Issue **98**

"Live, love, laugh, leave a legacy."
Stephen Covey

Annual Client Competition Update

THANK YOU TO EVERYONE WHO ENTERED OUR ANNUAL CLIENT COMPETITION.

This year we asked what you thought the price of a troy ounce of gold will be on 31 December 2016. We asked for your predictions in US dollars (the standard currency used for gold) down to two decimal places.

Gold's perceived value as a safe haven in times of stockmarket crisis saw it rise to $1895.00 per troy ounce in 2009 during the Financial Crisis, but given its movement relative to investor sentiment, the price has been volatile and ended 2015 at $1060.00.

Market volatility at the start of the year has meant gold is one of the best performing assets in the first quarter, up 16.6% to $1237.00 at 31 March 2016. Will that continue throughout the year? We can only wait and see.

Your predictions ranged from $950.00 to $2300.00 per oz, with the average guess being close to the current price.

Gold price December 2015 - March 2016

Year	Price in US$
31/12/15	1060.00
29/01/16	1111.80
29/02/16	1234.90
31/03/16	1237.00

Source: Gold Council

Free Tax Tables

THE CHANCELLOR GEORGE OSBORNE certainly likes to keep us all on our toes when it comes to changes to the tax regime.

This year there were new tax allowances in the shape of the Lifetime ISA and increased exemptions under capital gains tax (CGT) rules. We have duly amended our annual tax tables to reflect the changes and to give you a handy reference booklet for your personal use.

Your complimentary copy of the tables is included with this issue of the Lowes magazine. If you would like additional copies for yourself, friends or family please call us on 0191 281 8811 or email enquiry@Lowes.co.uk

We are moving premises!

AFTER OVER 30 YEARS OF SERVING OUR CLIENTS IN our much loved Holmwood House, Lowes Financial Management is moving headquarters.

Clients needn't worry about finding us though, as we will literally be moving two doors down from where we are now. Our new address on Clayton Road is Fernwood House. Designed by the same architect as Holmwood House and even constructed during the same year, but significantly extended over more recent times, Fernwood was until April the head office of Greggs PLC.

The move gives our growing company much needed space to expand while providing even more meeting rooms where we can talk to our clients.

The move is set to take place on 20th May and we will be providing further information on this exciting step in the next issue of the magazine and directly with clients.

Lowes Financial Management has joined Facebook.

Follow us for company updates and articles.

Our cover shot: Bamburgh Castle

© Geoff Perry

Make your money work Best bank & building society accounts

Type	Amount	Provider	Account	Gross Rate	Contact
Unrestricted instant access accounts					
Online	£1+	Skipton Building Society	eSaver Issue 4	1.10%	skipton.co.uk
Branch, post, online	£1+	Newcastle Building Society	Sir Bobby Robson Foundation Saver (Issue 6)	1.00%[1]	newcastle.co.uk
Accounts with first year bonus					
Online	£1+	Tesco Bank	Internet Saver Account	1.01%[2]	tescobank.com
Fixed rate bonds					
Online	£1,000+	Charter Savings Bank	1 Year Fixed Rate Bond	1.91%	chartersavingsbank.co.uk
Online	£1,000+	Charter Savings Bank	2 Year Fixed Rate Bond	2.00%	chartersavingsbank.co.uk
Online	£1,000+	Paragon Bank	2 Year Fixed Rate Bond	2.00%	paragonbank.co.uk
Online	£1,000+	Paragon Bank	3 Year Fixed Rate Bond	2.20%	paragonbank.co.uk

Notes
[1]An additional 0.10% on all balances held in this account will be paid to the Sir Bobby Robson Foundation.
[2]Includes a 0.26% bonus for 12 months.

Measures of inflation - The average change in prices of goods and services over a 12 month period to February 2015

Retail Prices Index (RPI)	Consumer Prices Index (CPI)
1.3%	0.3%

Sources: Providers' websites, Office for National Statistics, www.thisismoney.co.uk, www.moneysupermarket.com, www.moneyfacts.co.uk 7 April 2016. All accounts subject to terms and conditions.

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.

We welcome another new Consultant

WE ARE DELIGHTED TO WELCOME JENNIFER MORRIS TO the Lowes family. Jennifer is the owner of North East Independent Financial Services Ltd, which has been trading for 21 years.

Jennifer and her clients will now benefit from Lowes' extensive resources as one of the largest Chartered Independent Financial Advice companies in the North East and the UK.

Jennifer, a Chartered Financial Planner herself, brings our Consultant numbers up to 15 and she will be our second female Consultant to join in the past eight months.

Two more awards for our trophy case

WE ARE PLEASED TO ANNOUNCE that Lowes has won another two awards. We scooped the awards for Independent Financial Adviser of the Year – UK and Client Choice Award: Best for Personal Financial Planning at the Wealth and Finance Awards 2015.

Lowes has been shortlisted for 23 awards over the past 8 years.

financeawards
twothousand&fifteen
Lowes Financial Management Ltd
Independent Financial Adviser of the Year - UK
& Client Choice Award: Best for Personal Financial Planning - UK

Sudoku

We hope you enjoy the latest of our Sudoku puzzles, which we have the pleasure of including with each issue of the magazine.

To complete the puzzle fill the grid so that each row, column and 3x3 block contains the number 1-9. The solution is on page 11.

