360

from AW Financial Management

April 2019

Welcome to our Easter 2019 edition of 360. The team here at AWFM is continuing to expand and develop and we wish to say thank you to all of our clients for your continued support.

In this issue

Certain uncertainty

We can't even bring ourselves to mention the "B" word like many of you I'm sure and so we continue in the same state of uncertainty that has affected businesses up and down the country for nearly the last 3 years.

I'm afraid we can't even offer any glimmer of sensible comment on the likely outcome of these protracted negotiations. One day we'll know—hopefully soon.

Sterling is down about 10% against both the US Dollar and the Euro when measured from just before the Referendum on 1st June 2016. This is an improvement as both currencies have been at least 20% up on Sterling over the course of these last 3 years.

Life will undoubtedly go on, whatever the outcome required - to some extent, this is the nonsense of it all!

The New Tax Year

As we are on the cusp of a new tax year, the following new rates and allowances will apply *in England, Wales & Northern Ireland* from 6th April:

- Personal Allowance (unless income exceeds £100,000) increased to **£12,500** (£11,850) *[5.4% increase]*
- Basic Rate Tax Band increased to **£37,500** (£34,500) *[8.7% increase]*
- Dividend Allowance held at **£2,000**
- Pensions Standard Lifetime Allowance increased to **£1,055,000** (£1,030,000) *[2.4% increase]*
- Junior ISA Limit increased to **£4,368** (£4,260) *[2.5% increase] - Adult ISA limit unchanged at £20,000*
- Capital Gains Tax Annual Exempt Amount for individuals increased to **£12,000** (£11,700) *[2.6% increase]*
- Main Residence (IHT) Nil Rate Band increases from £125,000 to **£150,000** per person *[20% increase]*

As you can see, the income tax bands have increased well above inflation.

Tax planning continues to be at the heart of what we do here at AWFM. We encourage those not yet retired, to utilise their Pension and ISA allowances annually as far as is possible. For those who have retired and are utilising their savings, pensions and investments, we continue to advise the best place from which "income" should be drawn.

Global Markets and Your Portfolio

If you received and looked at a quarterly valuation around the turn of the year you will probably have noted that the values had fallen. The tail-end of 2018 was a poor 3 month period all the way through to Christmas. No Santa Rally cheer last year! However since then, markets have on the whole been very positive.

You can see the positivity in the 3 month numbers (i.e. first quarter of 2019) in the table below. Over 3 months, two of our highest risk portfolios have delivered double-digit positive returns which is incredible especially after the opening comments above.

We simply don't know what is around the corner but at least we can take heart from fairly encouraging past performance over the last 12 months.

Description	AWFM Risk Model	Ethical		Unrestricted	
		3m	1yr	3m	1yr
Low Risk	1	4.19%	4.32%	3.91%	4.72%
Low to Medium Risk	2	7.86%	7.34%	6.97%	7.32%
Medium Risk	3	9.02%	9.32%	8.21%	6.82%
Medium to High Risk	4	9.43%	8.53%	9.59%	5.40%
High Risk	5	11.52%	9.74%	12.56%	7.72%

