Issue **104**

"Remember when life's path is steep to keep your mind even."
Horace

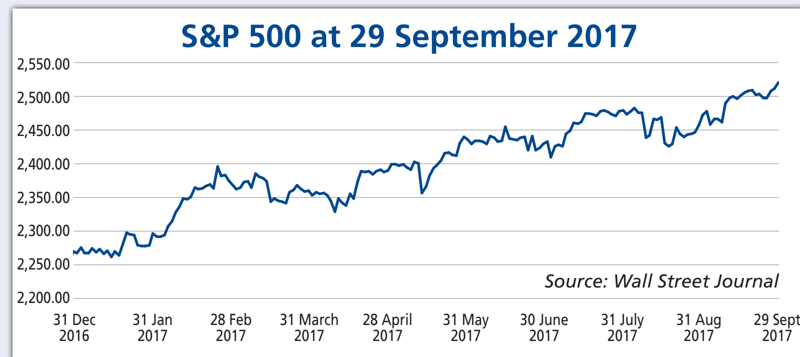
Lowes Client Competition – where are we now?

FOR THE 2017 LOWES CLIENT COMPETITION WE ASKED you to predict where you thought the main US index, the S&P 500, would be at the end of December 2017.

At the time Donald Trump had just been voted in as President and was still within his first 100 days, with all the uncertainty that created.

Nevertheless, by the end of March, the index had risen 104.89 points, or 4.44%. The index has continued to rise and on 29 September 2017 was at 2,519.36 (price only).

Will that upward trajectory continue until the end of the year?



75 A crucial age for pensions tax

75 WAS ALWAYS AN IMPORTANT AGE FOR PENSION PLANNING. For many people, it was the latest age to purchase an annuity. Now, those rules no longer apply but the age is still important for anyone concerned with Lifetime Allowance issues and for everyone wanting to pass on their pension wealth to the next generation. A key rule affecting financial advice, since the introduction of the Pensions Freedoms, revolves around the tax change to death benefits at age 75. Where a person dies before age 75, the benefits can be paid tax free to their beneficiaries, but after age 75 any payments are taxed at the beneficiaries' marginal income tax rate.

It is important that financial advice should be prepared for both eventualities and making sure your pension plans are able to offer the full range of pension freedoms is very important.

■ ***If you have a personal pension or drawdown, or are thinking of moving to one, and have any concerns about pension freedoms, please talk to your usual Lowes Consultant or contact us on 0191 281 8811.***

Money Purchase Annual Allowance limited to £4,000

FOR A NUMBER OF YEARS, THE GOVERNMENT HAS HAD concerns over pensions recycling, whereby savers benefit twice from tax breaks by withdrawing money from their pension and then reinvesting it back into the pension, as well as people who avoid tax on current income by channelling it into their pension and withdrawing 25% tax-free.

To tackle this, the Government has re-confirmed that savers who have accessed any taxable withdrawals under the pension freedom rules will see the amount they can contribute to a defined contribution pension – the Money Purchase Annual Allowance – cut from £10,000 to £4,000 for the 2017/18 tax year.

This doesn't affect those who have only taken tax-free lump sums. There are also transitional rules in place for anyone who has already made larger contributions earlier in this tax year, and has then had their Annual Allowance cut to £4,000.

■ ***If you are concerned about how this rule may affect you please speak to your Lowes Consultant.***

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Lowes Financial Management

@LowesFinancial

Lowes Financial Management

Make your money work Best bank & building society accounts

Type	Amount	Provider	Account	Gross Rate	Contact
Unrestricted instant access accounts					
Online, telephone and mobile banking app	£1+	Ulster Bank	eSavings [1]	1.25%	www.ulsterbank.co.uk
Online, post, branch	£1,000+	Kent Reliance	Easy Access Savings Account Issue 21	1.27%	www.kentreliance.co.uk
Accounts with first year bonus					
Online	£1+	Post Office	Online Saver	1.27% [2]	www.postoffice.co.uk
Fixed rate bonds					
Online	£1,000+	Kent Reliance Bank	1 Year Fixed Rate Bond – Issue 49	1.85%	www.kentreliance.co.uk
Online via mobile banking app	£50+	Atom Bank	2 Year Fixed Saver	2.05%	www.atombank.co.uk
Online	£1,000+	Paragon Bank	2 Year Fixed Saver	2.05%	www.paragonbank.co.uk
Online	£1,000+	Paragon Bank	3 Year Fixed Saver	2.20%	www.paragonbank.co.uk

Notes
[1] This account can only be opened online, but it can be managed online, by telephone or on the mobile banking app. A card reader is required for online withdrawals.
[2] Rate drops to 0.25% after 12 months.

Measures of inflation - The average change in prices of goods and services over a 12 month period to September 2017

Retail Prices Index (RPI) 3.9%	Consumer Prices Index (CPI) 2.9%

Sources: Providers' websites, Office for National Statistics, www.thisismoney.co.uk, www.moneysupermarket.com, www.moneyfacts.co.uk, 10/10/2017. All accounts subject to terms and conditions.

Covershot: Epirus Zagorohoria, Greece
By: Shutterstock

This magazine is not personal advice. If you are unsure as to the suitability of any intended course of action, please contact your usual Lowes Consultant or this office.

It's official – good financial advice gives you more

A RECENT STUDY HAS FOUND THAT THOSE WHO received financial advice were considerably better off than their unadvised peers over the same period. The study is based on a comparison of two types of investors - 'affluent' and 'those getting by'.

The research, carried out by the International Longevity Centre - UK (ILC-UK), one of the leading think-tanks in the country, and supported by life assurer Royal London, examined the impact of financial advice on these two groups of people between 2001-2007 and 2012-2014. The 'affluent' were a wealthier group of individuals and more likely to have degrees, be part of a couple and be homeowners; while those 'just getting by', were less wealthy and more likely not to have studied to degree level, be single, divorced or widowed, and renting.

