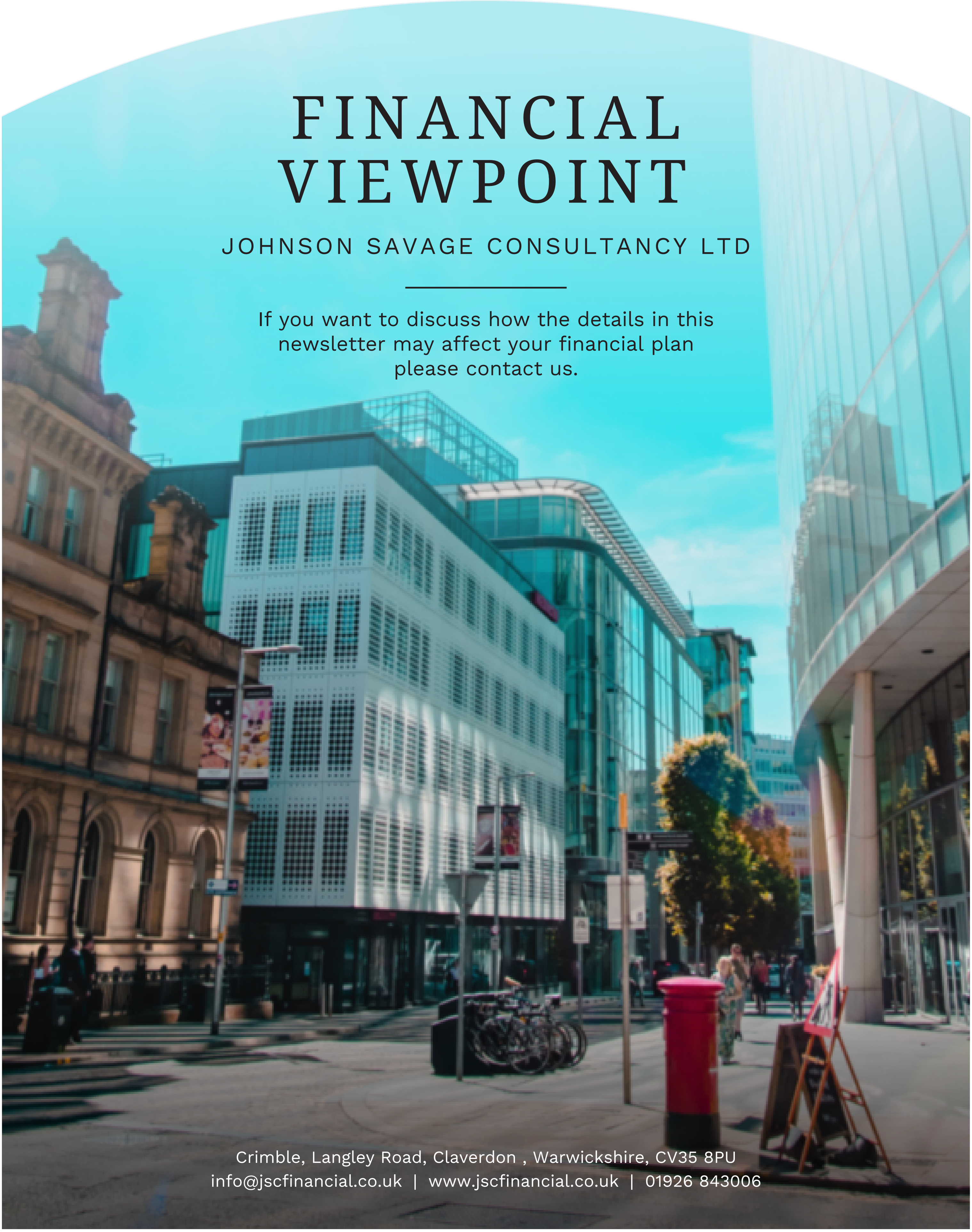

FINANCIAL VIEWPOINT

JOHNSON SAVAGE CONSULTANCY LTD

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Investment Update

Great Expectations

With hopes rising about vaccines and the end of lockdowns, could we see a rise in inflation when the economy reopens?

As vaccines continue to be deployed rapidly around much of the world, hopes are increasing about the global economic recovery. Many people expect there to be a strong rebound once coronavirus restrictions are lifted, but there are fears that the rebound could increase inflationary pressures.

