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Money & Wealth

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Does your portfolio need a New Year makeover?

If it's been a while since you looked at your investment portfolio, now could be a good time to stage a review. A regular assessment of your investments will help ensure that you know whether they are on track to meet your financial objectives. The New Year presents the perfect opportunity to take stock. It's never a good idea to adopt a buy-and-forget approach to managing your wealth, as you could end up with a portfolio that no longer reflects your investment goals and risk tolerance.

Getting the balance right

It is likely that when your portfolio was set up, the holdings were aligned with your attitude to risk and capacity for loss. This can change over time; as you get older you may not have the same appetite for risk, and may prefer to adopt a more cautious approach to your investments.

The level of risk you're prepared to accept will in turn affect your asset allocation – the way your money is split between different types of investments, such as equities, fixed-income securities, cash and property. From time to time, you'll probably need to adjust your holdings, as the performance of the assets you're invested in is likely to vary. This is referred to as 'rebalancing' and means fine-tuning your portfolio so that it's better-placed to meet your objectives.

For example, if you are retiring and want to produce an income from your investments, then you may want to switch from growth-oriented assets to those designed to produce income.

Asset allocation and share selection

Your asset allocation can change due to the performance of your investments. If one fund or shareholding has performed particularly well, they could account for a bigger percentage of your overall

portfolio, and may no longer be a good match with your investment strategy. So, it may be time to add more diversity to your portfolio. Taking a profit from these holdings can free up cash that can be reinvested in stocks or markets that aren't presently represented in your portfolio, but which are in line with your investment objectives.

A good time to review your portfolio is during the closing months of the tax year, as this can help you think about the cash you might want to put into tax-efficient investments like ISAs or pensions. Communication is key to achieving your investment goals.

The value of investments and income from them may go down. You may not get back the original amount invested.

The New Year presents the perfect opportunity to take stock. It's never a good idea to adopt a buy-and-forget approach to managing your wealth, as you could end up with a portfolio that no longer reflects your investment goals and risk tolerance.

Disposable incomes hit six-year low – have you got the stamina to stay the course?

In Britain, the average household has been experiencing the longest fall in disposable income for six years. Consumers are struggling with the combination of inflation, which is taking its toll, as the cost of everyday items has increased, and lacklustre wage growth.

Data from the Office for National Statistics (ONS) revealed real household disposable income decreased 1.1% per head in the second quarter of 2017, meaning disposable incomes had declined for four consecutive quarters. This marked the longest period of negative growth since the end of 2011.

The data from the ONS corresponds with a study[1] disclosing that for the first time in two years, households said they thought their personal financial situation had deteriorated. This perception is likely to have a negative impact on people's spending and saving habits.

The interest rate rise in November may help temper rising inflation, which has been fuelled further by the Brexit-hit pound.

[1]Eurobarometer Consumer Survey, Oct 2017

An ISA millionaire – could you make it to £1m?

The odds on becoming a millionaire through winning the lottery or scooping the Premium Bond jackpot are slim at best. However, with planning, patience and sufficient money available to invest in stocks and shares, by reinvesting all your dividends, and making maximum use of your tax-efficient allowance, it is perfectly possible to become an ISA (individual savings account) millionaire. In fact, hundreds of investors, including many who started to build their tax-efficient portfolios in the 1980s through Personal Equity Plans, have done just that since the ISA scheme was launched in 1999.

ISAs are a great way to invest tax-efficiently, and over the last few years the amount you can save tax-free each year has risen substantially.

The allowance for the 2017-18 tax year is set at £20,000, meaning that couples can put away up to £40,000, divided between their respective ISA accounts. Sadly, it seems that the ISA message hasn't got through to everyone. HMRC has produced data that shows only two thirds of those earning more than £150,000 a year use up their ISA allowance each year.

With pension contributions subject to annual and lifetime limits, ISAs represent an excellent way of topping up retirement income, although the cash or shares could be subject to inheritance tax on death, whereas defined contribution pensions can, in many cases, be passed on to beneficiaries more tax-efficiently.

