AM&A | Investment & Pension Planning Limited

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

2017 had its fair share of dramas. There was the unending reality show of Donald Trump and his tweets. On this side of the Atlantic the ongoing saga was Brexit and the "strong and stable" government that was promised, but somehow never materialised. North Korean rockets were a regular headline feature, as was the growing assertiveness of China under Xi Jinping. Europe had a crop of elections to worry about, ending with Germany being without a government since September and Catalonia seemingly back at square one.

AM&A's model portfolios enjoyed another highly successful year with all except our two defensive portfolios posting returns significantly in excess of the FTSE 100 index in 2017 which highlights the benefits of being invested in a fully diversified portfolio.

Your Year End Tax Planner 2017/18

Attached with our newsletter this month is our annual Year End Tax Planner 2017/18, which includes the essential tips on how you need to prepare for your tax year end. Don't forget – if you don't use some of your tax allowances before 6 April 2018, you lose them.

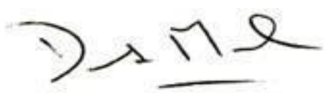
This update comes after the second Budget in a year from the Chancellor, Philip Hammond, and will help you to make the most of your incomes, investments and charitable giving. With interest rates finally beginning to rise, and an uncertain climate ahead for 2018, the time is right to ensure your and your family's finances are making the best use of tax planning opportunities.

The Year End Tax Planner covers a range of key issues, including:

- Income tax saving for couples
- Tax-efficient investments
- Pension tax planning
- Useful points for directors and employees
- Capital gains tax planning
- Inheritance tax planning
- Charitable giving

We hope this newsletter helps you with your plans for the next year. If you would like to discuss any of the issues raised here, please do not hesitate to get in touch with us and we'll be happy to help.

We wish you all the best for a happy and prosperous 2018.



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

Performance Data to 31 December 2017

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	0.9	1.2	1.9	5.1	11.3	22.9
Defensive Portfolio	1.3	2.1	3.0	6.6	18.3	34.0
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	1.5	3.1	4.4	9.4	27.5	49.5
Benchmark IMA Mixed 20-60% Index (Cautious)	0.9	2.3	2.6	7.2	19.7	36.6
AM&A Balanced Portfolio						
Balanced Portfolio	1.7	3.9	5.2	11.1	34.6	64.0
Benchmark IMA Mixed 40-85% Index (Balanced)	0.9	3.4	3.9	10.0	27.4	53.0
AM&A Moderately Adventurous Portfolio						
Moderately Adventurous Portfolio	1.8	4.4	5.9	12.3	40.0	71.3
Benchmark IMA Flexible Managed Index	0.8	3.6	4.3	11.2	29.1	55.1
AM&A Adventurous Portfolio						
Adventurous Portfolio	1.8	5.1	6.4	13.6	46.5	81.5
Benchmark AFI Aggressive	1.1	4.3	6.2	15.4	39.8	68.4
AM&A Aggressive Portfolio						
Aggressive Portfolio	0.5	4.7	5.9	16.3	48.7	61.6
Benchmark IMA Global	0.8	4.9	5.7	13.8	44.5	88.3

Source Financial Express 1 January 2018

Market Overview December 2017

Although global equity market returns were relatively muted during December – particularly amongst larger companies – annualised performance from leading equity indices were very strong. The US, Germany, Japan, Brazil and India all generated double-digit returns, boosted by a strengthening global economy. The UK, however, bucked the trend; the FTSE 100 Index rose by a relatively subdued 7.6% over the year as Brexit-related uncertainties took their toll on corporate, consumer and investor sentiment.

In contrast, the FTSE 100 Index performed better than many other major indices during December, posting a monthly rise of 4.9%. Although Prime Minister Theresa May suffered defeat in the House of Commons over the EU Withdrawal Bill during December, the UK was judged by the EU to have made sufficient progress on key issues to allow the next phase of Brexit negotiations – including discussions on trade – to begin.

