AM&A Investment & Pension Planning Limited

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

UK inflation is falling faster than expected, as the March figure for the Consumer Price Index (CPI) released last month was 2.5%. Despite inflation falling, you are steadily losing purchasing power if you are holding more cash than you need on deposit – even before the tax impacts are considered. The onus is still on investors to invest to protect the real value of their capital.

Last month also saw the increase of the residence nil rate band (RNRB) with couples now saving up to an extra £20,000 of inheritance tax (IHT). In line with the changes, a copy of our updated Key Guide "You and yours – estate planning" is attached with this month's newsletter which we trust you find interesting.

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

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AM&A Model Portfolios, Indices & Benchmarks, Recommended Investment Funds
Performance Data to 30 April 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, year to date, 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	ytd	6m	1yr	3yrs	5yrs
AM&A Model Portfolios							
AM&A Defensive Portfolios							
Cash Alternative Portfolio	1.5	-0.5	-0.4	0.4	2.2	7.5	17.2
Defensive Portfolio	1.9	-0.8	-0.6	-0.4	3.2	13.4	26.5
Benchmark IMA Mixed 0-35% Index (Defensive)	1.2	-0.7	-1.0	-0.4	1.5	9.5	17.7
AM&A Cautious Portfolio							
Moderately Cautious Portfolio	2.5	-0.7	-0.5	0.0	5.0	21.3	38.7
Benchmark IMA Mixed 20-60% Index (Cautious)	2.2	-1.0	-1.0	-0.2	3.0	13.3	26.8
AM&A Balanced Portfolio							
Balanced Portfolio	3.1	-0.7	-0.6	0.1	5.9	26.8	48.8
Benchmark IMA Mixed 40-85% Index (Balanced)	3.2	-1.2	-1.2	-0.1	4.8	18.9	38.5
AM&A Moderately Adventurous Portfolio							
Moderately Adventurous Portfolio	3.6	-0.7	-0.6	0.2	6.7	31.3	56.6
Benchmark IMA Flexible Managed Index	3.0	-1.7	-1.1	-0.1	5.7	19.8	40.1
AM&A Adventurous Portfolio							
Adventurous Portfolio	3.6	-1.0	-0.9	-0.1	7.2	36.5	62.5
Benchmark AFI Aggressive	3.8	-0.8	-0.7	0.6	8.3	30.0	52.4
AM&A Aggressive Portfolio							
Aggressive Portfolio	3.8	-1.3	-0.4	0.0	10.0	38.2	46.9
Benchmark IMA Global	4.0	-1.9	-1.2	0.3	7.9	33.5	63.8

Source Financial Express 1 May 2018

Market Overview April 2018

Despite ongoing Brexit-related uncertainties and fresh political instability in the UK, newsflow during April was dominated by a wave of corporate activity that reached across the FTSE 100 Index. In particular, investors were surprised by the news that supermarket retailers Asda – owned by US retailer Walmart – and Sainsbury's were planning a merger. Meanwhile, widespread expectations of an increase in interest rates in May were dampened by disappointing first-quarter economic growth and softening consumer price inflation. The FTSE 100 Index rose by 6.4% over the month.

