fraserheath

Helping you face the future with knowledge and confidence

February 2014 Edition

www.fraserheath.co.uk

A Happy New Year to you all from everyone at Fraser Heath. 2013 seems to have passed particularly quickly and on reflection was better than expected for the UK. The markets had a good year with the FTSE 100 increasing by over 18%, ending the year at over 6700 on further evidence of economic recovery. We actually had a proper summer for a change and can at last boast a long awaited Wimbledon Champion!

The improving investment markets over the last 18 months have been reflected in your portfolio valuations but double digit growth for 2014 looks less likely as markets have already factored in much of the improving economic outlook. Deposit rates for savers and mortgage rates for borrowers look set to remain subdued, especially as inflation has reduced to its lowest level in five years, but this will undoubtedly come under pressure later in the year. There are the usual wide range of predictions from the city but I personally think that 2014 may be more of a year of consolidation and I still remain unconvinced about the forecast of a national house price boom.

The new financial reporting requirements and practices introduced by the Retail Distribution Review (RDR) for Adviser firms have been with us for over a year and Fraser Heath, thanks to the efforts of our administration teams, have coped admirably with this whilst many firms have fared less well. This initially resulted in the number of advisers nationally falling by approximately 15% as RDR approached but has recovered slightly over the year as more advisers pass the required exams. However, any reduction is particularly alarming when the need for advice and financial planning for the future has never been more important and this has been reflected by the number of Cash Flow Forecasts we have prepared over the last year. We see an equally busy year ahead of us and hope to continue the steady rate of growth we have achieved in recent years.

Down at the farm, (our offices) we are anticipating the arrival of many lorries as our landlord converts 100 acres into a "solar farm". I am glad to say it will be out of sight of the offices and sadly we won't be benefiting from cheap electricity.

On a personal note, I have the privilege of being captain of my golf club this year, the Players Club near Bristol, but contrary to popular myths I won't be on the golf course all the time and can assure my clients I will still be looking after them and seeing them as usual. It does however allow me to promote the two local charities benefiting from my captaincy, namely Paul's Place (www.paulsplace.org.uk) and the Charlie Froud Foundation (www.thecharliefroudfoundation.org.) Any support you feel able to give will be much appreciated.

In any event, I hope you find the newsletter of interest and that you have a great year.

Jim Collier

In this issue…

Investment Matters

Most people I know enjoy Christmas but many hate "New Year" and look upon the December 31st celebrations with about as much enthusiasm as an England opening batsman facing up to Mitchell Johnson on a baking hot day in Sydney!! However, the end of one year and the start of the next is an ideal time to look in the mirror to see where we have come from and to look ahead at what we expect to follow...

By most measures, 2013 was a good year for investment portfolios, with stock markets again rewarding most investors with healthy returns despite a backdrop of modest economic growth in the West and a slowing economy in China. Looking at the figures for the last year, the FTSE 100 Index of leading UK company shares returned over 18%, the S&P in the US soared by almost 30% and even investors in the Japanese stock market saw growth in the Nikkei of 27%!

My old boss used to say that it is impossible to make money in Japan, but for a change he will have come unstuck in the last 12 months!! The new Prime Minister in Japan, Shinzo Abe, who was elected at the end of 2012, has presided over the start of economic reforms (which have become known as "Abenomics") that are set to modernise Japan and make them more competitive in the global economy as a whole. The market really took to these reforms and the Nikkei rose rapidly in the first five and a half months of the year. But once Mr Bernanke in the US started to make noises about removing Quantitative Easing (QE) in the third week of May, markets, including Japan, took fright. Indeed, the Japanese market plunged 20% in three weeks, wiping out most of the gains made by investors earlier in the year.

There were disappointing returns again from Emerging Markets, where the slowdown in Chinese and Indian economies continued to hamper confidence and the MSCI Emerging Markets index fell by over 4%. There are, no doubt, some disappointed investors out there who had hoped that 2013 would see a recovery of fortunes for Emerging Markets, but it was not to be.

