

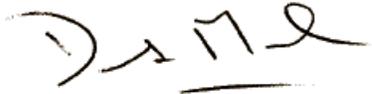
We have pleasure in issuing our newsletter for November 2018 that includes a detailed monthly commentary covering world equity markets in October together with other topical articles that we hope you find interesting.

In October, the Budget, delivered on a Monday for the first time since 1962, contained a number of surprises. October proved a torrid month for investors as equity markets fell heavily, however markets appeared to stabilise in the last few days of the month and, at the time of writing, in the first few days of November.

At AM&A our asset allocation strategies are all about putting your "eggs in different baskets" your overall portfolio benefits from the same principle. Our portfolios are designed within a mix of uncorrelated or mildly correlated asset classes such as equities, fixed interest and property with the intention of reducing volatility through smoothing when one asset class is likely to rise when the other one falls. In our view, this disciplined approach helps to create a diversified foundation designed to help limit the impact of the market's ups and downs.

Understandably, the main risk investors worry about is loss of capital. But even though investment portfolios may be down substantially over the past few weeks, remember that those are only paper losses. Investors don't face a permanent loss of capital unless they sell and history tends to favour of those who hang on.

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.



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AM&A Model Portfolios Performance Data to 31 October 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								
<u>AM&A Defensive Portfolios</u>								
Cash Alternative Portfolio	-0.8	-1.2	-0.6	-1.0	-0.2	6.3	15.7	
Defensive Portfolio	-1.8	-1.9	-0.1	-0.6	0.6	13.4	24.1	
Benchmark IMA Mixed 0-35% Index (Defensive)	-1.7	-2.0	-1.0	-2.0	-1.4	11.3	16.3	
<u>AM&A Cautious Portfolio</u>								
Moderately Cautious Portfolio	-3.5	-3.4	-0.4	-1.0	0.5	21.2	33.1	129.6
Benchmark IMA Mixed 20-60% Index (Cautious)	-3.0	-3.4	-1.7	-2.7	-1.9	15.1	21.7	84.1
<u>AM&A Balanced Portfolio</u>								
Balanced Portfolio	-4.3	-4.1	-0.2	-0.9	0.8	27.8	41.8	170.9
Benchmark IMA Mixed 40-85% Index (Balanced)	-4.7	-4.9	-1.7	-2.9	-1.8	21.2	29.9	120.5
<u>AM&A Moderately Adventurous Portfolio</u>								
Moderately Adventurous Portfolio	-5.1	-4.9	-0.2	-0.9	0.9	32.4	48.4	206.1
Benchmark IMA Flexible Managed Index	-5.1	-5.3	-2.4	-3.5	-2.5	22.9	30.7	125.4
<u>AM&A Adventurous Portfolio</u>								
Adventurous Portfolio	-6.2	-5.7	-0.3	-1.3	0.5	38.0	52.9	228.5
Benchmark AFI Aggressive	-6.4	-6.4	-3.2	-3.8	-2.6	29.6	41.4	170.4
<u>AM&A Aggressive Portfolio</u>								
Aggressive Portfolio	-6.8	-4.9	2.2	1.7	3.1	48.0	50.3	224.2
Benchmark IMA Global	-6.7	-5.5	0.5	-0.7	0.8	41.4	54.0	186.0

Source Financial Express 1 November 2018

Market Overview October 2018

October proved a torrid month for investors as equity markets fell heavily. The global sell-off was attributed to a range of factors, including concerns over Italy's budget, wider worries about Brexit, disappointing corporate profit announcements, and concerns over the consequences of ongoing global trade tensions and the global impact of tightening US monetary policy. The International Monetary Fund (IMF) cut its forecast for global economic growth from 3.9% to 3.7% in 2018 and in 2019, and also trimmed its growth predictions for key economies including the US, Germany, France and China.

Relatively robust economic data fuelled expectations that the US Federal Reserve (Fed) will implement another increase in the federal funds rate in December. During the month, however, President Trump caused controversy by criticising Fed policy, commenting that the central bank was "out of control". Sentiment was further dampened by downbeat third-quarter earnings announcements from prominent US companies including Amazon, Google parent company Alphabet, Caterpillar and 3M. The Dow Jones Industrial Average Index fell by 5.1% over October.

