AM&A | Investment & Pension Planning Limited

We have pleasure in issuing our newsletter for December 2018 that includes a detailed monthly commentary covering world equity markets in November together with other topical articles that we hope you find interesting.

Whilst markets stabilised somewhat in November, little more than five months, and over 1,000 points, separate the FTSE 100's high and low marks for the year to date and the current market volatility has extended into December.

The Brexit deal is currently being debated in parliament, with a final vote on whether to take it scheduled for the 11th. On the opening day the government suffered three defeats and has almost surrendered control entirely. This pantomime of national humiliation shows no signs of ending either. The deal is almost certainly going to be voted down and what happens next is unknown, but very likely includes some sort of delay or extension while we try to sort ourselves out. There are many predicting Theresa May will resign, but we're not so sure. If defeat and failure were all it takes, she'd be gone already.

Elsewhere Donald Trump completely exploded his own tweets about progress on a trade deal with China by simultaneously trying to arrest the most powerful woman in China and declaring himself the "Tariff Man" in renewed threats to escalate the trade war. An already jittery market collectively lost it and would have fared much worse had markets not closed for the funeral of President Bush

If you do have any concerns about the recent market volatility or any other articles in this month's newsletter, please do not hesitate to contact us to discuss your situation in greater detail.

As this is our last newsletter for this year it remains for us to hope you enjoy the upcoming holiday season and wish you a happy and prosperous 2019.

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AM&A Model Portfolios
Performance Data to 30 November 2018

The following tables show examples of percentage returns of AM&A risk rated model portfolios and market benchmarks and indices using prices at the end of the last calendar month over 1 month, 3 months, 6 months, year to date and over 1, 3, 5 and 10 years. Please note that these examples are for illustrative purposes only and exclude the effect of fees on the actual returns. Please note that pension fund and life fund performance can differ from unit trust/OEIC performance due to the underlying taxation treatment that past performance is not a reliable indicator of future returns and the value of investments can go down as well as up. We endeavour to ensure that the data below is accurate to the best of our knowledge. However, we rely on information that is provided to us by third parties and this may therefore not always be correct and/or up to date. As such, we cannot accept liability for any reliance placed on this third party-produced information.

	1m	3m	6m	ytd	1yr	3yrs	5yrs	10yrs
AM&A Model Portfolios								
AM&A Defensive Portfolios								
Cash Alternative Portfolio	-1.2	-2.7	-1.8	-2.2	-1.3	4.4	14.4	
Defensive Portfolio	-0.7	-3.3	-1.4	-1.3	0.0	11.7	23.3	
Benchmark IMA Mixed 0-35% Index (Defensive)	-0.3	-2.3	-1.9	-2.3	-1.5	10.4	16.9	
AM&A Cautious Portfolio								
Moderately Cautious Portfolio	-0.4	-4.8	-2.4	-1.3	0.2	19.5	32.8	127.8
Benchmark IMA Mixed 20-60% Index (Cautious)	0.0	-3.3	-2.6	-2.7	-1.7	14.5	22.7	84.1
AM&A Balanced Portfolio								
Balanced Portfolio	0.0	-5.5	-2.6	-0.9	0.8	26.4	42.8	169.9
Benchmark IMA Mixed 40-85% Index (Balanced)	0.5	-4.5	-3.0	-2.3	-1.0	20.9	31.5	120.5
AM&A Moderately Adventurous Portfolio								
Moderately Adventurous Portfolio	0.1	-6.2	-3.0	-0.8	1.0	30.9	49.7	205.2
Benchmark IMA Flexible Managed Index	0.8	-4.7	-3.2	-2.7	-1.6	22.8	32.6	125.4
AM&A Adventurous Portfolio								
Adventurous Portfolio	0.4	-6.8	-3.3	-0.9	0.9	36.5	53.5	231.1
Benchmark AFI Aggressive	0.9	-6.3	-4.8	-3.0	-1.2	29.0	43.5	170.4
AM&A Aggressive Portfolio								
Aggressive Portfolio	1.8	-5.4	-0.3	3.6	4.1	49.6	57.6	234.9
Benchmark IMA Global	1.6	-5.4	-1.3	1.0	2.7	41.8	57.4	186.0