Making the most of your annual allowance

If you were able to invest your full ISA allowance in a stocks and shares ISA every year, and the ISA limit increased by around 2% each year, and your investments made an annualised return of 5% after fees, you too could join the elite band of ISA millionaires in around 22 years. Of course, we must underline that this is not guaranteed, because stock markets can and do go down as well as up.

How we can help

ISAs have encouraged more people to save for the future, largely because they are simple, flexible and provide an effective tax shelter. If you're planning to invest this tax year, it's a good idea to put plans in place as early as possible. The longer your money is invested, the more time it has to produce tax-free returns. Don't risk losing out on the valuable tax breaks available; remember you can't carry any unused ISA allowance into the next tax year. We can help you investigate the choices available, and ensure you invest your allowance wisely.

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Approach with caution – scams an increasing concern

Scammers are relentless in their efforts to trick savers out of their pension cash, and it's recently emerged that their tactics are continuing to increase in sophistication. Thieves are increasingly exploiting grey areas of the law and encouraging people to move their pension funds into investments that are completely legal, but totally inappropriate.

These investments often have high charges, are dangerously risky, or incapable of providing the level of income they claim to be able to deliver.

Plans to crack down

Over £43m in retirement savings has been lost to fraud since the introduction of pension freedoms. Concerns have been raised in parliament, and the Work and Pensions Committee has held an inquiry that, amongst other things, heard evidence as to what might be done to prevent these potentially devastating losses. The Financial Conduct Authority has promised to publish a strategy to tackle the problem.

The much-anticipated ban on pensions cold-calling that will also include texts and emails is likely to go before parliament in the first half of 2018. Companies that do not have prior permission to contact consumers, or do not have an existing client relationship with them, will face fines of up to £500,000.

Signs to look out for

In the meantime, everyone needs to be aware of the signs to be aware of. The Pensions Regulator's advice is to hang up on anyone who calls out of the blue to discuss pension opportunities, and recommends that savers who are thinking of dealing with any pension organisation should check that they are regulated by the Financial Conduct Authority.

Signs that a cold-caller could be part of a scam and trying to trick consumers out of their pension savings include suggesting that what is on offer is only available to sophisticated investors, and will only be available for a short period of time, meaning that decisions must be taken quickly. It could happen to you, so equip yourself with the knowledge – be scam savvy.

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Multi-asset momentum – for every type of investor

Multi-asset funds that embrace a mix of investment types have increased in popularity over the past decade. The financial crisis led to greater consideration of investment strategies to reduce risk, as investors looked to pursue strategies to navigate inevitable market fluctuations. At the same time, asset allocation methodologies have evolved in response to an expanded set of investment opportunities.

The rise in popularity of multi-asset funds has continued to gather momentum. According to fund flows data from Morningstar, net flows into multi-asset funds have recently reached a two-year high. Interestingly these types of fund are particularly popular in two countries renowned for their conservative investor base, Germany and Italy.

Back to basics

A multi-asset fund is an investment which combines a number of different asset classes, such as cash, equities, fixed income and real estate. The allocation or weighting to each class of asset varies according to the objective of the fund. Increasingly, multi-asset funds are aligned to specific risk profiles, so they can be matched up to each individual investor's risk tolerance, for example cautious or conservative and balanced.

Suits you

By distributing investments through several asset classes, multi-asset investments increase the diversification of an overall portfolio, which reduces risk and volatility, when compared to holding just one asset class for example. At the same time, a multi-asset approach will diversify the potential return, sometimes reducing it. However, what's important to bear in mind is that multi-asset funds should not be used to maximise returns, but to maximise the opportunities for compelling risk-adjusted returns. So expect returns aligned to your risk.

Transparent

For the investor the benefit of multi-asset funds is their simplicity and clearly outlined objectives, making them easy to understand. What's also appealing is that they can provide a lifelong investment solution, whether you are just starting out and need a stable, diversified foundation to your portfolio, or a seasoned investor who needs a risk aligned diversified core to their portfolio, which may sit alongside more risky assets.

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A bullish year for investors

It's now about a year since Donald Trump's inauguration, and whilst his administration has been the subject of political scandal, on the markets, all has been relatively quiet. In January 2017, the Dow reached a new symbolic high of 20,000 and continued to go on rising.