As well as increasing demand, there are concerns that central bank quantitative easing (QE) programmes and increased government spending could combine to push up the rate of inflation. Notably, US President Biden's $1.9 trillion stimulus package is likely to be introduced in March.

What would higher inflation mean for investors?

Government bond yields have been rising substantially (which means prices have fallen) as investors price in the impact of higher inflation on returns. Inflation is bad news for government bonds because it erodes the real value of the fixed interest rates that they pay.

The concerns have also affected the stock market. Investors are worried that if inflation spirals out of control then banks will have to stop QE and perhaps increase interest rates. That would be bad news for big tech companies in particular, where today's share prices depend on rates remaining low. While low rates increase the current value of their future cash flows, the present value of future earnings falls if rates rise.

As a result, cyclical stocks that are more sensitive to the economy, such as industrials, are looking more attractive, while growth stocks like tech are becoming less popular.

Could inflation spiral out of control?

While inflation is likely to increase in certain areas of the economy after lockdowns ease, we believe it would just be a short-lived rise. Longer-term deflationary forces including ageing demographics, low productivity growth and efficient global supply chains cast doubt over predications of a new age of higher inflation.

We're also confident that if inflation does increase slightly then it's likely to be because economic growth is strong, which is in turn good for company profits and investment returns. With interest rates at record low levels, central banks have plenty of room to increase them to levels that would still be below the long-term average. Conditions in stock markets appear to have steadied already after the recent bond market tantrum.

Earnings season better than expected

Many companies performed better than expected in the fourth quarter of 2020. Tech giants reported strong earnings, with Apple's revenue reaching $111.4 billion in its best quarter ever. Resilience from companies in more cyclical sectors reinforced shifting sentiment about the economy. For example, Caterpillar, which makes mining and construction equipment, beat expectations for the final three months of 2020 – earnings per share fell 22%, as opposed to the 30% estimated by analysts.

The recovery should benefit UK equities

The economic recovery should favour the more cyclical nature of the UK stock market, which is weighted towards sectors that are more sensitive to the economy, such as energy and financials.

Sterling also strengthened against the US dollar and euro as investors grew more confident about the UK's vaccine programme and prospects for reopening the economy. In February, sterling rose to $1.40 against the dollar for the first time since 2018.

Protecting you and your family

Losing your partner at any stage in life can be devastating, but it may be particularly devastating when children are involved because of the financial pressures of raising a family.

Ensuring your children and other dependants are provided for in case you die should be a top priority but less than a third of people in the UK have life insurance.

Keep it simple

Many products are available but a simple level-term policy, where a pre-decided lump sum is paid out should you die within a stated period, is among the simplest to arrange and is typically not very expensive. As a rule of thumb, life cover should provide ten times the main breadwinner's income. The amount should cover any outstanding debts, including mortgage, regular outgoings, potential university fees and so on. The term should reflect the needs of your dependants; Children will probably need support until they leave education and a partner may need it until pensionable age.

Joint or single cover?

A joint policy will cover you and your partner, paying out on the first death within the term. Alternatively, you can have separate single-life policies; a little more expensive but potentially two payments. A young, fit individual should find life cover affordable. Be open about your lifestyle, especially if you have existing medical issues. Premiums rise with age, lifestyle factors, such as smoking and other factors that affect your life expectancy.

Keep under regular review

Reviewing your protection needs helps make sure you have the right cover in place for your financial circumstances, giving you the peace of mind that you've got things covered.

As with all insurance policies, conditions and exclusions will apply.

Buy to let as a private company

April 2020 marked the final stage of phased changes to Income Tax relief rules for landlords. Up until the 2016/17 tax year, landlords were able to deduct all mortgage interest payments and other allowable costs from their rental income before being taxed on the rest (tax paid depends on the landlord's Income Tax band).

Now, though, landlords are only entitled to a basic rate 20% tax credit on mortgage interest payments.

20%

Wait, so what's the difference?

Under the old system, a landlord might have made £12,000 in annual rental income but have paid £8,000 in mortgage interest. Now, let's say they were subject to the additional Income Tax rate of 40%. They would be looking at paying 40% of £4,000 – tax bill of £1,600.

Since April 2020, a landlord earning the same rental income and paying the same mortgage interest now faces paying 40% tax on the full £12,000 – i.e. £4,800 – and then deducting the 20% tax credit on their mortgage interest payments – i.e. £1,600 – leaving them with a higher tax bill of £3,200, double what they would have paid previously.

