AM&A | Investment & Pension Planning Limited

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

February saw a dramatic return of volatility to global stock markets triggered by concerns that US interest rates might rise more rapidly than previously expected. On Friday 2 February, after most of the world's share markets had finished for the week, the Dow Jones Index dropped by 666 points in a day, a fall of about 2.5%. As might be expected, the following week was unsettled, with the Dow losing over 1,000 points on both Monday and Thursday and other global equity markets experiencing similar shocks.

Markets recovered their poise in the following weeks, however, the press's attentions had moved on: a large fall always gains more attention than a similar rise, especially if the rise is more gradual. For long-term investors, the big picture can therefore be lost in the noise of short term headlines.

More significantly, as demonstrated below, our fully diversified portfolios are designed to offer protection from market volatility so whilst the FTSE 100 index has fallen by almost 6% for the year to the end of February, the maximum fall in any of our portfolios in the same period was 1.5%.

As always, please get in touch with us if you need help or advice on any of the topics covered in our newsletter.

Office Closure

Please note that our office will be closed on Friday 30 March (Bank Holiday), Monday 2 April (Bank Holiday) and Friday 6 April (Passover). Consequently, the final day for our processing of 2017/8 ISA or Pension contributions will be Thursday 29 March. Clients normally receiving quarterly valuations will receive their valuations slightly later than normal in April on account of the Easter and Passover holidays.

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

Performance Data to 28 February 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, year to date, 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	ytd	3m	6m	1yr	3yrs	5yrs
AM&A Model Portfolios							
AM&A Defensive Portfolios							
Cash Alternative Portfolio	-1.3	-1.2	-0.2	0.6	2.5	6.2	18.0
Defensive Portfolio	-1.3	-1.1	0.1	1.2	3.0	12.1	27.4
Benchmark IMA Mixed 0-35% Index (Defensive)	-1.1	-1.4	-0.6	-0.7	1.8	9.9	19.9
AM&A Cautious Portfolio							
Moderately Cautious Portfolio	-1.3	-1.1	0.4	2.0	4.6	19.8	39.0
Benchmark IMA Mixed 20-60% Index (Cautious)	-1.4	-1.4	-0.4	0.1	3.5	14.3	29.0
AM&A Balanced Portfolio							
Balanced Portfolio	-1.4	-1.3	0.4	2.0	5.2	25.2	47.6
Benchmark IMA Mixed 40-85% Index (Balanced)	-1.6	-1.5	-0.3	0.8	5.4	20.4	40.9
AM&A Moderately Adventurous Portfolio							
Moderately Adventurous Portfolio	-1.5	-1.4	0.6	2.3	5.8	29.6	53.1
Benchmark IMA Flexible Managed Index	-1.6	-1.0	0.2	1.5	6.7	22.7	42.6
AM&A Adventurous Portfolio							
Adventurous Portfolio	-1.4	-1.3	0.6	2.6	6.0	35.3	61.0
Benchmark AFI Aggressive	-1.5	-1.4	0.4	1.5	6.7	31.8	53.6
AM&A Aggressive Portfolio							
Aggressive Portfolio	-1.2	-0.3	1.0	2.4	9.8	40.6	45.4
Benchmark IMA Global	-1.4	-0.7	0.9	2.7	8.5	37.1	67.5

Source Financial Express 1 March 2018

Market Overview February 2018

Equity markets experienced a global sell-off during early February triggered by concerns that US interest rates might rise more rapidly than previously expected.

Equity indices in the US dropped sharply, falling by more than 10% from their highs to enter "correction" territory, but went on to recover later in the month. Over February as a whole, the Dow fell by 4.3%. Investors were spooked by news of better-than-anticipated US employment data alongside signs of strengthening wage growth. Meanwhile, minutes from the January meeting of the Federal Open Market Committee (FOMC) suggested that Federal Reserve (Fed) officials expect US economic growth to continue to gather pace. The news stoked speculation that monetary tightening could be more intense and less gradual than previously predicted.

