F H Manning

FINANCIAL SERVICES LTD

The Street Lamp News
Autumn 2014

Market Review

Looking back on our previous editions it with interest that the Autumn 2011 newsletter started as follows 'Markets have started the fourth quarter like they ended the last. The stream of negative news and the collective gloom it has cast over investors shows little sign of abating. The US S&P500 index closed recently at its lowest level in over a year. It went on to discuss problems in Europe and suggesting that 'Patient investors with one eye on the longer-term may want to use the current indiscriminate sell-offs to reassess their portfolio

Since then the FSTE 100 index has risen from 5128.48 to 6285, a rise of 22.5% despite the recent falls which is an annualised return of 7%. Admittedly the market has been as high as 6878.49 but at those levels the markets were beginning to look overpriced as there are still a few significant headwinds.

The Eurozone is heading for a triple dip recession. The economy is still 2% smaller than pre-crisis levels. Firstly they were faced with the credit crunch recession followed by 2011's recession and now they are faced with a possible third recession. This time round the focus is on the core economies rather than the weak peripheral economies. In August, Germany experienced its largest fall in industrial output since 2009. This was the result of the proximity of the conflict in the Ukraine which has led to a fall in consumer confidence and business investment. Furthermore a relatively strong Euro has hit export growth. European Banks still have bad debts on their balance sheets and are not keen on writing them off. The European Central Bank (ECB) has attempted to improve growth with its program of cheap loans to banks to help fund business growth but the take up has been around 20%. They have further attempt to prop up growth and avoid deflation by purchasing asset backed securities. The final string in the EBC bow is Quantitative Easing (QE) but they know this won't be a miracle cure and could trigger a fall in the currency.

The Organisation of Petroleum Exporting Countries (OPEC) are now considering limiting production to bolster the price of oil which has fallen to a 2 year low. We have already seen falls at the petrol pumps, which is a small part of their output and mild weather could be a significant factor in OPEC's decision to adjust output.

The Ebola crisis is creating death and misery but is hitting global travel and financial markets. American politicians have already called for a halt to all travel to the infected countries. The concern is not the current Ebola outbreak but any mutation of the virus into something more infectious. However, more people are affected by Lassa fever, another frequent fatal condition than Ebola and therefore the restrictions and impact on financial markets at this stage is limited.

The US Dollar is at a 5 year high following the end of US Quantitative Easing in the US and the stimulus packages in Europe. Whilst a Strong Dollar is positive for American travelers the impact across the rest of the world is equivalent to a rise in interest rates. With no other options for a reserve currency and provider of liquidity then this could be a problem. For Non US Companies looking to increase exports to the UK the current Dollar strength is good news.

Russia continues to face economic problems with inflation at 8%, a falling currency and financial sanctions restricting firms' access to capital markets which could lead to a credit crunch. 2016 or 2017 could see a credit downgrade. Further woes come from the falling oil price which is already lower than Russia budget predicted.

Market Review

	Percentage Change 6 months	Percentage Change 1 year
UK Equities		
FTSE 100	+0.50	+5.10
FTSE 250	-0.60	+5.00
FTSE Small Cap	+1.80	+5.70
FT A Brit All Stocks	+5.20	+5.90
North America		
S&P 500	+5.30	+18.00
Japan		
Nikkei 225	+8.70	+11.00
France		
CAC 50	-1.30	+5.40
Germany		
DAX 100	-2.10	+8.50
Property		
Halifax Property Index	+4.80	+9.20
Inflation		
Retail Prices Index	+0.90	+2.00
Composite Index	+2.26	+6.65

This Index is calculated on the basis that a client's Portfolio is invested as detailed below with net income re-invested at the payment date:-

Property	10%
Building Society Deposits	20%
UK Government Index Linked Stocks	10%
UK Equities	40%
North America	10%
Europe	10%

Pension Death Benefits

Earlier in September the Chancellor surprised the pension industry with a further relaxation of pension rules. Following on from introducing more freedom in how pension benefits can be taken he has now gone even further by abolishing the 55% tax charge on "crystallised" pension funds in drawdown.

To explain further "crystallisation" is the point at which you take the benefits from say, your personal pension. If after taking any tax free cash the balance goes into a 'drawdown arrangement' that is instead of buying an annuity. The fund remains invested and you 'draw' a pension from the invested fund. On death the fund in the drawdown arrangement can be paid to a beneficiary less a tax charge of 55%.

From the 6th of April 2015 if the deceased was under 75 at the date of death the beneficiary will receive the full value of the fund with no tax deducted.

If the deceased is over 75 the beneficiary may receive the value of the fund less a tax charge of 65% and on death after 6th April 2016 the fund will be taxed out of the beneficiaries own marginal rate.

This is a significant improvement and has made a pension a far more flexible and attractive proposition for individuals.

'People who have worked and saved all their lives will be able to pass on their hard earned pensions to their families tax-free' George Osbourne, Conservative Party conference 2014.

Protecting your lifestyle

Whilst you are busy building the life you want you may forget to consider what could be at risk.

Everyone should ask themselves if they would be able to cope financially if their partner's income was no longer available due to illness or death. If you have a mortgage together then would repayments still be able to be paid on one salary. If you have children then would you be able to continue to work and look after the children as well as keeping up payments and replacing the lost income.

No one likes to think about getting ill or not being able to work. However coming to terms with being diagnosed with a serious illness or loss of a loved one is never an easy thing to do and adding financial burden can make coping increasingly difficult.