So what about 2014...??? Firstly, we do not expect stock market returns to be as healthy as they were last year, but we do hope and expect that the gradual improvements we are seeing in the global economy are reflected in higher market levels by the end of the year. Growth in the world's largest economy, the United States, is expected to continue and this should again provide the platform for growth in other Western markets. However, you may recall talk of the "fiscal cliff" and that will rear its ugly head again over the next few weeks, as we approach the n deadline, together with all the uncertainty that this will inevitably bring! Americans will be faced with a "perfect storm" of significant tax rises (the largest in 60 years) and a reduction in Government spending as the US Government try to start balancing the books. If they can overcome this hurdle and also successfully manage the process of weaning their economy off QE, the US may once again lead the way in 2014.

Elsewhere, we continue to favour the equity markets here in the UK, especially smaller companies, Japan and Europe, when looking with our usual medium to long term view. We do expect volatility along the way, of course, which is why investors in stock markets should be prepared to look at a five year time horizon. Those invested in the Fraser Heath model portfolios will know that we recently reintroduced Commercial Property to these as the outlook has improved and such funds provide diversification to the equity and fixed income markets. Property funds have suffered the most from the after effects of the financial crisis of 2007/08 and investors have had to be very patient, but we think this patience may well be rewarded this year.

If you have any questions about your portfolio or would like to review it, or want to know more about our model portfolios or the other investment options available from Fraser Heath, please either contact your usual adviser or telephone the office on 01454 252800.

Mark Fletcher

Pensions Update

Fixed Protection
Time to check your pension values

Auto Enrolment

From 6th April 2014 HMRC reduces the Lifetime Allowance from £1.5m to £1.25m. There are tax penalties of 25% on income and 55% on cash benefits taken in excess of the Allowance at retirement.

Similar to previous reductions to the Lifetime Allowance, HMRC has introduced two forms of protection namely Fixed Protection 2014 and Individual Protection.

When considering whether or not benefits are close to the lifetime limit, one needs to consider:

- multiples of 25 x defined benefit pensions in payment prior to April 2006
- multiples of 20 x defined benefit pensions in payment after April 2006
- Money purchase fund values

Fixed Protection 2014

Fixed Protection 2014 protects benefits at the current Lifetime Allowance level of up to £1.5m. To maintain this Allowance after 6th April no contributions or benefit accrual above "relevant accruals" in defined benefit schemes is permitted. If you apply for Fixed Protection it will be important to make sure you are not unintentionally auto-enrolled to your employers' pension scheme.

You must apply on-line or by post to HMRC for Fixed Protection by 5th April 2014.

Individual Protection

This form of protection allows contributions and benefit accrual after 5th April 2014 without losing protection. It is designed to allow those with a Lifetime Allowance of more than £1.25M up to £1.5M to continue to receive the benefit of employer pension contributions. The key points are;

- Pension Benefits must be valued at £1.25m or more at 5th April 2014
- Enables protection of benefits between £1.25m to £1.5m
- One cannot apply until 5th April 2014 and will have a 3 year period beyond that during which to apply i.e. up to 5th April 2017.

Annual Allowance and Carry Forward

These changes present an opportunity for those currently under the £1.5m value to maximise pension benefit values before 6th April 2014 using the current Annual Allowance of £50,000 gross (reducing to £40,000 in 2014/15) and Carry Forward to utilise any unused maximum Annual Allowance from the previous 3 years.

Protected Before?

If you already have Primary Protection, Enhanced Protection or Fixed Protection 2012 you are likely to void the existing protection if you apply for Fixed Protection 2014.

If you would like further advice and information on pension protection, please contact your adviser at Fraser Heath.

Michelle Lewis

Automatic Enrolment Update

In our previous newsletter we highlighted how pension providers are "cherry picking" the businesses that they want to offer their most attractive terms. This "capacity crunch", where demand for new schemes massively exceeds the available supply, continues into 2014. It will inevitably leave many businesses that are yet to address their Workplace Pension obligations and their employees with a restricted choice.