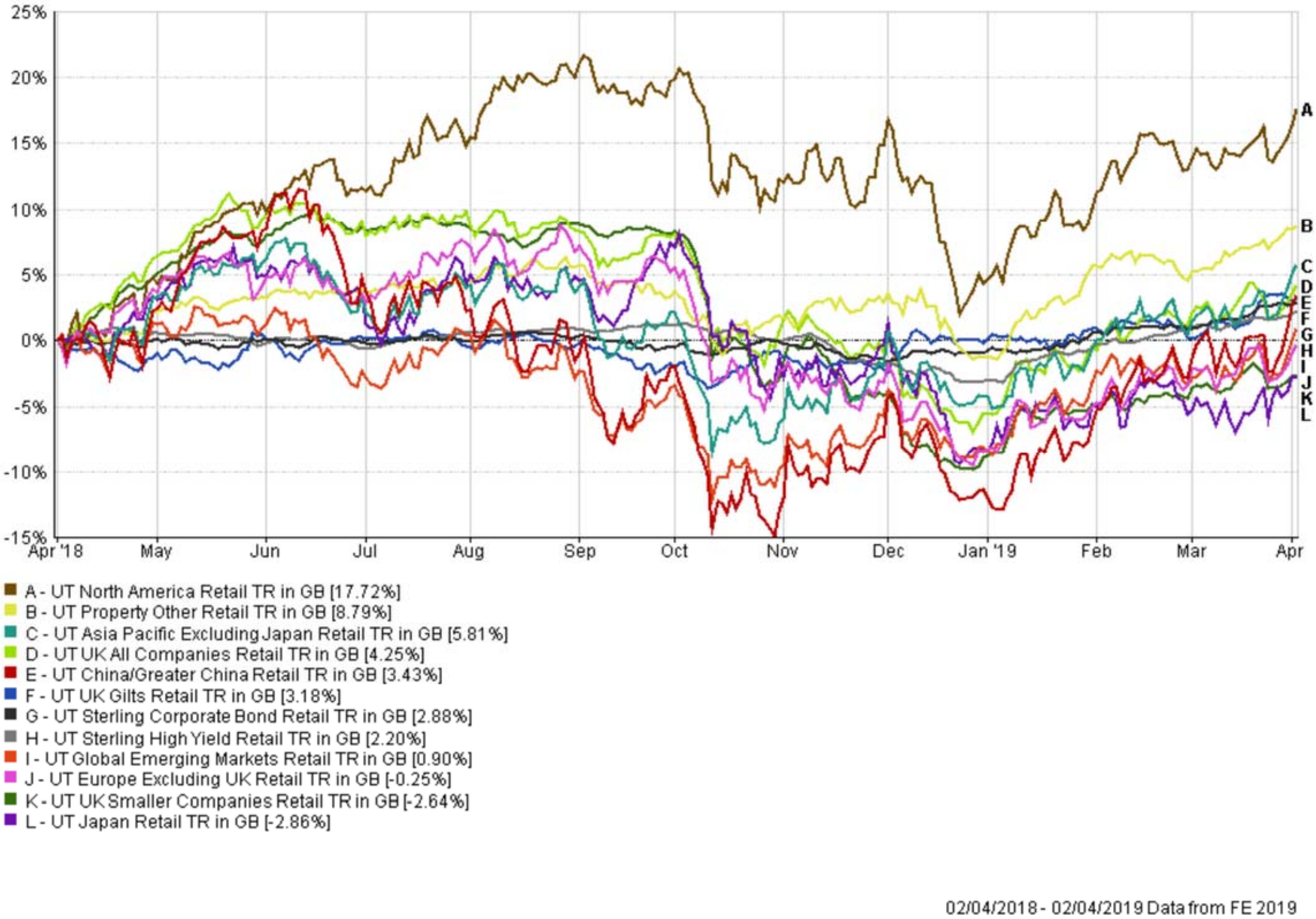
"Jesus said to her (Martha), "I am the resurrection and the life. The one who believes in me will live, even though they die; and whoever lives by believing in me will never die. Do you believe this?"" - John 11 verse 25

Investment Returns & Outlook

The stand-out performer over the last 12 months has been North American equities which, as can be seen on the chart below, produced a sector average return of nearly 18%. We know that the "FAANG" stocks have driven a significant amount of this return. **F**acebook were the poor relative of this new family with only a 12% increase in share price over the last year. **A**pple increased by 15%, **A**mazon and **N**etflix both increased by over 30% and **G**oogle (now confusingly Alphabet) 18%.

Interestingly and perhaps surprisingly the Property sector had a good 12 months coming in second overall. We are not wholly confident that this will be sustainable and suspect that there may continue to be fall-out from the poor retail sector as far as property funds are concerned.

China is probably the worrying sector producing only a return of 3.4% whereas this time last year we were reporting a 25% return. The China return is likely to be driven by the general economic slowdown which appears to be impacting the Chinese most severely at this stage. Asia Pacific was surprisingly resilient at 5.8% although notably near neighbours Japan produced a negative return.



Gilts and other Fixed Interest funds performed reasonably well over the year bearing in mind the continued low interest rate environment. European Equities produced poorer returns on the whole than UK Equities although UK Smaller Companies suffered presumably from uncertainties linked to the "B" word.

Below is what may be a familiar sight in our newsletters— an indication of sentiment from a collection of leading investment houses. This provides a consensus view of how they believe each sector will perform over the next 12 months. Whilst there has been growing investor concerns of slowing economic global growth, in part due to the threat of the introduction and expansion of various trade regimes across the globe, there remains a neutral or positive outlook for the vast majority of sectors (and in fact for all Equity sectors).

In terms of changes since the last consensus view provided in our July 2018 newsletter, the US Equity sector has moved from a negative outlook to a neutral outlook. The S&P 500, a US stock market index based the 500 largest US companies by market capitalisation, rose by 13.1% in the first quarter of 2019, notching its' best start to a year since 1998, and the biggest one quarter gain since 2009.

