360

from **AW Financial Management LLP**

April 2012

Welcome to our Easter edition of 360. This is our quarterly update on all things financial and we hope you find the articles, reports and commentary both useful and informative.

The 2011/12 tax year is almost at a close as our fingers are flying across the keyboards "penning" this newsletter. We still have the controversy of Chancellor Osborne's Budget ringing in our ears.

Of course, much of the controversy is not actually going to come to pass until April 2013, rather than this new tax year.

	2012/13 tax year	*2011/12 tax year*	*Difference*
Ordinary Personal Allowance	**£8,105**	*£7,475*	*+£630 +8.43%*
Personal Allowance for 65-74 year olds*	**£10,500**	*£9,940*	*+£560 +5.63%*
Income limit for age related allowances	**£25,400**	*£24,000*	*+£1,400 +5.83%*
Total earnings over which 40% tax payable	**£42,475**	*£42,475*	*Unchanged*

*Gradually reduces if income in excess of age related allowances

So what have we got for this coming tax year? We've shown a little summary of some of the key points of income tax.

In this issue

Global Markets and your portfolio

At the time of writing, although there is once again a huge amount of volatility in the stock markets particularly, the last 3 months have produced better returns from the higher risk portfolios compared with the return from the lower risk portfolios, as can be seen from our standard table of model portfolios set out below.

These portfolios provide a good indication of the levels of return each investor will have received over these terms. They are indicative fund performance figures only as we are increasingly adopting a new time-weighted portfolio approach for many of our clients. The lower risk funds will generally be identified as having more Fixed Interest funds than Equity funds, and the higher risk funds will be managed on the basis of having more Equity based funds and less in Fixed Interest.

Description	**AWFM risk model**	**3 months**	**1 year**
Low risk	3	4.55%	2.86%
Low to medium risk	4	4.57%	3.04%
Medium risk	5	5.34%	1.54%
Medium plus risk	6	6.18%	-0.88%
Medium to high risk	7	6.84%	-1.70%
Adventurous risk	8	7.51%	-2.45%

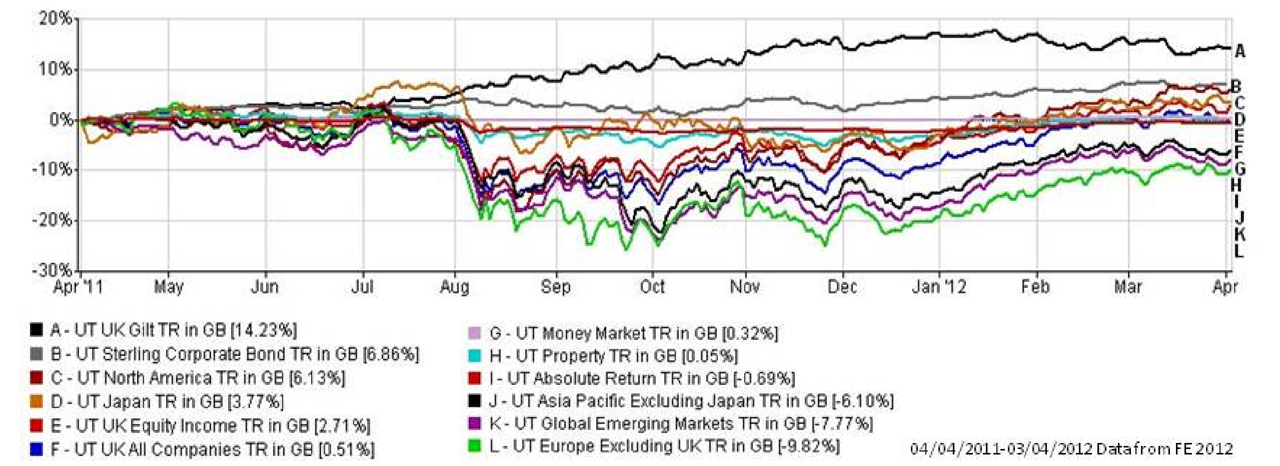
It is particularly pleasing to note that over the last 3 months all of the portfolios would have delivered investment returns over a very short period, which we suspect clients would be more than satisfied with, whether you are a higher or lower risk investor. Over the last 12 months there is still some hang-over from difficult market conditions and therefore still some negative returns amongst the higher risk portfolios.

Then He (Jesus) said to them "Watch out! Be on your guard against all kinds of greed; a man's life does not consist in the abundance of his possessions." *Luke 12:15*

Investment Returns & Outlook

You can see from the chart below that over the last year the range of returns was from minus 9.8% to plus 14% - a total range of 24% which is a narrower range than last quarter's review. It is clearly the higher risk funds that produced the worst losses over this period. Europe speaks for itself but Asia and the Global Emerging Markets has really slowed primarily because these economies are still heavily tied into Europe, the UK and the US, all of whom have their (our) on-going problems which affects our demand for the goods that they are producing.

It is interesting to see that the best returns in Equity markets have come from America and from Japan.



Gilts and Corporate Bonds have been surprisingly resilient again although we note from the chart above that Gilt total returns have fallen since the start of the year although Corporate Bonds have risen. The key winners over the last 3 months particularly however has been the Equity funds which over the longer term are still hauling themselves out of the hole created in the Summer of last year, but the returns since then have been on the whole very positive.

One of the key themes continues to be unemployment. Spain, who are firmly on the "at risk" register seemingly now have unemployment running at 23% with an estimated over 50% of young people out of work. Here in the UK, we have an unemployment rate of 8.4% with a rate of 22.5% for those in the age 16 to 24 year old bracket. These are very worrying statistics. Without jobs there is the double whammy of reduced tax receipts and an increasing benefit claiming count. This is the downward spiral many countries have found themselves in in recent years.