Source Financial Express 2 December 2018

Market Overview November 2018

Months of Brexit speculation and uncertainty came to a head in November as the UK and the EU finally succeeded in reaching a Brexit deal. European Commission (EC) President Jean-Claude Juncker said: "I invite those who have to ratify it in the UK House of Commons, to do so ... It is the only deal possible". The agreement was supported by the Cabinet, although Brexit Secretary Dominic Raab announced his resignation. MPs will vote on the deal on 11 December, but there are doubts whether it will receive enough votes. The EU has stated that it will not contemplate a renegotiation; therefore, if the deal is rejected by Parliament, political turmoil is likely to follow as the UK faces the prospect of a disorderly Brexit or no Brexit at all. The International Monetary Fund (IMF) warned that a no-deal Brexit could create "high trade and non-trade barriers between the UK and the rest of the EU, with negative consequences for growth". The FTSE 100 Index fell by 2.1% during November.

As expected, the US midterm elections ended with the Democrats taking control of the House of Representatives while the Republicans retained control of the Senate. The result reduced the likelihood of further fiscal stimulus; looking ahead, investors' attention is likely to revert to the issue of trade as tensions between the US and China remained unresolved ahead of the G20 summit in Buenos Aires. Elsewhere in the US, relations between the Federal Reserve (Fed) and President Trump continued to sour. Although the Fed left its key federal funds rate unchanged in November, another increase is widely expected to be implemented in December. Over November, the Dow Jones Industrial Average Index rose by 1.7%.

Having unveiled a budget that deviated from official European Council recommendations, Italy's Government refused to back down to the European Commission's (EC's) demands by revising its plans. The FTSE MIB Index ended the month 0.7% higher. Meanwhile, Germany's economy contracted by 0.2% quarter on quarter during the three months to September as global trade tensions took their toll on export activity. Over the month, the Dax Index fell by 1.7%.

Japan's economy contracted during the third quarter, shrinking at an annualised rate of 1.2% as a series of natural disasters hit activity over the summer. The Nikkei 225 Index rose by 2% over November.

Emerging markets generally performed more strongly than the broader global equity market during November, boosted by hopes that the US and China might resolve their ongoing trade dispute at the G20 summit in Buenos Aires, and by indications from the Federal Reserve that US interest rates are currently "just below" the level that would have a "neutral" effect on the economy.

Having expanded by at an annualised rate of 0.9% during the second quarter of 2018, Brazil's economy posted growth of 1.3% year on year over the three months to September. Over 2018 as a whole, the International Monetary Fund (IMF) expects Brazil's economy to expand by 1.4%, picking up to 2.4% in 2019. The IMF believes that high public debt and the burden of pension spending are the most pressing policy issues facing Brazil. The Bovespa Index rose by 2.4% during November.