Source: www.printmysudoku.com

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

Tax just got more taxing

THERE WERE A RAFT OF CHANGES TO THE TAX REGIME THIS spring – savings tax, dividend tax, pension tax relief and allowances, capital gains tax and buy-to-let tax all changed on April 6th. Some people will see an immediate benefit, for example with the savings tax, which will no longer be deducted at source, while others will seek to rearrange their affairs to maximise the changes to their advantage.

One thing is for sure, these changes will impact almost everyone but some will not know until it's too late, when they face fines for failing to declare tax due on time, through self-assessment.

We have been conditioned to accept the need to raise taxation to support our economy but often this seems to be done with too close an eye on the ballot box, rather than any 'grand plan'. It is quite shocking that whilst the additional rate of tax paid by high earners in the UK is 45%, seriously penal measures will impact some individuals so that almost two-thirds of a portion of their income is swallowed up in tax. These are not the elite in society but hardworking professionals and business owners.

Everyone has a right to arrange their affairs in the most tax efficient manner possible. Figures suggest that there will be £11.75bn of overpaid tax in the UK this year. Add to this the increased fines and penalties that are likely to be imposed as a result of people not understanding the impact of the latest changes on them and the net take to the Treasury will be even greater.

Holistic, independent financial planning considers investments and solutions from the whole of the market and their interrelation to each other and the various tax rules. The less tax you have to pay, the better your net investment returns will be and therefore the more money and income you will have.

Given the recent furore around the Panama Papers, it is worth stating here that when it comes to tax planning, we do not condone the use of offshore accounts or aggressive avoidance techniques, just simple, legitimate strategies that involve opting for the most tax efficient investment vehicles and the least penal of the various taxes.

We believe in paying only your fair share to the taxman, paying more than that should be a conscious choice.

Fortunately, due to the way we have structured our clients' investment portfolios, many of the recent changes will prove beneficial to most clients, improving what I hope most will agree is the delivery of tax-efficient net returns. You can be sure that here at Lowes we keep a close eye on all new changes so we can advise on them accordingly.

However, your friends and family members may not have their affairs arranged in the most tax efficient manner and as such, be contributing to that £11.75bn of overpaid tax. If they would like advice, please ask them to get in touch with Lowes and we will help guide them through the tax maze.

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: **Lowes Group PLC**, FREEPOST NT197, Holmwood House, Clayton Road, Newcastle upon Tyne NE2 1BR. Lowes® Financial Management Limited. Registered in England No: 1115681. Authorised and Regulated by the Financial Conduct Authority.

Good news on EU laws on inheriting overseas assets

WITH THE BREXIT REFERENDUM JUST A COUPLE OF months away, we can report on a regulation change relating to assets held in European Union (EU) countries.

Many countries in Europe have different rules on inheritance to those that we enjoy in England and Wales. For example, some countries demand that you leave large proportions of your estate, in equal shares, to your children rather than your spouse or partner (this is called forced heirship).

In England and Wales we are lucky enough to have Testamentary Freedom subject to the Inheritance (Provision for Family and Dependents) Act 1975, which was subsequently amended by the Inheritance and Trustee Powers Act 2014. This enables us through a will to leave our estates, in the proportions we want, to those we want – with, of course, the usual legal and tax implications.

However, EU Regulation 650/2012, more commonly known as 'Brussels IV', which became law in August 2015, enables anyone of English or Welsh nationality, or people who live in England or Wales, who hold assets in the EU, to write a clause in their wills saying that they'd like the Inheritance rules of England and Wales to apply to their whole EU estate. This means that the assets held in other EU countries (except Ireland and Denmark) are controlled by UK laws rather than those of the countries in which they are situated.

Rising dementia cases show need for planning

THE ALZHEIMER'S SOCIETY SAYS THAT 850,000 PEOPLE IN the UK were suffering from dementia in 2015. The society predicts that will rise to over one million people by 2025 and two million by 2051.

Further facts and figures from the Society's research show that 225,000 people will develop dementia this year; one in six people over 80 has dementia; 80% of people living in care homes have a form of dementia or severe memory problems; and that two thirds of people living with dementia are women.

Significantly, the Society also reports that the sufferers and their families pay for two thirds of the cost of having dementia.

Statistics like these emphasise the need for people to put in place Lasting Powers of Attorney (LPA) to enable key decisions to be made on their behalf where, for example, due to incapacity or ill health they are no longer able to make those decisions for themselves.

Two types of Lasting Powers of Attorney can be set up, one relates solely to a person's finances while the other covers health and welfare decisions.

Ideally, action should be taken to put in place a LPA before the first signs of dementia or other illness appear – it is important to ensure a smooth handover of responsibility, should it become necessary.

Lowes Consultants can help with setting up LPAs. Contact your usual Consultant or call 0191 281 8811.

Consultant's top tip: Financial sharing

ONE OF THE SITUATIONS WE COME ACROSS ON A regular basis is when one half of a couple dies, their spouse or partner is unsure of or unaware of the state of their finances.

This can include the most straightforward of things, like having access to joint bank accounts or knowing what cash or investments are held. For the surviving spouse this can make dealing with their financial situation at a time of grief extremely difficult and can leave people without access to the money they need in order to pay essential bills.

Such situations often build up over time, with many couples feeling awkward about discussing one of them passing.

From a financial planning perspective it makes sense to address these issues and to put appropriate plans in place so, at what will be a distressing time, the last thing a partner needs to think about is how they are going to pay the simplest of bills.

This is where there can be a great difference for the person involved between having and not having the support of an Independent Financial Adviser.

Our Consultants regularly help people in these situations to sort out their affairs in advance, as well as provide the support and financial advice people need to get through what invariably is an upsetting time.