The Bank of England's (BoE's) quarterly inflation report suggested that interest rates might have to rise earlier and to a larger extent than previously expected, citing the effects of a strengthening global economy. The BoE upgraded its forecast for UK economic growth this year from 1.7% to 1.8% but warned that Brexit-related uncertainties continue to pose the greatest risk to the economic outlook. The FTSE 100 Index fell by 4% over February.

During the month, the European Commission (EC) flagged the controversial prospect of Northern Ireland remaining in the customs union after Brexit, described as an area "without internal borders in which the free movement of goods is ensured and North-South cooperation protected". The eurozone's economy grew at an annualised rate of 2.7% during 2017 and a quarterly rate of 0.6% during the last three months of the year. Policymakers at the European Central Bank (ECB) expressed some concern during the month over the weakness of the US dollar and the strength of the euro, warning that recent volatility in the euro was "a source of uncertainty which required monitoring". The Dax Index dropped by 5.7% over February, while the CAC 40 Index declined by 2.9%.

Share prices in Asia plummeted in sympathy with other major equity markets during February, and the Nikkei 225 Index fell by 4.5% over the month. Economic growth in Japan slowed sharply during the final three months of 2017: Japan's economy posted annualised growth of 0.5% during the final quarter of the year, compared with growth of 2.2% during the third quarter. Nevertheless, the country has achieved eight straight quarters of positive growth.

On Friday 2 February, after most of the world's share markets had finished for the week, the Dow Jones Index dropped by 666 points in a day. Never mind all the beastly connotations of that number, in fact it was a drop of about 2.5%. The professional's measure of the US stock market, the S&P 500, fell 2.1%.

As might be expected, the following week was unsettled, with the Dow losing over 1,000 points on both Monday and Thursday and other global equity markets experiencing similar shocks.

There were a variety of suggestions about the sudden return of volatility to a market which had spent the previous year seemingly asleep. Some blamed monthly figures released on 2 February showing higher than expected US wage growth of 2.9%. These were read as a possible inflation threat, that would prompt a more rapid rise in interest rates. The fact that such monthly figures are notoriously volatile was, for once, ignored.

Markets recovered their poise in the following weeks. However, the press's attentions had moved on: a large fall always gains more attention than a similar rise, especially if the rise is more gradual. For long-term investors, the big picture can therefore be lost in the noise of short term headlines. For example, the performance of the main indices in the first two months of 2018:

Index	29/12/2017	31/1/2018	28/2/2018	Year to Date Change
FTSE 100	7687.77	7533.55	7231.91	-5.9%
S&P 500	2673.61	2823.81	2713.83	+1.5%
Euro Stoxx 50	3503.96	3609.29	3438.96	-1.9%
Nikkei 225	22764.94	23098.29	22068.24	-3.1%
MSCI EM (£)	1602.278	1650.679	1622.978	+1.3%
MSCI All-World ($)	2106.89	2214.11	2140.57	+1.6%

From a global viewpoint, as measured by the MSCI All World Index, what happened in February did not fully undo the increases in January.

An improvement to the ISA inheritance rules

It was announced by George Osborne in 2014 that ISAs would become inheritable by surviving spouses and civil partners. At the time, nobody – not even the Treasury – was clear what the then chancellor meant.

The plans for ISA 'inheritance', when they eventually emerged, were far from simple. Although a surviving spouse or civil partner could effectively take over the investments in their deceased partner's ISA, the process revolved around the ISA's value at the date of death, not when the transfer took place.

To make matters worse, the ISA tax rules ceased to apply at death, but started up again once the survivor's inherited ISA was in place. It made an administratively complex structure of a straightforward idea.

Last November regulations were approved to simplify the process considerably, thanks to much lobbying and a protracted development of legislation. Now, for deaths occurring after 5 April 2018, in most circumstances:

- The ISA tax advantages of UK income tax and capital gains tax exemptions will continue throughout the period of estate administration.
- The inherited ISA can include any increase in value during that period.