The results showed that the 'affluent but advised' group accumulated on average £43,245 more in the period because they had sought financial advice, compared to their affluent but non-advised' counterparts. Similarly, those in the 'just getting by but advised' group accumulated on average £39,895 more than those who didn't seek advice.

The research also showed that when it came to pension income, those who had received advice in the 2001-2007 period also had more pension income than their peers by 2012-14. The 'affluent and advised' group had 16% more per year than their equivalent non-advised peers, and likewise, the 'just getting by but advised' group had 19% more per year than their non-advised counterparts.

While this is just one study, coming from a respected institution and conducted over a period of time, it is strong evidence that Independent Financial Advice can make a significant difference to people's financial prosperity.

Sudoku

This issue we have another of our Sudoku puzzles for you to tackle. We hope you enjoy it as well as the articles in the magazine.

To complete the puzzle, fill the grid so that each row, column and nine block square contains the numbers 1-9. The solution is on page 11.

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

Source: www.printmysudoku.com

Can robots give advice?

I AM EXTREMELY INTERESTED IN THE WAY THAT TECHNOLOGY is changing the world in which we live. Over the past 30 years, growing use of the internet has had a massive impact on all our lives. Its influence can be seen everywhere, every day. It has disrupted the way we live. Now, with a smartphone in our hands, we can not only make telephone calls but take photographs, read the paper, email, bring up maps, get live travel information, listen to radio, watch films… the list goes on.

In business, there is a growing number of examples of disruptors coming into a market and having a massive impact on existing incumbents and changing the way that things are done; Airbnb, Uber, Amazon, Netflix to name a few. Our investment manager, Doug Millward, gives his views on this on the back page.

I think we can safely say that just as the internet has changed how we communicate, purchase goods and otherwise do business, emergent technologies and models are going to have a similar effect in other areas of our lives over the next 20-30 years.

Not surprisingly, therefore, there are companies looking to be disrupters in the financial advice market. Termed robo-advisers, these seek to offer people a virtual means to manage their financial affairs.

The first of these launched in the US and there are now a small number of similar offerings in the UK. However, things have not gone the way they expected. There has been no surge of people wanting to manage their money in this way.

The big question is: Why? I think there are two fundamental reasons. First is that people who turn to these 'advice' options thinking they can virtually manage their investments, their pensions, their tax, their wealth planning and inheritance tax liabilities, find it is all far too complicated and far too daunting a prospect with very real and potentially serious consequences if they get those decisions wrong.

The second answer is even more simple: Trust. People want to sit down with an adviser and know they can trust that person to listen to what they say, to ask the right questions about them and their family, to find out how their money needs to work for them both now and in the future and to help them find the very best solution for their needs.

I am a massive supporter of technological innovation and I think there will be a place for so-called 'robo' operations in the market, especially as some of them have now been bought by big asset managers with deeper pockets, but only for a certain section of people.

Certainly, I do not see it as a replacement for Independent Financial Advice, delivered by qualified individuals, backed by an expert and experienced support team, who care about their clients and want to help them protect and manage their wealth in the best way possible - personally.

Ian H Lowes,
Managing Director

If you would like to receive further information on any of the subjects featured in this issue of **LOWES** please call:
0191 281 8811, fax: **0191 281 8365**, e-mail: **client@Lowes.co.uk**, or write to us at:
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Authorised and Regulated by the Financial Conduct Authority.

Embracing the elephant in the room

THE DEMOGRAPHICS OF THE UK ARE CHANGING. On average, people are living far longer than previous generations, certainly longer than our grandparents' generation, primarily as a result of the better lifestyle we have now and the advances in medical care.

Ironically, one of the downsides to this is that there are also more people who are living in less robust health. Often the older they get the frailer or less mobile or less able to rationalise and deal with life, they become. Also, more people are succumbing to life-changing medical conditions, because of that increased longevity. Latest figures suggest that one in six people over 80 are now affected by dementia.

When people get older and/or succumb to illness, as well as being an emotional time for family and friends, this can affect their ability to handle their finances. They may not be able to cope with them in the way that they used to or their financial needs may have altered; changes that need to be carefully handled.

This vulnerability doesn't just apply to older people; children, those with disabilities, individuals with life threatening illnesses may also need help with their finances.

Lowes has many years' experience of helping clients and their families both prepare for and deal with these kinds of situations.

While it is human nature not to want to think about these topics when we are in good health, our experience is that this 'elephant in the room' can be dispelled in a practical way by preparing for the possibility that we might become infirm or vulnerable. What's more, it is those who do put plans in place and complete the right forms and documents 'just in case', who most often save their families the time, worry and frustration of trying to put their affairs in order when an event happens and all they want to be focussed on is looking after that person.

In terms of the practical considerations, there are some key issues that can be dealt with first:

- **Funeral arrangements**. Discussing the most basic of funeral wishes of your loved ones, let alone the finite detail, can not only remove a lot of unnecessary stress, it can potentially save a lot of money.
- **Making a Will**. This means your wealth is more likely to go where you want it to. Dying intestate (i.e. without a Will) means it is the authorities that make that final decision on your behalf.
- **Setting up a Lasting Power of Attorney**. Should there come a point where you are unable to make rational decisions about your money or health, appointing someone with Power of Attorney means the person (or people) who care about you most can be given that responsibility.

From a financial perspective, there are often things that an Independent Financial Adviser can do to help that others may not know about. There are special rules applying to certain pension arrangements which, with the right advice and action, can potentially change a retirement income that, unfortunately, will no longer be needed, into a very substantial cash sum. That money could ensure the individual achieves the best possible end of life experience and care and/or leaves a substantial legacy, which otherwise would have been swallowed up by the pension scheme.

