AM&A | Investment & Pension Planning Limited

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

As predicted in last month's newsletter, market volatility, which has been low for a while, has suddenly come roaring back in the last few days with a sell-off in most major markets underway.

US stocks listed on the Dow Jones, S&P 500 and tech-focused Nasdaq markets have all fallen since their all-time highs late last month, with an official "correction" of 10% not far away. Yet ironically, if market headlines are to be believed, this was in reaction to stronger employment figures released last Friday, where the market is now thought to be concerned that the jobs figures are too good and will force the central bank to raise interest rates faster and higher than predicted.

Although some of the falls are severe, we do not believe that they are symptomatic of anything more serious and don't see anything major to be concerned about at the moment.

We appreciate that some clients may be nervous about the current market conditions. Please do not hesitate to get in touch with us about this or any of the items raised in the newsletter and, as always, we will be happy to help.

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AM&A Model Portfolios, Indices & Benchmarks, Recommended Investment Funds

Performance Data to 31 January 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 and over 1, 3 and 5 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	1yr	3yrs	5yrs
AM&A Model Portfolios						
AM&A Defensive Portfolios						
Cash Alternative Portfolio	0.1	0.9	2.1	5.4	8.4	20.7
Defensive Portfolio	0.3	1.4	3.0	7.0	15.0	30.7
Benchmark IMA Mixed 0-35% Index (Defensive)	0.6	1.6	1.7	4.9	14.2	24.7
AM&A Cautious Portfolio						
Moderately Cautious Portfolio	0.3	1.7	4.2	0.3	23.1	43.7
Benchmark IMA Mixed 20-60% Index (Cautious)	-0.1	0.8	2.3	-0.1	17.0	32.5
AM&A Balanced Portfolio						
Balanced Portfolio	0.1	1.8	4.6	0.1	29.0	54.5
Benchmark IMA Mixed 40-85% Index (Balanced)	0.1	1.1	3.6	0.1	24.5	46.2
AM&A Moderately Adventurous Portfolio						
Moderately Adventurous Portfolio	0.1	2.0	5.2	0.1	33.9	60.9
Benchmark IMA Flexible Managed Index	0.6	1.7	4.3	0.6	26.9	47.9
AM&A Adventurous Portfolio						
Adventurous Portfolio	0.2	2.2	5.9	0.2	39.9	69.5
Benchmark AFI Aggressive	0.1	1.4	5.1	0.1	36.8	60.7
AM&A Aggressive Portfolio						
Aggressive Portfolio	1.0	2.1	6.3	1.0	44.6	53.5
Benchmark IMA Global	0.7	2.2	5.6	0.7	42.6	75.7

Source Financial Express 1 February 2018

Market Overview January 2018

The pound strengthened to its highest level against the US dollar since the Brexit referendum in June 2016, rising above US$1.40. Although sterling was lifted by weakness in the US dollar, it also received a boost from mounting confidence over the UK's economic outlook and hopes of a positive outcome for Brexit.

Elsewhere, outsourcing company Carillion went into liquidation after it was unable to obtain further funding. Its share price fell by more than 90% over 2017. Investor sentiment towards the sector was further undermined by a profit warning from Capita that prompted a 40% dive in the company's share price. The FTSE 100 Index reached new heights during January, but ultimately ended the month 2% lower than it began.

Sentiment in the US was undermined during January by a short-term shutdown of the country's federal government as politicians reached stalemate over immigration. Although the standoff was eventually brought to an end once the Republican Party agreed to make concessions over immigration policy, the spending bill will only deliver three weeks of funding.

Having hit a new record earlier in January, the Dow Jones Industrial Average Index dropped sharply at the end the month. Share prices in the health care insurance sectors were driven down by an announcement that Amazon, Berkshire Hathaway and JPMorgan Chase planned to join together to set up a new health care company for their US employees in order to cut their health care costs. Nevertheless, the Dow Jones Industrial Average Index rose by 5.8% over January as a whole.

During January, the European Union (EU) outlined its requirements for the UK during the post-Brexit transition period. European Council President Donald Tusk urged the UK to reconsider Brexit, warning, "If the UK government sticks to its decision to leave, Brexit will become a reality – with all its negative consequences – in March next year". In Germany, investor sentiment was cheered by preliminary coalition talks between Chancellor Angela Merkel's CDU/ CSU Party and the Social Democrat Party. Over the month, the Dax Index rose by 2.1%, while the CAC 40 Index climbed by 3.2%.

The Nikkei 225 Index rose during January to reach its highest level since November 1991, boosted by mounting optimism towards the country's economic prospects and by strong performance from US indices. Over January as a whole, the benchmark index rose by 1.5%.

