Issue **108**

"Change your opinions, keep to your principles; change your leaves, keep intact your roots."
Victor Hugo

Age 75 – why it matters for inherited wealth

THE LIFTING OF A RESTRICTION, WHICH MEANT MOST PEOPLE had to access their pension benefits at the latest by age 75, has given pension holders greater flexibility around when they take their pension benefits.

While now it can make sense to keep money in a pension for inheritance tax reasons, there are differences in the pension rules before and after age 75, which can cause issues. First is the tax treatment of death benefits post age 75 (pre age 75 pension wealth can be passed on to chosen beneficiaries tax free, post age 75 it is taxed) and second is a further test of pension savings against an individual's remaining 'Lifetime Allowance' (the cap on the total amount a person is allowed to have saved in their pensions) which could result in a tax charge.

Planning ahead may prove essential in ensuring you or your beneficiaries do not pay more tax than needed.

Pensions scamming

THE FINANCIAL CONDUCT AUTHORITY (FCA) and The Pensions Regulator have introduced prominent television adverts about pension scamming, with various versions, including: 'Don't let a scammer enjoy your retirement' to reflect how widespread and devastating these scams can be for people.

According to the latest figures issued by the FCA, victims of pension scammers lost an average of £91,000 each in 2017. The Government has promised to ban cold calls but continues to procrastinate over bringing in the legislation.

Anyone who wants a pension review should contact a reputable Independent Financial Adviser. We can offer a full pension review and will recommend the appropriate action, based on a person's individual circumstances and our many years' of advising on pensions for clients.

Lending money to friends

IT APPEARS THAT MANY PEOPLE HAVE fallen out with good friends over money – either borrowed or owed.

Around 21% of people say that they and friends have parted company over money – which is more than over politics (15%) or sport (10%) – for things as simple as accepting payment for a meal. When it comes to friendship and money it seems it can pay to abide by the old saying 'Neither a borrower nor lender be'.

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Covershot: Fuji mountain at Kawaguchiko lake, Yamanashi, Japan.
By: Shutterstock.

Make your money work. Best bank & building society accounts

Type	Amount	Provider	Account	Gross Rate	Contact
Unrestricted instant access accounts					
Online	£1+	Paragon Bank	Easy Access Account	1.37%	www.paragonbank.co.uk
Online	£1,000+	Charter Savings Bank	Easy Access – Issue 10	1.40%	www.chartersavingsbank.co.uk
Accounts with first year bonus					
Online and telephone	£1+	Marcus by Goldman Sachs	Online Savings Account	1.50%[1]	www.marcus.co.uk
Fixed rate bonds					
Online	£1,000+	Oak North Bank	1 Year Fixed Rate Saver	2.02%	www.oaknorth.com
Online	£1,000+	Shawbrook Bank	2 Year Fixed Rate Bond (Issue 50)	2.27%	www.shawbrook.co.uk
Online	£1,000+	Charter Savings Bank	2 Year Fixed Rate Bond	2.27%	www.chartersavingsbank.co.uk
Online[2]	£1,000+	Tandem	3 Year Fixed Saver	2.40%	www.tandem.co.uk

Notes
[1] Includes a 0.15% gross bonus for the first 12 months. [2] Once opened, the account can be managed by telephone.

Measures of inflation - The average change in prices of goods and services over a 12 month period to August 2018

Retail Prices Index (RPI) 3.5%	Consumer Prices Index (CPI) 2.7%

Sources: Providers' websites, Office for National Statistics, www.thisismoney.co.uk, www.moneysupermarket.com, www.moneyfacts.co.uk, 08/10/2018. All accounts subject to terms and conditions.

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The financial effects of divorce

THE SUPREME COURT HAS UNANIMOUSLY allowed the appeal of a businessman, aged 85, who had been ordered by the Court of Appeal to increase maintenance payments to his former wife, 16 years after their divorce.

Previously, an Appeal Court had ruled that he would have to increase his monthly maintenance payments to his former wife from £1,100 per month to £1,441 for life because she was "unable to support her basic needs."

The Supreme Court overturned the decision, deeming that his ex-wife had mis-managed the capital she originally gained in her divorce settlement, causing her increased basic needs as she was forced to pay rent. The Supreme Court said it was unfair to expect the husband to meet these increased needs in full.

Office for National Statistics data shows that, on average, 42% of marriages end in divorce. This case serves as a reminder that divorce or annulment of a civil partnership can continue to affect people years after the event.

Alongside the immediate financial impact, it is important to look at areas such as wills, pension nominations, estate planning including the use of trusts, as well as financial planning for the future.

Sudoku

Our latest Sudoku hopefully will test your puzzling skills. To complete it simply fill the grid so that each row, column and 3x3 block contains the numbers 1 to 9. You will find the solution on page 11.

	4	9				3		
	3		8	1	4			
			9				7	
9		8	6	5				
	5							
		1				7		8
1		7	3	8				
					1	6		
5	9		4					

Source: www.printmysudoku.com

COMMENT

Two important lessons

TECHNOLOGY COMPANIES HIT THE HEADLINES RECENTLY when Apple became the first trillion dollar publicly listed company followed, just four weeks later, by Amazon.

However, adjusting for inflation they do not represent the most valuable companies ever – by a large margin. Microsoft's highest ever valuation, for example, was $843bn which, after inflation, puts it ahead of Apple's current value, in real terms. That said, the Microsoft valuation was at the height of the dot-com boom and the share price subsequently halved over the following year.