What about operating via a private limited company?

Well, that's what a lot of people have been talking about doing since the tax relief changes were announced. The new system only affects private landlords, which is why so many aspiring property investors are considering this option. If you set up and buy through a company, you'll be subject to Corporation Tax on your profits at a rate of 19%.

It's not for everyone

There are some downsides to operating in this way. For example, if you're trading as a company, you'll have to complete a Company Tax Return and file accounts with Companies House each year, which can be stressful to do yourself, and expensive if you hire an accountant. It can also be more difficult (and costly) to access your profits – for example, should you choose to pay it to yourself in dividends, you'll face additional tax on anything over the £2,000 dividend allowance.

Some buy to let mortgages are not regulated by the Financial Conduct Authority

Your property may be repossessed if you do not keep up repayments on your mortgage.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

YOUR PROPERTY MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE

Tax-free investing

It's time to talk

With the first wave of Child Trust Funds maturing this year, there's a great opportunity to talk to your children about the benefits of saving and investing.

If one of your children has recently celebrated their 18th birthday then there's a good chance they'll have some money in a Child Trust Fund (CTF), which they can now access for the first time. It could be worth thousands of pounds depending on how much you've contributed over the years. Although this might sound like a brilliant present, the responsibility that comes with receiving a large amount of money could be a bit daunting.

CTFs were set up by former Labour Chancellor Gordon Brown in September 2002, and every qualifying child was given a £250 voucher (or £500 if you were on a low income). The idea was to help make sure children arrived into adulthood with some savings and were encouraged to save, as well as understand why it's important. The scheme lasted until January 2011, when it was replaced by Junior ISAs.

So if you have children aged nine or older then they will probably also have a CTF, which will mature when they turn 18. Rather than leave it to chance, these accounts provide the perfect opportunity to get them thinking about money and start learning about saving and investing. Here are five things you might like to talk about to get the conversation going.

Key points

- If you have children born between 1 September 2002 and 2 January 2011 then they probably have a Child Trust Fund (CTF).
- Encourage them to think about what they'd like to do with the money before they turn 18 and that they've started to develop some financial skills.
- There are lots of investment options and it's important to make the right decisions so that they can continue to enjoy the tax-free benefits.
- Consider using a conversation with your children about their CTFs to explore other family financial planning matters, such as inheritance.

1. Discuss their goals

Like any financial planning exercise, a good place to start is by talking to your teenager about what they'd like to do with the money. For example, they could use some of it to help pay their university fees. Alternatively, they may be more interested in putting the money towards more longer-term aspirations like a deposit for a house or flat. You might even decide to enjoy spending some of the money together now as a family.

2. Explore the options

When a CTF matures, you can either cash some or all of it in or transfer the money into an adult ISA. If you do not inform your provider what you would like to do, they will hold the money in a 'protected account' until you contact them. The funds will still be tax free, and any terms and conditions that applied to the CTF before it matured will still apply.

3. Start the investment journey

With so many different markets and products available today, investing can seem like a complex process. Yet there are some basic principles that stand the test of time, such as making sure you spread your risks and keeping a long-term perspective. Your children might also be interested to know that they can invest in ways that reflect their personal values about society and the environment.

4. Consider switching before maturity

The investment management charges on CTFs tend to be high compared with Junior ISAs. Meanwhile, with interest rates at record lows, cash CTF savers are being paid paltry returns. That's why it might make good financial sense to transfer any account before it matures. As well as potentially lower fund charges, ISAs also tend to offer more flexibility and choice when it comes to deciding how you'd like to invest.

5. Talk about inheritance

When you talk to your children about their CTFs, you could mention how you plan to pass on your own wealth. Decisions about inheritance are usually best taken together as a family, which will give everyone the chance to put across their point of view about what's important to them. Open and honest discussions with your children can help you all develop a sense of trust and common purpose.

Next steps

If your children have CTFs and you'd like us to help you work out what to do then please get in touch. As well as exploring all the tax-efficient savings and investment options, we can get them thinking about their own financial futures as they enter into adult life.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

Lost property

Even if you don't know the provider, it's easy to locate a lost CTF. Go to the GOV.uk website and fill in the HM Revenue and Customs (HMRC) form. This tells HMRC to check where the account was originally opened. You'll need a Government Gateway user ID and password. If you don't have a user ID, you can create one when you fill in the online form. Alternatively, The Share Foundation charity runs a free CTF tracing service.

www.gov.uk/child-trust-funds/find-a-child-trust-fund

findctf.sharefound.org

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How has COVID-19 affected your retirement?

