearly incurring a very significant human cost and warrants all of our attention.

In investment terms, financial markets were troubled by the outlook for interest rates before the events in Eastern Europe. From the turn of the year there has been an expectation of central banks ratcheting up interest rates as a means of cooling inflation which, as we write, has ticked up to 7% - its highest level since 1992 (we focus on inflation later in this issue).

In the case of our own Bank of England, there is an inflation target of 2% - so much work to be done. The concern is that, as in the early 1970s, interest rates will rise too quickly, choke off growth and trigger a recession. Bad news for equities and also, for conventional bonds - which pay a fixed rate of return irrespective of the Bank Base Rate.

"And this same God who takes care of me will supply all your needs from his glorious riches, which have been given to us in Christ Jesus" - Philippians 4 v19.

Investment Returns & Outlook



POS	**A POSITIVE outlook**	UK equity, Europe equity, UK Smaller Cos equity, and Japan equity.
NEU	**A NEUTRAL outlook**	US equity, US Smaller Cos equity, Pacific Basin (ex Japan) equity, Emerging Markets equity, Property, UK Corporate and Global Bonds.
NEG	**A NEGATIVE outlook**	UK Government bonds ('gilts') and UK Corporate Bonds

As alluded to earlier, since the beginning of 2022 markets had been preoccupied about the path of interest rates and the risk of central banks slamming on the breaks too quickly. Looking at individual investment sectors, we see that property has had a good run over the last year although we continue to favour other asset classes in particular owing to the liquidity issues which prompted us to exit over a year ago.

Broadly speaking, over a year, developed market, large cap equities are above water despite the tailing off of returns in the last few months. The bond sector is particularly sensitive to interest rate concerns as are elements of the Global Emerging Markets, Small Cap Developed Markets and Growth stocks which carry relatively high levels of borrowing. China, as we see here, is beset by the fallout of a property sector meltdown, perceived regulatory interference and renewed lockdowns by Chinese authorities all of which has weighed heavily on returns. Consensus for elements of the equities sector turned from positive to neutral whilst bonds continue to be regarded negatively.

Inflation, Inflation, Inflation.

On Tuesday we learned from the Office of National Statistics ('ONS') that, as largely expected, inflation as measured by the Consumer Prices Index ('CPI') rose to 7% in March 2022. CPI tracks a 'basket' of around 700 items and not surprisingly, a key component was the rising cost of motor fuel which reached its highest price on record. Second hand cars, clothing and footwear also played a large part in the surge.

Since the financial crisis in 2008/09 savers and borrowers have got used to unprecedentedly low interest rates. As we mention in relation to investment returns this year, the Bank of England has the task of trying to keep inflation at or around 2% and in trying to do this job it has increased its base rate three times since December—to, now, 0.75%.

However, whilst that's better news for savers, you will still fail to find a savings account which gets you anywhere near to an inflation-proofed return. In fact, a scan of currently available savings accounts determines that the best (four to five year *fixed*) rates are around 2%-2.5% p.a. Therefore, after adding the interest earned at those rates, your savings would purchase a 4.5% to 5% smaller 'basket' than it could a year earlier. Inflation, even at the Bank of England's target level of 2%, is damaging to any instantly accessible savings account which is likely to be paying no more than 0.5% p.a. (before tax).

Cash is all important as an emergency reserve — but consistently holding *too much* is potentially hazardous to your wealth particularly when inflation is high!

The Spring Statement

Whilst Easter signals hope, it also heralds the Chancellor's Spring Statement—not usually the vehicle for any major reforms, few were hopeful of any major 'giveaways' despite the backdrop of the price rises we have alluded to. However, for the lowest paid, there was some relief as the threshold at which National Insurance Contributions become payable increased.

In summary the key points:

- National Insurance contributions (NICs) threshold increases to £12,570 (matching the income tax personal allowance) from 1st July
- Previously announced 1.25% health and social care levy goes ahead from 6th April (as does the rise in tax on dividends reflected in the table below)

Generally speaking, those earning up to around £34,000 will pay no more in tax after the above changes for the rest of those employed there will be a reduction in their net earnings.