The general upswing in the world's major economies and markets made 2017 a year when investors felt more cheerful than they had feared they might be. Many stock markets worldwide traded at all-time highs, European manufacturing bounced back, and the Bank of England finally increased interest rates.

In the UK, the shock election vote failed to dent the rise of the FTSE 100, 250 and All-Share indices which all reached record highs in the first half of 2017. The UK economy grew by a higher than expected 0.4% in the third quarter of 2017, compared with 0.3% in the first two.

Despite the political tension in Spain surrounding the Catalan drive for independence, European markets performed well during the year. Brexit failed to dampen investors' spirits as many had feared.

Think about the level of protection you need for your family

If you have a life policy, can you recall the level of cover you have in place? The majority of people take out a life policy when they take out a mortgage, file it away and forget about it. This can be a huge mistake. The level of cover you took out a while ago may not be sufficient to cover your current circumstances.

Figures from a major insurer[1] indicate that 40% of Britons who have life insurance only have enough in place to cover their mortgage. This could result in financial strain on their families, who would still have to pay all other household bills and expenses.

Make time to review your policy

No matter what your circumstances, you should think about reviewing your life insurance cover regularly, especially if you've experienced a major life event, such as starting a family. Having enough cover to pay off just your mortgage might have been adequate prior to the added responsibility of being a parent, but now you'll want to ensure there's sufficient insurance in place not only to pay off your mortgage, but also to provide additional funds to ensure your loved ones could continue to have a reasonable standard of living if you were to die.

Consider critical illness

With a growing family to provide for, many people also opt to take out critical illness insurance. This type of cover is designed to pay out a tax-free lump sum in the event of a diagnosis of a serious illness (as defined in the policy). Income protection cover is also worth considering. If you were unable to work due to an illness or injury, it would pay out a tax-free monthly income.

Protection policies can safeguard your finances, your home and your family in the event of incapacity, a serious illness, accident or death. We can help make sure that as your life changes, your cover changes to match your circumstances.

[1]Direct Line, 2017

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Balancing intergenerational needs in your family – a fine line

The media have had a lot to say on the issue of 'intergenerational fairness' recently. This is sometimes portrayed in crude terms as being all about the perceived conflict between baby-boomers, with generous final salary pension funds, who often live in large and valuable properties, versus those of the millennial generation who have all but given up on getting a good job that pays well enough to allow them to buy a property.

However, there's another group of people who deserve to have their needs fully taken into consideration. The 'sandwich generation,' as they have been dubbed, find themselves supporting the financial needs of both their children and their parents, and as a result are often prejudicing their own standard of living in retirement.

The squeezed middle

It's estimated that around 1.9m workers aged over 50 find themselves juggling the competing needs of the younger and older generations with their own financial planning requirements. As a result, many feel under pressure to go on working for longer; others sacrifice saving for their retirement to support their families. Government statistics show a record number of over-50s remain in work, some from choice, others out of necessity.

The problem is likely to intensify as the younger generation increasingly look to the 'Bank of Mum and Dad' to help with major expenditure such as house purchase. Parents often feel under tremendous pressure to help, but there's already evidence of the divide in society that's opening up between millennials who have received help to buy a property, and those who face the prospect of renting for many years to come. Parents really need to consider their own needs before helping other family members.

Pension provision set aside

Almost a quarter of over-50s with financial dependants admitted that they had sacrificed saving for a comfortable retirement to provide financial support for adult children, while 12% of respondents said they had stopped saving completely to support the children and parents who depend on them financially.

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Whatever age they are, everyone should make provision for their later years. Even small sums saved regularly will go some way towards providing a pension income. Getting good advice will help you work out how much you will have available to live on in retirement, and how you can improve your pension outlook.

Taking a regular income from your investments

Many people, especially those approaching, or in, retirement want to get a monthly income from their investments, often to supplement their pension.

Funds tailored to income needs

One of the most obvious options is to buy a selection of funds that make regular payouts. This would mean buying funds that generate high yields and having the dividends paid into a holding account from which regular monthly amounts can be accessed.

Another option is to build a portfolio of income-paying funds that make their dividend payouts at different points in the year. Building a portfolio in this way makes it possible to spread your money across a range of diversified assets, but the downside of this is that the income may not be the same amount each month.