And, of course, while there are steps that can be taken at the eleventh hour to reduce an inheritance tax bill, it is almost always far more effective to start Inheritance Tax Planning as far in advance as possible in order to better ensure its efficacy.

The potential benefits of having these kinds of documents and plans in place are significant and can save loved ones a lot of unnecessary anguish at what will already be a very distressing time.

So, regardless of your state of health, or life expectancy, please embrace the elephant and encourage your whole family to take action sooner rather than later – after all, doesn't proper planning for one of the few certainties in life make perfect sense?

Lowes Consultants have had many years of dealing with the kinds of situations described. If you are concerned about your plans in this regard or you know someone else who may want help, either contact your usual Consultant or call us on 0191 281 8811.

What is a SIPP?

A SELF-INVESTED PERSONAL PENSION, COMMONLY referred to as a SIPP, is a type of personal pension that can be very useful for people who want to take more control over their retirement savings. They have become especially popular since the introduction of the pensions freedoms in April 2015 which, amongst other features, facilitate ad-hoc withdrawals from the pension once the policyholder attains age 55.

A SIPP, as its name suggests, is a pension which gives the investor control over how the money is invested. It is possible to invest in a wide range of assets including:

- *quoted UK and overseas stocks and shares*
- *unlisted shares*
- *collective investments (such as OEICs and unit trusts)*
- *investment trusts*
- *structured products*
- *commercial property and land (but not residential property)*
- *insurance bonds.*

A SIPP can also borrow money, for example by way of a mortgage, to help purchase commercial property. Such properties would normally then be rented out and the rental income, received by the SIPP used to service the mortgage repayments, with any balance staying in the SIPP. This is commonly used by business owners who may want to buy a property for their business using their pension fund. The rent paid can help grow their pension(s).

However, these arrangements require careful consideration because were the business to fail, the pension would not be completely protected from the fall-out.

It is important to appreciate that not all SIPPs are the same. Some only allow investment in a restricted range of allowable investments but the fees for such arrangements are, as a result, much lower. Obviously, there is no point paying high charges for a SIPP that allows you to hold commercial property if you are never going to use that facility.

A SIPP may not be right for you. Many of the benefits are achievable through a more basic Personal Pension arrangement which may come at a lower cost and with simplified administration. But for those with larger pensions savings, specific investment objectives or who want ultimate flexibility in terms of capital and income withdrawals, a SIPP could be significantly advantageous. Selecting the most appropriate one for you is not a decision to take lightly. There are many variables and nuances and a wrong decision could prove costly.

At Lowes Financial Management, we have been successfully looking after people's finances throughout their working life, helping to build our clients' retirement savings and reserving their family wealth.

Lowes Consultant Nicola Wrightson says:

Another reason SIPPs are popular is because they are flexible and portable. In circumstances such as changing jobs, or if someone stops working, they can continue contributing to their scheme. Employers can also contribute into their employees' SIPPs.

Whatever the arrangement, thought should always be given to what happens on the death of the policyholder. The flexibility afforded by a SIPP can be very useful in passing on wealth to future generations. However, with all of this flexibility comes responsibility either for the policyholder or their adviser not least, because the arrangement requires monitoring and the investments will need managing within an acceptable risk framework.

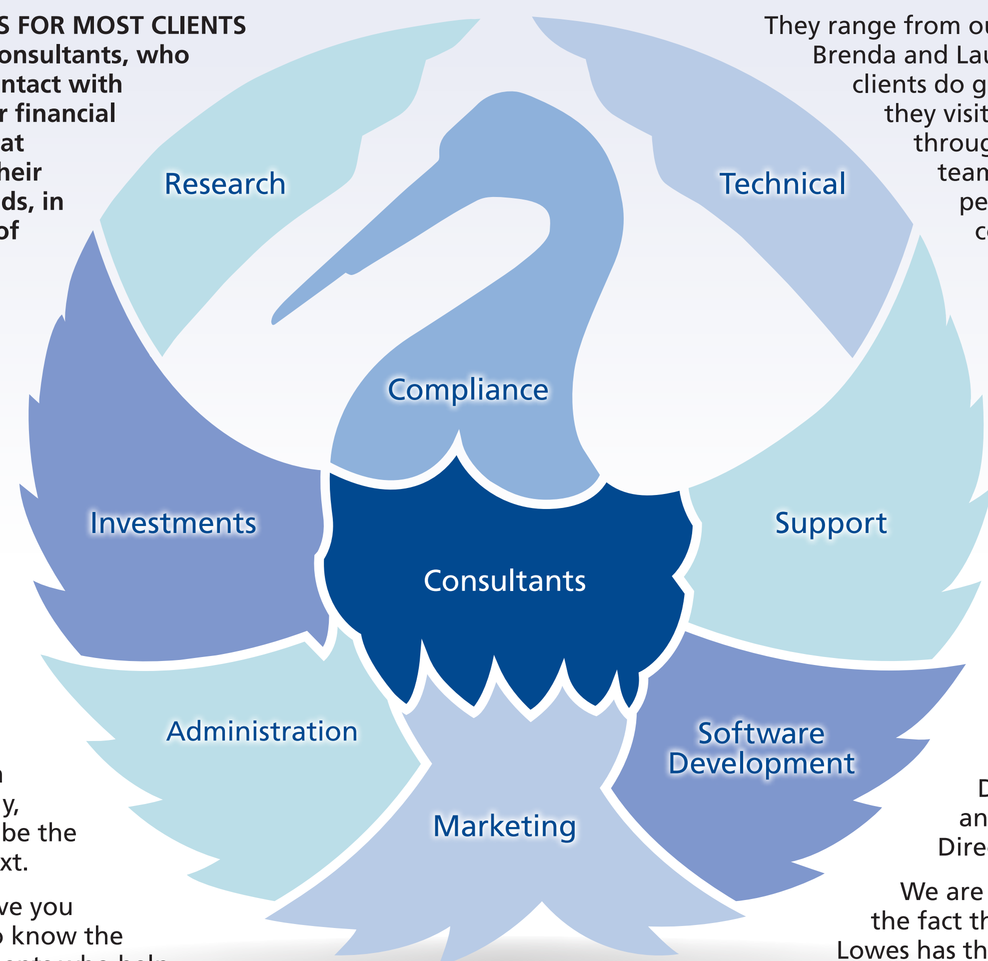
You can arrange a free, no obligation consultation with a Lowes Consultant to take the first step towards maximising your retirement potential. Simply call Lowes on 0191 281 8811.