Historically, the most valuable public company of all time was also the first company listed on the world's first official stock exchange; the Dutch East India Company. Floated in 1602, it raised substantial funds and subsequently became a global company employing over 70,000 people worldwide. It peaked with a market value, in today's terms, of almost four times the current value of Apple and Amazon combined.

Multiple fortunes were made over the 197 years that the Dutch East India Company traded but many were also lost as the company suffered a slow decline over most of its final eighty years.

There are two important lessons here: 1. Taking too much risk can lose you a fortune and 2. Taking too little risk can lose you a fortune.

If you were prepared to accept the risk, you will have done very well if you had been invested in Amazon and Apple. However, having too much exposure, no matter how strong the fundamentals, amounts to accepting too much risk. There are countless other, once very significant companies that subsequently declined into oblivion taking shareholder fortunes with them.

Taking too little risk has equally been responsible for losing many a small fortune thanks to the erosive effect of inflation. Having too much in the bank in recent times will have cost you more than you may care to accept. For example, £10,000 held in a Cash ISA for the last ten years will have grown to £11,046 if it earned interest at 1% per annum. Thanks to inflation, £1 today buys what 80 pence bought just ten years ago, so the true value of the £10,000 deposit, after accumulating a decade's worth of interest, is actually less than £8,850 in real terms.

While everyone should aim to have an emergency capital in an easy access bank account, the perception of leaving money in the 'safe haven' of a bank account has proven to be a complete fallacy.

That's not to say that you should take all of your surplus money out of the bank and invest it in the stockmarket. But understanding and accepting a sensible level of investment risk has proven time and time again to pay dividends. Our investment approach at Lowes is not to target double digit rates of return, every year, for every client because double digit gains can and often do turn into double digit losses.

At Lowes, we instead help our clients put their money sensibly to work for them. Whilst you may want to speculate with a small element of your money, an appropriately diversified portfolio, invested for the medium term, targeting, say 7% per annum, should translate to accepting less risk of the erosive impact of inflation, without a high potential for significant losses. At just over 7% per annum the capital value of a portfolio will double over ten years.

There is an old adage that 'money makes money' which is typically true but only if you put your money to work.

Ian H Lowes,
Managing Director

If you would like to receive further information on any of the subjects featured in this issue please call: **0191 281 8811**, fax: **0191 281 8365**, e-mail: **client@Lowes.co.uk**, or write to us at: **Freepost LOWES FINANCIAL MANAGEMENT**. Lowes® Financial Management Limited.
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Expect tax changes ahead

MORE NOISE HAS BEEN COMING FROM WESTMINSTER over the past year indicating that the Government (or more likely Whitehall) would like to see reform of the current tax system, most notably around pensions and inheritance tax.

Why? Well, mainly because these are easier targets for the Government than other taxes; there is a general perception that they only benefit the wealthier members of society. Change the tax in these areas and you're unlikely to get the major outcry you would if you changed income tax or Vat, for example.

What is being proposed?

In its latest publication, the think tank 'Centre for Policy Studies' advocated a move away from how pensions taxation currently works as an 'Exempt Exempt Taxed' regime. It has recommended to move to a 'Taxed Exempt Exempt' basis, in the same way that ISAs currently work.

The 'Exempt Exempt Taxed' system gives exemptions from tax on investments and savings while funds are being accumulated, taxing them when they are drawn upon. The move to 'Taxed Exempt Exempt' would give the Government an immediate tax boost when funds going into wrappers would be taxed up front. It would also mean people would have less to invest, reducing the amount they could accumulate whilst in their pension or other tax-free wrapper.

Another proposal with major implications is the taxing of the 25% pension commencement lump sum. This could bring 25% of everyone's pension money into the tax pool.

The Office of Tax Simplification (OTS), an independent office of HM Treasury, has consulted on the simplification of inheritance tax and taxation of savings income.

As part of the IHT review, the OTS looked at areas including:

1. Gifting and use of IHT exemptions
2. Rules and reliefs and how they affect people's decision making
3. The complexity of the rules
4. Business Property Relief (BPR)
5. Agricultural Property Relief (APR)
6. Ownership of AIM shares

The paper on taxation of savings income looked at:

1. Income tax and allowances
2. Life insurance bonds
3. Simplification of the ISA rules
4. Creating a roadmap or plan for changes to the personal tax system

Both bodies are advisory and what they have presented are proposals. It would be down to Government and Parliament to implement any changes. Where implemented, any changes are unlikely to be imposed retrospectively – although nothing can be guaranteed.

There have also been proposals to scrap the Lifetime ISA, the hybrid product which enables first-time buyers to save towards a house deposit, while also being used as a retirement savings pot. Removing the Lifetime ISA is to allow for the introduction of a Care ISA, intended to encourage people to save for their long term care bills.

In June, the publication of these documents and media reports, quoted Chancellor Philip Hammond saying he would look at ways to save around £38billion in tax relief. This suggests that for one reason or another, change is coming – potentially as soon as this year's Autumn Statement.