If you are in a couple and needed another excuse for contributing to an ISA, either as a tax-year-ending or tax-year-starting payment, the new inheritance rules are a good one.

Dividends expected to slow after strong 2017

A recently released report shows dividend payments in the UK grew more than 10% in 2017.

The report included good news for investors, as UK listed companies paid out £94.4 billion of dividends in 2017. This was up 10.5% on the previous year and a new record. However, the headline figures do not tell the whole story:

- In the final quarter of 2017 year-on-year dividend growth was just 1.1%.
- The top five dividend payers accounted for £36 out of every £100 paid, with the next ten delivering £24. The rest of the market made up the remaining £40, emphasising the concentration of dividend payers.
- Nearly half of all special dividends – one-off payments often associated with mergers or asset sales – was attributable to National Grid’s UK gas distribution disposal, totalling £6.7 billion.
- Dividends (excluding special payments) from the Top 100 companies grew by 10.0%, while the Mid 250 achieved a 14.6% increase.
- The strongest dividend growth came from the mining sector, with an increase of 162%. There was an element of smoke and mirrors about this as some big mining firms that had suspended dividends in the commodity downturn – such as Glencore and Anglo American – resumed payouts.

The data was published in February by Capita Asset Services, one of the UK’s main share registrars, which was recently sold to Link Asset Services. Fortunately, the new owners have continued to produce the report.

The Link Asset Services figures are a good reminder of the income producing credentials of UK shares. The firm notes that, “A rise in bank rate, the first in over a decade, did nothing to dent the attractiveness of equities for income.” However, it expects much slower dividend growth in 2018, in part due to the pound’s recovery from its post-referendum lows.

This deceleration and the continued weighting towards just a handful of substantial dividend payers means that advice is important in selecting income funds.

Reminders for the new tax year

The start of the new tax year on 6 April marks several changes to tax and related matters that could make you richer… or poorer.

The absence of a Spring Budget does not mean that the usual raft of changes at the start of the new tax year have disappeared. Most of the important changes were announced in the Autumn Budget, in November 2017. However, Scotland has also recently approved a new set of income tax rates and bands.

Here is a list of the more important changes that take effect for 2018/19:

- The personal allowance rises by £350 to £11,850. However, the allowance will still be phased out at £1 per £2 of income over £100,000, leaving an effective 60% (61.5% in Scotland) tax band for between £100,000 and £123,700.
- The higher rate threshold will rise by £1,350 to £46,350.
- Scotland will see several changes to income tax. A new 'starter rate' of 19% applies to the first £2,000 of taxable income and an 'intermediate rate' of 21% applies to taxable income between £12,150 and £31,580. The higher rate threshold will increase by £430 to £43,430 and the higher rate will rise by 1% to 41%.
- National Insurance Thresholds rise, with the starting point for Class 1 (employers and employees) and Class 4 (self-employed) becoming £8,424 a year. For employees and the self-employed the upper limit for full rate contributions will also rise in line with the non-Scottish higher rate threshold (to £46,350).
- The dividend allowance will fall from £5,000 a year to £2,000 a year, reducing a higher rate taxpayer's net income by up to £975.
- Company car scale rates will generally rise by 2% for petrol vehicles and 3% for diesels. The proportionate increase in tax can be more than those numbers suggest. For example, on a BMW 320d the charge rises from 24% to 27%, increasing the tax payable by one-eighth.
- The pension lifetime allowance will increase for the first time since 2010, albeit only by £30,000 to £1,030,000.
- Pension automatic enrolment minimum contributions will rise. In most instances that will mean a doubling for employers and a 150% increase for employees.

The number of changes, both positive and negative, can make April pay checks a puzzle if you are an employee. This is one reason why the start of the tax year is a good time to talk to us.

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