Talking through your financial information on a regular basis can resolve many complex issues before they arise.

A simple checklist of preparations that can be made to make the transition easier include:

- Bank accounts details – consider names and passwords for online access.
- Emergency savings – ideally you should have a joint current or savings cash account with enough money in it to pay bills for three months.
- Direct debits should be paid from the joint account for continuity of payment.
- Similarly, utilities bills in both names can help with continuity of service.
- Accessibility to insurance documents – personal and household.
- Details of investments, including ISAs and pensions – value and with which organisation they are held.
- Details of cash deposit accounts and Premium Bonds
- Details of share certificates – it is worth reviewing any old certificates to ensure they are still valid.
- Set up a Lasting Power of Attorney (see page 4).
- Write a Will – ensure it is signed and witnessed – and that appropriate parties know where it is kept.

Tax allowances – how they add up

CHANGES TO THE TAX REGIME IN THE PAST COUPLE OF Budget announcements have seen tax allowances and exemptions amended.

Every saver and investor should be taking advantage of their tax free allowances and exemptions and make maximum use of them wherever possible.

There are several tax-free bands to take advantage of in the 2016/2017 tax year:

• Income tax nil rate band	£11,000
• Savings income band	£1,000 /£500 (basic rate/ higher rate tax payer)
• New Dividends Allowance	£5,000
• ISA allowance	£15,240
• Capital Gains Tax exemption	£11,100

These allowances are per individual so couples should look at who holds which assets to ensure maximum tax efficiency.

If you want to know more about how best to take advantage of these 'tax give-aways', please contact your Lowes Consultant or call 0191 281 8811.

The 2016 Budget focus

The Chancellor gave us plenty to anticipate both in the run up to the 2016 Budget and in what he delivered on the day. Here are some of the key issues that will affect savings and investments

Economic details

The Chancellor reported that UK's growth target for 2016 had been revised down to 2.0% by the Office for Budget Responsibility from the 2.4% target set in November 2015. At the same time, the Government forecasts that over the next four years, the deficit will have been eliminated and the Government will be running a surplus – where more tax is raised than is spent. To help achieve this, a further £3.5 billion of savings from departmental spending is intended in 2019-2020. An efficiency review will also take place to inform of future spending decisions.

Income tax

The Personal Allowance rose from the current £10,600 to £11,000 in 2016 and to £11,500 in April 2017. This accelerated the rise announced in the 2015 Budget, which was due to reach £10,800 in 2016.

The point at which the higher rate of Income Tax will become payable increased from £42,385 to £43,000 and will increase further to £45,000 in April 2017. The Government said this measure would take around half-a-million people out of the higher rate bracket.

This pushes the higher rate bracket closer to the £50,000 target that the Government has said previously it wants to hit – now achievable within the current term of office.

ISA limit

Effective from 6 April 2017, you will be able to shelter £20,000 per annum into your Stocks and Shares ISA, Cash ISA, or combination of the two. Until then, the allowance remains at £15,240.

Capital Gains Tax

The higher rate of Capital Gains Tax (CGT) is cut from 28% to 20% and the basic rate from 18% to 10%, for relevant gains accruing on or after 6 April 2016.

However, CGT on residential property such as second homes and carried interest (the share of profits or gains that is paid to asset managers) is not reduced, and will remain at the 2015 rates representing in effect an 8% surcharge. Main housing residences are exempt from CGT.

This makes for an interesting tax position in respect of those with capital growth investments wanting income. For anyone with growth investments outside an ISA, using them as a form of income has now become much more attractive.

This means that rather than pay 20% (or more) income tax on any income received outside of an ISA, by building up portfolios that can provide gains to be drawn on tax efficiently in the future, tax can be reduced on those payments to 10%. Alongside the normal annual capital gains allowance, the reduction in CGT rates makes independent financial advice a must for those in or approaching retirement.

Entrepreneurs' relief

Entrepreneurs' relief will be extended to long-term investors in unlisted companies. Gains of newly issued shares in unlisted companies purchased on or after 17 March 2016 will be subject to CGT at 10%, provided they are held for a minimum of 3 years from 6 April 2016 and subject to a lifetime limit of £10 million of gains.

Not all investors or businesses count for the lower entrepreneurs' relief rate, so the general reduction in CGT rates for higher rate taxpayers from 28% to 20% will encourage further investment in companies, helping to boost investment for those not eligible for entrepreneurs' relief.

National Insurance

From April 2018 employers will pay National Insurance contributions on termination payments above £30,000 where Income Tax is also due.

For people who lose their job, payments of up to £30,000 will remain tax-free and they will not need to pay National Insurance on any of the payment.

Pensions Lifetime Allowance

As announced in the 2015 Budget, Pensions Lifetime Allowance will be reduced from £1.25m to £1m from 6 April 2016.