There will be no Spring Budget this March, but that does not mean the Chancellor is staying silent.

On 13 March, the Chancellor will present a Spring Statement to the House of Commons, not a Budget. The next Budget should be in the autumn, probably November. The rationale for the revised schedule is to give more time to develop legislation and avoid the situation of changes taking effect from 6 April, but not reaching the statute book until three months or more later.

This problem was made worse in 2017, when the snap election meant most of the March Budget measures were put on hold. Some that took effect from 6 April 2017 – such as the reduction in the money purchase annual allowance – were in a Finance Act that only received Royal Assent on 16 November.

Despite the new schedule, there seem to be plenty of people expecting a Spring Budget in March, perhaps because 2017 was an unusual year – with two budgets and three Finance Bills. However, 2018 should be much quieter on the tax front (assuming there is not another surprise election).

Whilst there is no Budget there may still be changes announced on 13 March that have immediate effect. Few Chancellors can resist the opportunity when they are in the parliamentary spotlight. Mr Hammond's predecessor was a classic example, as some of George Osborne's Autumn Statements were more like Budgets than the real thing.

If you are considering year end tax planning, then it could make sense to complete any transactions before 13 March. If you need any assistance in that planning, you should contact us as soon as possible.

Still time for year end pension contributions

This is the time of year to review your pension contributions.

February and March are rightly popular times for reviewing and making pension contributions. By this stage you should have a good idea of what your income for the tax year will be and how much you may be able to contribute as a one-off payment before 6 April arrives.

In this tax year, there are several changes to note:

- Thursday 5 April will be the last day on which you can make a contribution to mop up any unused annual allowance from 2014/15. To do so you will need to first use up your annual allowance for the current tax year.

- The money purchase annual allowance was reduced from £10,000 to £4,000 at the start of this tax year, although the legislation achieving this did not arrive until November. If you have used the new pensions flexibility to draw benefits this may limit the amount you can contribute.

- From 6 April 2018, the lifetime allowance rises by 3% to £1,030,000. At the margin that modest increase may permit more benefits to be taken without triggering tax charges.

- From 6 April 2018, automatic enrolment contribution levels increase, with the total of employee and employer payments rising by about 150%. There will be another increase of around 60% the following year.

If you want to maximise contributions, contact us as soon as possible. The calculations involved can be complex and miscalculations can lead to lost tax relief.

Deadline approaching for using your ISA allowances

ISA contributions have historically always been focused on the end of the tax year. This is the case even though it would make more sense to invest at the *start* of the tax year, to maximise the period of tax shelter.

This time of year, the personal finance pages start to fill with stories about ISAs, often including tales of ISA millionaires. For all the coverage, these remain a rare breed, but they serve as a reminder that regular saving over a long term can create meaningful amounts of capital.

The past couple of years have seen total ISA contributions falling primarily due to a sharp drop in the popularity of cash ISAs. These have seen contributions fallen by over a third between 2014/15 and 2016/17 for two good reasons:

1. Ultra-low interest rates and limited competition between banks have made prospective returns look miserable, particularly as inflation has picked up;

   and

2. The introduction of the personal savings allowance in 2016/17 has meant many depositors no longer need an ISA to escape tax on their deposit interest.

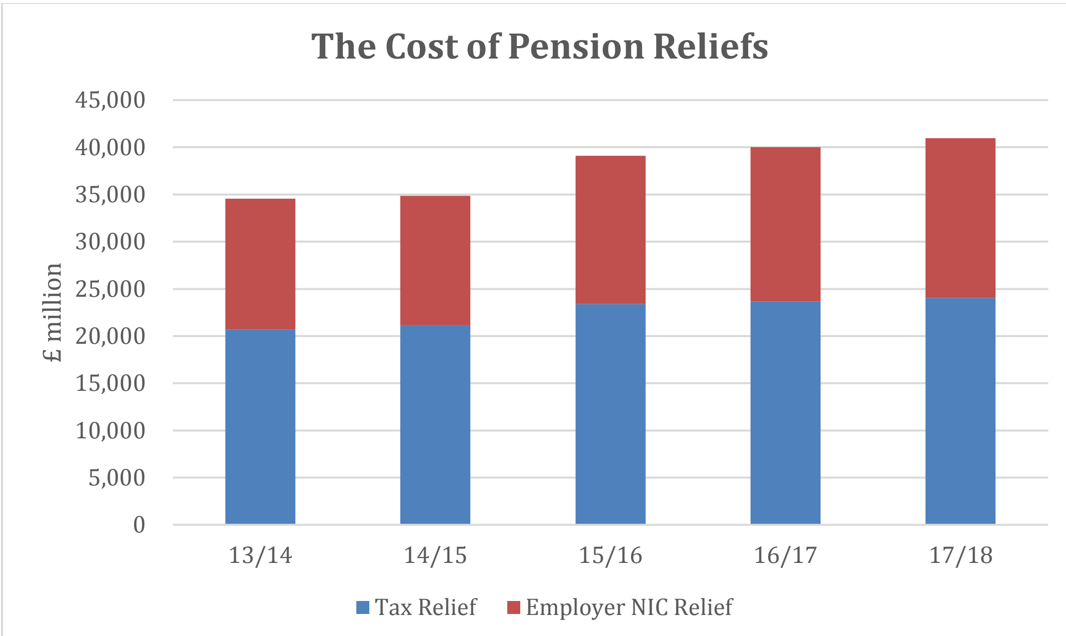
Stocks and shares ISA contributions have reached a new high, probably helped by some ISA investors abandoning the cash version. This tax year there are a few of points to remember when making your stocks and shares ISA investment:

