Money Wise

CYGNET WEALTH MANAGEMENT

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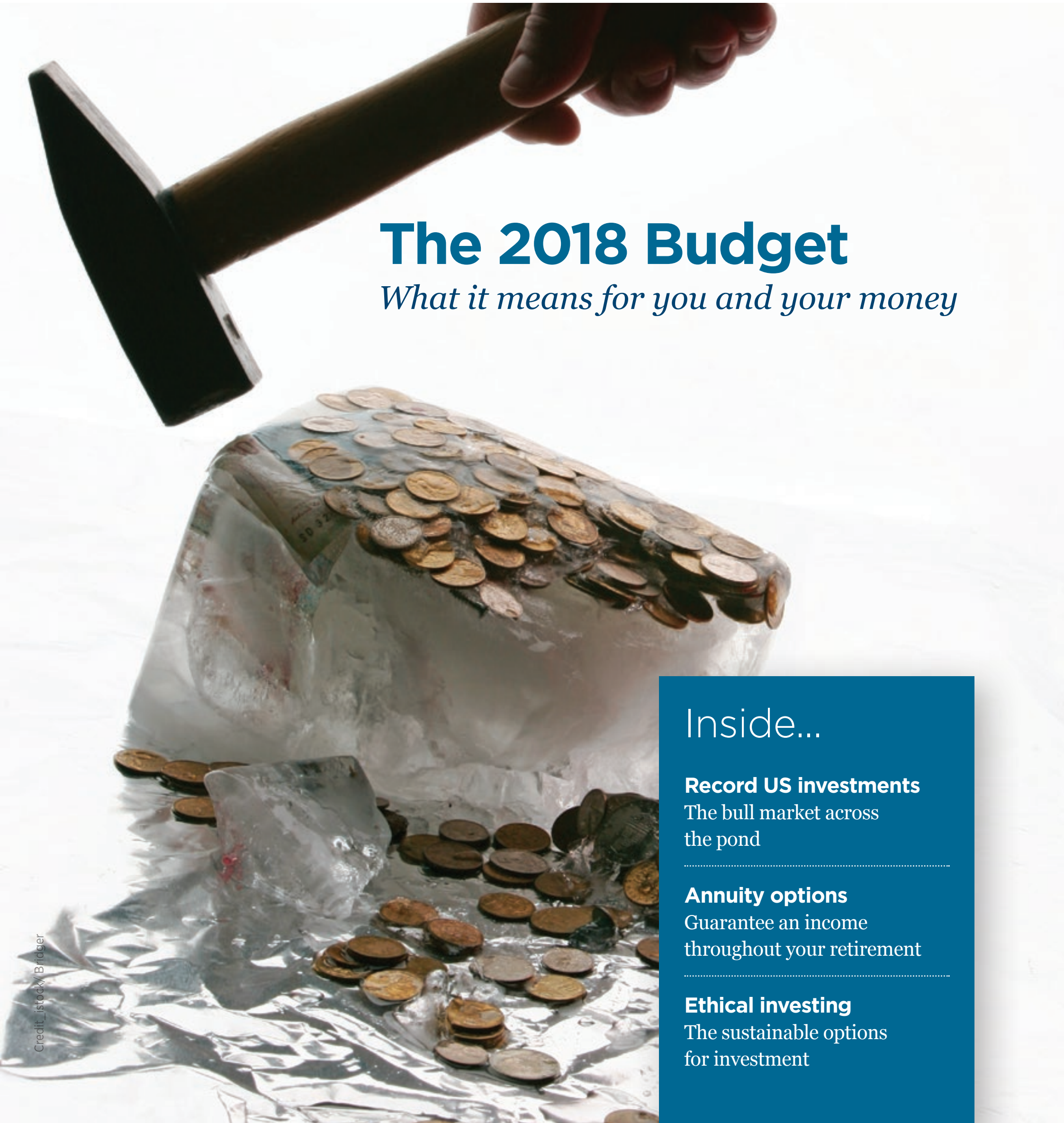

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The 2018 Budget

What it means for you and your money

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Lessons from a record bull run

The US stock market recorded its longest ever bull run in August.