POS	**A POSITIVE outlook**	European Equity, Pacific Basin (ex-Japan) Equity, Japan Equity & Emerging Markets Equity
NEU	**A NEUTRAL outlook**	UK Equity, UK Smaller Companies Equity, US Equity, US Smaller Companies Equity, Global Property and Global Bonds
NEG	**A NEGATIVE outlook**	UK Government Bonds and UK Corporate Bonds

Global bonds have also moved from a negative outlook to a neutral outlook, perhaps due to Central Banks globally looking to slow down the rate of interest rate rises, as they hope to strike a balance between controlling inflation and providing an environment that is favourable for economic growth.

The UK Fixed Interest sector (Government and Corporate bonds) however retains a negative outlook from across most of the investment houses. With the Bank of England base rate at 0.75%, still near record lows, is there only one way that it can go in the near future?

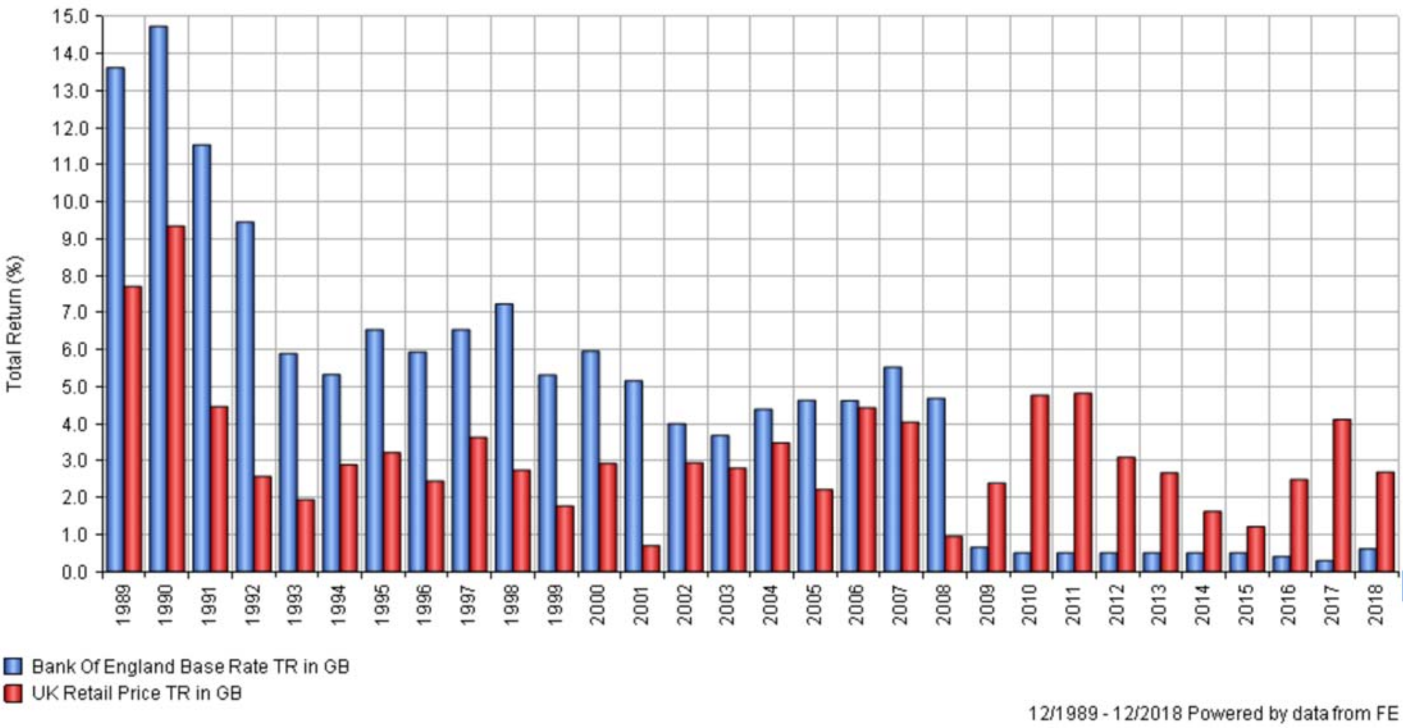
Inflation risk

We are continually reminded of the risks involved in investing (*Past performance is not necessarily a guide to future returns and you may get back less than you originally invested*).

As a firm we like to consider inflation risk alongside other types of risk. Inflation was a huge problem in the 70's and 80's especially for pensioners who up until 1997 did not automatically benefit from inflation related increases to their pensions from company schemes. Inflation for example peaked at 24% in 1975!

Slightly more recently, in 1991 inflation was 7.5% but to counteract this throughout 1990, 1991 and part of 1992, interest rates were in double-digits. Many of us still remember when interest rates peaked at 15% in the Summer of 1990.