In the US, the Federal Reserve (Fed) implemented its third interest-rate increase of 2017 during December, raising the federal funds rate to a range of 1.25% to 1.5%. Fed officials expect another three "gradual" rate increases during 2018, underpinned by an economy that continues to strengthen. Elsewhere during the month, US equity indices were propelled to new all-time highs by the news that President Donald Trump's controversial tax reforms had been approved by US lawmakers. The Dow Jones Industrial Average Index rose by 1.8% during December, but soared by 25.1% over 2017 as a whole, rising by more than 5,000 points.

During December, the EU stated that the period of transition following Brexit should finish by 31 December 2020 and reiterated its warning that the UK will not be allowed to "cherry pick". The European Central Bank upgraded its growth forecasts for the eurozone's economy; nevertheless, optimism continued to be tempered by a lacklustre inflationary backdrop. The Dax Index fell by 0.8% during December, but rose by 12.5% during 2017; meanwhile, the CAC 40 Index posted a monthly decline of 1.1%, but an annual increase of 9.3%.

The Bank of Japan's quarterly Tankan survey of business sentiment showed that confidence continued to improve, boosted by strengthening export activity. Credit ratings agency Moody's affirmed Japan's "A1" rating and maintained its "stable" outlook, but warned against Japan's "extraordinarily high" debt burden. The Nikkei 225 Index edged up by only 0.2% during December, but surged by 19.1% over the year.

The world's share markets were a profitable place to be in 2017

2017 had its fair share of dramas. There was the unending reality show of Donald Trump and his tweets. On this side of the Atlantic the ongoing saga was Brexit and the "strong and stable" government that was promised, but somehow never materialised. North Korean rockets were a regular headline feature, as was the growing assertiveness of China under Xi Jinping. Europe had a crop of elections to worry about, ending with Germany being without a government since September and Catalonia seemingly back at square one.

And yet world stock markets had a very good year. In sterling terms, the MSCI World Index was up 20.11%. This was not just the impact of the strong performance of the USA, which accounts for just over half of the World Index: strip out Uncle Sam's influence and the rest of the world returned 21.03%.

Why markets were so buoyant will keep the commentators in debate for some while. Continued low interest rates (despite US and UK rises) and more quantitative easing (QE) from the Eurozone and Japan certainly helped. The global economy also began to display synchronised rising growth, with the obvious exception of the Brexit-braked UK.

Index	2017 Change
FTSE 100	+7.6%
FTSE All-Share	+9.0%
Dow Jones Industrial	+25.1%
Standard & Poor's 500	+19.4%
Nikkei 225	+19.1%
Euro Stoxx 50 (€)	+6.5%
Shanghai Composite	+6.6%
MSCI Emerging Markets (£)	+22.7%

At first sight, the outlook for 2018 looks similar. There is the ongoing saga of the US administration, the next European election to worry about, in Italy, and Germany will have another attempt at creating a coalition government. Interest rates in the US and probably the UK will rise, while Europe is set to cut back and possibly end its QE.

Most pundits predict investment markets will be more volatile in 2018 – hardly a major insight given their near serene progress in 2017. If you have benefited from last year's solid returns, do not assume you can leave your investments unchanged for 2018. Now is the time to talk to us about any rebalancing that may be necessary for the year ahead.

The US central bank increased interest rates again in December

While the Bank of England managed just one interest rate rise in 2017, to end the year at 0.5%, its counterpart in the US notched up three increases, finishing at 1.25%-1.50%. The trio of Federal Reserve increases were all well telegraphed, so much so that by the time each arrived, the focus was on when the next 0.25% addition would occur.

That was the case with December's increase, the last overseen by Janet Yellen as Chair of the Federal Reserve before Jay Powell, the Trump nominee, takes over. The conclusion from the analysts who delve into the Fed's reports is that three rate increases are expected in 2018. However, the composition of the Federal Open Market Committee, which makes the interest rate decision, will be changing significantly in 2018, so this number is by no means set in stone.

On this side of the Atlantic, the year ended with the news that November's CPI inflation had reached 3.1%. That is just (by 0.1%) enough to force the Governor, Mark Carney, to write an open letter to the Chancellor explaining why inflation is above its target range. Even so, the Bank of England looks unlikely to match the Fed's rate-raising zeal in 2018. In December, the Bank repeated its familiar mantra that "Any future increases in Bank Rate are expected to be at a gradual pace and to a limited extent."