A new record was set for the Standard & Poor's 500 (S&P 500) index on 22 August 2018, when the market reached the 3,453rd day of a run that started on 9 March 2009.

Bull markets are typically defined as periods starting with a market low point and ending when the relevant index falls by more than 20%.

The S&P 500's current bull market has seen the index increase in value by 331% since March 2009, equivalent to an annual growth rate of 16.6%, before any dividends are considered. Over the same period the UK benchmark, the FTSE 100, little more than doubled in value.

Investment strategies

The nine years of US bull markets offer investors some lessons:

- International diversification of investment can deliver rewards. While many of the leading UK-listed companies are multinational, none have matched the performance of the likes of Apple or Facebook.

- Currency can play a part in adding to returns – or reducing them. Changes in currency valuations impact on both foreign-listed shares and UK-listed shares of companies with overseas earnings.

- Timing entries and exits to markets can be difficult. US markets have seen a few small dips since 2009, but staying invested and ignoring the market 'noise' has proved to be a sensible strategy.

Almost since the run started in 2009, many market watchers have predicted its demise. So far, they have all been proven wrong.

If you want to review the global spread of your investments, why not ask us to calculate a geographical breakdown of your portfolio, drilling down into each fund's holdings?

✢ *The value of your investments and the income from them can go down as well as up and you may not get back the full amount you invested.*

Past performance is not a reliable indicator of future performance.

Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

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Don’t ignore your credit report

It pays to be aware of your credit history to ensure no-one is applying for loans or credit cards in your name.

The three main credit reference agencies (CRAs) are Experian, Equifax and TransUnion. All will provide consumers with a copy of their credit report and you can apply online.

Lenders will use the information in these reports to determine whether or not to grant credit – and potentially what rate of interest will apply.

Your credit report will probably go back at least six years and include:

- Your current and previous credit accounts, including bank accounts, credit cards, mortgages, store cards and mobile phone contracts.
- Details of all late or missed payments. This will include details of your outstanding balances with utility companies.
- Records of county court judgements, home repossessions, bankruptcies, or any Individual Voluntary Arrangements.
- Details of any joint financial relationships, such as joint mortgages or bank accounts.
- Whether you are on the electoral register.

It is worth paying attention to your credit history. If you have unpaid debts or a history of missed payments you are less likely to get credit, at least at preferential rates. There are other things that can also count against you, such as putting in a lot of credit applications in a short space of time or having no credit history at all.

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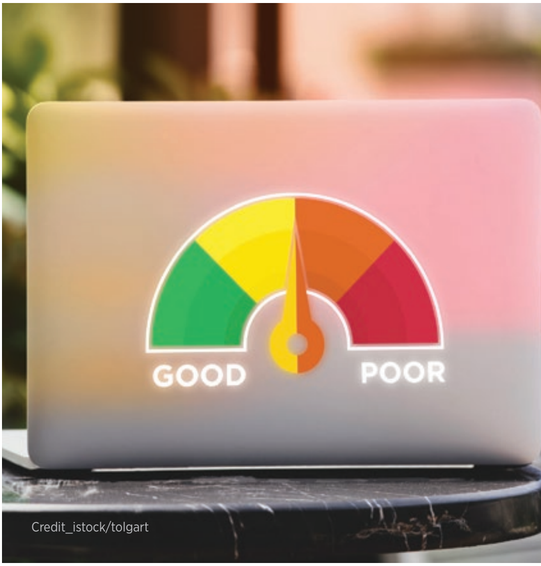
If the information held by the CRAs is incorrect you can contact them to have it amended. It is also possible to add a note to your file, for example explaining the circumstances that led to a missed payment.

These reports should show if anyone has tried to apply for credit in your name. If this has happened contact the agency immediately and alert the relevant company.



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Headline increases and frozen thresholds in the 2018 Budget

The last Budget before Brexit proved to be more interesting than expected.

The 2018 Budget was delivered five months before the Brexit date and the start of the 2019/20 tax year. It threatened to be an interim affair, as decisions announced in October risk appearing seriously out of date by the time April arrives. In the event, Mr Hammond chose to be more radical than expected, declaring that, "austerity is coming to an end, but discipline will remain".