- Fuel duty cut by 5p per litre immediately until March 2023
- VAT cut for energy saving measures—0% VAT for homeowners on solar panels, heat pumps or insulation for the next five years

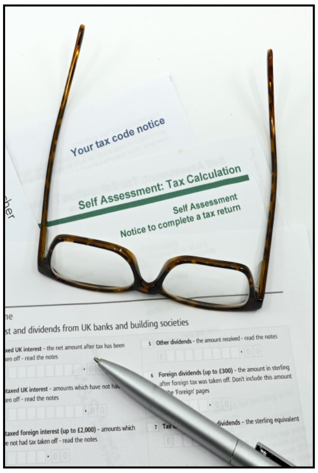
It remains to be seen whether, following 'Partygate', he will be around to see them take shape but, nevertheless, Mr Sunak also announced his tax-related plans for the future:

- In 2024, basic-rate income tax is due to be cut to 19%, down from the current rate of 20%.
- (To address the lack of capital investment in UK businesses) the government is looking for ways to reform taxes around business investment. Plans will be confirmed at the Budget later this year.
- The Autumn Budget could herald some big tax changes as the government's Tax Plan document says it's seeking to simplify the tax system – which could mean an overhaul of the 1,000 existing tax reliefs and allowances.

Tax Tables

Income Tax		
Main personal allowances and reliefs	**22/23**	**21/22**
Personal allowance*	£12,570	£12,570
Marriage/civil partner's transferable allowance	£1,260	£1,260
Married couple's/civil partner's allowance at 10%[1] :		
(if at least one born before 6/4/35) – maximum	£9,415	£9,125
- minimum	£3,640	£3,530
Blind person's allowance	£2,600	£2,520
Rent-a-room relief	£7,500	£7,500
Property allowance and trading allowance (each)	£1,000	£1,000

*Personal allowance reduced by £1 for every £2 of adjusted net income over £100,000. [1]Married couple's/civil partner's allowance reduced by £1 for every £2 of adjusted net income over £31,400 (£30,400 for 21/22), until minimum reached.



UK taxpayers (excluding Scottish taxpayers') non-dividend, non-savings income		
20% basic rate on first slice of taxable income up to	£37,700	£37,700
40% higher rate on next slice of taxable income over	£37,700	£37,700
45% additional rate on taxable income over	£150,000	£150,000
Dividend and savings income		
Starting rate at 0% on band of savings income up to**	£5,000	£5,000
Personal savings allowance at 0%: Basic rate	£1,000	£1,000
Higher rate	£500	£500
Additional rate	£0	£0
Dividend allowance at 0%: All Individuals	£2,000	£2,000
Tax rates on dividend income:		
Basic rate	8.75%	7.5%
Higher rate	33.75%	32.5%
Additional rate	39.35%	38.1%
Trusts: Standard rate band generally	£1,000	£1,000
Rate applicable to trusts: Dividends	39.35%	38.1%
Other income	45%	45%

**Not available if taxable non-savings income exceeds the starting rate band

Beware!

We have written before about fraudsters' attempts to impersonate legitimate product providers through the use of bogus email. Inevitably, as with most cyberfraud (which takes many forms), the aim is to relieve unwitting victims of their cash.

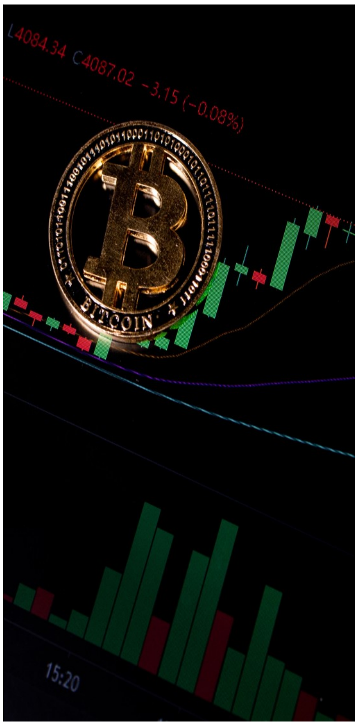
A recent article in one of the industry publications brought this issue back in to focus for us as it reported the case of an IFA practice whose email account was 'hacked'. The fraudster impersonated one of the firm's advisers in order to gain details of its clients' financial arrangements.