Behind the scenes

Lowes Consultants are backed by a fantastic group of individuals, who aim to provide the highest level of support, so they can do their best for clients.

THE FACE OF LOWES FOR MOST CLIENTS will be the Lowes Consultants, who you have regular contact with to talk through your financial affairs. We know that many clients view their Consultants as friends, in some cases friends of the family.

What makes Lowes special is the considerable team of people working behind the Consultants that enable them to do their job so well, and to recommend the best solutions for people's individual needs. For we are all different and what may be the right financial fit for one individual, a couple, or one family, may not necessarily be the right one for the next.



We would like to give you the chance to get to know the supporting departments who help our Consultants deliver a first-class service to our clients and give those behind the scenes the praise and the recognition they deserve.

It may surprise you to know that Lowes is comprised of over 70 committed professionals, included in which are 15 Consultants.

This team of highly qualified Consultants, Analysts and support staff collectively implement our personal approach to financial planning enabling us to help clients build, protect and pass on their wealth.

They range from our receptionists – Brenda and Lauren – who many clients do get to see when they visit Fernwood House, through the investment team, technical and pensions teams, compliance and operations, administration, accounting, marketing and IT, as well as the Consultant's personal assistants and paraplanners you may also talk to on a regular basis. And last but not least we have six board members, consisting of four non-executive directors, Managing Director Ian Lowes and Compliance Director Neil Mclachlan.

We are particularly proud of the fact that everyone within Lowes has the opportunity to develop their strengths as individuals while playing an important part within the organisation. Over the years a number of individuals have joined the company in relatively junior positions and subsequently developed their value to the extent that they have been promoted to senior positions and even Board level.

Our multiple teams of devoted and knowledgeable individuals all aim to provide the highest level of support to Consultants, so we can exceed your expectations.

Our dedicated in-house Investment Team will constantly analyse and monitor investments that are currently available to ensure the best possible advice is offered to our clients. This includes staying abreast of developments in the markets and monitoring the activities of the fund managers, to ensure the funds continue to be managed and to perform in the way we expect. They will track the performance of funds, what they are buying, and the weightings of sectors and stocks within the funds. Our long history in investments means that we have experienced different economic styles and recognise the importance of protecting client's money

As well as monitoring funds on screen, the Investment Team will meet with fund managers on a regular basis to hear their views on the markets and how they intend to position their funds, which help us make informed decisions on what and what not to hold. Many managers will visit our offices but the Investment Team will also attend conferences and seminars to keep abreast of the latest information.

Lowes also has specialists within the investment department who keep fully up-to-date on the structured products market and Lowes is recognised as being one of the UK's foremost experts in this field.

Our Technical and Research Team must be as up-to-date as possible on all things technical, notably the tax rules and legislation that applies to financial services, conducting the necessary research required, which then helps inform our Pensions and Investment teams.

These teams help support you throughout the advice process, as well as continuously monitoring and evaluating your investment portfolio, to ensure your financial plan remains tailored to your specific needs.

The Compliance Team ensures that as a company we are fully regulatory compliant in accordance with both UK and EU law. For example, there are three pieces of EU law which will come into force in the first six months of 2018, which have been keeping the team busy. And as Brexit progresses they will be keeping a weather eye on any changes which may affect the financial services market.

At the heart of the operation is the Administration and IT/ Software Development teams. Our highly valued back-office and technology staff process many thousands of records and items of data every year, and keep our systems and processes working efficiently. Importantly, the support they provide helps ensure that the Consultants can spend more time in front of their clients and less time chasing paper.

And last but far from least, our Marketing Team maintains the Lowes' profile with new and existing clients alike - including all the hard work that goes into producing this magazine every quarter.

It is this loyal and growing team of people that has enabled Lowes to become one of the longest standing and most respected Independent Financial Advisers in the UK, and ensures that we can continue to provide sound Independent Financial Advice to our clients and their families over generations.

Do you know anyone who would benefit from Lowes' team of Consultants and support staff? Please either put them in touch with your usual Consultant or call us on 0191 281 8811.

Changing faces of Financial Services

In the 46 years that Lowes Financial Management has been providing Independent Financial Advice to clients, we have seen considerable change in the financial services market, including several changes to the Regulator of financial advice, culminating in the introduction of the Financial Conduct Authority (FCA) in April 2013.

But there has perhaps never been as much change as we have seen in pensions market, particularly over the past three years – **as Pensions Manager Barry O'Sullivan** explains:

I have been with Lowes for almost 11 years, joining not too long after the much-anticipated 'pension simplification' was introduced. It was known in financial services as 'A day' and was billed as ushering in a new client-focused landscape, where pensions would be much easier to understand and there would be a period of stability. Since then there has been nothing but change in the pension market, culminating with the more recent pension freedom rules which were hastily implemented by the Government in April 2015, and dramatically changed the shape of the pensions market. Certainly, wealth and retirement income options have been turned on their heads. It is no surprise that people can be confused with how all the changes affect them as individuals, but this has all been in the name of genuinely improving customer outcomes and providing for better retirements. The former pensions minister Sir Steve Webb was a significant force in those changes and we were pleased to introduce him to an audience here at Fernwood House recently.