Current pensions and IHT tax figures

Pensions

Pension Commencement Lump Sum – no tax charged[1]
Income taxed at individual's marginal rate of tax

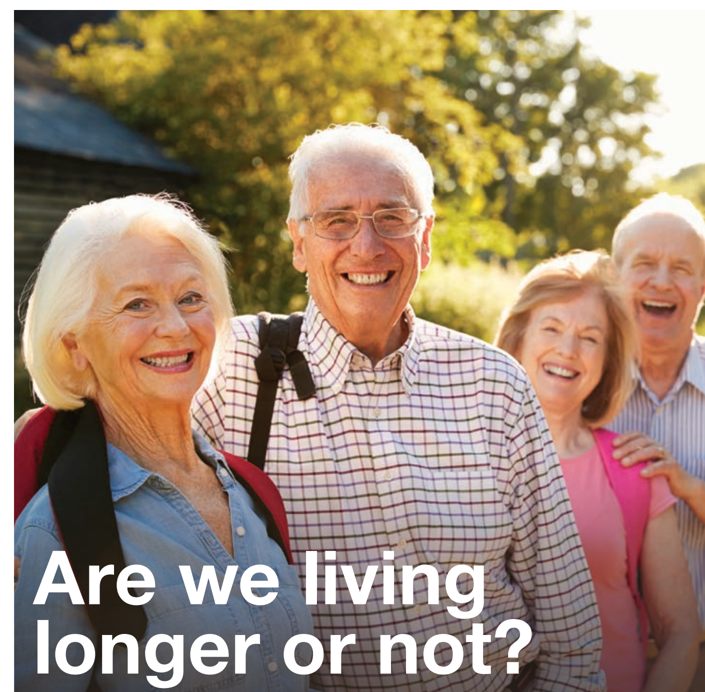
IHT

Nil rate band £325,000[2]
Residence nil rate band – currently £125,000 [2&3]
Rate of tax on excess 40%
Rate of tax on chargeable lifetime transfers 20%

[1] Unless Lifetime Allowance breached
[2] Unused nil rate band percentages are transferable between spouses/partners
[3] Must be passed to direct descendant(s) to qualify

Lowes Consultant Barry Hopper says:

One area of the OTS paper which stood out for me was the review of the guidance around pension withdrawals, particularly the use of the emergency tax code for when individuals take their lump sums from personal pensions. Under current rules, HMRC uses emergency tax codes on some pension lump sums, which means people pay too much tax and then have to claim it back. Not many people realise the tax implications of taking money from pension funds and I am pleased the OTS has proposed that this comes under scrutiny.



Are we living longer or not?

RECENT OFFICE FOR NATIONAL STATISTICS ANALYSIS of UK longevity data is showing that increases in average life expectancy at birth and at age 65 are slowing.

In the past few years there has been much talk about the significant increase in the number of people reaching age 100, however, the latest figures from the ONS (2015-2017) show that life expectancy at age 65 years in the UK did not improve for males and females in 2015 to 2017, who on average are expected to live another 18.6 years (to age 83.6) for males and another 20.9 years (to age 85.9) for females.

The chances of survival to age 90 years for new-borns have remained virtually unchanged since the 2012-2014 published data. It reports that 32% of new-born girls in the UK in 2015 to 2017 could expect to live to age 90 years, and 21% of new-born boys.

If life expectancy is not increasing then it will have an impact on the State Pension age – which has been extended of late to account for the fact that people are living longer. There is a planned increase in the State Pension age to 68, while younger generations could have to wait until 70 or older to receive it.

The longevity slowdown could also impact final salary pension schemes, having the beneficial effect of reducing their liabilities, and potentially could see annuity rates rise, if insurers see they will have to make guaranteed payments for shorter periods of time.

From a financial advice point of view, changes in longevity are likely to affect retirement planning by anticipating the amount of money clients can draw down to fund their retirement lifestyle, as well as meet the desire to pass on wealth to their beneficiaries.

Longevity calculator

Average life expectancy						
	Age 25	Age 35	Age 45	Age 55	Age 65	Age 75
Male	87	86	85	85	86	88
Female	90	89	88	88	88	89

Source: ONS website, based on 2016 data

Lifetime Allowance breaches increase HMRC tax take

HMRC IS BENEFITTING FROM PEOPLE BEING CAUGHT out by the Lifetime Allowance limit, which is the maximum amount someone can save into their pension fund, with new tax money increasing by 2,000% in a decade.

Recently published HMRC figures have revealed that in 2006/07 the annual tax take was £5m, that figure soared to £102 million in the 2016/2017 tax year. After 2012, when the government started cutting the allowance, the figure jumped once again.

The Lifetime Allowance was first introduced as part of 'pension simplification' in 2006, reaching a high of £1.8m, before being reduced to £1m. The limit is currently £1.03m.

If the value of all of your pension benefits, across all the pensions you hold, exceeds the Lifetime Allowance, any excess attracts an immediate tax charge of 25% when withdrawn as an income (for instance from an annuity or a drawdown arrangement, and additional income tax may be payable depending on the recipient's tax position). Money withdrawn as a cash lump sum is taxed at 55%.

While the lifetime allowance was designed to be a tax on those earning the most, now it is capturing a lot more people. Those who have final salary schemes or a number of pensions accumulated over their working life should keep a sharp eye on the figures.

Lowes Consultant Jennifer Morris says:

While a pension fund of over £1.03m may seem like a lot now, over the life of a pension which benefits from compounding interest, investment growth, tax-free growth, continual pension contributions and also contributions from an employer, what may seem an unachievable amount can become reality. It pays to remain vigilant of the limit.

The Lifetime Allowance is a complicated area of pension planning but there are ways to manage retirement saving to keep pension pots under the limit and so not have to pay the additional tax.