Alternatively, another strategy that can often make sense is to opt for funds that offer good long-term returns, rather than targeting too high a yield. This way, you can sell units to meet your income needs. It's important to plan, allowing funds enough time to make a profit, so that you are not forced to sell them at a loss.

Dividend allowance set to reduce in 2018

For the 2017–18 tax year, investors can earn up to £5,000 in dividend income tax-free, but this figure is set to drop to £2,000 from April 2018. This means that an investor can earn up to £16,500 in dividends in the 2017–18 tax year, combining £11,500 personal allowance and the £5,000 dividend allowance; this, of course assumes they have no other sources of income.

If you decide instead to sell investments to raise cash, then the tax-free Capital Gains Tax (CGT) allowance for 2017–18 is £11,300 (£5,650 for trusts). Above that threshold, basic rate tax-payers selling investments would pay CGT at 10%, with higher rate tax payers paying at 20%. The CGT allowance for individuals increases to £11,700 from April 2018 (£5,850 for trusts).

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UK retirees increasingly reliant on the state pension

About 15 million people in the UK may be facing a bleak retirement according to a major new survey from the Financial Conduct Authority[1]. It recently carried out research into the personal finances of just under 13,000 consumers in the UK.

The Financial Lives survey found that 31% of UK adults don't have private pension provision, meaning that they may have to rely very heavily on their state pension in retirement. The full state pension is currently £159.55 per week, but is only available at that rate to those who have a complete record of National Insurance contributions or credits.

Particularly concerning is the number of people aged over 50 who are not contributing to a pension, and have only a few years left before they reach their likely retirement date. When asked why this was, 32% said they thought it was too late to set up a pension, 26% said they were unable to afford it, and 12% said they would be relying instead on their partner's pension.

There's a gap between men and women too. Whilst 33% of men expect to retire on just the state pension, the figure rises to 53% for women.

The report highlights that many people find pensions very confusing, and have no idea what they will have to live on when they retire, and, of course, the big imponderable question is how long they are likely to live. Few people who took part in the survey had a clear idea as to how much they realistically needed to save to build up a reasonable pension pot.

How to get to grips with your pension

The sooner you can start saving into a pension, the more time your money has to benefit from compound interest and the growth in the value of the investments held in your pension plan. If you leave it too late, you will need to make significantly higher contributions just to achieve a reasonable standard of living in retirement.

Even small contributions made regularly can help boost your pension pot, and you'll get tax relief too. This means that for a basic rate tax payer, a contribution of £800 is topped up by a further £200 from HMRC which is added by your pension provider to your pension pot. Don't forget your workplace pension. If you save into a workplace pension, your employer should make contributions alongside yours, providing a welcome boost to your pension.

So, if you're self-employed, an employee, work part-time, run your own business or have accumulated pension pots with past employers, we can offer you advice about saving for a good pension. After all, retirement should be an enjoyable and fulfilling stage of life, not a time spent worrying about money.

A pension is a long term investment, the fund value may fluctuate and can go down. Your eventual income may depend upon the size of the fund at retirement, future interest rates and tax legislation.

[1]FCA, Financial Lives Survey, Oct 2017

Dividend allowance reduction reminder

After a bit of to-ing and fro-ing, the reduction of the tax-free allowance for dividend income from £5,000 to £2,000 will commence from April 2018, and is expected to raise up to £900m per year for the Treasury. Despite being dropped from the Finance Bill 2017 because of the General Election, it was re-introduced into a second Finance Bill, which received Royal Assent in November.

The reduction will affect individuals with non-ISA dividend income in excess of £2,000. The government estimate two thirds of people with dividend income will not be affected, but of the 2.27 million individuals who are, they can expect an average loss of around £315 in tax year 2018–19.

Since the new rules surrounding taxation of dividends came into effect in April 2016, dividends in excess of the allowance, are subject to new tax rates - basic rate 7.5%, higher rate 32.5% and 38.1% for additional rate. The whole concept was introduced in an attempt to incentivise more people to reinvest their dividend income and to deter tax-minimising strategies.

