360

from AW Financial Management LLP

April 2013

Welcome to our April 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.

In this issue

The 2013/14 tax year has now arrived. Last year we produced a table with the new income tax rates. We've added a further column now so that you can see the difference over 2 years. The actual rules have changed slightly but this table is accurate enough.

	2013/4 tax year	2012/13 tax year	2011/12 tax year	Difference since last year
Ordinary Personal Allowance	**£9,440**	£8,105	*£7,475*	*+£1,335 +16.47%*
Personal Allowance for 65-74 year olds*	**£10,500**	£10,500	*£9,940*	*Unchanged*
Income limit for age related allowances (over	**£26,100**	£25,400	*£24,000*	*+£700 +2.76%*
Total earnings over which 40% tax payable	**£41,450**	£42,475	*£42,475*	*-£1,025 -2.41%*

*Gradually reduces if income in excess of age related allowances

Not increasing the age-related allowance has of course now been called the "Granny Tax"!

The highest rate of income tax has now also fallen from 50% to 45% for earnings over £150,000.

Global Markets and your portfolio

It's been a terrific year for investment returns. Equity markets have been largely very buoyant and Fixed Interest returns ,especially in the Corporate Bond and Strategic Bond sectors, have also added well to the returns generated on your portfolios.

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.

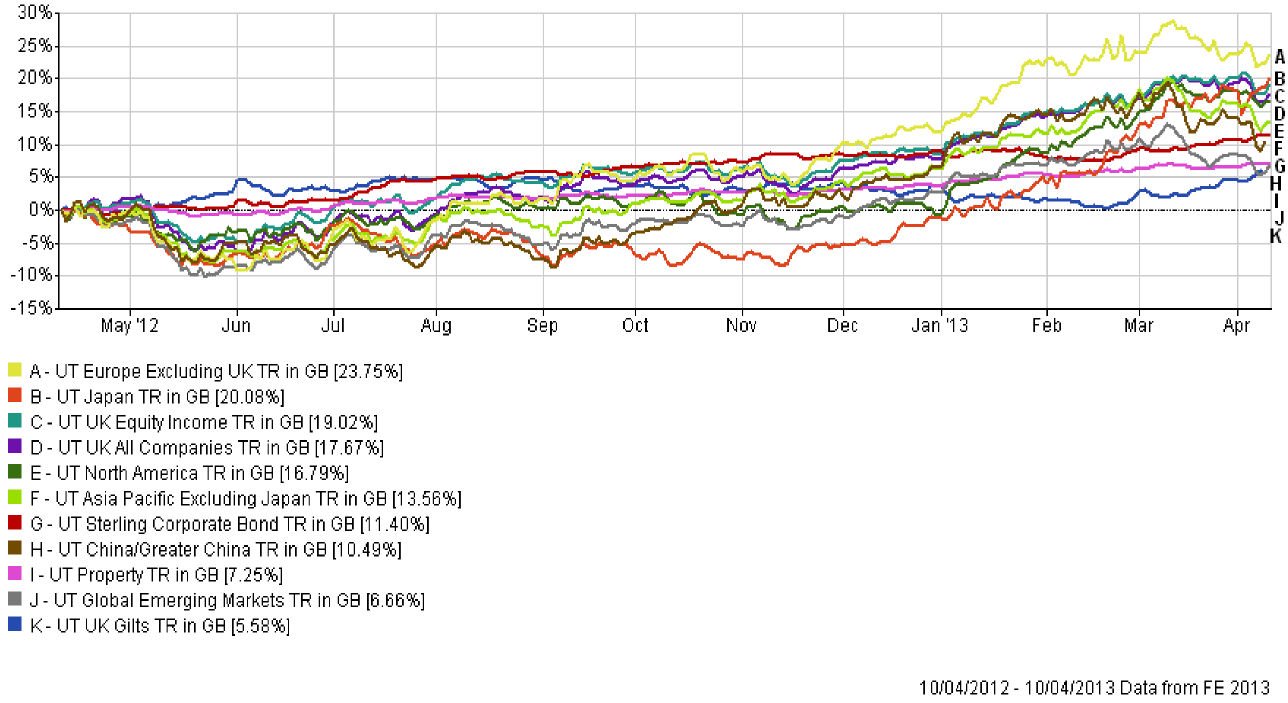
Shorter terms as well as longer term based investments have produced very good returns over both the last 3 months and 1 year. The yard-stick as ever is what you might have been able to get in the bank—against this measure, the returns look very good indeed.

Description	**NEW AWFM risk model**	**3 to 5 year Portfolio (shortest term)**		**21 year + Portfolio (longest term)**	
		3 months	1 year	3 months	1 year
Cautious risk	**1**	1.47%	3.57%	5.56%	11.98%
Cautious to moderate risk	**2**	2.49%	5.60%	6.20%	15.64%
Moderate risk	**3**	4.04%	8.52%	6.59%	16.45%
Moderate to adventurous risk	**4**	5.13%	11.31%	7.39%	15.87%
Adventurous risk	**5**	7.53%	18.21%	6.88%	16.07%

Train up a child in the way he should go, and when he is old he will not depart from it. *Proverbs 22:6*

Investment Returns & Outlook

This time last year the best return across all sectors was from the UK Gilt sector. This year, the Gilt sector has fallen to the bottom of the pile (although still a creditable 5.58% return from the sector) whilst the best return has come from the European sector. In fact it is interesting to note that the second best return over the last 12 months has come from the Japanese Equity sector, whilst Emerging Markets has produced the second worst returns on the chart.