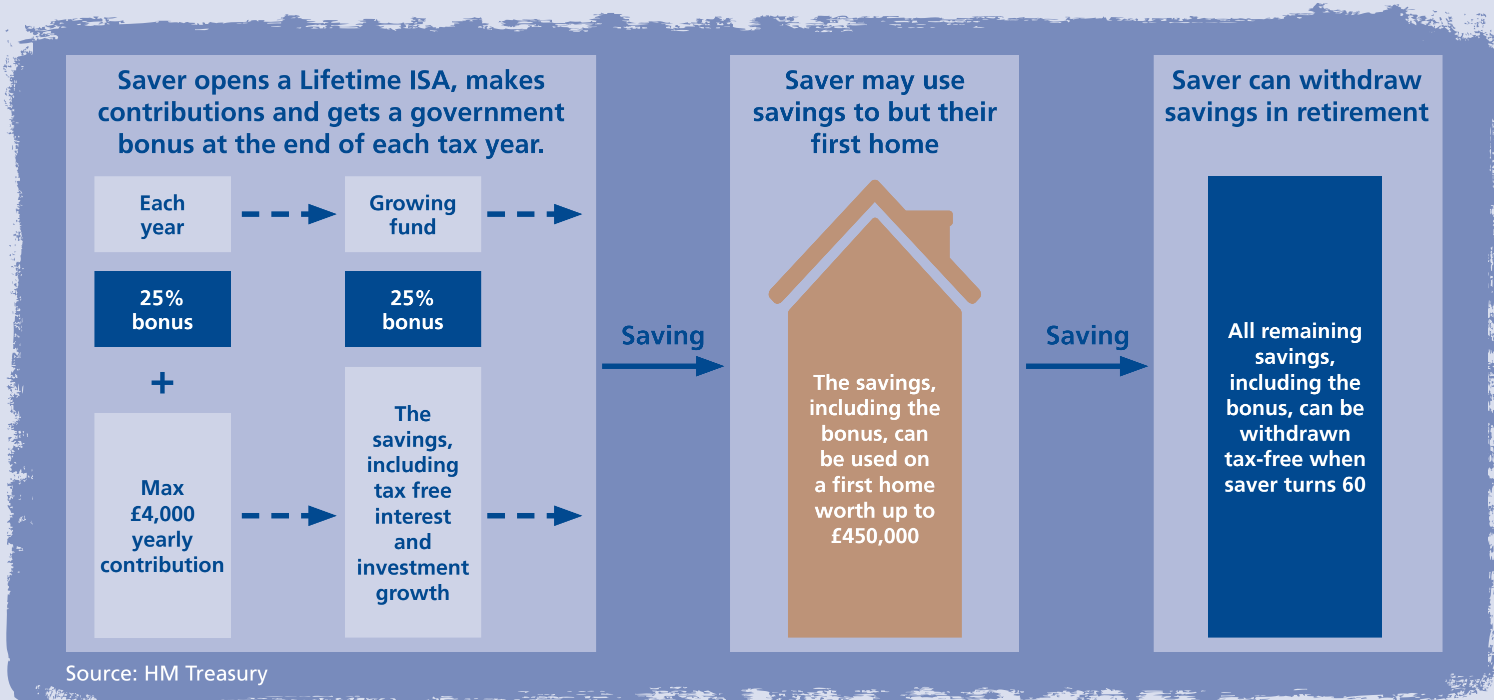
Addressing pension freedoms anomalies

There were a number of anomalies caused by the introduction of the pension freedoms, which have been addressed during the Budget. For example, re-aligning the tax treatment of serious ill-health lump sum payments so they can be paid tax free to someone under 75 with less than a year to live.

Insurance premium tax

The Chancellor announced a further 0.5% increase in insurance premium tax. Whilst this increase is lower than had been predicted by some, it will still have an impact on the cost of insurance across the board as well as certain employee benefits.

Lifetime ISA (LISA)



Source: HM Treasury

PERHAPS THE MOST INTERESTING ASPECT OF THIS BUDGET was the launch of the Lifetime ISA (LISA). In the lead up to the Budget there was considerable speculation around the abolition of tax relief on pension contributions, the emergence of a 'Pension ISA' and the removal of the tax-free status of pension commencement lump sums. However, the Chancellor dropped all of these alleged proposals prior to the Budget – at least for the time being.

Instead he launched the LISA, as a long-term investment and retirement savings vehicle, which many speculate is a trial run for future changes to the pension system, ironing out the creases in advance.

The Lifetime ISA will be available from April 2017 and is aimed at encouraging those between 18 and 40 to save or invest for a first home or for their retirement. Up to £4,000 can be saved into the wrapper every year and the government has pledged that for every £4 paid into the ISA it will pay in £1, up to a maximum of £1,000 a year. That arrangement applies until the person reaches age 50.

The money in the ISA can be used to buy a first home (in the UK, worth up to £450,000, any time after 12 months from opening the account) or kept for retirement. Accounts are limited to one per person rather than one per home – so two first time buyers can both receive a bonus when buying together.

If a person has a Help to Buy ISA they can transfer those savings into the Lifetime ISA in 2017 or continue saving into both. It is worth noting that people can continue to open a Help to Buy ISA until November 2019 but they will only be able to use the government bonus from one to buy a house.

If used for retirement, the Lifetime ISA cannot be accessed until age 60, when all savings can be taken out "tax free".

Taking money out before 60 will see the government bonus lost, and any interest that has been accrued on that portion of the ISA, plus a 5% charge will be levied.

Opening a Lifetime ISA will, in most ways, be identical to opening a regular ISA under the existing rules. An ISA manager (such as a bank, building society or investment manager) will apply their normal account opening processes, which include asking for a National Insurance number and date of birth.

Where people are diagnosed with terminal ill health, they will be able to withdraw all of the funds (including the bonus) tax-free, regardless of the individual's age.

The Lifetime ISA will have the same inheritance tax treatment as all ISAs. Upon the death of the account holder, the funds will form part of the estate for inheritance tax purposes. Their spouse or civil partner can also inherit their ISA tax advantages and will be able to invest as much into their own ISA as their spouse used to have, on top of their usual allowance.