- The contribution limit (in total to *all* ISAs) is now £20,000, up from £15,240 in 2016/17. It will be held at £20,000 in 2018/19.

- Dividends within an ISA are free of UK tax. With the dividend allowance falling from £5,000 in 2017/18 to £2,000 in 2018/19, you may find you have to pay tax on shares held outside of an ISA.

- It is important to get your money into an ISA shelter. Whilst your annual limit can't be carried forward to the next year, you do not have to invest it all in funds by 5 April – once you hold cash in your ISA you can drip feed investment into funds, if you wish.

HMRC counts the cost of tax reliefs



Every January HMRC publishes a table of 'Estimated costs of principal tax reliefs'. Any Chancellor facing a budget deficit is bound to run his eyes down the list to see where the money is not coming in. After that assessment, they may well ponder whether some tweaking could benefit the Exchequer's coffers without causing too much of a political outcry.

This year's list has a familiar look to it in terms of the most expensive reliefs. At a cost of over £101 billion the largest factor by far is the personal allowance. The next three largest are equally untouchable for a Chancellor – national insurance contribution (NIC) thresholds and the capital gains tax exemption for main residences. Fifth largest is income tax relief for pension schemes, costing an estimated £24 billion in 2017/18.

This is a curious figure because of the way in which Whitehall calculates it. Their definition adds together income tax relief on employer and individual contributions and pension fund investments, then deducts tax charged on pensions in payment. That deduction – which in effect relates to pension contributions made over many years – is estimated to be worth £13.4 billion for 2015/16.

Remove the deduction and the cost of pension income tax reliefs alone could be £38–£40 billion in this tax year, the equivalent of nearly 9p on basic rate tax.

Further down the list, the tenth entry is NIC relief for employer pension contributions. This is forecast to cost £16.9 billion in 2017/18. The government is virtually assured both income tax and NIC costs will increase substantially because of legislation raising automatic enrolment pension contributions by about 150% in 2018/19 and another 60% in 2019/20.

As the graph shows, the cost of pension reliefs has been rising anyway, despite government measures to rein them back with allowance cuts and other measures. If you or your employer are contemplating pension contributions, perhaps as part of year end planning, it is worth remembering the HMRC's list, and the temptation for any Chancellor to change pension relief.

Our updated Key Guides series

With the effects of the Autumn Budget now established, it is clear that the Chancellor is focusing on financial stability whilst the Brexit negotiations continue. With a great deal of uncertainty tied up in the results of the talks with the EU, this is an understandable course of action.

More radical changes have been proposed by the Scottish government in the form of their new rates and thresholds for income tax. The changes, due to be voted on by the end of February, if passed into law would represent a major step away from Westminster policy.

Whilst we await the form of major changes in the future, we have taken the time to review our full range of Key Guides, bringing them in line with the new updated rates, allowances and charging schemes. Our latest updates – available on our website at www.amaipp.com/my-guides.php - include up-to-date guidance on income tax, state pensions, market investment performance and corporate capital gains.

We have updated all of our eleven guides:

1. 'Investment Planning and Asset Allocation'
2. 'Business Succession Planning'
3. 'Financial Protection for You and Your Family'
4. 'Investing tax-efficiently'
5. 'Making the Most of ISAs'
6. 'Pensions Tax Planning for High Earners'
7. 'Saving for Retirement'
8. 'Taking an Income at Retirement'
9. 'Taxation of Property'
10. 'Investing for Children'
11. 'The Financial Planning Journey'.

This means you can be confident of getting the most up-to-date advice available.

Please get in touch with us if you need help or advice on any of the topics covered in the Key Guides.

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