The main points of interest were:

- On 6 April 2019, the personal allowance will rise by £650 to £12,500, reaching the target originally set for 2020/21 in the 2017 Conservative manifesto.
- The basic rate band will increase by £3,000 to £37,500, making the higher rate threshold (personal allowance + basic rate band) £50,000. This also matches the 2020/21 target.
- Both the personal allowance and higher rate threshold will be frozen for 2020/21. They will rise in line with CPI inflation from 2021/22 onwards.
- Despite rumours, there were no changes to inheritance tax (IHT), which means the residence nil rate band rises to £150,000 on 6 April 2019. However, an overhaul of IHT could still emerge when Mr Hammond presents his Spring Statement.
- The pension lifetime allowance will increase to £1,055,000 for 2019/20. There were no other adjustments to pension allowances.
- The capital gains tax annual exempt amount will increase to £12,000, in line with inflation, for 2019/20.

Frozen thresholds

Many tax rates and thresholds remained frozen, which offers a subtle way of raising additional revenue to Chancellors. This will be necessary as an examination of the spending commitments

given in the Budget reveals that over £27.6 billion of a total £30.6 billion will be spent on the NHS by 2023/24.

For example, the main IHT nil rate band stays at £325,000, the threshold set back in 2009. The starting points for additional rate tax (£150,000) and the phasing out of the personal allowance (£100,000) also haven't increased since their introduction in April 2010.

Combined with the increase in the personal allowance, these frozen thresholds mean that the band of income potentially subject to 60% marginal tax (currently 61.5% in Scotland) covers half of the income between the £100,000 taper starting point and the £150,000 threshold for additional rate tax (45% or 46% in Scotland).

The increase to the higher rate threshold for 2019/20 has three knock-on effects:

- The upper earnings/profits limit for full rate national insurance contributions rises to £50,000, effectively clawing back nearly 40% of your income tax saving if you are an employee with earnings above £50,000.
- The income ceiling for pension automatic enrolment contributions could rise to £50,000, £3,650 above the current limit. Such a rise would coincide with the increase in minimum total contributions from 5% to 8% of 'band earnings' – £6,032–£46,350 in 2018/19.
- The £50,000 income threshold for the high income child benefit charge is unchanged for 2019/20, meaning it will apply once higher rate tax starts to be paid.

If you would like to discuss how the Budget affects you, please get in touch.

✢ *The value of tax reliefs depends on your individual circumstances.*

Tax laws can change.

The Financial Conduct Authority does not regulate tax advice.

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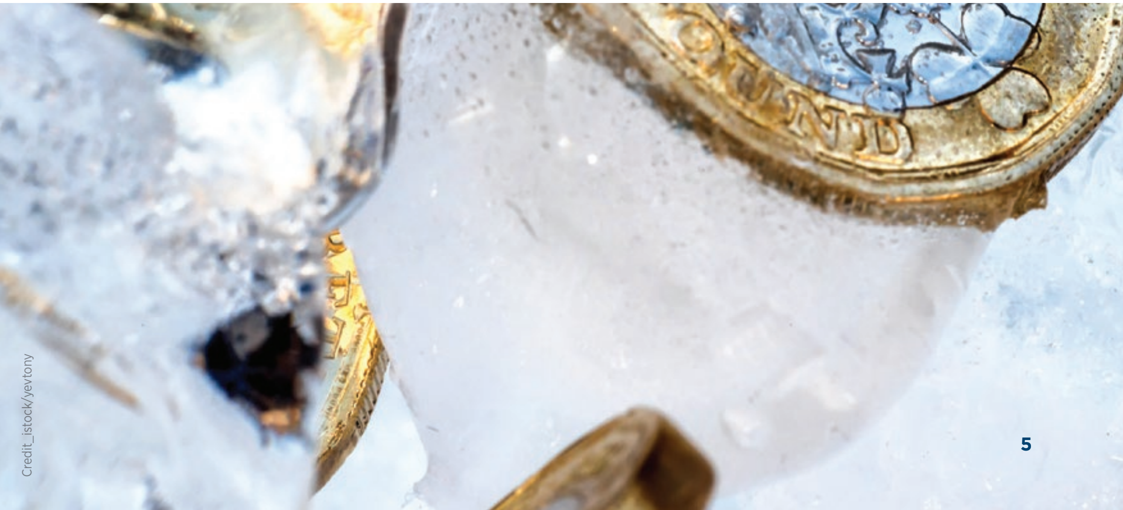

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Annuity options for long-life planning

Life expectancy has stopped increasing according to a report from the Office for National Statistics (ONS) issued in September, but we are still living longer than ever before.

