NEWS & VIEWS

Autumn 2017

PROTECTING ASSETS

Before the introduction of the Residential Nil Rate Band many Wills were set up to include a Nil Rate Band trust on first death. Put simply the first £325,000 (based on current legislation) would be transferred into a Trust. This frequently included half of the family home.

Moving forward to the current day, if these remain in the Will the surviving spouse could miss valuable Inheritance tax savings. If part or all of a primary residence passes to anyone except a direct descendant the Estate does not qualify for the Residential Nil rate band of £100,000 - increasing to £175,000 by 2020. Furthermore if assets of £325,000 are transferred into a Nil Rate Band Trust this effectively locks in the exemption at the current rate. If in the future the Nil rate band increases then the surviving spouses estate will not benefit from the increase.

As a example an Estate is valued at £1,000,000 of which £350,000 is the family home. Leaving the Nil rate band Trust in the Will would have the following impact:

Amount transferred into Trust on first death	£325,000
Balance to surviving spouse	£675,000
Tax to pay	Nil

Value on second death	£675,000
Less Nil Rate Band	£325,000
Less Residential Nil Rate Band	£175,000
Chargeable Estate	£175,000
Tax @ 40%	£70,000

The same Estate without a Nil Rate band Trust in the Wills would qualify for 2 Nil Rate band and 2 Residential Nil Rate bands and there would be no Inheritance tax charge, a saving of £70,000. This is a very simplified scenario but highlights the benefits which could be achieved.

F H Manning do not provide legal advice.

In November Claire Markham will be celebrating 20 years at the office.

She started as a Trainee and today she oversees the office Investment Proposition and is the Pension Transfer specialist, having taken her Investment Management Certificate & Pension Transfer exams.Â Â

Claire said 'IFAs need to demonstrate their professionalism and commitment. Â I hope that be qualified as a Chartered Financial Planner by my 21st anniversary'.

INVESTORS SEEK SAFE HAVENS IN AUGUST

Traditionally, August is supposed to be a relatively quiet month for financial markets. Investor sentiment in August 2017, however, was undermined by terrorist atrocities in Barcelona, and by an increasingly combative rhetoric from North Korea that culminated in the firing of a missile over Japan. Concerns over the deteriorating relationship between North Korea and the international community led to heightened demand for perceived "safe-haven" assets during the month: the price of gold surged to an eleven-month high and reached its highest level since President Trump's election in November 2016.

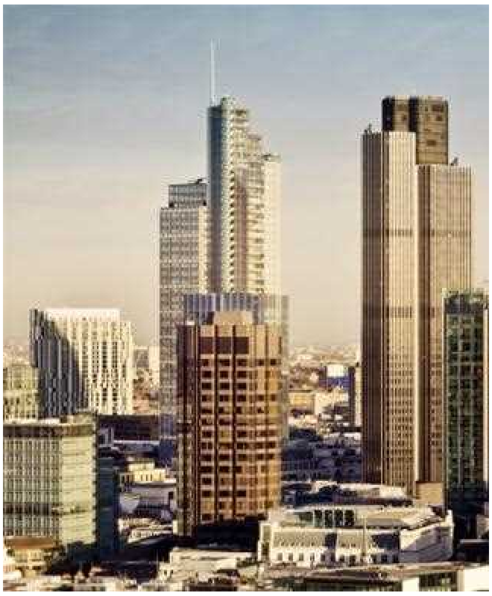
Elsewhere, Tropical Storm Harvey hammered Texas and the US Gulf Coast. In addition to the human cost of the disaster, investors were assessing the potential impact on short-term economic growth. Oil production and refining activity was disrupted during the storm, driving up the oil price.

In the US, President Trump's relationship with the US business community deteriorated during August as high-profile company leaders deserted his Manufacturing Council in the wake of unrest in Charlottesville, Virginia. The US economy expanded at an annualised rate of 3% during the second quarter of 2017, compared with an earlier growth estimate of 2.6%. The Dow Jones Industrial Average Index edged 0.3% higher over August as a whole.