Comment

The LISA is a significant advantage for aspiring property buyers and for the self-employed, but as a lifetime savings vehicle for the employed it will not compare with workplace pensions in which the saver receives tax relief and employer contributions.

It is also important to appreciate that, if the funds are withdrawn before age 60 for any purpose other than purchasing a first property, the penalty will be severe – the loss of the government bonus and any interest or investment growth on this, plus a 5% charge. This ultimately translates to a 24% reduction in the savings fund; putting the investor in a worse position than if they had used a standard ISA.

6 things you should do within five years of approaching retirement

PEOPLE OFTEN SAY THAT THE OLDER THEY BECOME THE more time seems to speed up. In the same way, those heading towards retirement can find that the date is rapidly approaching and insufficient planning has been made to get the best out of this period of life.

Lowes is here to help you with your financial planning both on the approach of, and during your retirement date. This is more important than ever, since the Pension Freedoms have increased the flexibility that people have in the way they structure their retirement income streams.

Here are six key areas that anyone approaching retirement should consider:

1 Locate your paperwork

Having all your paperwork to hand can make planning for the future much easier. Government figures show that the average person could end up with 11 different pensions over a working life. These are likely to be a combination of company final salary schemes and the more common defined contribution or personal pension schemes. Knowing what schemes you have and their value is imperative for succinct retirement planning and beyond. The government has proposed a Pension Dashboard, which will allow people to see all their pensions in one place – however that is unlikely to be available until 2019 at the earliest. Until then, we will all need to have our paperwork to hand.

Likewise, having your paperwork to hand for all your investments, including direct shares, collective investments and premium bonds for example will also be advantageous, as it is not uncommon for people to have had to wade through years' worth of documents in order to know their current position.

Gathering all the information in one place for review is the first step in retirement planning.

2 Consider your health

With old age almost inevitably ailments will emerge. Knowing your financial position five years ahead of retirement means that, should you need to retire earlier for health reasons, you will be better able to evaluate your financial position.

With that knowledge to hand, you may even find that with proper financial planning, you can retire earlier than you thought you could and that it is maybe beneficial to do so from a tax perspective.

3 Sort out your pensions

As well as having more than one pension which may need to be sorted, where applicable it may be sensible to consolidate them into one, more manageable, pension vehicle, particularly if the pensions currently held do not allow for the flexibility of the Pension Freedoms.

Also, some schemes (for example, the NHS scheme) allow additional payments to be made which can boost your pension for the years ahead, but needs to be considered in the context of the reduced lifetime allowance.

Also, find out what your state pension will be. This is a flat rate from April 2016 for men born after 6 April 1951 and women after 6 April 1953. You can find out more from the Future Pension Centre or by filling in form BR19. Anyone over 50 should receive a statement calculated according to the new state pension rules.

4 Mortgage and other debts

As income tends to drop in retirement, it can make sense to plan to have paid off your mortgage and any other debts by the time you retire. If that is not possible, then look at ways to keep your monthly outgoings consistent, such as changing to a fixed rate mortgage.

5 Examine your insurance cover

Are you paying for life cover you don't need? Often people take out life cover to ensure the mortgage will be paid in the event of their death or to help provide an income for their dependents. Often this is for a fixed sum at a fixed premium. But if the mortgage has been paid off or your dependents have flown the nest, could you reduce the cover to better suit your current situation and reduce your outgoings at the same time?

6 Maximise tax efficiency

Following the Chancellor's pre-Budget U-turn on a further pension rules shake-up, anyone receiving their pension payments as income will be charged income tax at their nominal rate of tax. Therefore, having as many of your other investments and savings in tax-free wrappers makes sense, as does inheritance tax planning. See our article on page 5 for more details on tax allowances and exemptions.

Why young adults should take investment risks

IF THERE IS A TIME TO TAKE GREATER RISK WITH YOUR investments it is when you are young.

Yet all too often parents and grandparents saving and investing for their children and grandchildren put the money into cash. HMRC figures show that of the £1.65 billion that has been saved into Junior ISAs since their launch in November 2011, two thirds of the money (£1.1billion) was put into cash deposits.

This is because parents perceive cash as a risk-free option. Yet, in the current low interest climate, that is far from the case. In fact, they could be doing their children a disservice – and even losing them money – as inflation can erode the value of not just any interest received but also the original capital saved as well.

Faced with that situation, parents and grandparents should take a longer-term perspective, and consider investing in stocks and shares, through collective funds.

The longer an equity investment is held the greater chance it has of realising its potential and also, should markets fall, the investment has longer to recover any losses and to keep growing.

Investing for the long term and being willing to increase the risk in a portfolio creates greater scope to create capital to help meet the financial challenges children will face in later life – such as paying off student loans and saving for a deposit on a property.

A Junior ISA can only be set up by someone with parental responsibility for the child, although it can be funded by multiple contributors. Up to £4,080 can be contributed to a Junior ISA in the 2016/2017 tax year and the allowance can be 100% invested in a Stocks and Shares or in cash, or any combination, as wished.

For anyone looking to save more for their children or grandchildren either as cash lump sums or on a regular basis – or who would prefer that the child did not have access to the money at 18, which they do under Junior ISA rules – a trust utilising a professionally managed portfolio, may offer a better means to do so. Your Lowes Consultant can advise you on this, or call 0191 281 8811.

Investing for the long term

WHEN WE TALK TO FUND MANAGERS ABOUT THE YEAR ahead, one word keeps coming to the forefront of discussions- volatility. Fund managers are anticipating that, for the rest of 2016 and possibly beyond, the stockmarket will perform much as it did in 2015, with peaks and troughs making for some choppy investment waters.