Between 2000 and 2010, average life expectancy at age 65 rose by 2.4 years for men and by 1.8 years for women. However, since 2010 improvements have slowed markedly and the latest figures from the ONS show that, on average, a man aged 65 in 2015-2017 could expect to live for another 18.6 years, while a woman aged 65 could survive for a further 20.9 years.

The important word here is 'average'. Calculations by the ONS suggest that at age 65 there is a one-in-four chance of a man living for another 29 years, to 94, and a woman living another 31 years, to 96.

The annuity option

Investing in an annuity is the only way to guarantee income for however long you live, but they have recently fallen out of favour. The latest FCA figures suggest over five times as much money is placed in income drawdown as annuities, despite drawdown's greater complexities.

The important role of annuities in providing secure income is in danger of being ignored. Annuity income can be structured in a variety of ways, building in automatic increases – for instance in line with inflation – minimum payment terms and/or continuing until the second death of you and your partner.

If you would like more information on annuities, perhaps to provide a core level of retirement income alongside drawdown, please talk to us. We can supply guidance based on your health and lifestyle circumstances.

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Growing ethical investment for sustainable returns

Demand from investors has been growing for funds that combine financial returns with a social conscience. The amount of money invested in ethical funds has trebled over the past 10 years according to the Investment Association.

The growing demand has been backed by increased political pressure for fund managers and pension trustees to incorporate environmental, social and governance (ESG) factors as part of their investment process.

Those that support this responsible investment approach argue that this isn't just about doing the right thing: it's about managing longer-term risks and generating sustainable returns.

Understanding the ethical market

It is important to understand some of the different terms used.

Dark Green Funds: These funds follow strict guidelines and typically screen out certain sectors completely, such as armaments, fossil fuels, tobacco or gambling industries.

Light Green Funds: These funds follow a similar approach, but with a slightly more flexible remit. Many take a 'best of breed' approach. For example, rather than avoiding all oil companies they may invest in those with the best track record of developing renewable energy.

ESG Factors: Fund managers may look at ESG factors as part of their selection process. This means looking at a company's record on waste and pollution, deforestation, employee diversity, health and safety, executive pay, board structure and tax strategy. Funds using this approach aim to invest in companies with good ESG practices.

Impact Investing: Your money can be invested in companies or projects that have the potential to deliver positive social or environmental outcomes.

Please get in touch if you would like to discuss your investment options.

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The rights of marriage

There are many misconceptions around the rights of the 3.3 million unmarried couple families in the UK.

Heterosexual couples will soon be able to enter into civil partnerships in England and Wales, but many unmarried couples may still see no advantage in a marriage or civil partnership.

However, there are common misconceptions about co-habitation. First, there is no such thing as 'common-law' marriage in the UK: co-habiting relationships have a different legal status.

In case of the worst

If an unmarried couple splits up, an ex-partner has no right to claim spousal maintenance or share of the other's pension(s).

They can only make a claim in respect of solely owned property if they can show they have made a financial contribution or have carried out repairs or improvements, which may not be the case if the non-owner stayed at home to care for children during the time they were together.

If a cohabiting partner dies without leaving a will, the survivor only automatically inherits property the couple owned as joint tenants. If the unmarried survivor inherits under their partner's will – including automatic transfers of jointly owned property – they could incur inheritance tax, even if it is their home.

Surviving unmarried partners also won't receive state bereavement support payments. A recent Supreme Court judgement questioned this practice, but the rules are yet to change.

To understand the position for you and your partner, please talk to us.

✢ *The value of tax reliefs and tax treatment depends on your individual circumstances.*

The Financial Conduct Authority does not regulate will writing, trusts and some forms of estate planning.

Tax laws can change.

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