Uncertainties surrounding Brexit are hampering the UK's economic growth, business investment, and wage growth, according to Governor of the Bank of England Mark Carney. Meanwhile, at the latest round of Brexit negotiations, EU Brexit negotiator Michel Barnier complained of a lack of "decisive progress". The FTSE 100 Index rose by 0.8% during August.

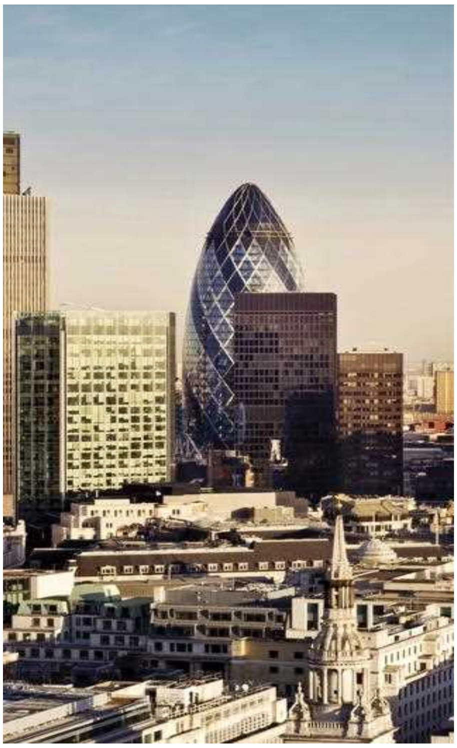
The euro rose to its highest level against the US dollar since January 2015 during August, driven up by concerns over the impact of Tropical Storm Harvey in the US, and by the strengthening European economy. The eurozone's economy expanded at an annualised rate of 2.2% during the second quarter. The euro's appreciation generated some apprehension about the impact on corporate earnings in the region. Over August, the Dax Index fell by 0.5%, while the CAC 40 Index edged 0.2% lower.

Japan's economy notched up six consecutive quarters of positive expansion, posting unexpectedly strong annualised second-quarter growth of 4%. The country's economy grew by 1.5% in the first three months of the year. During August, the Nikkei 225 Index fell by 1.4% as large exporters bore the brunt of a stronger yen.



THE IMPACT OF RISING INTEREST RATES

Rising interest rates do not just affect individuals; they also affect companies that will, for example, have to generate more profit in order to pay higher borrowing charges. Corporate bond prices are also affected: because bonds' interest payments are usually fixed, an increase in rates will reduce the attraction of a fixed payment compared with cash. Therefore, as interest rates rise, bond prices will tend to fall. All these issues can affect your portfolio's performance. Nevertheless, if you take a truly long-term view and your objectives remain unchanged, these short-term ups and downs should not generate much cause for concern.



IT'S ALL IN THE PLANNING

When you first make the decision to invest, it’s vital to take the time to consider what you really want. What are your long-term aims and objectives? What is your attitude to risk? By carefully considering your needs, and discussing them with your financial adviser, you can feel confident that your portfolio is appropriately positioned and suitably diversified.

Nevertheless, you can’t afford to forget about your portfolio altogether; neither life nor financial markets stand still. In order to ensure that your investments remain on track, make sure you review them every couple of years – or sooner, if your circumstances change.

TIME IN THE MARKET - NOT "TIMING" THE MARKET

It’s impossible to predict the “right” time to enter or exit the market consistently. Financial markets move very quickly, so getting in at the bottom or out at the top is a matter of luck rather than judgement. Over the long term, history has shown that, the longer you remain invested, the better your chance of achieving a positive return. Dipping in and out increases the risk that you will miss out in the longer term. Ultimately, it’s not about timing the market – it’s about time in the market.

With this in mind, it’s worth considering the benefits of “pound-cost averaging”. This might sound complicated; essentially, however, it is just regular saving. Smaller amounts that are regularly invested over time will incur a range of prices; if you regularly invest smaller amounts of money – rather than one large lump sum – in your chosen investment, you will reduce your portfolio’s sensitivity to short-term market fluctuations. Moreover, investing a small amount of money every month will help you to get into a regular savings habit without putting too much pressure on your cashflow.