According to the office of National Statistics life expectancy at age 65 in the UK has reached its highest ever level.

Life and Critical Illness protection can help provide you with a financial security net and peace of mind that should the worst happen you family are provided for.

To put things into context for a woman out of work for a year due to serious illness statutory sick pay is £87.55 a week for 28 weeks. Assuming she was earning the National Average wage of £23,589 that represents a shortfall of £21,137.50

For some women going back to work after children is not an option. Whatever the reason stay at home parents have a significant role in family life and to put a value on their contribution is impossible.

2 in 5 mothers have no protection in place which would provide the financial support should they be unable to carry out their day to day activities. If the Father continued to work and decided to take the children to nursery the cost of 40 hours a week is on average £175.82, in excess of £9000 a year.

Research has shown that 32% of people have travel insurance, 15% have mobile phone insurance and 14% have pet insurance yet only 13% of individuals have Critical Illness cover.

In summary protection can help:

- pay off debts when someone dies or has a critical illness
- Pay for changes to make life easier after being diagnosed with a critical illness
- Provide an income when someone cannot work for health reasons

If you or a member of your family would like to discuss this in more detail then please do not hesitate to contact us.

Intestacy

On 1st October the Inheritance and Trustees Powers Act 2014 came into force which affects the rules on Intestacy, dying without a valid will.

The rule changes only apply to married couples of those in a civil partnership so without a valid Will co-habiting partners are not entitled to inherit any of the Estate on death.

For all other couples the rule changes are as follows:

	Old Rules – pre 1st Oct '14	New rules – post 1st Oct '14
Married / Civil partners with no children	First £450,000 to surviving spouse 50% of any residue to surviving spouse Other 50% divided amongst blood relatives	Whole Estate to surviving spouse
Married / Civil partners with children of any age	First £250,000 to surviving spouse 50% of residue directly to children Other 50% held on a life interest to the spouse when passes to children on death of spouse	First £250,000 to surviving spouse 50% of residue directly to spouse Other 50% to children directly

Of course this highlights the need to have a Will in place not only to ensure assets are passed on as per your wishes but also to reduce the administrative burden and speed up the process of distributing assets.

State Pension Deferral

According to a recent survey by Towry Law 65% of the over 50's intend to continue to work during retirement.

For those individuals choosing to carry on working the decision must be taken whether to take the State Pension or defer it.

Taking the State Pension may allow some individuals to reduce their working hours without the commensurate reduction in their disposable income.

For those continuing to work full time or in the fortunate position of having a well-paid job which takes them into higher rate tax then the decision is not quite so easy to make. Under the current scheme individuals receive an additional 1% for every 5 weeks they defer, increasing the Basic State pension by £611 in the first year. Furthermore it is possible to take the deferred pension as a one off lump sum where deferment has been for more than 12 months. The lump sum is equal to the pension deferred less income tax and with interest equal to 2% above the Bank Base rate added. With interest rates remaining at historic lows there is a compelling argument for deferment. However, as with everything pension related at the moment, rules are changing.

After April 2016 the new single tier pension comes into effect. The deferral rate reduces to 5.8% and the lump sum option is withdrawn. The rules on inheriting a deferred pension also change and could lead to little or no benefit for the surviving spouse.

If you are in a position where you can afford not to take your State Pension then we can provide guidance on deferment.

Featured Investment

STRUCTURED PRODUCTS

All structured products start life with the same underlying form. They have two component parts:

1. The debt component that provides a 'safety net' to protect all or part of your investment.

2. A derivative component that provides the opportunity for growth or income payments.

The bulk of the investment is used to purchase a bond, or alternatively placed on deposit (as structured deposit) with the issuing counterparty This bond pays no interest during the life of the investment but promises to pay back a larger, set amount on a future date, structured to coincide with the maturity of the structured product.

Let's say that the bond or deposit element of the product costs the equivalent of 92% of the original capital. In order to achieve the enhanced returns that structured products offer the potential interest (8% of the capital) is used to purchase derivatives (usually options). This derivative element will be linked to a financial asset such as the FTSE 100 and may simply offer the growth in the FTSE 100 although other forms of payoff exist. At maturity, the product then pays both the growth in the FTSE 100, as well as the interest and the capital invested in the bond back. If the FTSE 100 has fallen, then although the option will be worthless at maturity, you still receive the original capital invested back due to the interest payment To demonstrate how this works in practice the following structured product is currently available.

Investec FTSE Kick Out Deposit Plan 48

As the name suggests the returns are linked to the performance of FTSE 100 index of leading shares. On the third anniversary if the index is at or above its starting level then the plan closes and investors receive back their original investment plus 15.75% growth. If the plan does not achieve this then it continues for a further year and the same calculation takes place and a return of 21% is paid out. This happens each year adding a further 5.25% growth for every year held. If after 6 years the index is not above its starting level then investors simply get a return of the original investment.

The key point about this product is that it is a deposit based investment. The original investment is protected and in the event of insolvency of Investec Bank Plc investors are covered up to £85,000 by the Financial Services Compensation Scheme.

It is therefore an attractive proposition for Cash based New Individual Savings Accounts (NISAs) as well as trustee investments and lower risk clients.

Returns are paid net of basic rate income tax, unless the investment is within a NISA wrapper.

This investment is not suitable for all clients but if you would like to discuss this in more detail please do not hesitate to contact us.

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