With less than five months until the Brexit deadline, the UK and EU remained divided as discussions stalled over the issue of the Irish border. The EU expressed itself willing to consider extending the post-Brexit transition period if necessary. Meanwhile, Chancellor of the Exchequer Philip Hammond unveiled a Budget that hailed the end of the "era of austerity". Focusing on raising Government spending and an improved economic outlook, the Chancellor brought forward income-tax breaks, introduced a new Digital Services Tax and cut business rates. The FTSE 100 Index fell by 5.1% during October.

Sentiment in Europe was further dampened by Italy's ongoing fiscal woes: having unveiled a controversial draft budget in September, Italy's leaders were ordered by the European Commission (EC) to submit a revised budget. The eurozone's economy grew at an annualised rate of only 1.7% during the third quarter, compared with 2.2% in the second quarter. The FTSE MIB Index fell by 8% during October, while Germany's Dax Index declined by 7.8%.

Asian markets fell heavily during October; in China, the benchmark Shanghai Composite Index fell by 7.7% amid signs of an economic slowdown. Elsewhere, confidence amongst large Japanese manufacturers fell for a third consecutive quarter, according to the Bank of Japan's (BoJ's) quarterly Tankan survey. The Nikkei 225 Index dropped by 10.1% over the month.

Emerging markets more broadly have been hurt by the increase in yields in the US. While the US 10-year government bond yield has now come down from the highs of the month, the pace of the move through 3.2% will have been a concern for those emerging markets with high dollar-denominated debts. This, coupled with the recent risk-off environment, troubled emerging market equities.

Tensions between Turkey and the US eased due to the safe release of Pastor Brunson by Turkey. The Turkish lira also found some relief in October after the central bank increased rates in September, abating concerns over central bank independence.

Turmoil in global financial markets and sharp losses in equity markets drove up demand for gilts during October, leading to a decline in gilt yields. The yield on the benchmark government bond dropped from 1.46% to 1.26% during October, while the yield on the short-dated gilt – which matures in 2021 – fell from 0.88% to 0.73%.

The Budget presented a stronger-than-expected outlook for the UK economy and Government borrowing. Public sector net borrowing for the current fiscal year was cut to £25.5 billion and, after rising next year, it is forecast to decline to £19.8 billion in 2023-24, reaching its lowest level in over 20 years. As a result, gilt issuance is scheduled to drop below £100 billion for the first time since 2007-08, according to the Debt Management Office (DMO); better-than-expected borrowing forecasts resulted in an £8.5 billion cut to planned gilt sales, reducing total issuance in the current year to £97.5 billion.

Credit ratings agency Standard & Poor's (S&P) affirmed the UK's credit rating at "AA", but retained its "negative" outlook. While acknowledging the UK's key credit attributes – high levels of average income, a diversified economy, strong institutions, and sterling's reserve-currency status – S&P also highlighted the risks posed by Brexit-related uncertainties. Looking ahead, S&P warned that a "disorderly" Brexit scenario could place the UK's current credit rating in jeopardy.

The UK economy grew by 0.7% during the three months to August. Meanwhile, the annualised rate of consumer price inflation fell from 2.7% in August – its highest level since April – to 2.4% in September. Higher prices for gas and electricity were not enough to offset a drop in the price of food and non-alcoholic drinks. In comparison, average earnings (excluding bonuses) rose by 3.1% year on year in the three months to August, representing their strongest increase since the three months to January 2009.

Retail sales volumes fell at a monthly rate of 0.8% during September, according to the Office for National Statistics (ONS), dragged down by a "stark" 1.5% decline in sales of food, representing the largest drop in food store sales for three years.

According to the British Retail Consortium (BRC), confidence amongst shoppers has deteriorated, and the proportion of those expecting to be better off over the year ahead has waned from 26% in July to 22% in September.