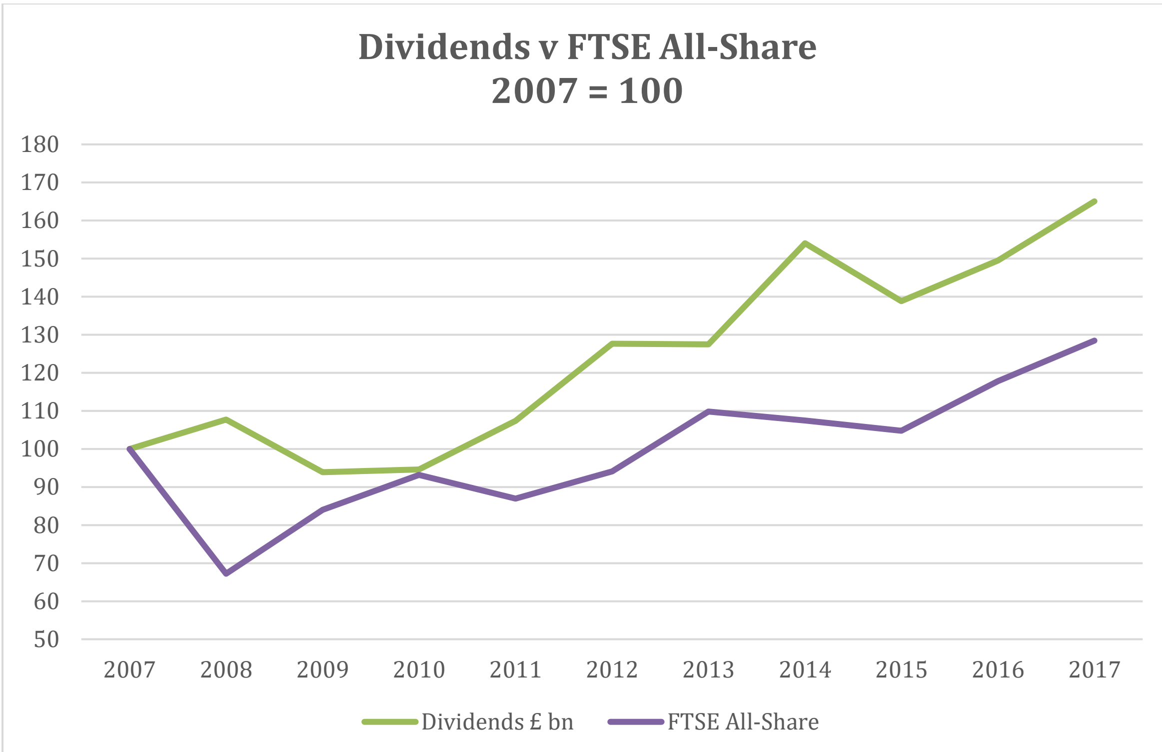
India's economy expanded at an annualised rate of 7.1% during the third quarter, compared with second-quarter growth of 8.2%. Although growth remained robust in a global context, it was dampened by higher energy prices. The slower-than-expected growth reduced the likelihood that central bank policymakers will move to tighten monetary policy. Rates were last increased in August to 6.5%. The annualised rate of consumer price inflation slowed from 3.70% in September to 3.31% in October, dampened by lower prices for food and beverages. In contrast, wholesale price inflation picked up slightly in October, rising from 5.13% in September to 5.28%. The CNX Nifty Index rose by 4.7%.

Business activity in China rose only marginally in October, according to the Caixin China General Services PMI, and both services and manufacturing weakened compared with September. Industrial production stagnated during the month, having posted growth in each of the preceding 27 months. Meanwhile, as activity in the services sector slowed down, growth in new business stalled for the first time since November 2008. The Shanghai Composite Index fell by 0.6% over November.

Emerging markets will face a range of challenges in 2019, according to credit ratings agency Moody's, including slower global growth, rising interest rates, protectionism, and geopolitical tensions. In particular, trade tensions and tightening global liquidity pose the greatest threat to the "broadly stable" outlook in Asia Pacific, while credit conditions in most markets in Latin America – with the exception of Argentina – will benefit from improved policy certainty.

UK dividends remain strong despite volatile markets

UK dividends are continuing to grow faster than inflation, according to the latest quarterly data from Link Asset Service.



Source: Link Asset Services, FTSE

The latest UK Dividend Monitor (UKDM) shows that in the third quarter of 2018 dividend payments were 4.1% up on the previous year, comfortably above the current rate of inflation. Looking over the 10-year period from the end of 2007 to the end of 2017, total dividend payments have risen by an average of 5.1% while CPI inflation has averaged 2.4%.

The UKDM is published by Link Asset Services (formerly produced by Capita) and totals the dividends paid out on the ordinary shares of companies listed on the UK Main Market every quarter – excluding investment companies, to avoid double counting. It captures both regular dividends and one-off special dividends, which often stem from takeovers or other corporate restructurings.