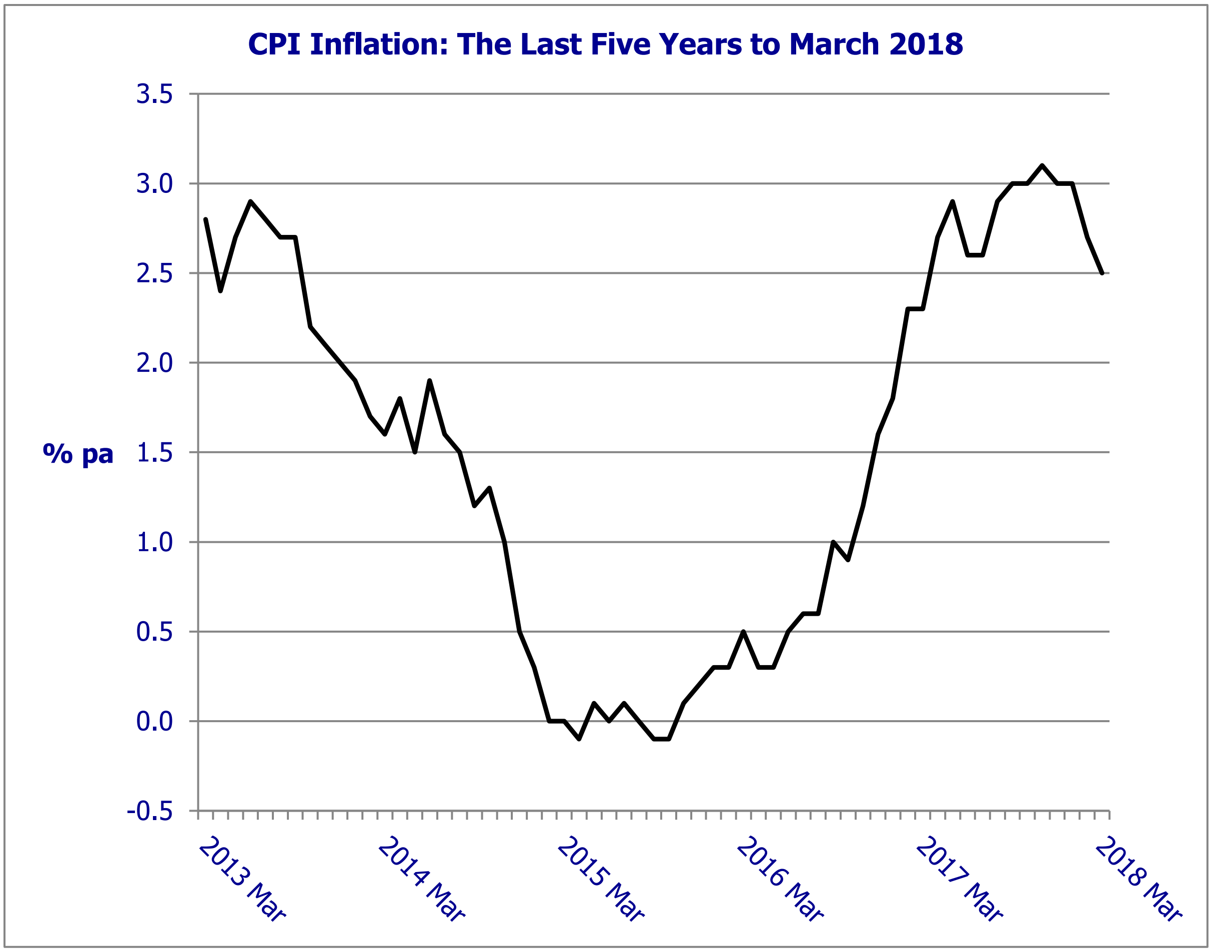
Having expanded at an annualised rate of 2.9% in the final quarter of 2017, US economic growth lost some momentum in the first three months of 2018, posting growth of only 2.3%. Activity was hampered by a slowdown in consumer spending growth. Nevertheless, the annualised rate of inflation strengthened to 1.9% in March. Minutes from the March meeting of Federal Reserve (Fed) policymakers reflected an increasingly sanguine view of the US economic outlook, although Fed officials voiced concern about the recent escalation in trade tensions between the US and China. The burgeoning trade war triggered by President Donald Trump's imposition of tariffs on key imports continued to cause widespread disquiet, and the World Trade Organisation (WTO) warned that global economic growth and confidence had been "tilted to the downside". The Dow Jones Industrial Average Index rose by 0.2% during April.

The European Central Bank (ECB) reassured investors that its supportive stance remained intact, confirming that it would continue with its planned programme of monthly bond purchases until the end of September, and that asset purchases would continue beyond this date "if necessary". Elsewhere, business confidence in Germany deteriorated during April, according to the Ifo Institute's business climate survey. The Dax Index rose by 4.3%, while the CAC 40 Index climbed by 6.8%.