If you believe the Lifetime Allowance limit could affect you and would like advice, please call our office on 0191 281 8811 for a free financial consultation.

A new and innovative investment fund

LOWES IS PROUD TO ANNOUNCE the launch of a brand new investment; the Lowes UK Defined Strategy Fund. Colin Mclachlan, Lowes' Structured Product Technician, describes why this Fund is different and what it offers investors.

The fundamental strategy we employ within our client portfolios and the funds that we manage here at Lowes is diversification. We do this to mitigate risks and help to deliver more consistent positive returns.

A simple fact of investing is that markets are volatile, rising and falling depending on the influences upon them, albeit the evidence shows that stockmarkets tend to rise over the long term. The FTSE 100 launched at 1,000 points in January 1984 and despite the various stockmarket setbacks, crashes and financial crises over the years, it is now at over 7,200 (at the time of writing in October).

Another simple fact is that all investments require the investor to accept a certain level of risk, relative to the investment type and the potential for return. Therefore, our investment strategy uses different investment assets, management styles and alternatives to help balance risk and reward in the portfolios; one way we do this is by utilising structured products. They offer defined returns, payable at defined points in time, set against easy-to-understand benchmarks and protect capital to set degrees, often against all but the most extreme market conditions.

Products designed by Lowes

With some 20 years' experience of analysing and carefully selecting structured products for our clients' portfolios, we have a good idea of what works and what doesn't work with these kinds of investments. So, in 2015 in cooperation with Mariana Capital we devised and launched the 10:10 structured product range. By having a maximum 10 year term, rather than the usual five or six year investment period then on offer, the chance of the products maturing with a positive result for investors was significantly increased. The 10:10 range is now in its 24th issue as these investments have proven very popular not just with Lowes clients but within the wider adviser market.

This year, working with Investec, we launched the 8:8 Plan along the same principles, although with a maximum eight year term, but increasing the chances of an early payout by having half yearly observations from year two onwards. The latest issue offered the potential for a 4% gain for each six months held; 8% simple per annum. It is pleasing to note that the wider UK structured product market has now adopted the principle of longer maximum investment terms that Lowes introduced through the 10:10 and 8:8 plans.

We have very few long-standing clients who have not come to appreciate the benefit of Lowes expertise in the structured product sector. However, even collaborating in the launch of new products, one of the frustrations for us over the years has been that in order to use structured products, each has had to be invested in separately and that has an impact on the extent to which a portfolio can be diversified.

The solution, of course, is to offer a diverse portfolio of structured investments of various types, in which clients could invest much like they would a portfolio of funds. Using our experience and expertise in this market segment, we have now been able to create the Lowes UK Defined Strategy Fund, which we believe investors who already see the value of structured products will quickly adopt in their portfolios and will also help attract other investors to the value that structured investments can deliver over a medium to long term investment horizon.

Our latest innovation

So, what does our new Fund offer? For diversification purposes, as well as to increase the potential to deliver positive returns, the Fund will invest in a much wider range of structured investment strategies than the typical investor would normally be able to hold.

The Fund aims to deliver consistent long-term capital growth, with diversification of counterparty bank exposure as well as market observation points, daily liquidity and investment management by our experts here at Lowes.

The Fund will be predominantly exposed to the FTSE 100 Index utilising strategies similar to the 10:10 and 8:8 plans, as well as other strategies successfully utilised by Lowes clients over many years. Each trading strategy deployed within the Fund will be designed to result in a gain if the FTSE 100 is above a specified level on the first of a number of specified dates and only result in a loss if the gain parameters are not met and the FTSE has fallen by more than a specified percentage (typically 30% and 50%) at the end of the maximum term for each trade. The investment managers also have flexibility to use discretion to take advantage of market and pricing conditions to add to the portfolio when appropriate opportunities arise, which will include investing in structured investments not normally available to retail investors.

Unlike traditional retail plans that by necessity include fees and charges to cover the cost of manufacture, distribution and administration, the Fund is able to invest in much lower charged arrangements either created specifically for the Fund or, acquired on the secondary market. The costs savings should translate to either higher potential returns, or mitigation of counterparty risk. *See 'Example Structures' in the right hand column.*

As a Fund it is similar to most other Funds we recommend and as such, can be held within a tax sheltered ISA or Pension. Where it is held outside of such a tax wrapper there is another important distinction compared to holding individual structured investments, in that when there is a maturity within the Fund it does not create an immediate, potential chargeable gain. Instead, any assessment for capital gains tax would only happen when an investor sells their holding in the Fund. Importantly the Fund is available to be bought and sold on a daily basis.

The Fund will bear costs for managing and operating but in aggregate this is limited to at most 1% p.a. In addition, and quite separate from the Fund are investment platform and ongoing adviser charges. However, we strongly believe that the benefits of having a very diverse portfolio of the best structured investments, managed by one of the sector's experts, in a tax advantageous fund structure that removes reinvestment costs and eliminates out-of-the-market periods should outweigh the costs. Any share of the management charges that would ordinarily be due to Lowes but where the investor is a Lowes client paying an ongoing adviser, this charge will be redirected to UK registered charities selected by the Lowes Charity Committee.

Whilst we do not expect that our clients will all completely stop using individual structured products in their portfolios in favour of investing the fund, the latter provides a facility to gain greater exposure to a more diversified range of structured investments actively managed by Lowes.