If nothing else, we have been kept busy by the Government's almost never-ending tweaks to the pensions landscape but it has been essential to keep on top of everything happening, so we can properly advise our clients.

Saving enough for retirement

THE MORE WE SAVE AND THE EARLIER WE BEGIN TO SAVE, the better off we can be in retirement. However, official data from the Office for National Statistics shows on average people are not saving enough.

The chart below shows the quarterly growth rates for UK households' savings over 5 years, reflecting that compared to the first quarter of 2012, savings rates have fallen off considerably. This reflects the decline in the value of the pound post the Brexit vote, as well as the rise in inflation, both of which are squeezing household finances.

In addition, research by asset manager BlackRock, shows that on average people believe they will need a pension pot of around £233,000 to sustain a decent standard of living in retirement – this is based on an income of £26,000 – but in reality, the figure they need is closer to £525,000, even after taking into account the State Pension.

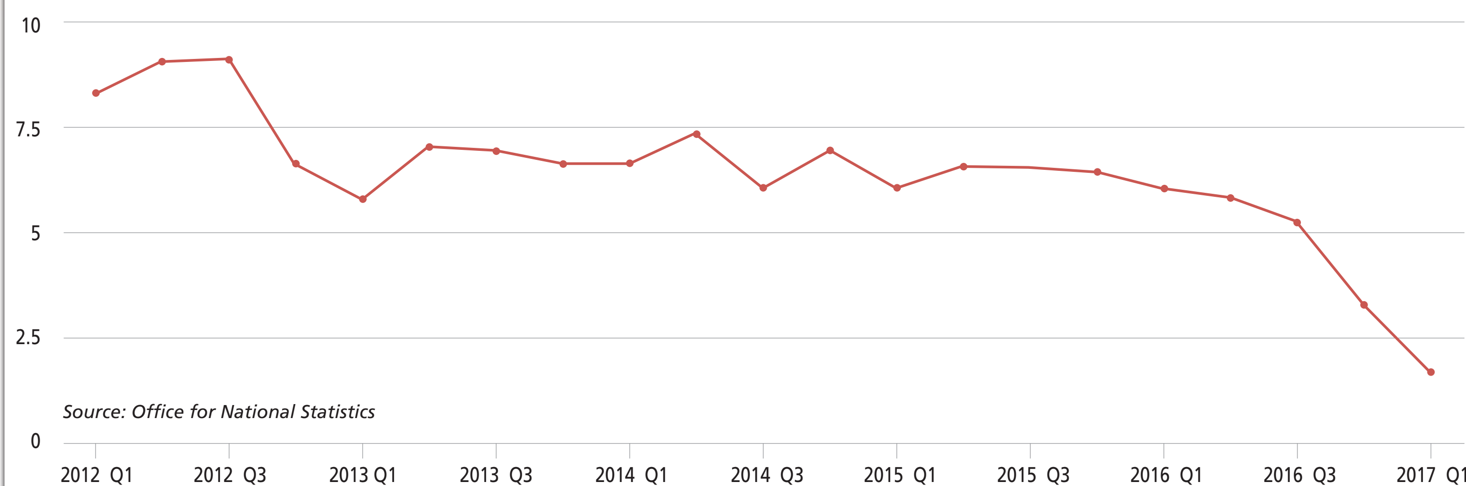
This is, in part, because of increased longevity in the UK, meaning people need a bigger pot because it has to last longer (research shows that most people will under estimate their likely life span by between five and 10 years) and people have become used to a higher standard of living.

One way to boost savings into a retirement pot is to take advantage of workplace pensions.

Figures produced by BlackRock show that the effect of putting away 10% of an average UK salary of £27,000 compared to just 2% of that salary, over 40 years, without taking into consideration increases in salary over the period, would result in a tax relief difference alone of £21,600.

Money saved early on can benefit from compounding, whereby 5% return made on £1,000 in year one becomes 5% earned on £1,050 in year two and so on, growing into a tidy sum over several decades.

While not everyone can afford to save 10% of their salary into a pension at the start of their working career, as we are living longer, we stand to have a better standard of living in retirement if we start saving for it sooner rather later.



Doug Millward, Investment Manager at Lowes, says:

Einstein said the most powerful force in the universe was compound interest. It can have a massive effect on the accumulation of people's savings and investments over the years and the impact that can have on a person's total wealth when they come to retire can be significant.

What we also have to bear in mind is that our savings and investments are constantly fighting against inflation, which diminishes the spending power of the pound in our pocket.

Therefore, it is beneficial, even in retirement, to keep some of our money growing for us through prudent investments.

Pension cold calling ban will go ahead

THE DEPARTMENT FOR WORK AND PENSIONS AND HM Treasury recently announced that the government will be proceeding with a ban on pensions cold calling – the date is yet to be officially notified.

This decision is a step forward from this time a few months ago. The Government made clear its intention to make life more difficult for pension scammers in November 2016 but the process was one of those interrupted by the decision to call a snap General Election.

The delay allowed scammers to wrongfully acquire another £5m of pension money in the first five months of 2017, according to Guy Opperman, parliamentary under-secretary for pensions and financial inclusion. It is estimated that over £43m has been obtained by scammers since 2014, when the pensions freedoms were first announced.

The recent announcement confirmed that the cold-calling ban will cover telephone calls, unsolicited texts and emails.

Other measures will include tightening HMRC rules to stop scammers opening fraudulent pension plans and greater powers for occupational pensions to restrict a transfer into a fraudulent scheme.

