AM&A | Investment & Pension Planning Limited

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

The Bank of England raised its key interest rate by 0.25 percentage points to 0.75% during August to reach its highest level since March 2009 whilst the S&P index in the USA set a new record for the longest-ever bull market last month.

The Office of Tax Simplification is currently undertaking a "general simplification review" of Inheritance Tax. The report is due ahead of the Autumn Budget and it is possible that changes and/or pre-emptive legislation will be announced then.

With this in mind, we are attaching our latest Key Guide to Estate Planning with the current newsletter which highlights ways in which we can assist clients to mitigate this tax.

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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Office Closure
Please note that our office will be closed on the following dates:
September 10, 11, 19, 24, 25
October 1, 2.
May we take this opportunity of wishing our Jewish clients a happy and healthy New Year.

AM&A Model Portfolios, Indices & Benchmarks, Recommended Investment Funds Performance Data to 31 August 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	3yr	5yr	10yr
AM&A Model Portfolios								
AM&A Defensive Portfolios								
Cash Alternative Portfolio	0.3	0.9	1.6	0.5	1.3	9.5	19.9	
Defensive Portfolio	0.8	1.9	3.2	2.0	3.4	18.6	30.6	
Benchmark IMA Mixed 0-35% Index (Defensive)	0.0	0.4	1.4	0.0	0.7	14.5	21.8	
AM&A Cautious Portfolio								
Moderately Cautious Portfolio	1.1	2.5	4.8	3.6	5.9	30.0	44.0	103.0
Benchmark IMA Mixed 20-60% Index (Cautious)	-0.1	0.8	2.1	0.6	2.2	20.7	30.2	62.5
AM&A Balanced Portfolio								
Balanced Portfolio	1.4	3.0	6.2	4.8	7.7	39.0	56.2	131.2
Benchmark IMA Mixed 40-85% Index (Balanced)	0.3	1.6	4.0	2.4	4.8	30.6	42.9	84.2
AM&A Moderately Adventurous Portfolio								
Moderately Adventurous Portfolio	1.5	3.4	7.3	5.8	9.3	45.9	65.5	153.5
Benchmark IMA Flexible Managed Index	0.3	1.6	3.1	2.1	4.7	32.9	44.8	79.0
AM&A Adventurous Portfolio								
Adventurous Portfolio	1.6	3.8	7.8	6.4	9.8	54.3	72.7	166.0
Benchmark AFI Aggressive	0.8	1.6	5.0	3.5	6.6	42.5	59.7	111.6
AM&A Aggressive Portfolio								
Aggressive Portfolio	2.4	5.4	9.8	9.5	11.2	65.7	70.8	158.1
Benchmark IMA Global	1.8	4.4	7.7	6.9	10.6	56.4	74.8	128.7

Source Financial Express 3 September 2018

Market Overview August 2018

Trade talks took a fresh turn during August as the US and Canada failed to reach agreement over the renegotiation of the North American Free Trade Agreement (Nafta). Meanwhile, trade discussions between the US and China broke up without making any significant progress; China imposed tariffs of 25% on US$16 billion-worth of US imports following the US's imposition of tariffs on US$16 billion-worth of Chinese goods. Elsewhere, the Turkish lira plunged against the US dollar and, as the relationship between Turkey and the US continued to deteriorate, President Trump doubled US tariffs on imports of Turkish steel and aluminium to 50% and 20% respectively. Turkey responded by increasing levies on US imports. The Federal Open Market Committee (FOMC) highlighted the "consequential" risks created by intensifying trade tensions and Dow Jones Industrial Average Index rose by 2.2% over August.