So how do we invest for that kind of scenario? We believe that wherever possible, all investment should be undertaken with a long-term view – by that we mean at least five to ten years. With a portfolio of investments that suits a particular attitude to risk, the intention is that over the longer duration the inevitable peaks and troughs in the stockmarket will be smoothed out to deliver better investment returns than trying to second guess the markets and make investments at just the right time.

One way to invest in choppy markets is to drip feed money into investments. This can reduce the exposure to falling markets that may be experienced when investing a lump sum. By investing at regular intervals, fund purchases are spread across a range of market levels, making it less likely that the overall investment is made when the markets are at their most volatile.

Whether investments are made on a regular basis or with a lump sum, we believe they should be professionally managed. We would much rather use fund managers, whose day-to-day job it is to anticipate risks and periods of volatility and adjust their holdings accordingly. Which is why we have a dedicated in-house investment research department that is constantly assessing the professionals in the market to find the ones that over the years most consistently deliver returns for our clients' portfolios across all market environments.

Yet more volatility?

We look at how the markets have performed over the past quarter and what may be ahead for the rest of 2016

THERE CAN BE NO DOUBT THAT THE FIRST QUARTER of 2016 has provided us with plenty of ups, downs and divergence in investment markets. For example, at the end of March the FTSE All Share was down a mere 0.41% from the year end. Roll back a month or so however and things looked very different, with the same index down almost 11.5% on 11th February 2016.

Indeed, equity indices around the world found the start to the year difficult, with most succumbing to selling pressure. Two regions which rebounded strongly however were the underperformers of 2015, with the MSCI Asia Pacific ex Japan index ending the quarter up almost 4.5% whilst the MSCI Emerging Markets index ended the period over 8% higher.

Even within these indices there was a significant degree of divergence. Within emerging markets the Chinese Shanghai Composite ended down over 12.5%. As the country continued to transition from an export led economy to one led by domestic consumption, sectors such as industrials and manufacturing continued to suffer.

The Brazilian Bovespa meanwhile ended the quarter up a startling 32%. Despite the ongoing political turmoil the index rose due to a stabilising oil price and the paring back of expectations for US interest rate rises. However, the index was still almost 9% lower year on year and it remains to be seen if this was merely a relief rally or one driven by an improvement in fundamentals.

The beneficiary of the volatility in equities was bonds. Government bonds were particularly strong performers, with UK gilts returning 4.92% over the period as investors sought their perceived safety due to geopolitical risks such as Brexit, concern over the outlook for company earnings and the potential for an economic slowdown. Long dated gilts, those with more than 15 years to maturity, performed strongest, returning 8.21% as inflationary pressures remained subdued.

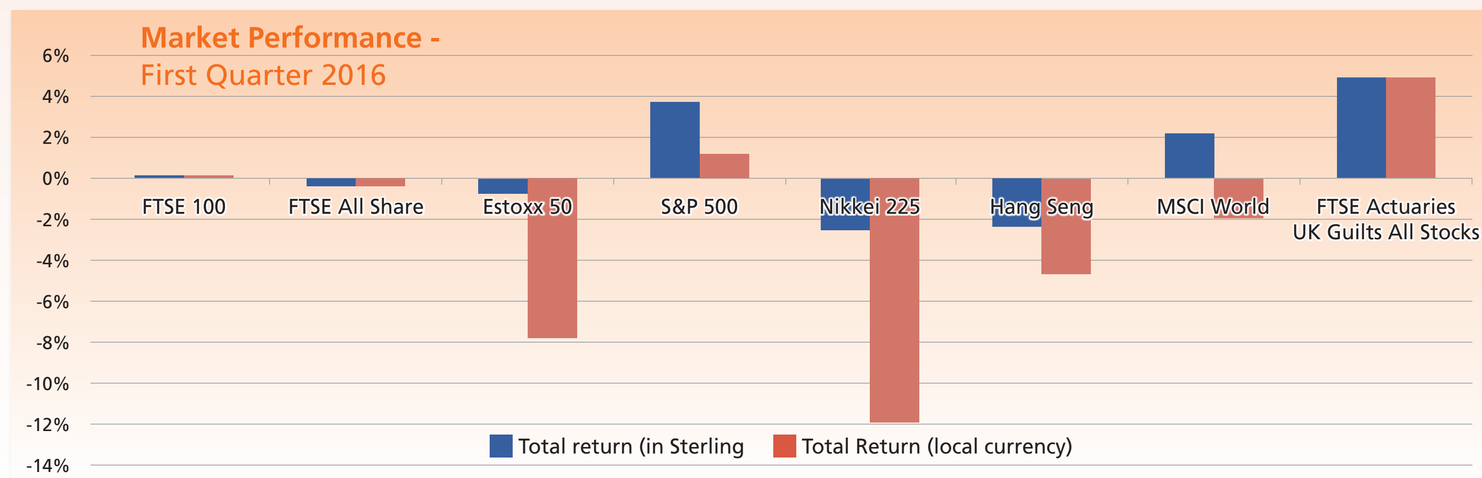
The Brazilian index finished the quarter up 32%. Part of the Olympic Games effect?

Ksenia Ragozina / Shutterstock.com

Despite the concern shown by investment markets the UK economy appears to be relatively robust. Although the level of growth is low compared to history, the economy has now enjoyed twelve consecutive quarters of expansion to the end of 2015 and we await preliminary estimates for the first quarter of this year. The unemployment rate continues to fall, although the recent news regarding the UK steel industry certainly demonstrates weakness in certain sectors. Finally, the rate of wage growth currently exceeds that of inflation, giving the British public a greater level of disposable income, in theory.