An anticipated 38,000 UK businesses will reach their Staging Date under Auto Enrolment in 2014. We have explored in our previous newsletters the rules and obligations on these businesses from this date. Our main concerns during 2013 were around the general lack of understanding of the rules, implications and more importantly the costs of complying with the new rules. Perhaps this highlights the failure of The Pensions Regulator to communicate the key messages to UK businesses.

The number of advisers willing to provide UK businesses with professional support has fallen and the vast majority of employers are unaware of their responsibilities as evidenced by the statistics below.

Almost a third (30%) of Small to Medium sized Enterprises (SMEs) are not planning to seek advice on Auto Enrolment despite fears of the financial damage and disruption to the business, according to research from accountancy software provider Sage. In addition, 8% said they don't even know about Auto Enrolment, while 49% stated they aren't planning to communicate the changes to employees. Almost half (47%) also responded that they aren't spending any extra time getting ready for the changes.

Despite the apparent inertia, 44% of businesses questioned said it is likely or very likely that they will have to freeze wages as a result of Auto Enrolment, while almost one in ten said it is likely or very likely that they will have to cut wages. A third are worried about the potential impact on cash flow.

How Can We Help

At Fraser Heath we are committed to helping businesses through Auto Enrolment and see this area as a major part of our growth throughout 2014. We have the appropriate professional resources within our business to provide valuable support to SMEs.

We believe firms should ideally start the process 12 months before their staging date and have agreed a solution within six months. If you are part of that decision making process and would like to discuss your requirements you can contact Richard Ellis at Richard@fraserheath.co.uk

Richard Ellis

Notebook

Mortgages

House prices continued to gain upward momentum as 2013 drew to a close. While UK house prices were 8.4% higher in December 2013 than December 2012, house prices are still around 5% below the 2007 peak in the South West.

A large part of the pickup in the housing market can be attributed to further improvements in the labour market and the brighter economic outlook, which helped to bolster sentiment amongst potential buyers.

Policy measures also played an important supporting role by helping to keep mortgage rates close to all-time lows and improving the availability of credit, especially those with smaller deposits.

Government initiatives include the following:-

Help to Buy – Equity Loan

New Build only

Borrower needs a 5% deposit

Available to all, not just first time buyers

Government will lend 20% of total value of the property through an equity loan, payable at any time or on the sale of the property

Borrowers need to secure 75% Loan To Value mortgage from bank or building society

Maximum property value of £600,000

Help to Buy - Mortgage Guarantee

New Build or existing homes

Borrower needs a 5% deposit

Available to existing homeowners and first time buyers

Secure a mortgage from bank or building society

Government will encourage lenders to offer higher Loan To Value mortgages

Maximum property value of £600,000

For more information on mortgages, please call our mortgage department on 0117 9329797

Shaun Smith

Child trust funds

Chancellor George Osborne has said the Government is planning to lift the restriction on transfers from Child Trust Funds (CTF) to Junior ISAs. Currently children born between 1 September 2002 and 2 January 2011 are only eligible for a CTF, while those born before this time and after 2011 qualify for a Junior ISA. However, the Government has faced pressure from campaigners calling for CTF holders to be allowed to transfer funds into a JISA, as these newer accounts often offer more competitive savings rates.

A rose by any other name would smell as sweet

In 2013 Cazenove's retail investment team were purchased by Schroders. They continue to manage funds in the same way and with the same teams, and while keeping the Cazenoves name for now they have started to adopt the Schroders brand in their marketing. Expect a name change in the not too distant future.

Similarly the pension specialists Scottish Life, owned by the UK's largest mutual insurance company Royal London, are expected to adopt the Royal London brand within the next year or so.

Savings Rates

Savers in cash deposit accounts continue to suffer in the Bank of England's low interest rate environment. At the time of writing, those willing to lock their money away in a Cash ISA for five years can get rates of 3%, or for a 3 year term rates of 2.4% can be found (such as with the Principality Building Society and Virgin Money). The best instant-access Cash ISAs from well-known financial institutions generate returns of around 1.75% (such as Nationwide, Virgin Money and the Post Office).

Miles Hendy

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