2.6%

the average pension fund is 2.6% lower than at the start of year

1.5 million

people over the age of 50 are planning to delay their retirement

15%

plan to delay retirement by an average of three years

26%

say they plan on working indefinitely

The coronavirus pandemic has not been kind to older generations. As well as having a greatly increased risk of serious health complications from the virus itself, older people have suffered a serious blow to their retirement plans.

Data from Legal & General shows that 1.5m people over the age of 50 are planning to delay their retirement in some way as a direct result of COVID-19. Fifteen percent say they plan to delay retirement by an average of three years, while 26% say they plan on working indefinitely.

Pension funds fall…

Pensions savers initially saw the value of their pension pots fall in response to the stock market slump, which impacted the retirement income available for those on the verge of retirement. This is the main reason why so many are planning to delay their retirement. The average pension fund fell by 15.2% in Q1 2020 – an even worse performance than that observed at the height of the global financial crisis. Despite recovering losses in Q2 2020 the average pension fund is still 2.6% lower than at the start of the year.

… but flexible withdrawals decrease

Many savers have not panicked but taken a sensible approach to the crisis, with data showing that less money was flexibly withdrawn from pensions in the second quarter of this year. Savers withdrew £2.3bn during this period, down 17% on the £2.8bn withdrawn in Q2 2019. This suggests that in the face of challenging circumstances, savers have been able to use their common sense, resist temptation and keep their retirement plans on track.

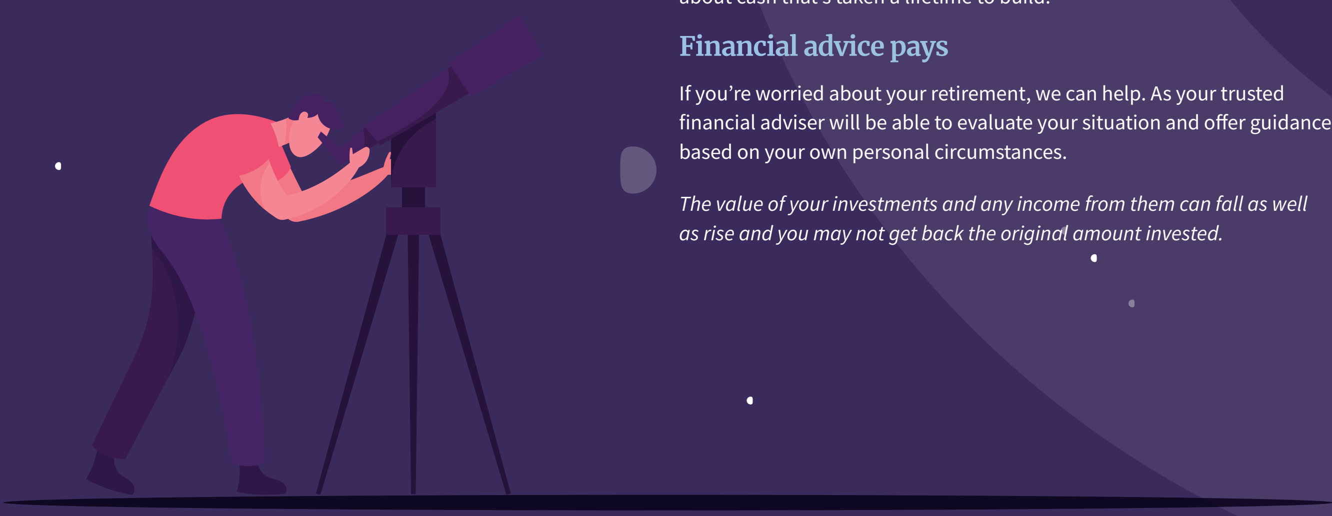
Onwards and upwards

In a press release, a group of regulatory bodies including The Pensions Regulator (TPR) and the Financial Conduct Authority (FCA) have urged consumers to keep a level head. They advise pension savers to be wary of scams and to seek professional advice before acting. TPR's chief executive, Charles Counsell, said: "Pensions remain a safe long-term investment for your retirement and it's important to avoid hasty decisions about cash that's taken a lifetime to build."