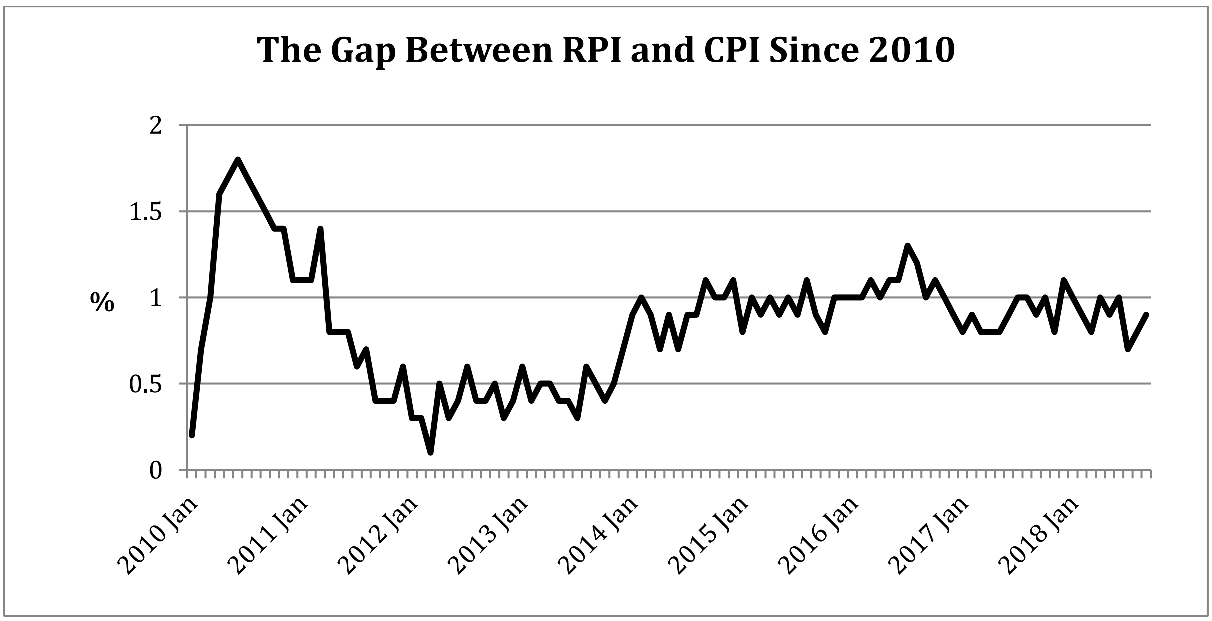
As the graph shows, over the last ten years, the amount paid out in dividends has grown faster than the capital value of shares. There are still dips, but between 2007 and 2017 the regular dividend total dropped only once, in the wake of the global financial crisis. The jump and dive between 2013 and 2015 is an aberration caused by a one-off £15.9 billion special dividend paid by Vodafone in 2014.

Despite increasing dividend payments, there has been considerable volatility in UK share prices throughout 2018. Little more than five months, and over 1,000 points, separate the FTSE 100's high and low marks for the year to date. But whilst the FTSE tracks capital values, it does not account for dividends, which are ignored in the calculations of most equity market indices.

If you are investing for income the data is a reminder that, for all the fluctuations in capital values, shares have continued to provide real dividend growth.

Index-linked savings certificates

The popular National Savings & Investments (NS&I) savings certificates will be indexed to CPI instead of RPI from next year.



The certificates have not been on sale since 2011, but NS&I allow existing certificate holders to reinvest in new series of certificates when their old ones mature. The terms have gradually worsened over the years and at present reinvestment promises a return of RPI inflation +0.01% a year. For certificates maturing from 1 May 2019, the basis of indexation will change from RPI to CPI.

The change was not picked up by newspapers at the time because they were released the Friday before the 2018 Budget, held on the Monday. Government departments are often accused of burying bad news, and the downgrading of the NS&I index-linked savings certificates is certainly bad news for affected investors.

The government now generally only uses RPI where it benefits, for example as the basis for interest levied on student loans or for annual rail fare increases. CPI is used to index many – but not all – income tax bands and allowances.

NS&I said, 'This change recognises the reduced use of RPI by successive governments and is in line with NS&I's need to balance the interests of its savers, the cost to the taxpayer, and the stability of the broader financial services sector.'

As the graph shows, the move from RPI to CPI will cut returns by about 0.8% a year based on data since 2010. In their widely-missed press release, NS&I note that, 'The cost to the taxpayer is forecast to reduce by £610 million over the next five years'. That 'cost to the taxpayer' could also be read as, 'return to the investors'.

If you hold any issues of index-linked certificates, think about whether you definitely want to reinvest when they next mature, rather than letting inertia (and automatic reinvestment) take its course.