One of the criticisms of the ban is that it cannot be enforced on calls made from abroad, which means that all the scammers have to do is shift their operation offshore.

However, once the ban comes in, anyone receiving a call, email or text will know it is illegal and should hang up or delete the message.

Cold calling remains as only part of the problem. Recent research amongst retirees by pension company Xafinity, found that unauthorised individuals posing as 'financial advisers' were involved in 33% of cases.

Our concern was that one of the unintended consequence of the cold calling ban could be to prevent those who might genuinely benefit from moving their pensions – for example to take advantage of the death benefits under the pensions freedoms regime – from being contacted by fully authorised Independent Financial Advisers. You can ensure Financial Advisers are authorised by the Financial Conduct Authority (FCA) by requesting their FCA number.

Fortunately, there are likely to be two exceptions where firms can contact people and it will not be considered cold calling – they are where a consumer has expressly requested information from a firm and where an existing relationship exists between the firm and that person.

We welcome these exceptions as this will mean individuals can continue to seek the advice of Independent Financial Advisers, who maintain the highest levels of ethics and regulatory compliance in all they do.

Tips to spot a pension scam

If you receive an unsolicited call, text or email from someone offering you a pension review service, here are some action points and ways to spot a scam:

- If the caller/writer is promising double-digit returns through investments in overseas locations. Often fraudsters will advertise investments in an asset that doesn't exist or hasn't yet been built.
- If they offer 'guaranteed' returns. These are rarely available and are never going to replace the guarantees found in a final salary pension scheme.
- Ask for their FCA number – the number issued by the regulator. You can then check if someone is a regulated adviser by searching the Financial Conduct Authority register.

Often scammers will apply pressure by saying there is a time limit or simply bullying someone on the phone. Remember you are in control, stay calm and if you don't like the situation hang up or simply delete the messages.

MARKETS

On the QT…

Paul Milburn of the Lowes Investment Team looks at the potential changes to global monetary policy in the months ahead, especially to Quantitative Easing.

AS WE HEAD INTO THE FINAL QUARTER OF THE YEAR politics remains firmly on the agenda.

Here in the UK the negotiations around Brexit continue with party infighting about how the UK should approach this delicate situation. In Germany Angela Merkel successfully held onto her role as Chancellor but the increasing popularity of right wing politics stood out. Meanwhile Donald Trump continues to air his views in the US but we are as yet to see any of the real promises made during his presidential campaign come to fruition. Finally, North Korea continues to test the patience of its neighbours with its continued missile testing. Whilst all of the above could have longer lasting consequences, for now markets appear to be considering these to be short-term noise.

Of more interest in the coming months will be the action of central banks, responsible for setting monetary policy around the world. In the US the Federal Reserve has now increased interest rates three times from their record low of 0.5% to their current level of 1.25%, however at its September meeting the Fed announced that it will also start to reduce the size of its balance sheet from this October.

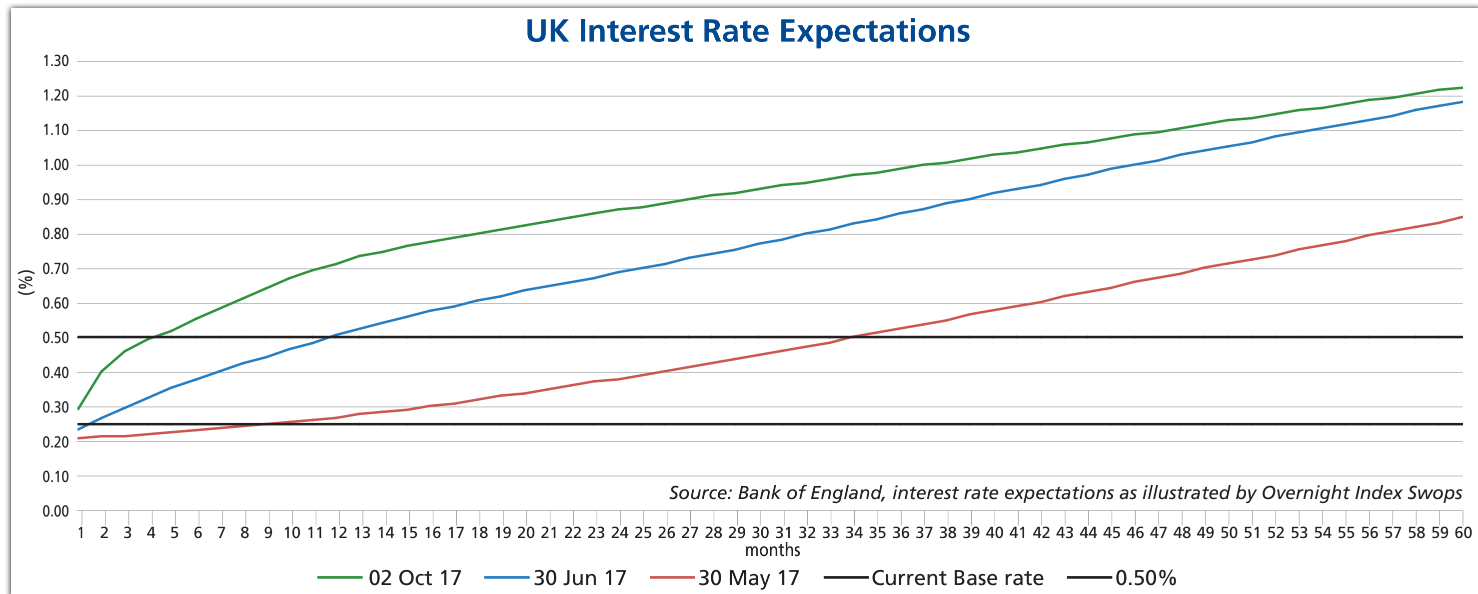
Prior to 2008 few of us had heard of Quantitative Easing (QE) and when it was first implemented few understood the impact that it would have. Whilst the advantages and disadvantages which QE brought will be debated long into the future, one point which cannot be argued against is that, along with record low interest rates, QE brought an extended period of extremely accommodative monetary policy. Now, with the US economy on a firmer footing, growing at an annualised rate of just over 3%, unemployment at its lowest rate since 2001 at 4.2% and inflation just under 2%, the Federal Reserve is ready to reduce the size of its balance sheet. This is to be achieved by reducing the number of bonds they hold.