Optimism amongst large Japanese manufacturers weakened during the first three months of 2018, according to the Bank of Japan's (BoJ's) quarterly Tankan survey, although this was tempered by signs that current capacity is not sufficient to meet future demand. The country's government expects the economy to rebound during the first quarter, having shrunk by 1.6% over the final three months of 2017. The Cabinet Office continues to expect a gradual recovery in economic growth and consumer spending. The Nikkei 225 Index rose by 4.7% over April as a whole.

The pressure is dropping on inflation

UK inflation is falling faster than expected, as the March figure for the Consumer Price Index (CPI) was 2.5%.



This March figure, published in mid-April, surprised forecasters, who had predicted annual inflation would remain at 2.7%, as in February. That February figure was itself a surprise, as the forecasts had predicted 2.8%.

The drop for March may be the result of one-off factors, so it should be treated with caution. One issue is the way individual categories can distort the final figure. In March, alcoholic drinks and tobacco saw the sharpest drop price – from 5.8% to 3.5%. These both saw two sets of tax increases in 2017, because of the double Budgets, whereas in 2018, the Chancellor moved to a Spring Statement and did not change any taxes. It was the classic one-off.

The unexpected drop prompted debate about whether the Bank of England would raise the base rate on 10 May. However, there is still a large gap between what can be earned on short term deposits and inflation, whether or not the base rate rises.

Despite inflation falling, you are steadily losing purchasing power if you are holding more cash than you need on deposit – even before the tax impacts are considered. The onus is still on investors to invest to protect the real value of their capital.

Increasing inheritance benefits for couples

Couples could now save an extra £20,000 of inheritance tax (IHT), as the residence nil rate band (RNRB) increased in April 2018.

The RNRB was increased at start of the new tax year and it is due to increase by £25,000 in each of the next two years, reaching £175,000 in 2020/21. It will be indexed to the Consumer Price Index after that.

The RNRB was introduced to give married couples and civil partners an eventual total IHT exemption of £1 million. This new band was introduced rather than increasing the existing nil rate band, which has been at £325,000 since 2009.

Whilst the increase is good news, the RNRB creates a lot of complexity for the taxpayer. A good example is that the £125,000 band is reduced by £1 for each £2 of estate over £2 million. So, in 2018/19 your RNRB is lost completely if your estate exceeds £2.25 million.

However, the estate value is calculated at death, so if gifts are made only days before death to reduce the estate below the £2 million threshold, the RNRB is not lost – a potential tax saving of up to £50,000 at present. A surviving spouse or civil partner can also double that saving by inheriting any unused RNRB from their partner.

Complexities such as this mean that, between April and December 2017, just over 3,000 estates claimed the RNRB, compared to 24,000 that paid IHT, according to data obtained via a Freedom of Information request.

If you have not reviewed your estate planning in the light of the RNRB, it makes sense to do so. The RNRB can encourage deathbed gifts, as outlined above. In some instances, it can also mean couples should revise their wills to avoid leaving everything to the survivor on first death.

How useful is the Dow?

The Dow Jones industrial Average – the Dow – is a well-known part of the investment market, often quoted by news sources. But what does it mean, and is it useful when making investment decisions?

The Dow was created in 1896 and is arguably still used today mainly thanks to history or habit.

There are several issues with the Dow, such as:

- The index only tracks 30 shares.
- It has a large absolute value – around 25,000 – which means movements sound bigger than they are. 'Dow falls 500 points' has more impact than, 'Dow falls 2%', even if the two measures are identical.
- A committee chooses which shares the Dow tracks – where most main indices choose their constituents by market capitalisation – so it has some surprising absences, such as Alphabet (Google's holding company) and Facebook.
- Almost uniquely, the Dow is weighted by share price rather than company stock market value, which has some strange effects. Because a high share price means a larger weighting, Boeing (with a share price around $320) has nearly double the weight of Apple (with a share price around $170), even though Apple is the largest US company and over four times the size of Boeing.