Simply put, the Lowes UK Defined Strategy Fund, is a means for investors to take advantage of Lowes' expertise in structured investments, achieving significantly greater diversification than is ordinarily achievable and accessing strategies that are better than those normally offered in the retail investment space, all within a single, tax advantageous fund.

Example Structures

The following are examples of non-retail structured investment opportunities acquired by Lowes for another fund we manage, the MI Diversified Strategy Fund. These demonstrate the additional value available in non-retail packaged opportunities.

Example Trade 1
(Bespoke Trade created to order by Lowes)

Acquired on 12 September 2018 at £1 per unit.

If FTSE 100 Index is at or above 7304.04 on 14 September 2020 pays £1.24 per unit, if not, same test is observed on each anniversary and if met, gain is an additional £0.12 per unit for each year; so £1.36 on 3rd anniversary, £1.48 on 4th through to £1.96 on 8th.

If maturity parameters are not met by the 8th anniversary, then only £1 per unit returned unless FTSE 100 Index below 4382.43 in which case the investment is reduce on 1:1 basis.

Counterparty / Credit Risk:
Barclays 33.3% / Lloyds 33.3% / HSBC 33.3%.

Example Trade 2
(Listed security acquired on secondary market)

Acquired on 27 March 2018 at £0.994 per unit.

A defensive, step down FTSE 100 & S&P 500 linked structure with an original maximum duration of six years, facilitating positive maturity annually with an 8.2% coupon for each year, if both indices above a reducing reference level (down to FTSE 5568.098 and S&P 1828.73 on 23 June 2023).

If maturity parameters are not met on or before 23 June 2023 then only £1 per unit returned unless FTSE 100 Index is below 4825.68 or the S&P is below 1584.9 (35% down from strike), in which case the investment is reduced on 1:1 basis.

Counterparty / Credit Risk:
Société Générale.

Result:
Matured at £1.082 per unit on 25 June 2018: An 8.85% return over three months.

If you wish to find out more about the Lowes UK Defined Strategy Fund and how you can invest, please complete and return the enquiry slip on page 9, talk to your Lowes Consultant or call the office on 0191 281 8811 or email Fund@Lowes.co.uk.

Where are your pensions?

DO YOU KNOW HOW MANY PENSIONS YOU HAVE AND can confidently say where they are all held?

It is estimated that people will have, on average, 11 jobs in their lifetime, each of which could have a different pension scheme attached. It is also believed that over 60% of people have multiple pensions which they have accumulated over the length of their career. It's no wonder therefore that many people lose track of the pensions they have – particularly if previous employers have been bought by other companies or the individual has moved home several times and pension companies no longer have a valid address for them.

In 2014 the Government set in motion the Pensions Dashboard as a means for people to see all their pensions in one place. However, four years on and the project is still not off the ground. If it does become reality this should help people see all their pensions, almost inevitably prompting many more people to take action to rationalise what they have, potentially consolidating several pensions to make them more manageable.

The advantages of consolidating can be the comparable ease of tracking the performance – particularly where the pension holder or their Independent Financial Adviser selects the investments; being able to apply a uniform investment strategy which is suitable to a person's individual circumstances; and having one set of charges, so helping ensure best value for money.

It is also important to look at the benefits. What people also have to look out for is when they are approaching the Lifetime Allowance limit – the total amount they can save into a pension, which currently sits at £1.03million, this can tip them into paying an additional 25% on income and 55% on their lump sum if they exceed it. In particular, this can catch out those with Defined Benefit pensions, which are calculated as 20-times pension, and those with NHS or civil service pensions, especially where, for example, they may have a frozen pension from an earlier employer.

As Independent Financial Advisers we can look at the pensions people have and see whether it is worth consolidating or moving a pension depending on the benefits and charges involved. We can also help calculate where they are in relation to the Lifetime Allowance.

The right course of action will depend on a person's individual circumstances and the type of pension they hold.

Lowes Retirement Planning Manager, Keith Hanna says:

Clearly, it is very hard to plan for retirement without a full view of your pensions savings (as well as an understanding of what your State Pension entitlement is likely to be). One way to keep your pensions organised and accessible when you need them, is to consolidate them into one or a smaller number of schemes.

Changing view of retirement

HALF OF PEOPLE RETIRING THIS YEAR ARE considering working past State Pension age, a recent survey by Prudential reports. This continues a six-year trend and shows views on how people want to live in retirement are changing, with 14% wanting to remain in full-time employment and 19% looking to start their own business.

Cutting down on hours, earning money from a hobby or changing jobs are all ways people are choosing to make the transition from their working life and to maintain an active mind and body.

With retirement becoming more of a gradual process, it will become increasingly important for people to plan ahead as well as manage their finances and investments to allow for flexibility and more options in retirement.

The nature of stockmarkets

THE QUESTION BEING ASKED A LOT IN THE INVESTMENT media over the past few months was whether the bull market in the United States would continue. A lot of this press was because of the 10-year anniversary of the start of the bull market in the US – which had run nearly as long in the UK and Europe.

People were asking, how much further could the bull go? Would it run out of energy? Might we see a stockmarket crash?

The US S&P 500 stockmarket was the first to recover from the crash caused by the Financial Crisis and, as the chart shows, followed an upward trajectory thereafter. But that has not been a straight line, there have been dips along the way and at time of writing the S&P 500 has just fallen by 3%. The index could continue to go up or it could correct. The US 'earnings season', when companies report their results and look forward to 2019, will give a better indication of what might possibly happen.