Central banks around the world continue with accommodative monetary policy. In the UK interest rates now appear on hold for the foreseeable future, with the market not pricing in a rate rise until mid-2019. In Europe meanwhile, the European Central Bank (ECB) unleashed its latest wave of efforts to revive inflation and underpin the region's economic upturn. The central bank increased its monthly purchase of bonds and reduced the interest rate for cash deposited with it by banks further into negative territory. Despite finally raising interest rates in December the US Federal Reserve now appears to be tempering their forecasts for future rate rises after stipulating criteria for these to occur. There are now only two increases forecast for this year compared to the previous estimate of four.

Markets don't like uncertainty, and with greater uncertainty comes greater volatility. We expect these periods of volatility to remain throughout 2016.



Capital Gains Tax – how it works

AN INTERESTING TAX FACT IS THAT HMRC RAISES MORE money from Capital Gains Tax (CGT) than from Inheritance Tax – over £5.5 billion in the 2014-2015 tax year, according to HMRC figures issued in January 2016.

While the Chancellor may have announced decreases in the rate of CGT in the 2016 Budget (see pages 6-7), it will continue to be a significant revenue generator for the Treasury.

CGT is a tax on capital gains (i.e. profits) If you sell or give away an asset which has increased in value you may be taxed on the gain. For example, selling investments that are not held in a pension fund or an ISA means you could be liable for CGT on the profits earned. The same goes for sale of a buy-to-let property.

It doesn't apply to your main residence or any valuable personal belongings such as artworks or jewellery, worth £6,000 or less when you sell them.

In the 2016 Budget George Osborne cut CGT rates, so now it is levied at the rate of 10% for a basic rate taxpayer, and 20% for higher rate taxpayers (previously 18% and 28% respectively). These changes will take effect for disposals made on or after 6 April 2016.

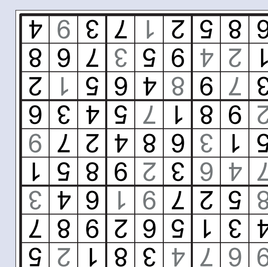
However, every individual has a CGT exemption rate available to them, which, in the 2016/2017 tax year, allows them to take the first £11,100 of any gains in that year tax-free. If a spouse is not making use of their full exemption, transferring assets to the spouse prior to a sale can make sense from a tax efficiency perspective to make use of their combined allowance of up to £22,200.

Of course, selling investments can lead to losses as well as gains, and those losses can be offset against gains. If the gains are going to exceed the annual allowance, investors could sell a losing investment. This would create a loss that could bring the gains back down below the limit.

One popular way of using up CGT annual allowances is known as "bed and ISA". This involves making use of the annual CGT exemption to sell assets invested in less tax-efficient investment funds and rebuy them using an ISA (assuming sufficient ISA allowance remains). This will shelter future gains from CGT. It tends to be particularly appropriate for higher rate taxpayers with substantial assets outside their ISA portfolios.

For more on CGT changes see our Budget coverage page 6.

Capital Gains Tax changes - effective dates		
Tax year	2016/17	2015/16
Basic rate tax payers	10%	18%
Higher/additional rate tax payers	20%	28%
Annual exempt amount	£11,100	£11,100
Source: HMRC		



Sudoku solution

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

Spotlight on your Lowes Consultant

OUR SPOTLIGHT THIS ISSUE TURNS on John Walton. John has been a Financial Consultant with Lowes Financial Management since June 2009 and in January won our Consultant of the Year award.

This accolade is given to the Consultant who over the past year has come out top on a number of criteria including receiving recommendations from his colleagues at Lowes on the way he works with them.

"I've been runner up several times over the past few years but my time has come at last," John says, laughing.

John began his working career in accountancy then moved into the insurance industry, working in underwriting, where he stayed for 10 years. Having identified financial advice as his next career choice, he achieved his qualifications to become a Financial Adviser and then came to speak to Lowes.

"Lowes had a strong reputation in the market so it was my first choice of where I wanted to work," John says. He joined Lowes and spent the first six months further improving his knowledge and getting to know how Lowes operates, by working in the Technical Department. "It was all about getting a good understanding of the financial advice process."

Joining Lowes in the middle of the Financial Crisis was an 'interesting' time, John recalls. "We had all the issues with the banks and a lot of volatility in the market. There were challenges but it was also a good opportunity for me as I was regularly talking to clients about their worries, helping them to see the bigger picture around the investment markets and to get through what was a very troubled time."

Now there are different reasons people are seeking financial advice, he says. "The frequent changes to the pensions and tax regimes we have seen over the past few years have made financial services a lot more complex and difficult for people to understand and I would say that these days it is crucial for people to get advice if they are to make the right decisions about their retirement and their financial future."

In John's experience, people most often want help with their finances simply in order to make sense of them. "When people come to us they usually have an assortment of financial products that they have acquired over the years, mainly from banks and building societies, which often can be sales rather than advice driven. It can be quite a worry for people. We can help them sort it all out and have the confidence that everything is in order and tailored to their needs."

"What we can give people is peace of mind. It's having someone there to meet face-to-face or on the end of the phone, to talk through the issues and provide advice and reassurance."

And that is what gives John his job satisfaction. He says: "Becoming a Lowes Consultant was the best move I made. I really enjoy coming into work in the morning – and not everyone can say that."