To provide a stable level of QE the central bank had been reinvesting the proceeds from the maturity of bonds they own back into new bonds. Between October and December this year, however, the Fed will reduce the level of money reinvested by $10 billion each month in what has become known as Quantitative Tightening, or QT. This has the potential to rise to $50 billion every month from next year until the balance sheet has reduced to $1 trillion in size. At $50 billion per month this may seem like a large amount of stimulus to be removed. With a current balance sheet of $4.5 trillion, however, it will clearly take some time to achieve their goal. Flexibility has also been maintained in that should the central bank believe that QT is having a detrimental impact of the economy then it can be reduced.

In the UK, however, Bank of England Governor Mark Carney has indicated that they will be in no hurry to reduce the size of their balance sheet. They are unlikely to do so until we have had a sustained period of rate rises. In the last few months the Bank has suggested that a rate rise may come sooner than initially expected following higher than expected inflation at 2.9%.

In the chart below, we show the expected path of UK interest rates over a period of five years from each date stated based on interest rate transactions between banks. Expectations in May and June were that the first rate rise was still some time away. Following Carney's more recent comments it is anticipated that a 0.25% increase could come towards the end this year or the beginning of next. Note, however, low expectations remain further into the future.

QE had a positive impact on the returns achieved by many assets classes as investors were encouraged to take exposure to riskier asset classes to achieve their return objectives. As this partially unwinds via QT we will monitor closely the reaction markets make. We are as yet to see any signs of the taper tantrum of 2013.



Capital protection in portfolios

ONE OF THE KEY PREMISES THAT WE HOLD TO IN OUR investment philosophy, is that portfolios are properly diversified so that should the unexpected occur and particular investment styles underperform, the breadth of investments in the portfolio make for a smoother investment experience for our clients. No-one likes roller coaster investment if they can help avoid it.

For this reason, we often include structured products in portfolios. They offer defined returns at set dates in the future, and protect capital against varying levels of market falls. As such they can produce useful returns for a portfolio when markets are flat or rising and help brace the portfolio against losses when markets fall.

It is important to note, should markets fall dramatically, even the best capital protection might not be enough to save capital from being affected.

Currently available plans all offer a reasonable degree of protection against the stock market under-performing, typically insulating capital from loss in the event of a market fall by up to 40% over six years.

As with any investment, we like to diversify portfolio risk and with structured products we most often do this by using products from different providers with different potential rates of return, time frames and risk levels.

In terms of performance, to 30 September 2017, 492 of 501 FTSE 100-linked structured products matured this year with a gain or returned capital. They produced an average annualised return across all products of 6.99% over an average term of 3 years and 7 months.

Sudoku solution

Here is the solution to the Sudoku grid on page 3 of this issue of the Lowes magazine.

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

Spotlight on your Lowes Consultant

JENNIFER MORRIS SAYS THAT if she had her life to live over "I would like to end up in the same place". Growing up in Ireland, she had wanted a job in financial services from an early age. Jennifer's father worked in a bank – where she had summer jobs while at school – and she wanted to follow in his footsteps. "Although he did put his foot down and said I had to go to university," she says.

Following University, Jennifer began working for an American company based in Swindon where she worked for several years before trying her hand at selling insurance. "In those days things were a lot different to now, you were given two weeks training and then sent out with a script you were supposed to memorise and follow with the customer. I found that wasn't for me."

However, it was at the American company that she met her husband and there followed a number of years in which, through his job, they moved to France and then to California, during which time they started a family.

Her husband's work finally took them to Newcastle and in 1990 Jennifer set out to fulfil her long-held ambition to have a career in financial services. She secured a role with Guardian Royal Exchange as a tied agent, selling insurance products. "I loved the job because I was talking to people about things that were important to their lives."

In 1997, she joined North East Independent Financial Services Ltd, and within 18 months of joining became the director. "It was a fortuitous set of circumstances," she explains. "The existing director moved on and as I was an Independent Financial Adviser by then, having taken my exams and gained my qualifications, the owners of the company asked me to take it over. I was very fortunate to be given that opportunity."

It was an opportunity and a challenge that Jennifer rose to, making the company her own and running it for nearly 20 years.

Jennifer joined Lowes in Spring 2016. It was a decision made for the benefit of her clients. "I realised that at some point I might want to retire, so I wanted to look around and find an Independent Financial Advice firm that I knew, when I did decide to retire, would look after my clients in the way I always had," she says.

So why does she think if she had her life again that she would like to end up in the same place?

"It's because I love my job. I like understanding the pitfalls and the advantages of a wide range of financial rules, regulations, allowances and penalties. I like being able to use all this to simplify and integrate a client's finances.

"It's not like going to work, it's more like having a hobby where I get to discuss real personal issues and design a set of financial arrangements to make life a little easier for people. And on top of that, not only have I got to know some marvellous, caring people who I would otherwise not have met, but also have had a great time with them making the most of what financial services have to offer."

Set Disruptors to Maximum

COMING FROM A BACKGROUND IN ENGINEERING AND IT, I do tend to sit up and pay a bit more attention in our meetings with fund managers whenever the subject of technology comes up. This is happening more and more, as "Disruptive Technology" has been the hot topic in recent times.