Although communication between us and our clients tends to be quite personalised and none of them (to our knowledge) has been subject to fake emails from us, we don't wish to be complacent. We urge you to remain vigilant particularly in relation to any unsolicited correspondence regarding your finances.

Please remember:

* we will never ask you to provide us with any of your personal account or login details
* never open an attachment or click on a link you are not expecting
* email can be intercepted and edited without your knowledge.

Bitcoin as an Investment?



We have talked elsewhere in this newsletter about the increasing difficulty for savers and investors who want to achieve an above-inflation return. Whilst we maintain that an element of equity content needs to be the basis of any long term investment strategy, this asset class has been suffering in recent months whilst bonds—the traditional, lowly-correlated, diversifier in a portfolio—have fared worse albeit in both cases over what is a very short time horizon in investment terms.

We regard cash as, primarily, a dependable emergency reserve even if it is also a wasting asset. Some economists are considering the possibility of 'stagflation' - not experienced since the early 1970s— very low / no growth *and* high inflation. Although we should add, none are considering this a realistic prospect right now, such an environment would likely result in equities and bonds moving in the same direction —and that wouldn't be up in value! We have talked about the qualities—and disadvantages —of property assets which have generally fared better in such economic circumstances and gold, which also has its drawbacks may find a place in our portfolios.

But, what about Bitcoin as a diversifier to traditional asset classes?

Firstly, we should clarify *what* it is: without delving into the esoteric characteristics of blockchain technology, bitcoin is the largest —but not the only—*cryptocurrency*. Cryptocurrencies are digital (rather than paper or coin) currencies which are traded on online exchanges and can be used increasingly to make the same purchases for which you and I use 'normal' money. Unlike traditional currency which central banks regulate—and can print more of— there is a finite supply of bitcoin which makes it immune to inflation. Like most digital innovation, cryptocurrency is very young—bitcoin was first released in 2009 perhaps no coincidence this was in the aftermath of the financial crisis when faith in the traditional banking system was sorely tested.

Since then, bitcoin and other cryptocurrencies have become tradeable through online exchanges and, having changed hands at less than US$ 1 at its launch it currently trades at US$41,725 but the price reached an all time high of US$66,974 last October. It is not unknown for returns of over 1,000% in just one year.

However, the lows have also been quite dramatic although, of course (in most cases) it's not possible to lose more than 100% of your investment! In 2011, it came close when, after a rapid 16 fold increase in value, the currency lost 99% of its value after hackers stole millions of dollars worth of bitcoin from the largest bitcoin exchange in the world.

We are, from time to time, asked by clients whether just a little bitcoin, would make a useful addition to our portfolio. In one sense it's a purely hypothetical question: as an investment, cryptocurrency is not regulated in the UK— although it seems that may change. For now, as with any unregulated investment, AWFM can not and will not recommend it to our clients in any form. But that aside, the extreme swings in valuation tell you that with (potentially) very high returns comes very high risk. Some are very mistrustful of central banks and the established financial systems (particularly after the financial crisis) and, as such, regard their lack of influence as a positive feature. We do not. For all the shortcomings of regulation in UK financial markets, one of the FCA's prime roles is to protect the consumer — the statutory protection for up to £85,000 of your bank deposits or against poor advice or the failure of a crypto "wallet provider", for example, would not be available to you were you to invest in cryptocurrency.

There is increasing interest from central banks and indeed only a week ago the Chancellor announced his vision for the UK to become a "global hub for cryptoasset technology". As ever, we will watch for further developments but, for now, we will not be recommending investment in cryptocurrency and, whilst there are clearly opportunities for stratospheric returns, anyone choosing to do so needs to accept the risk of losing all of their investment.

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