Income for Growth?

WHEN INVESTING, ONE OF THE FIRST CONSIDERATIONS we make is whether we are investing to provide long term growth of our capital, provide a supplement to our income, or perhaps a combination of the two. Often, the solution to these questions can at first be a bit counter-intuitive.

When investing to generate income, for example, it can sometimes be better to invest in funds which look to provide most of their returns through capital growth. This is because even with the new rules on the taxation of interest and dividends, which are covered elsewhere in this issue, it is likely that some of the income produced will be subject to income tax. So say a 6% gross return will be slightly less after income tax is taken out, whereas for a fund that is purely growth it will come under the capital gains tax rules. As most people don't fully utilise their capital gains tax allowance, currently £11,100 per annum, then the same 6% withdrawal will usually escape taxation. This leads to a bigger income each year, or, if an income isn't taken, the full amount including that which would be lost to income tax can be rolled up, giving a bigger overall value at the end of the investment, (subject to income or capital gains tax outside of personal allowances at that time).

Even if tax is due, with Capital Gains Tax now at 10% for a basic rate taxpayer, or 20% for a higher rate taxpayer, it is better to be exposed to capital gains tax rather than income tax.

When it comes to investing to provide long term capital growth, however, the reinvesting of dividends can help provide that growth.

To illustrate this, we will use as an example someone investing £10,000 into a well-known income fund which we have used at Lowes now for a number of years. If they had invested 10 years ago from the end of March and withdrawn all the income, the £10,000 would now be worth £14,497.47. During that time they would also have received a total income of £3,961.31, giving a total profit of £8,458.78 over the ten years.

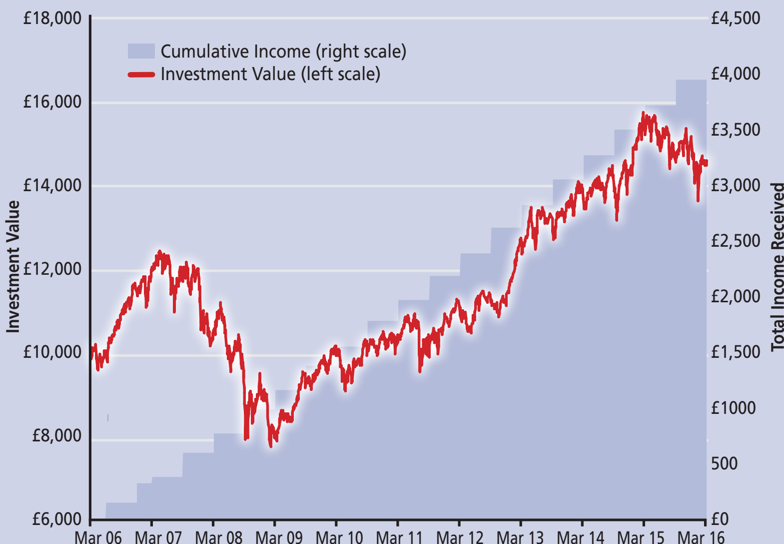
If the investor hadn't needed that income, however, and had instead reinvested the dividends back into the fund, they would have had a bigger holding each year earning them a return. Also, in the event of market corrections, such as we saw in 2007 to 2009, as prices fall it means that any income being reinvested is buying units at a cheaper price, which can provide for greater potential returns in any recovery.

Added to this is the fact that whilst the income produced by an investment (the yield) is usually quoted as a percentage, it is paid out in pounds and pence. This may not seem significant, but a company usually needs to be under severe pressure for it to reduce the monetary value of its dividend as this will lead to a reduction in its share price. This can be seen in the first chart, where despite the value of the fund falling, the income it paid out remained fairly consistent, giving roughly the same amount to reinvest each year, despite prices falling.

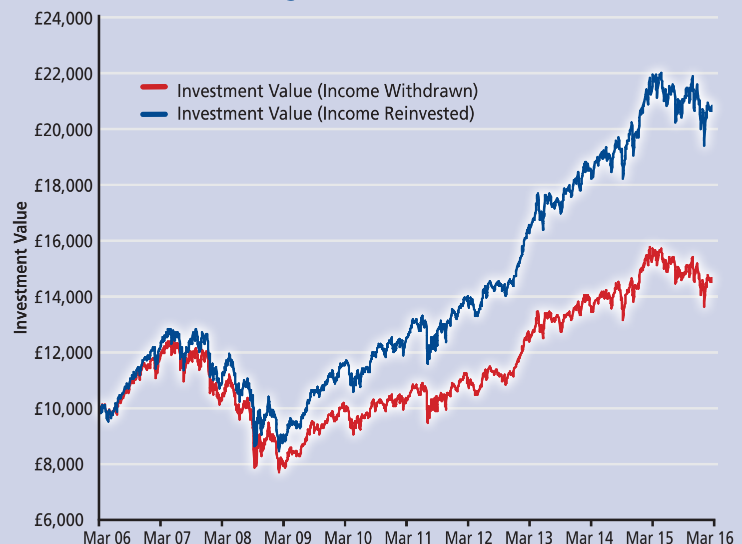
The combined effect of all this would have seen the original £10,000 grow to a value of £20,629.28 after ten years. That is an extra £2,170.50 from the same fund, just by reinvesting the dividends.

Of course there are many other things to consider when investing, but it can sometimes be useful to remember that there is often more than one route to reaching our long-term goals, and some may have advantages that at first glance are not obvious.

Price Return of Fund – Income taken



Total Return of Fund – Income taken against income reinvested



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.