Among those hardest hit will be small business owners. The reform in 2016 and imminent further reduction in the allowance have placed a significant impact on these owners who are basic-rate taxpayers and take a large portion of their annual remuneration as dividends.

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Setting up a pension if you employ a carer or a cleaner

Families could risk facing a £400 fine unless they set up a pension scheme for the staff they employ. As part of the government's auto-enrolment scheme, designed to encourage pension saving, almost every worker in the country must have a pension fund set up and paid into by their employer. This means you may find yourself classed as an employer under government pension rules. For people who know little about pensions, this can all seem a bit daunting, but we can provide the advice and help you need.

If you pay a nanny or cleaner directly, you'll be expected to provide for their pension. However, this doesn't include staff you employ through an agency, as it's the agency's responsibility to make pension provision for them. If you take your children to a childminder, these rules normally don't apply, as most childminders are self-employed, as are many gardeners.

Workplace pension rules

Employees aged between 22 and state pension age who earn more than £10,000 a year (or £833 a month, or £192 a week) must be automatically given a workplace pension.

If you employ someone who earns more than £5,876 a year, or someone who is older or younger than the age range, they have the right to 'opt in' to a workplace pension and receive employer contributions. Anyone earning less than £5,876 a year can still choose to opt-in to a workplace pension, but employers don't have to contribute to their pension.

If you employ someone who qualifies for auto-enrolment, you will need to find a pension provider, enrol them and make regular contributions on their behalf to the scheme. Minimum contribution rates increase at set times. The current total minimum contribution of 2% (employer 1%) will increase on 6 April 2018, to 5% (employer 2%), and on 6 April 2019, reaching a total minimum amount of 8% (employer 3%).

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Don't be in the dark about your pension

Retirement might seem a long way off, but it's never too early to think about your pension. Ideally you should start planning for it from the day you start work. No-one wants to worry about money in their later years, and the way to help prevent that happening is to save regularly into a pension throughout your working life.

Here are some simple but compelling reasons why you should think about pension planning now:

Tax relief. If you make contributions to a pension, or if your employer deducts your payments from your salary, you automatically get 20% tax relief as an additional deposit into your pension pot. If you are a higher-rate taxpayer, you can claim an extra 20%, while those paying additional-rate tax can claim back an extra 25%.

Compound interest. The sooner you start your pension, the longer your money will have to grow. In today's climate of low interest rates, compound interest and reinvested dividends can play an important part in investment growth.

The state pension is just a safety net. The flat-rate state pension amounts to around £8,000 a year. Plus, by 2028, the age at which you can claim it will have risen to 67.

A workplace pension is equivalent to getting a pay rise. If you save into a workplace pension, your employer should make contributions alongside yours, providing a welcome boost to your pension.

You get a quarter back, tax free. When you retire, you can take 25% of your pension savings as a tax-free lump sum.

Pensions for every type of worker

If you're self-employed, an employee, work part-time, run your own business or have accumulated pension pots with past employers, we can offer you advice. After all, retirement should be an enjoyable and fulfilling stage of life, not a time spent worrying about money.

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Highlights from the Autumn Budget

- Stamp duty abolished immediately for first-time buyers purchasing properties worth up to £300,000
- To help those in expensive areas, the first £300,000 of the cost of a maximum £500,000 purchase will be exempt from stamp duty, with the excess of up to £200,000 incurring 5% duty
- Not applicable in Scotland unless Scottish government decides to follow suit
- Pension lifetime allowance to increase in April 2018 to £1,030,000
- Higher-rate tax threshold to increase to £46,350 from April 2018 (Scotland may differ)
- ISA limit for 2018/19 to remain at £20,000
- JISA and CTF allowance will be uprated in line with CPI to £4,260 in 2018/19
- The National Living Wage and the National Minimum Wage will increase from April 2018
- The tax-free personal allowance will rise with inflation to £11,850 from April 2018
- An extra £3 billion to prepare for Brexit over the next two years
- £6.3 billion of new funding for the NHS in England
- Fuel duty will remain frozen for an eighth year
- A new railcard for those aged 26 to 30
- Business rates will switch to being increased by the Consumer Prices Index (CPI) two years earlier than planned
- Capital gains tax relief for overseas buyers of UK commercial property to be phased out