A backdrop in which rates in the US are pulling away from those in the UK and Europe (which are still at 0% within the Eurozone) could create some tension in investment markets in 2018. If you have not undertaken a New Year review of your portfolio, now is the time to talk to us.

HMRC v Airbnb – rent-a-room relief in the spotlight

An HMRC paper promised in the Budget could be bad news if you use Airbnb. The government has set out a call for evidence relating to rent-a-room relief in response to the rise in short term rentals facilitated by Airbnb and its competitors. Rent-a-room relief is typical of some of the neglected parts of the UK income tax system. Introduced nearly 26 years ago, it has subsequently changed only three times, despite governments pursuing the goal of increasing the supply of low cost rented accommodation ever since.

In 1992 the relief effectively meant there was no tax to pay on rental income of up to £3,250 a year for letting a room (or rooms) in your own home. After five years the relief level was put up to £4,250, where it remained for the next 19 years. That period of benign neglect ended in 2016 when the relief was given a boost to £7,500 by one of George Osborne's final measures as Chancellor. Now, to judge by the call for evidence issued by HMRC in December, his successor, Philip

Hammond, appears to be wondering whether the large increase was such a good idea.

When the relief first appeared, it set no minimum letting period, so it applied whether you let a room to 52 different weekly tenants or throughout the year to just one. At the time, the notion of weekly renting to different tenants was at best fanciful – that was what hotels did, not homeowners. Just over a quarter of a century later, Airbnb and its competitors have made a reality of rapidly revolving tenants. Rent-a-room relief is now being used for holiday and event short stays as well as more traditional forms of letting.

As tends to be the way these days, HMRC's paper does not make any specific proposals, but instead asks leading questions, such as whether there should be a minimum 31-day term for any letting to qualify for the relief. Any resultant legislation is unlikely to take effect until April 2019, but some action seems certain. As with the various measures now hitting buy-to-let investors, the government seems to be taking aim at individuals who seek investment returns from residential property.

From a professional investment viewpoint, it is arguable that most people have enough exposure to residential property through their own home and should diversify their investments rather than add to their housing assets. *If property appeals, why not consider commercial property, which can be accessed through a variety of routes, including pension arrangements and ISAs?*

The next steps in automatic enrolment

The government has published a review on automatic enrolment in workplace pensions which makes important proposals for employers. Automatic enrolment of employees in workplace pensions has been a greater success than many predicted when it was introduced in October 2012. To date over nine million employees have been automatically enrolled into a workplace pension and more than 900,000 employers have complied with their auto enrolment responsibilities. Total annual contributions into workplace pensions reached a ten-year high of £87 billion in 2016.

With the framework now firmly in place, the government has turned its attention to the next developments for workplace pensions. Its main ideas are:

- The minimum age at which automatic enrolment begins should be reduced from 22 to 18. This would bring another 900,000-young people into auto enrolment.
- The contribution structure would change so that once the earnings trigger (£10,000 for 2017/18 and 2018/19) is reached, the contribution percentage paid by employers and employees would be based upon *all* earnings, not earnings exceeding the lower earnings limit (£5,876 in 2017/18 and £6,032 in 2018/19).

The upper earnings limit (£45,000 in 2017/18 and £46,350 in 2018/19) would still apply to cap contributions. In current terms, the effect would be to increase contributions for an individual earning £26,000 by nearly one third.

- The government will test "targeted interventions … to identify the most effective options to increase pension saving among self-employed people". Only 16% of the self-employed were contributing to a pension in 2015/16, a large gap in pension coverage given they now number 4.8 million (15% of the workforce).

The age and contribution reforms are pencilled in for the mid-2020s. This delay, which has attracted some adverse comment, may reflect the fact that the current contribution rate of 2% (of which the employer must pay at least 1%) will rise to 5% (2% from the employer) in April 2018 and to 8% (3% from the employer) a year later. However, in a foreword to the paper, the government acknowledges that "contributions of 8% are unlikely to give all individuals the retirement to which they aspire". In other words, for all the government's efforts to push automatic enrolment, you still need to assess the effectiveness of your own retirement plans.

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