The 2018 Budget – delivered on a Monday for the first time since 1962 – produced a number of surprises, not least some high-profile ‘giveaways’

Announcements in the Budget included:

- A £650 increase in the personal allowance to £12,500 for 2019/20, the level originally pencilled in for 2020/21.
- A £3,650 increase in the higher rate threshold to £50,000, again targeted for 2020/21.
- A £25,000 increase in the pension lifetime allowance to £1,055,000 from April 2019.
- A one-third reduction in business rates on smaller retail premises, starting from next April.
- An increase in the annual investment allowance (AIA), from £200,000 to £1,000,000, from January.

However, Mr Hammond’s generosity was not all it appeared. For instance, the personal allowance and higher rate threshold will both be frozen in 2020/21, while the business rates reduction and higher AIA will only last for two years. The Chancellor also kept many tax thresholds and allowances unchanged.

A good example of the impact of frozen thresholds is the personal allowance that will continue to be tapered from an income level of £100,000. This threshold has applied since April 2010, and it creates high marginal rates for some taxpayers. Combined with the increase in the personal allowance, for income between the taper threshold of £100,000 and the starting point for additional rate tax of £150,000:

- the first £25,000 will be taxed at up to 60% (61.5% in Scotland); and
- the next £25,000 will be taxed at 40% (41% in Scotland).

By far the largest element of spending announced in the Budget was for the NHS. Investment is £7.35bn out of a total £15.09bn in 2019/20, rising to £27.61bn out of a total £30.56bn in 2023/24. With such large amounts to secure for the health service, the Chancellor has limited scope to reduce personal tax in the medium term.

If you would like to discuss the impact of the Budget on your finances, please get in touch.

Unmarried couples lack the rights of married couples

Two recent events have shone different lights on the government's view of unmarried couples.

Marriage has been drifting out of fashion for close to 50 years. There are now over 3.3 million unmarried couples in the UK, of which nearly half have children.

In spite of this major social change, governments have largely maintained sharp legislative distinctions between the married and unmarried. When they have conflated the two, it is usually to swell the Exchequer's coffers, for example when applying the high-income child benefit charge to unmarried couples with children.

This approach is starting to be challenged in the courts:

- In October, the Prime Minister announced at the Conservative Party conference that civil partnerships legislation would be extended to cover heterosexual couples. The announcement came after a June ruling from the Supreme Court that limiting Civil Partnerships only to same sex couples was in breach of the European Convention on Human Rights (ECHR).
- In a judicial review case in August, the Supreme Court found the government was wrong to deny an unmarried mother her claim for widowed parent's allowance, again referring to the ECHR in the decision. The Department for Work and Pension's response was that the judgement did not affect the eligibility regime for bereavement benefits, which replaced the widowed parent's allowance for new claimants in April 2017.

If you are one of the 3.3 million unmarried couples, these decisions serve as a reminder that your status is very different from that of a married couple. Given the DWP's stance, you could need more life and health protection than if you were married.

You will also potentially require a different approach to estate planning, as transfers on death to your partner, such as your interest in the family home, will not benefit from the inter-spouse inheritance tax exemption.

If you would like advice on how to plan for your family, please get in touch.

The risks of late estate planning

Imagine you are named as the executor and a beneficiary of your wife's wealthy aunt. You learn that she is suffering from terminal cancer and has 'a very impaired lifespan'. What do you do?

This is what happened in the case of *Nader and others v Revenue & Customs*. The executor/beneficiary, a Dr Nader, decided to consult a leading firm of accountants about inheritance tax (IHT) mitigation options for Miss Dickins (the aunt).

The accountants put forward an offshore trust-based scheme, provided by a third party, which would remove the IHT liability on £1,000,000 of Miss Dickins' estate. The scheme was highly complex, involving multiple trusts and short-term loans. It cost a total of £100,000 in fees and its first stage was triggered on 6 December 2010, three weeks before Miss Dickins' death.