Again, it is interesting to note just how strong performance has been, despite the obvious economic difficulties that continue to plague worldwide economies.

It is worth being reminded that if you only used the TV news as a guide to whether or not to invest, you would probably be hiding behind the sofa at this point as you might have done in the old days of Dr Who!

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, Emerging Markets including BRIC (Brazil, Russia, India & China).
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.	Remaining in this category (from last month) are UK (& Global) Property and UK Corporate Bonds. Coming into the Neutral zone from Positive is the Pacific Excluding Japan sector.
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.	UK Government Bonds (Gilts) and International Bonds are in this Negative outlook zone.

The above table gives the consensus view from various fund managers about the future outlook from the various sectors represented. We have been somewhat cautious about Government and Corporate Bonds for some time now and it appears that many Fund Management companies also share this view.

It is still appropriate for lower risk investors to hold this type of asset class, particularly if their mandate is to pursue income.

Budget News in brief

The headlines have largely died down now but here is a very short summary of some of the key announcements from Budget day:

- Corporation Tax reduced to 20% from April 2015
- Help to Buy Scheme (see below)
- From 2016, means tested residential care threshold increased from £23,000 to £118,000 (see below)
- Fuel duty increase cancelled
- 3p rise in beer duty cancelled and 1p off a pint
- Small business to get a £2,000 allowance before paying employers NI
- Inheritance Tax Nil Rate Band frozen for 3 years until April 2018

We have done a little more research on the Help to Buy Scheme as well as the Care issue.

Help to Buy Scheme

In his speech, the Chancellor committed £3.5bn of capital over the next 3 years to shared equity loans. He said they will offer up to 20% of the value of a new build home as long as the purchaser can put down 5%. The 20% would be interest free for the first 5 years and would be repaid when the home is sold. He also announced that this scheme would be extended to apply to *any* purchaser buying a property worth less than £600,000 where previously it only applied to first time buyers.
A second element is that they will offer a new Mortgage Guarantee scheme available to lenders to help them provide more mortgages to people who can't afford a large deposit. He said "using the government's balance sheet to back these higher loan to value mortgages will dramatically increase their availability." It will start from 2014 and run for 3 years.
Several key questions are raised by this scheme:

- Are the government interfering in an investment based sector and encouraging people to be over-exposed to debt which they can't afford?
- Should they allow the Property market to do it's own thing—affected by supply and demand?
- Why do banks (whose job it is to lend money) not want to grant loans secured on property currently?
- How does the issue of responsible lending fit in with this scheme?
- What happens at the end of 5 years when the borrower needs to start to pay interest and can't afford it?

Residential Care

We produced a Fact-File on the Long Term Care reform proposals and published it on our website in February this year. It is immediately obvious the Dilnot means-tested recommendation of £123,000 has now been reduced by the Chancellor to £118,000. The cap on social care cost has also been reduced marginally from £75,000 to £72,000. Significantly, the implementation date has been brought forward to April 2016.

We are still of the view that this is unlikely to benefit a huge number of people, but probably some clarity on the issue is probably useful.

The **State Pension** reforms also commence in April 2016 with the new £144 per week flat –rated State Pension. I have updated our Fact-File on the web-site, which can be accessed via our website.

ISA Allowance 2013/4

ISA allowances have risen again for the 2013/4 tax year, providing an additional incentive for savers. For the 2013/14 tax year, investors are able to save up to £11,520 in an ISA.

This can all be invested in a stocks-and-shares ISA (as with most of our clients), or up to half the amount – £5,760 – 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?

Pension Contributions

Pension contribution limits are going to be reduced starting in the tax year 2014/15. The maximum limit in the current tax year 2013/4 will therefore be held at the existing level of £50,000 but next tax year the maximum will reduce to £40,000 per annum. Clearly this limit does not affect very many people.

In other news…

No pictures have yet been forthcoming but I am delighted to announce that Jon's wife Helen safely delivered them a (not so little) boy on 1st April. He was a couple of weeks late, but then can you blame him after the weather we've been having?) The baby weighed in at 8 pounds and 14 ounces.

The baby's name is David Samuel Josiah French. (Solid biblical names as one would expect. Josiah was a king who renewed the covenant between the people of Israel and God, "to follow the Lord and keep his commands, statutes and decrees with all his heart and all his soul…" 2 Kings 23)

I'm sure that you will join us all in congratulating Jon and Helen on the safe arrival of their first child.

Edward is settling in well to his new role here at AWFM. You may speak to him if you call the office. He celebrated his 18th birthday at the end of March—how time flies!

Alpha Course …

And finally, if you would be interested in attending an Alpha Course (and you are fairly local) our Church has a course starting this coming week on Tuesday evenings.

If you or anyone you know might be interested in joining the course, do let me know and I can provide you more information.

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