When China recently announced proposed tariffs on imported aircraft aimed at Boeing, this had a disproportionate effect on the Dow, as Boeing shares (over 9% of the Index) fell.

Investment professionals prefer the S&P 500 Index, which is capitalisation-weighted and, as the name suggests, covers the top 500 companies in the US. The largest funds tracking the US market follow the S&P 500, not the Dow.

Despite its flaws, the Dow's prominence is a reminder that the daily noise of markets is not always what it seems, and underlines why expert advice is essential when choosing and monitoring your investments.

Taking early advice on your tax return

HMRC is starting the tax year with their annual reminder to submit your tax return. HMRC's reminder might seem early, but its statistics show that 750,000 people (6.5%) missed the deadline for 2016/17, potentially facing an immediate £100 penalty, even if they had no outstanding tax to pay. Anyone with a 2016/17 return still outstanding could also be clocking up additional penalties of up to £10 per day.

HMRC cancelled more than a third of all the penalties initially levied in 2014 and 2015 according to statistics obtained under a Freedom of Information Request. However, it is best not to incur the fine in the first instance, even if you have what HMRC calls a 'reasonable excuse'.

You have until the end of October 2018 to submit a paper tax return and 31 January 2019 if you file your return online. According to HMRC, 9.92 million out of 11.43 million tax returns for 2016/17 were filed online by 31 January 2018, while 0.77 million were made on paper.

You can make your tax return easier, whether or not you take professional advice, by reviewing how you hold your investments:

- Beware holding multiple interest-earning accounts with only small deposits. HMRC has started pre-populating some returns with deposit interest data, but the process does not cover joint accounts. Keeping your savings in a single account can make more sense and, if you want to chase interest rates, makes switching providers easier. But remember, only £85,000 per account is protected by the Financial Services Compensation Scheme.
- Consider using investment structures which do not need to be reported. ISAs are the obvious example, but there are several others.
- If you still hold certificates for shares or funds, consider transferring the holdings to a nominee account. You will then receive one consolidated tax voucher instead of multiple vouchers.

For more information on any of the above, please contact us. There is no deadline, but the sooner you act, the easier next year's tax return will be.

Repayment threshold increases for student debt

The income threshold at which student loan repayments begin rose on 6 April 2018. English and Welsh students who started their courses after 31 August 2012 can now earn £25,000 a year – up from £21,000 – before they have to start repaying their student loans. The increase could provide a saving of £360 a year, with repayment rates at 9%.

Although the change was heralded as good news, that is not the whole story:

- Automatic enrolment pension contributions nearly tripled at the same time. For those earning £29,000 or more, this increase more than wipes out the savings from the repayment threshold increase.
- Interest rates for student loans have not changed. Before graduation, interest remains at RPI + 3% (currently 6.1%, and 6.3% from September 2018). After graduation interest is charged at RPI for those earning up to £25,000, rising on a sliding scale up to RPI + 3% for those earning £45,000 or more.
- As with any loan, lower repayment levels mean a longer payment period. Although student loans are capped at 30 years, after which the debt is written off.

- The Institute for Fiscal Studies estimates that the higher threshold will cost the taxpayer £2.3 billion a year, and that the government will end up writing off about 45% of total student debt.

A basic rate taxpaying graduate who is auto-enrolled in a workplace pension scheme faces an effective marginal 'tax' rate of 43.4% – more than higher rate tax – for every £1 earned above £25,000:

Income tax	20%
National insurance	12%
Auto-enrolment pension contribution (net)	2.4%
Student loan repayment	9%
TOTAL	**43.4%**

Once the higher rate tax threshold is reached, the effective marginal rate becomes 51%. The savings from lower national insurance contributions, and earnings over the auto-enrolment threshold, are more than lost on extra income tax.

If you have children or grandchildren going to university, these figures are a reminder that it could be wise to start planning university funding. However, it is perhaps better to think of graduation funding, as it may not make sense to pay off the student loan early.

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