Office of Tax Simplification's first report on inheritance tax

The Office of Tax Simplification (OTS) has published the first part of its inheritance tax (IHT) simplification review.

The report highlights a variety of issues with the current IHT system:

- IHT returns are submitted for about half of all estates, even though tax is paid by less than 5%;
- Most of the paperwork cannot be completed and submitted online and is far from user-friendly;
- Probate is not normally granted until IHT has been paid, which can create difficulty for executors;
- The residence nil rate band, introduced in 2017/18, was widely criticised as being 'very complex', and disadvantaging those who do not have children and those who have not owned their own home.

The OTS made a key administrative recommendation: 'The government should implement a fully integrated digital system for Inheritance Tax, ideally including the ability to complete and submit a probate application'. HMRC have already started such a project in 2014, and in April 2018 announced it would be delayed, choosing instead to focus on the short IHT205 form which applies to certain estates where no IHT is payable.

The Chancellor asked the OTS to undertake its review of IHT in January 2018. The instruction was, 'to identify opportunities and develop recommendations for simplifying IHT from both a tax technical and an administrative standpoint'.

The OTS originally indicated it would publish a report ahead of the Autumn Budget, but Mr Hammond brought the Autumn Budget forward to October and nothing emerged from the OTS in time.

In late November, about the time the Budget would normally have arrived, the OTS published the first half of its review. Such was the response to the OTS consultation document, the organisation has decided to produce two reports. The first covers 'administrative issues' while the second will explore 'key technical and design issues'.

The second report is due in spring, and could herald changes to tax rules, instead of the administrative framework. The result may be less generous than the current system, meaning it could be wise to review your estate planning opportunities now.

New probate fees to affect many estates

The government has revived plans to raise probate fees in England and Wales.
A new, banded structure for probate fees in England and Wales is to be introduced, according to a written statement issued a week after the 2018 Budget by the Parliamentary Under Secretary of State for Justice.

The announcement comes after the absence of inheritance tax (IHT) reforms in the Budget, despite the Chancellor commissioning a review by the Office of Tax Simplification in January 2018. The only change to IHT announced in October was a small adjustment to the legislation for the residence nil rate band – this being such a complex piece of legislation, it had been wrongly drafted.

If new probate fees sound familiar, it is because a very similar announcement was made in March 2017. At the time the proposal provoked widespread criticism, because the higher levels were seen to be more of a new tax than a simple fee adjustment. In the event the planned change fell victim to the legislative logjam around the last General Election and disappeared.

Since then, the government has taken on board some of the original criticism and cut the fees they are proposing, particularly for larger estates:

Value of estate	Old Proposal	New Legislation
Up to £50,000 or exempt from requiring a grant of probate	Nil	Nil
£50,001 - £300,000	£300	£250
£300,001 - £500,000	£1,000	£750
£500,001 - £1,000,000	£4,000	£2,500
£1,000,000 - £1,600,000	£8,000	£4,000
£1,600,001 - £2,000,000	£12,000	£5,000
Over £2,000,000	£20,000	£6,000

The current fees are £215 for individual applications and £155 via a solicitor, with nothing payable if the estate value is up to £5,000. Under the new banding, there is a maximum effective charge for probate of 0.5% of the estate, which is triggered at £50,000 (a £250 fee) and £500,000 (a £2,500 fee).