Dr Nader received grant of probate on 4 July 2011 and a little over a month later the scheme was wound up, with IHT-free payments being made to Miss Dickins' beneficiaries. However, subsequently HMRC opened an enquiry into the IHT return and by February 2015 – a little over four years after Miss Dickins' demise – tax demands were issued to the beneficiaries.

Wind forward another three years and at a First Tier Tribunal (Tax), Dr Nader, together with his fellow beneficiaries, made an appeal against the tax bills they were facing. In a 51-page judgement, the Tribunal dismissed the scheme as ineffective, and the beneficiaries were also left with the appeal legal costs on top of the bill for IHT plus outstanding interest.

The case is a reminder of the risks, costs and protracted timescales that can be involved in deathbed estate planning.

There are many ways to mitigate the impact of IHT, but the sooner planning starts, the better. It is all too easy to defer such planning – as with writing a will – but delays can carry a high price.

Inflation eating into the value of savings

At the end of September, the US bank, Goldman Sachs, launched a new online easy-access savings account in the UK under the name of Marcus. It has offered a similar account in its home territory since 2016, gaining over 1.5 million customers according to the bank's second quarter results. In the UK, 50,000 Marcus accounts were opened in the first fortnight after its introduction.

Marcus gained heavy press coverage at launch, not least because the interest rate on offer was – and at the time of writing, still is – top of the instant access league tables. The headline rate is 1.5%, but that is not quite the whole story. The rate is actually a variable 1.35%, plus a 0.15% 'bonus' payable for the first 12 months. However, even the 1.35% would leave Marcus very close to the top of the league tables.

UK banking history is littered with new-name deposit accounts that were league-topping at launch, only to disappear without trace a few years down the line, such as ING Direct or Cahoot. The strategy Goldman Sachs has adopted with Marcus in the US, however, has so far kept the account in a leading position: it is paying 1.95% against a national savings rate average of just 0.32%.

However, to paraphrase a common warning, past performance (in the States) is not necessarily a guide to the future (in the UK).

In the UK, Marcus's 1.5% interest rate is still 0.9% below September's CPI inflation figure of 2.4% or, if you prefer the old RPI measure, 1.8% short. Short-term interest rates, as measured by the Bank of England Base rate, have been below CPI inflation for much of the last 10 years. Even if you had an account consistently paying 0.75% above base rate, as Marcus is currently, your cash would still have lost buying power – and that is before considering any tax on interest.

There is no argument that Marcus is a competitive account, but it is perhaps not a long-term investment choice. If you would like to discuss your investment options, please get in touch.

A 2.6% rise in the single tier state pension was announced in the 2018 Budget

The increase to the single tier state pension, and its predecessor the basic state pension, will apply from next April. Other state pensions, such as the State Earnings Related Pensions Scheme (SERPS), will rise by 2.4%.

The higher increases for the two main pension benefits are the result of the 'triple lock', which requires the annual uplift to be greatest of:

- CPI inflation (2.4% in September 2018);
- Earnings inflation (2.6% for average weekly earnings to July 2018);
- 2.5%.

The increased payment – £4.30 a week for the single tier pension – is often presented as extra money for pensioners. However, it is doing little more than maintaining the state pension's buying power against inflation.

Earnings and CPI inflation have been roughly in line with each other for some time, which can be linked to any discussion about the lack of real wage growth. Had September's annual inflation figure come in at 2.6%, as expected by many pundits, it would once again have been the triple lock winner, albeit matched by earnings.

Triple lock guarantee

The triple lock is only guaranteed until the end of the current parliament (2022, at the latest) after which its future is in doubt. There have been many calls for the triple lock to be scrapped, including from the House of Commons Work & Pensions Select Committee.

The problem with the triple lock is its cost, which is greater than a pure link to earnings or a simple price inflation.

To see how expensive providing only inflation proofing is you can look at pension annuity rates. For a 65-year-old, an RPI-linked annuity costs approximately two thirds more than an annuity which does not increase over time. While annuities are not as popular these days, that 66% difference is a fair indicator of how much more it costs to build inflation protection into your retirement planning.

If you would like to discuss your retirement plans in light of these developments, please get in touch.

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