It’s true that, during periods of increasing prices, regular savings won’t reap the full benefit of the initial rise in the same way that a lump sum would have done. However, during periods of market instability or decline, your regular sum will invest at a lower price, buying a greater number of shares or units in your chosen investment.

A GROWING OVERSEAS MARKET

Dollar-denominated debt has long been the key market for corporate bonds. In the US, this method of borrowing is well established among companies and investors are comfortable with the associated benefits and risks. Closer to home, the European market has expanded over recent years, boosted by the euro’s introduction. Low interest rates, combined with a common ground for pricing helped to fuel demand, leading to increased issuance by companies alongside a greater appetite from buyers. Despite problems created by the financial crisis and recession, the European high-yield market in particular has benefited from investors looking for fresh income opportunities.

IMF WARNS ON CHINA'S CREDIT BOOM

Emerging markets generally rose during August, although investor sentiment was somewhat unnerved by rising tensions between North Korea and the rest of the world.

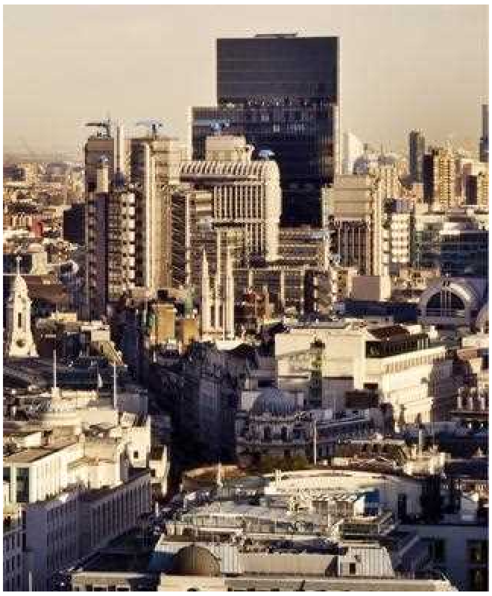
China's credit growth is on a "dangerous trajectory" that puts the country at risk of a "disruptive adjustment and/or a marked slowdown in economic growth", according to the International Monetary Fund (IMF). China's combined household, corporate, and government debt could reach almost 300% of GDP by 2022, compared with 242% in 2016. The IMF urged the country's authorities to take steps to "deflate the credit boom smoothly" and warned that a sharp correction in China's housing market could undermine stability.

The IMF also criticised China's annual economic growth targets, which it believes have "fostered an undesirable focus on short-term, low-quality stimulus measures", and called for reform that will "accelerate to secure medium-term stability and address the risk that the current trajectory of the economy could eventually lead to a sharp adjustment". During August, the Shanghai Composite Index rose by 2.7%.

India's economy expanded at an annualised rate of 5.7% in the three months to June this year, compared with growth of 6.1% in the previous quarter. The slowdown was partly attributable to lower growth in the manufacturing sector, which expanded by only 1.2% – compared with 10.7% in the same period last year – and to confusion following the introduction of a new Goods & Services Tax (GST) earlier this year.

Policymakers at the Reserve Bank of India (RBI) cut its key interest rate from 6.25% to 6% at the start of August, citing inflationary weakness. The RBI's last rate cut took place almost a year ago in October 2016. Looking ahead, the RBI still expects inflationary pressures to pick up towards their 4% target, supported by salary increases for government employees, rising prices for food, and the inflationary impact of the new GST. The CNX Nifty Index fell by 1.6% in August.

Brazil's annualised rate of inflation continued to fall in August, dropping to 2.68%. The country's central bank has an inflation target range of 4.5% (plus or minus 1.5 percentage points), so this continued weakness in inflation stoked fresh expectations of another cut in interest rates. The key Selic rate currently stands at 9.25% following a cut of one percentage point in July. During August, the Bovespa Index rose by 7.5%.



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