Past experience suggests that at some point there will be a major correction in the markets. Since 1984 when the FTSE 100 was created, for example, a fall has occurred roughly around the 10 year mark – 1987, 1999, 2008.... But if it happens when might that be?

The simple answer to this question is that no-one knows. There will inevitably be a correction but it could be some way off.

Major stockmarket corrections are often the result of external forces. The Financial Crisis saw what was happening in the global economy linked to the downturn in stockmarket prices. Since then investment managers have paid far more attention to those external forces – notably global economic and political analysis, however, nothing is certain.

For example, while it might have been expected that markets would react to the UK's Brexit vote and Donald Trump winning the American Presidential election, the stocks and shares and the fixed income markets both continued to perform well after those events.

While economic and stockmarket growth is continuing, there have been concerns that the growth in the US may be slowing, alongside that of the other global economic powerhouse, China. This has been exacerbated by Donald Trump's escalation of the trade war with China.

Questions are being asked as to whether the value of company shares in some markets is expensive, alongside the high level of corporate debt in the US. This may mean that investment strategies will pay more attention to stocks that pay out a dividend (money now) as opposed to those focussed on growth of the company (money later).

Stepping back from the noise

It is important that we recognise that stockmarket events are beyond our control and hard to predict.

Our aim, therefore, is to protect our client's wealth as far as possible from volatility in the markets by first taking a long term view and not reacting to market noise, and second by mitigating the risk to portfolios through a strategy of diversification – spreading investments across a range of options which will be affected differently depending on what's happening in the global economy.

We also back fund managers who don't simply follow the benchmark but are active and often contrarian investors, looking to select investments that will help deliver consistent returns to their funds.

With nearly 50 years' experience of investing for clients, benefitting from our own in-house research and investment team, that has proven to be the most successful strategy, no matter what the global economy and the stockmarkets do.

FTSE 100

Has experienced a number of falls over the years

S&P 500

Has been climbing since early 2008

Perceptions of probability

HOW WE PERCEIVE THE POTENTIAL OUTCOME OF investments will affect our view of whether or not to invest in them. One of the difficulties for financial services companies, including ourselves as Independent Financial Advisers, is knowing how to describe the likelihood of an investment producing the result investors would want from it, so as to be "clear, fair and not misleading", as required by the financial services regulator.

Structured investments are a case in point. These generally offer not just the potential for positive returns but some protection of original capital against market falls, but of course, like all investments, they could result in a loss of money.

For some time, in response to regulator feedback, structured product providers have been utilising both back-tested and implied probability of outcomes for their various product offerings to help explain the likelihood of outcomes in different market conditions. Whilst it doesn't take a genius to establish that in positive market conditions, positive outcomes are highly likely, and the opposite is true, we felt it would be useful to establish whether numerical probability statistics could realistically and accurately be translated into appropriate words and phrases which would be meaningful to investors.

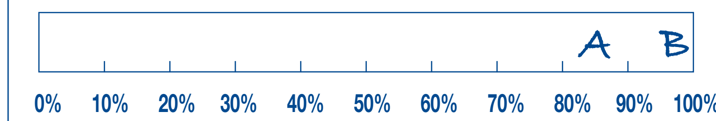
So in August, we surveyed a selection of investors to gather data on their perceptions of what different phrases indicated in terms of probability.

The survey included ten phrases in no logical order, so as to have minimal influence on the results, and respondents were asked to mark two points on a line numbered from 0% - 100% to specify the range which they considered each phrase represented in terms of probability. Below is the example we provided:

For each of the questions, please mark on the relevant bar what you think the minimum and maximum chance of a scenario occurring is based on the terms used to describe it.

Please indicate the minimum probability with an 'A' and the maximum probability with a 'B'.

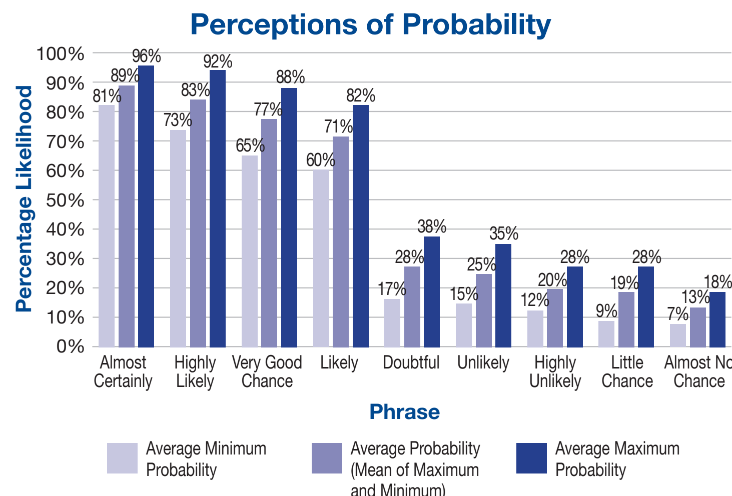
For example, if we were to say that Humpty Dumpty is ***undoubtedly*** *going to fall, what do you feel the minimum and maximum probability of that happening is based on the word* ***undoubtedly****? You could say the minimum probability is 85% (which you would mark with an 'A') and the maximum probability is 100% (which you would mark with a 'B').*



We wanted to see if we would be able to construct a way of defining the likely outcomes of investments, based on a consensus of what investors thought was the meaning of each specified phrase.