Financial advice pays

If you're worried about your retirement, we can help. As your trusted financial adviser will be able to evaluate your situation and offer guidance based on your own personal circumstances.

The value of your investments and any income from them can fall as well as rise and you may not get back the original amount invested.



What next for Inheritance Tax?

Inheritance Tax (IHT) is tax payable on the estate (including property, savings, investments and possessions) of someone who has died and in some cases the tax bill could amount to hundreds of thousands of pounds. However, the good news is that there are perfectly legal and above-board ways to mitigate huge swathes of it – or possibly pay none at all. Unless the Chancellor decides to introduce changes!

IHT receipts have fallen

According to HMRC data, IHT receipts have fallen for the first time since 2009, with the amount of IHT collected in the 2019/20 tax year decreasing by 4% (£223m) from 2018/19, bringing in total IHT receipts of £5.2bn.

This drop in tax hasn't been unexpected and is due to the introduction, in 2017/18, of an allowance known as the main residence nil-rate band (RNRB). The RNRB is an additional allowance of £175,000 currently, which is on top of the standard nil-rate IHT threshold of £325,000. This means that each person has a potential £500,000 overall IHT allowance.

Who can benefit from RNRB?

The RNRB applies where the deceased leaves a residence, or the sale proceeds of a residence, to their direct descendants, which include children, stepchildren and grandchildren, amongst others.

If you're married or in a civil partnership, any unused threshold can be added to your partner's threshold when you die, giving a total IHT allowance of up to £1m. Beyond these thresholds, IHT is usually payable at 40%.

You need to take care though - once an estate reaches £2m the RNRB starts being removed by £1 for every £2 above this threshold and it vanishes completely by £2.3m.

A way to boost Treasury coffers?

The explosion in borrowing and public spending due to the pandemic means the Chancellor could be forced to make radical economic decisions, potentially including tax hikes, to help Britain's financial recovery in the years ahead. IHT is one area that could be reviewed. The next Budget takes place on 3 March 2021, we will keep you posted on any developments.

Ongoing expert advice

We can advise you on some straightforward estate planning to help ensure more of your estate is passed on to loved ones in a tax-efficient manner, protecting your family's inheritance for the future.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

2 in 5

people think they don't have sufficient wealth to seek advice

1 in 4

think advice is for those with savings over £100,000

3 in 4

of those who have sought advice have savings and investments of less than £100,000

The value of advice

Throughout our lives, we face having to make financial decisions that can have a major impact on our wealth, as well as determining whether we meet our goals, and can protect ourselves and our families from unexpected events. A carefully thought-through financial plan can make a positive difference, no matter what stage of life you're at. Isn't expert advice only for the wealthy?

Certain life events, such as buying your first home, having a baby or retirement, will tend to prompt people to seek advice.

And don't think that professional financial advice is only for the very wealthy or is only useful when it comes to making complex investment or pension decisions. Even a seemingly straightforward financial goal could involve numerous decisions and having to make a choice from a range of different products and providers.

Research has found that two in five people think they don't have sufficient wealth to seek advice and over a quarter (27%) think advice is only for those with savings over £100,000. The reality is that 77% of those who have either sought advice or who currently have an adviser, have savings and investments of less than £100,000, compared to just 5% with more than £500,000.

Is it worth seeking financial advice?

Over the years, research has produced some interesting findings that highlight the benefit of taking advice when making financial decisions.

When assessing financial returns, one study found that individuals who receive financial advice were likely, on average, to receive 4.4% more per annum in net returns. This was through a combination of financial planning, tax advice, preventing behavioural mistakes and rebalancing portfolios.

Elsewhere, another study highlighted that receiving professional financial advice over a five-year period (between 2001 and 2006), resulted in a total boost to wealth (in pensions and financial assets) of nearly £48,000, a decade later.

The real value of advice

Good financial outcomes are obviously important, but the true value of financial advice can be measured in different ways. As well as saving you time, working with a trusted financial adviser can give you the peace of mind and reassurance that things are in hand.

No two clients will have the same requirements, so it's vital you obtain sound financial advice tailored to your individual needs. That's where we can help, with tailor-made advice which helps to add value, whatever stage of life you're at.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

Past performance is not a reliable indicator of future performance and should not be relied upon.