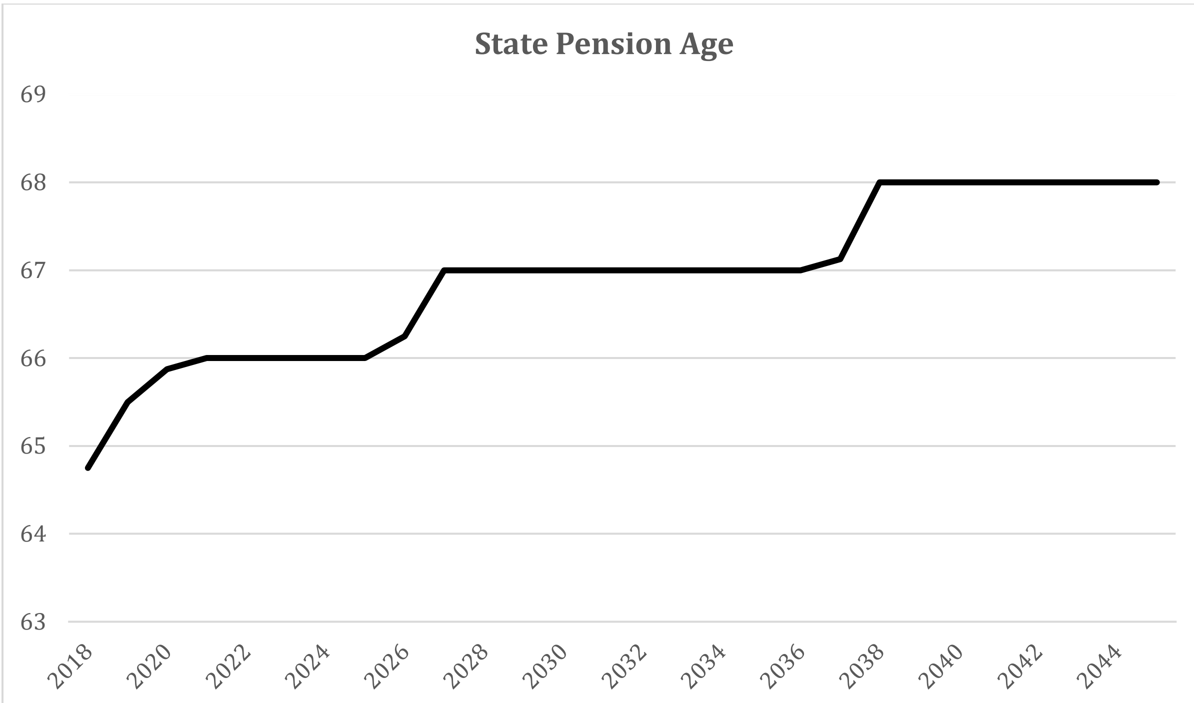
The new fees are currently scheduled to come into effect 21 days after the legislation is passed, and there is very little that can be done to mitigate the impact. They are payable even if the estate passes with no IHT liability, as is usually the case on the first death of a married couple or civil partners, or if the value of the estate is covered by the available nil rate and residence nil rate bands.

There are still opportunities to save IHT with careful planning and, as the Budget made no significant changes, there remains a window of opportunity before any reforms are introduced.

If you would like help updating your estate plans ahead of the review publication, please get in touch.

State pension equality means increases for all

The State Pension Age (SPA) became equal for men and women for the first time, at age 65, on 6 November 2018.



Having reached this landmark, the next stage of SPA increases has already started. For both men and women, the state pension will become payable for anyone born between 6 December 1953 and 5 January 1954 on 6 March 2019. The SPA will then be increased to reach age 66 by October 2020.

The SPA is scheduled to rise again as existing legislation already covers the increase from 66 to 67, phased in over two years from April 2026. The same legislation provides for a step up to 68, starting in April 2044.

However, in July 2017 the Department for Work and Pensions announced it would accept the recommendations of the Cridland Review – this brings the start of the move to a SPA of 68 forward to April 2037. Legislation for this change has been deferred until after the next SPA review in 2023 – raising the SPA in the current political conditions could prove difficult for the government – but if your SPA will be at least 68 if you were born after 5 April 1971.

The rising SPA is linked to historic improvements in mortality – in effect they match the increases in life expectancy at age 65 of 8 years for men and 9 years for women since the early 1950s.

The Cridland Review has anticipated future increases in life expectancy as an argument for accelerating the increase in SPA. However, data from the Office for National Statistics issued in September, suggest that increases in life expectancy may have come to an end, at least for the time being.

The arrival of the equalised SPA provoked a fresh roun of protests from women born in the 1950s, who started working life with an expectation that their state pension would be payable from age 60. The government has previously made a minor concession on the phasing of the change but further offers are not expected. The simple reason is cost: a higher SPA reduces government pension expenditure and raises extra National Insurance Contribution revenue.

If you want to retire when you choose, rather than the State decides, make sure your private pension provision is adequate. If you would like to discuss your retirement plans in light of these developments, please get in touch.

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