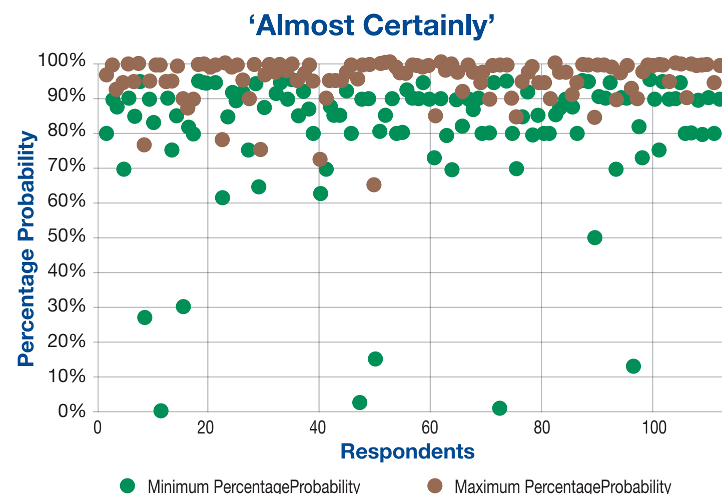
If asked to define 'Almost certainly', for example, to what extent would people say that was likely to happen?

The bar chart shows the results and ranges for each of the ten phrases. The X Axis detailing the phrases, the Y Axis the average probability, and the three vertical bars the results of Average Minimum Probability, Average Probability (the mean average of minimum and maximum) and Average Maximum Probability.



As can be seen, the phrase 'Almost certainly' ranged between an average minimum probability of 81% and an average maximum probability of 96%.

However, if we look at a scatter chart of the individual responses to that specific phrase in the survey, we can see that while the bulk of responses were 80% and upwards, for some people the maximum probability was perceived as below 80%, while for two people, the minimum probability was a stark 0% either indicating a misinterpretation or, perhaps, an expression of the uncertainty.



What this clearly shows is that while it may be possible to obtain a consensus of what a particular phrase may mean to a particular set of investors, the fact is that how each phrase is perceived will be individual to each person within that group and as such, would be affected by a range of different influences and their personal circumstances at the time they are ready to invest.

There is no doubt that this has been an extremely interesting exercise, and has provided valuable results, however, it has perhaps understandably proved to be too subjective a matter to be utilised for investment purposes without referencing a defined scale in every instance. As we have established, any such scale could be controversial as it would not be universally accepted so we will not be introducing such in the short-term.

Lowes 'Preferred' Plan Maturities

STRUCTURED PRODUCTS CONTINUE TO PROVE THEIR WORTH for investors, as the table of the last quarter's maturities below shows. This is for the most commonly held Lowes 'Preferred' Plans which matured between 1 July and 30 September 2018.

The Morgan Stanley product at the top of the table offered growth of five times the rise in the FTSE 100 Index over six years. The maximum gain was capped at 100% which was achieved because the Index rose by more than 20% over the term

The autocall products in the table, which all matured at the earliest opportunity, being their second anniversary, returned between 7.7% and 9.5% for each year held.

The two income products that matured in the quarter paid a fixed monthly, or quarterly income and returned all of the invested capital at maturity because the FTSE hadn't fallen by more than 50% during the investment term.

Lowes 'Preferred' Plans are selected from the range of structured products, both capital-at-risk and deposit-based products, which are available to financial intermediaries. We use our 20+ years of experience of researching these investments to identify the ones that we believe have the best potential to deliver a positive return for our clients.

Our investment strategy is firmly rooted in use of diversification in portfolios, to help protect wealth against market volatility. The benefits of structured products include their ability to not only deliver returns in rising, flat and even falling markets but also to offer protection of capital against all but significant downturns in the stock market.

Our view is that, given individual circumstances, they can be useful investments in both bull and bear markets.

To find out more about Lowes 'Preferred' Plans, or our new fund of structured investments, the Lowes UK Defined Strategy Fund, please call 0191 281 8811 or, contact your usual Lowes Consultant .

Provider	Maturity Date	Index	Duration	Gain/Income
Morgan Stanley	02/07/2018	FTSE 100	6 Years	100%
Meteor	09/07/2018	FTSE 100	2 Years	16%
Investec	18/07/2018	FTSE 100	2 Years	19%
Focus Structured Solutions	23/07/2018	FTSE 100	2 Years	15.40%
Société Générale	30/07/2018	FTSE 100	2 Years	18.60%
Société Générale	30/07/2018	FTSE 100	2 Years	17.40%
Walker Crips	06/08/2018	FTSE 100	2 Years	18%
Barclays	09/08/2018	FTSE 100	6 Years	36.72%*
Morgan Stanley	16/08/2018	FTSE 100	6 Years	70%
Investec	28/08/2018	FTSE 100	2 Years	18.50%
Société Générale	03/09/2018	FTSE 100	2 Years	18.40%
Royal Bank of Scotland	07/09/2018	FTSE 100	6 years	37.2%

*Income Plan

Sudoku solution

We hope you enjoyed the Sudoku puzzle we published on page 3 of this issue of the Lowes magazine. Here is the solution to the grid.