Getting the consensus view of a range of fund managers as to which asset classes they are positive about and those that they are not so positive about, we include an extract from Skandia's latest publication (we use this table regularly) which we have summarised below:

POS	**A POSITIVE outlook -** the fund group believes the index they are using as a benchmark will rise in excess of 5% over the next 12 months.	Maintained as areas of positivity are UK and US Equities, Asia, Emerging Markets including BRIC (Brazil, Russia, India & China). UK Corporate Bonds are also still positive.
NEU	**A NEUTRAL outlook -** the fund group believes the index they are using as a benchmark will have either a positive or negative movement of between 0% and 5% over the next 12 months.	In this category are UK (& Global) Property and US Smaller Companies.
NEG	**A NEGATIVE outlook -** the fund group believes the index they are using as a benchmark will fall in excess of 5% over the next 12 months.	Interestingly, there are NO sectors in this negative category currently although some individual fund managers do see different areas of negativity.

Photo courtesy of the BBC

I don't often disagree with Martyn Lewis .....

.... but I was listening to him spout forth in his usual manner on the radio the other day. The topic was whether it was worth overpaying your mortgage. Most of what he said I entirely agreed with; make sure you have an emergency fund of between 3 and 6 month's expenditure, assess the interest that you are paying against what you might earn elsewhere (after tax has been deducted). But he then went onto say that Offset mortgages were only really beneficial for a small minority of people who are likely to be able to significantly over-pay. I might not have that verbatim as I was hitting the steering wheel of my car at the time.

You see, what he failed to point out is that Offset mortgages are often Tracker rates. This radio debate came out at a similar time to various lenders announcing that they were going to increase the mortgage rates for their Standard Variable Rate (SVR) mortgage holders. And this is the point, the Bank of England have not raised their rates, they've held them now for 3 years at 0.5%.

So if you have an Offset Tracker mortgage (or take one out) you have two huge benefits. Firstly, the mortgage provider can never increase the "margin" on a Lifetime Tracker. And secondly, you have absolutely no necessity ever again to re-mortgage your property and incur the additional (substantial) fees associated with re-mortgaging. Yes you need discipline, but that word was never mentioned. Offset Tracker mortgages are in my opinion one of the best mortgage products ever devised. Although margins for new Offset Tracker mortgages have increased, you can still pick up a Lifetime Tracker now at about 2.7% over Base Rate meaning that you would only be paying about 3.2% for the time being. That is about the same as any other SVR mortgage available at the moment but with the added benefit of being super-flexible over how you repay your mortgage.

Mansion Tax/Window Tax?

According to Wikipedia window tax was introduced in 1696 under King William III. It was a flat rate of 2 shillings per house. Properties with more than 10 windows were then taxed a further 4 shillings and those with more than 20 windows paid a total of 8 shillings. Consequently, many houses were seen to brick up their windows.

It was introduced because many at the time believed that an income tax was un-acceptable because of the supposed governmental intrusion into a person's private affairs. The term "Daylight robbery" is thought to have originated at the time of the window tax.

Stamp Duty has now been increased to 7% for properties worth more than £2m effective immediately. This is not going to affect the majority of people in the UK and seems to be a reasonable compromise.

ISA allowances have risen again for the 2012 tax year, providing an additional incentive for savers. For the 2012/13 tax year, investors are able to save up to £11,280 in an ISA. From 6 April 2011, rises in the ISA allowance had been linked to inflation but, from April 2012, increases are based on the Consumer Prices Index (CPI) for the year to the previous September.

The index-linking plan was originally announced in the Labour administration's March 2011 Budget, and was later confirmed in June by the incoming coalition government. Subsequent speculation over the coalition's plans to cut public spending had led to fears the annual amount available to save in ISAs would be frozen. However, despite taking the decision to cut tax relief on pension contributions, the government has continued to support investment through Isas and raise the allowance.

For September 2011, the Office for National Statistics confirmed that CPI was 5.2%, so, once applied to the existing limit and rounded up, this equates to a rise of £600. The maximum annual contribution into an ISA in the 2012/13 tax year will therefore be £11,280.

This can all be invested in a stocks-and-shares ISA (as with most of our clients), or up to half the amount – £5,640 – can be saved in a cash-only ISA. After investing in a cash ISA, any remaining allowance is then available for investment in a stocks and shares ISA.

As you're probably already aware, ISAs are tax-efficient vehicles that allow our clients to save and invest without having to pay income tax or capital gains tax. ISAs can be a good way for people to start saving, or to add to their existing savings and investments. Do not forget one of the golden rules of ISA investing – if you do not use it, you lose it – so try and make the most of your allowance each year. For further information and help on how this tax efficient allowance may help in your portfolio, why not give us a call?

In other news…

Find out more about what we believe …

The men's group (sorry ladies) at Martin's Church in Bexleyheath are running a Christianity Explored course on Wednesday evenings starting on 25th April.

Christianity Explored is a 7 week series studying the life of Jesus Christ through Mark's Gospel. The course provides the opportunity for those who want to know more about Christianity to do so in a structured yet informal way.

Martin or Gary would be delighted to hear from any men who are able to get to Bexleyheath easily for a series of evenings. We will then be able to give you more details. Both of us would be very keen to organise a subsequent Christianity Explored event for any of our clients or contacts who feel that they would benefit from looking at these issue in more detail in a group setting, especially as the above mentioned course is for men only. We would certainly be prepared to put on a further course for anyone who was interested in attending. Do please let us know if you are interested.

If you are a man and you are interested in the forthcoming scheduled course, do please contact Martin as soon as possible.

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