Disruptive Technology basically covers everything from technology to software, including the development of Artificial Intelligence (AI) systems, which can change the status quo for businesses, or even how we behave as a society.

The effects of some have already been seen, such as Uber disrupting taxi firms around the world, and internet retailers like Amazon bringing changes in how we shop, leading to the demise of the likes of Woolworths and BHS.

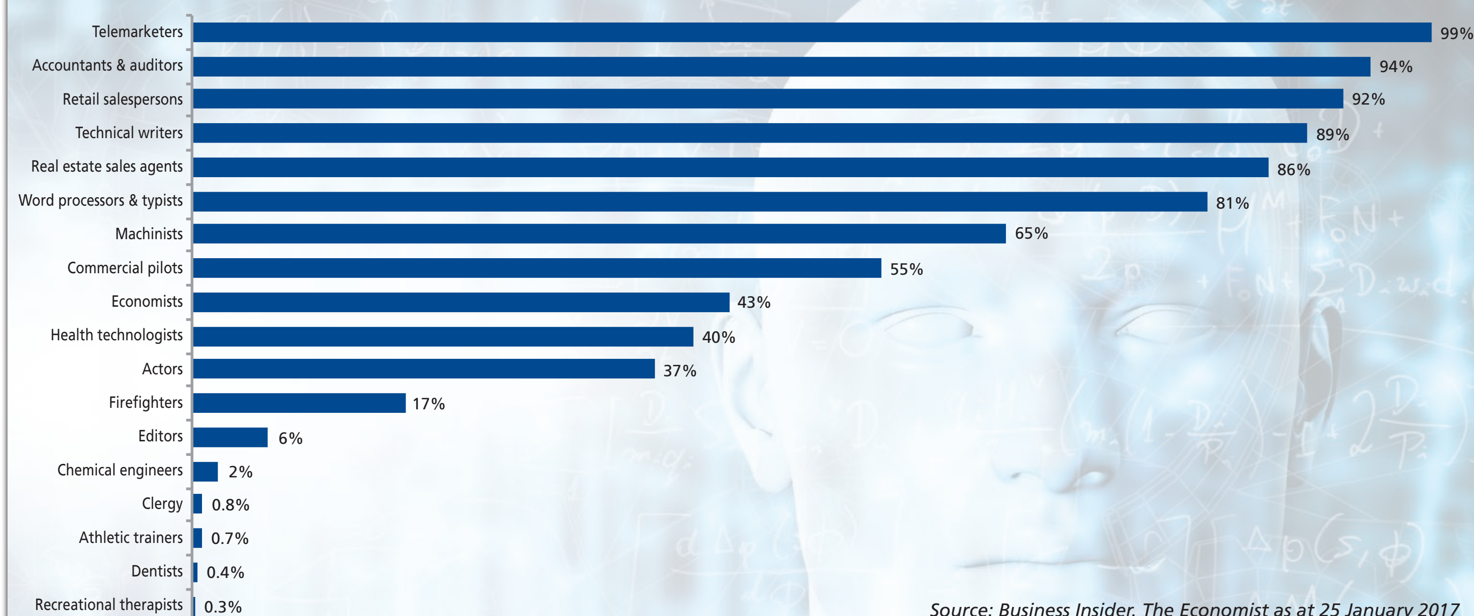
Others can have affects which reach further than is initially obvious. In the 1970's, it was common for television programmes such as Coronation Street to attract audiences of 30 million or more, while now, with the introduction of streaming technology and other sources of entertainment, they are lucky if they can reach 10 million viewers, and even then it is usually spread over a week, not just in one sitting as it was historically. The effect that would have on commercial TV companies like ITV is clear in terms of their advertising revenue reducing, but it is can also have more subtle effects on all industries. As companies find it harder to reach such large audiences through mainstream advertising, they need to find new ways of reaching their customers. If not, over time they will find it harder to maintain awareness of their brands, and consequently brand loyalty, allowing others to come along and eat in to their market share.

The development of AI systems and algorithms that can teach themselves (albeit in very focussed areas) is possibly the biggest disruptor going forward. The development of self-driving cars and lorries is regularly in the news, bringing another threat to the livelihoods of taxi drivers and delivery drivers the world over. This will no doubt also affect the way we behave as well, with it being plausible that children born now will never need to learn to drive.

It's not just in the field of driving that AI is making inroads, however. Having perfect recall, never being tired, or sick, or even bored, and in certain cases having the ability to learn to improve their accuracy, it is not surprising that more and more roles are coming under threat from computers and robots. The accompanying chart gives a few examples of where AI systems are threatening areas of the workforce.

Whilst the effect of these technologies in the long term is a matter of much debate, and will no doubt trouble governments for many years to come, as investors we need to be a bit more pragmatic. Backing the next "big thing" can be a fantastic opportunity, and those who invested in Apple, Facebook or Google at the outset can no doubt testify to this, but finding these is still a matter of speculation not investment, as for every Google that succeeds there are many, many more which never make it.

As investors, we need to be aware of the effect that disruptive technology can have on the companies we already invest in, which is one of the reasons why we feel active management is a necessity. We need to ensure that we aren't just picking the winners of yesterday, but rather choosing those who can use new technologies to enhance their businesses, whilst avoiding those who could see their business models ruined in the coming years by changes in technology or social behaviour. That is not just a matter of analysing accounts, but requires someone speaking to the management teams to understand how they plan to change and adapt going forward, something that can't be done by a computer – at least not yet!



This magazine is not personal advice. If you are unsure as to the suitability of any intended course of action, please contact your usual Lowes Consultant or this office on 0191 281 8811.