8	4	9	7	6	5	3	1	2
7	3	2	8	1	4	5	6	9
6	1	5	9	3	2	8	7	4
9	7	8	6	5	3	2	4	1
2	5	4	1	7	8	9	3	6
3	6	1	2	4	9	7	5	8
1	2	7	3	8	6	4	9	5
4	8	3	5	9	1	6	2	7
5	9	6	4	2	7	1	8	3

Spotlight on your Lowes Consultant

DON GARDNER HAS SPENT MORE than 30 years in the financial advice industry. He joined just before the stockmarket crash of 1987 and says, if he has one piece of advice for anyone investing for the future it is: "Don't worry about what may be happening at the moment, keep an eye on the future because markets settle down and stockmarket crashes become history."

Having seen the 1987 crash, the dotcom boom and bust, the Financial Crisis, and all the other ups and downs along the way, Don says it's important that people do not panic when these types of events occur. "I know lots of people who have been through those times and are now far wealthier than they ever were because they didn't try to time the market, they kept their cool and focussed their investments on the long term."

Don's experience comes from a career in financial advice, including the technical and compliance side of the business. His first job was in administration in a Newcastle stockbroking firm and over the years he had jobs in financial services firms in Stevenage, the City of London and Nottingham. For the past few years he has been settled with his family in York.

He became the Compliance Manager for Lowes in 2014. "I like the technical aspects of financial services, and that lent itself in many ways to the compliance role, where I would be ensuring the advice given conformed to what can seem like a myriad of rules and regulations that Independent Financial Advisers have to follow."

Having been an adviser, however, he found he wanted to get back in front of clients again and Don made the transition to become a Lowes Consultant.

"As someone who is very technical, I like to find the right solutions for clients in their particular circumstances. What makes the role of Consultant so enjoyable is when someone has been saving all their life and you look at the figures and can tell them that they can retire straight away if they want to, or take that trip to see relatives in Australia without breaking the bank.

"I particularly like to get into the nitty gritty of pensions, inheritance tax and estate planning, and helping people pass on their wealth in the most efficient way possible.

"Since the Pensions Freedoms were introduced, people need more not less help with their retirement planning. This is both in the way they accumulate wealth in a tax efficient manner and then when they are in retirement, how they enjoy that wealth, again in the most tax efficient way possible.

"Also, inter-generational planning has become a more complex issue for people and that is something I like to be able to help with."

Another area Don specialises in is the use of trusts, to help protect people's wealth as well as ensure money passed on to younger members of the family is managed wisely.

If you know anyone you think might benefit from Independent Financial Advice, please ask them to ring 0191 281 8811 and we will arrange an initial free consultation.

8 behavioural biases that can affect our financial decisions

Anchoring
Putting too much reliance on the first piece of information we are offered

Framing
When our decisions are influenced by how a choice is presented to us

Herd bias
Rationalising a decision on the basis 'everyone else' is doing it

Loss aversion
Preferring to avoid a loss over acquiring a gain

Over confidence
When our subjective 'judgement' is greater than our objectivity

Present Bias
When we favour payoffs now rather than later

Projection bias
Assuming our tastes and preferences will not change over time

Status quo/Inertia
Preferring to stick with the familiar

Why we invest the way we do

THE STUDY OF FINANCIAL BEHAVIOUR IS A FASCINATING aspect of the savings and investment world and one about which many erudite tomes have been written. In essence, this combines psychology with economics to try to understand why people make certain, often irrational, financial choices.

There are a number of commonly used examples of the way people tend to act – termed behavioural biases – and we can all probably relate to at least one of them when we view our past actions. Here are a few: Present Bias – giving increased bias to payoffs that are closer to the present time (e.g. short term over long term investment returns); Anchoring – relying too heavily on the first piece of information we are offered (the anchor) when making decisions; Framing – decisions influenced by how a choice is presented, e.g. as a potential gain or a loss; Over confidence – when our subjective confidence in our judgement is greater than the objective accuracy of them; Herd bias – rationalising a decision through its adoption by 'everyone else'; Loss aversion – our preference for avoiding losses over acquiring gains.

To illustrate these let's take the example of the technology boom and bust that occurred on the stockmarkets in the late 1990s. On the back of the rise in use of the World Wide Web (as it was termed then) and the opportunities this was deemed to present, all things Internet seemed to be able to do no wrong, pushing up the stockmarkets to unprecedented highs.

This saw investors (and hitherto non-investors) jumping on the 'tech' bandwagon – sometimes as their only investment strategy.

Investors saw the potential to make, what they believed would be quick money (Present bias); the good news story was all over the media (Anchoring); people were talking about and talking up how much could be made (Framing); everyone seemed to be buying in (Herd bias); so it seemed an opportunity not to be missed (Over confidence).

The problem was that many people bought into the market when the dotcom boom was at or nearing its peak. As we know, the bubble then burst and the stockmarkets fell dramatically. Rather than take a long term view, that the market would stop falling and correct itself in the longer run, investors panicked and piled out of their tech investments (Loss aversion) and in doing so, ironically, cemented in their losses.

People were harmed financially by the dotcom boom not just because they lost money but because it put them off investing, in some cases for many years, which meant they failed to benefit when the stockmarket recovered.

As Independent Financial Advisers we see an important part of what we do as helping people not to make those irrational choices which will harm their finances.

Which is why we have developed, over many years, tried and tested means to invest with a long term outlook. We aren't influenced by market volatility, the latest trend, media stories or the behaviour of other investors. We have people dedicated to keeping our portfolios well managed, diversified and built not to chase short-term gains but to benefit from market rises and mitigate against market falls, with the long term in mind.

Our role is to counter the irrational forces in the market with well thought out investment strategies and so help grow and protect our clients' wealth.