The following chart is incredibly telling, especially over the last 10 years when interest rates have been at these all-time historic lows:



For the last 10 years it is clear that anyone who has not wished to take any capital risk with their funds, has in fact lost value if they had remained in some form of Cash based savings account. The cumulative effect of this over the last 10 years has been that £10,000 of savings would be worth £10,496 against an inflation adjusted value of £10,000 being now £13,487. Therefore the savings have lost about 30% of their value in real terms against inflation over a 10 year period.

Over a 20 year period the situation is far less stark in that the £10,000 with interest compounded would be worth £16,581 whereas the inflation adjusted £10,000 would now be £17,367 and so even then, the true value of the funds left in the bank will have lost pace against inflation.

By contrast an investor in a Medium risk fund over the last 10 years would now have a fund worth £25,123 from the initial £10,000 and over a 20 year period the original £10,000 would have become £28,288, both far outstripping inflation.

Premium Bonds—Are you the lucky winner?!

A key focus of ours is the ongoing management of investment funds, however we are always on the lookout for how clients can achieve the best return on their cash savings whilst keeping these readily accessible. As I'm sure many of you are aware, whilst the interest rates available in easily accessible bank deposit accounts just about hover above 0%, we have been advocating placing cash savings into the government-backed National Savings & Investments (NS&I) Premium Bonds.

Premium Bonds held are entered into a monthly prize draw for tax-free 'winnings', with each £1 bond having an equal chance of winning, regardless of when or where it was bought. ERNIE (Electronic Random Number Indicator Equipment) then generates numbers for 432 million tax-free prizes worth approximately £19.2 billion each month. Whether you have just £1 or the maximum £50,000 invested you have the opportunity to win tax-free prizes ranging from £25 to a whopping £1m (albeit the more you have invested the greater the chance of winning prizes).

NS&I

The two latest winners of the £1m jackpot for April 2019 were a female from Warwickshire and, more interestingly, **a male from Kent with £30,000 of Premium Bonds** - with his winning bond being purchased in April 2006!

Will one of our clients shortly be letting us know that they have won the £1m jackpot…?

Probate Fees—all change/no change—yet again!

Here's something that can be blamed on the "B" word but in this case, I think we can be rather thankful.

As a re-cap under current rules, when Executors apply for Grant of Probate for a deceased person, they have to pay a flat fee of £215 to obtain probate which is the legal paperwork to enable the Estate to be distributed.

Following a failed attempt in 2017 to increase rates a year or so ago, the rate increase was brought back onto the table to be effective from April 2019. The new fees would have been graduated based on the Estate value:

Up to £50,000	No fee
£50,001 to £300,000	£250
£300,001 to £500,000	£750
£500,001 to £1000,000	£2,500
£1,000,001 to £1,600,000	£4,000
£1,600,001 to £2,000,000	£5,000
£2,000,000+	£6,000

It seems though that as a direct result of "B" it has not been possible for Parliament to push through these new rates into legislation and so for a time, temporary reprieve—emphasis on the word temporary!

AWFM News

An extended version of what's happening in our world at this juncture.

We continue to grow as a business and we are extremely grateful to all of our clients who contribute to the growth of the business. We have always aimed to provide bespoke personal and relevant advice to each of our clients in a proactive manner, as we seek to provide value for money in an increasingly demanding environment.

Fees and charges have become quite centre-stage under MiFID II legislation which at the same time has required all firms to issue quarterly reports to clients (which of course doesn't come without cost). However, our unique proposition, where we have invested in and developed our own tools, planners and calculators enables us to deliver first class advice in a changing and developing world.

As a business we are doing something right. Our year on year growth has been of the order of 15% per annum over the last 6 years. We have of course welcomed Sean as a (relatively) new Partner into the firm and this does give us the opportunity to continue to seek growth in a fairly controlled and pragmatic manner. To reiterate, we are incredibly grateful to you for your business and we will continue to seek to provide the very best levels of service to you for many years to come.

Kiki is our newest employee, having started in mid February. Diran too has settled in well over the course of the last 6 months and is getting to grips with the rigours of study and learning this new role.

Jack continues to plough through his exams and we are expecting him to be qualified as of late Summer when he gets the result of the last of his 6 exams. There is no doubt that the 6th exam is the hardest by some way as it is Case Study related. We are grateful to all those who have allowed Jack to sit in on meetings as this provides invaluable experience for him as he prepares to undertake the final assault on the Diploma in Regulated Financial Planning.

Edward too is well on the way to getting through his exams and we wish him well with his studies as he tackles the Personal Taxation paper over the coming weeks.

We always appreciate your feedback and if you think there is any way we can improve on anything we do, please do tell us.

As the spring holiday season is now upon us, we want to wish you a very special time over this Easter festive period.

Warmest regards,

The Partners

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