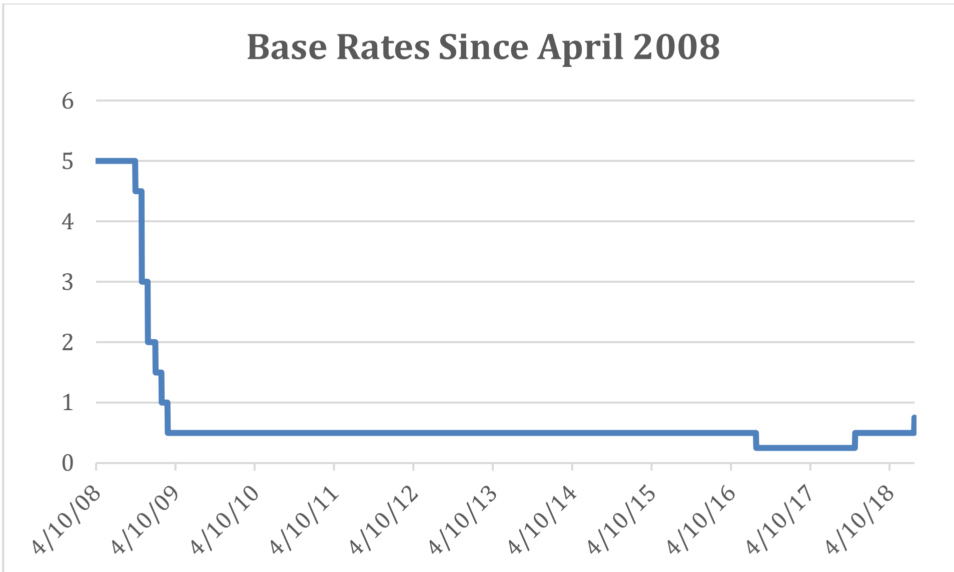
The Bank of England (BoE) raised its key interest rate by 0.25 percentage points to 0.75% during August to reach its highest level since March 2009. Worries over the possibility of a "no-deal" Brexit deepened during the month; BoE Governor Mark Carney said: "Negotiations are now entering a critical period" and Brexit Secretary Dominic Raab issued "practical and proportionate" information to businesses and individuals in the event of a no-deal Brexit. Meanwhile, Chancellor of the Exchequer Philip Hammond warned that a no-deal Brexit could reduce UK economic growth by 7.7% over 15 years. The FTSE 100 Index fell by 4.1% over August.

European markets were affected not only by concerns over unresolved trade tensions and Brexit, but also by worries about Italy's high level of public debt. The Dax Index dropped by 4.3% during August, while the CAC 40 Index fell by 1.9%. Economic growth in the eurozone rose more rapidly than originally calculated during the second quarter, according to the European Commission (EC), rising by 0.4%. Greece's controversial bailout programme finally came to an end on 20 August: after eight years, Greece's financial sector is judged to have been strengthened by recapitalisation operations and a revamp of bank governance. Over the month, the Athens Composite Index fell by 4.2%.

Japan's economy expanded more rapidly than expected during the second quarter, posting annualised growth of 1.9%, boosted by a rise in private consumption. Over August as a whole, the Nikkei 225 Index rose by 1.4%.

Interest rates creeping up after nine years

The Bank of England increased the base interest rate in August to 0.75% – the second increase in 12 months.



The Bank's decision to raise the rate to its highest level in nearly nine and a half years was no great surprise to the investment community. Of more interest to the experts were the comments the Bank offered on the long-term trend of base rates relative to inflation. The Bank gave a theoretical estimate of the base rate needed to maintain inflation and economic growth in a fully functioning economy, rather than another forecast of where rates might be in a year's time.

The Bank said an interest rate of 0%–1% above the rate of inflation, with a 'modal rate' of 0.25%, would achieve this equilibrium. In today's economic environment, with an inflation target of 2%, this would mean a base rate of around 2.25%. That implies:

- The equilibrium rate will be a long time coming – several 0.25% increases would be required, and the Bank has repeatedly said any changes will be gradual.
- Returns on savings accounts will continue to be poor and often below the rate of inflation, even before the impact of taxes are allowed for.

Persistently low interest rates mean that holding too much money on deposit could damage your long-term financial health. Whilst we all need to put aside reserves for the proverbial rainy day, the UK has moved on from an era when base rates were expected to be a useful margin above inflation.

For an assessment of how much your ready cash reserve should be, and the options for investing any excess, please talk to us.

The record S&P 500 bull run

The US stock market set a new record for the longest-ever bull market in August.

S&P 500 Index Performance

Wednesday 22 August 2019 saw the S&P 500 drop – by less than 0.1% – after 3,453 days, making it the longest-ever bull run (a period of rising share prices) for the index, which is used by professional investors' as a yardstick for the US stock market.

The previous record was set between 1990 and 2000, a period that saw the dot-com boom, followed shortly after the start of the new millennium by the tech bust. The current rally has been helped by a strong performance from technology stocks, notably the 'FAANGs' (Facebook, Apple, Amazon, Netflix and Google (now called Alphabet)). It has also been aided by a period of ultra-low interest – the US Federal Reserve's main rate was set to a historic low in December 2008 and did not rise above 1% until June 2017. In the last year US companies have also benefitted from Donald Trump's corporate tax cuts, which have boosted earnings figures.

Despite the record performance, this bull market has been labelled as "the most hated of all time". Throughout, sceptics have viewed the market as trading on borrowed time and reliant on the easy-money policy of the US central bank. How much longer the rally can last remains a hot topic.

While interest rates are now rising the US economy is growing strongly, and that is working its way through to the bottom line of the now more lightly-taxed US companies. Similarly, while the S&P 500 index is regularly reaching new peaks, other measures of valuation show US shares much less highly valued compared to previous market peaks.

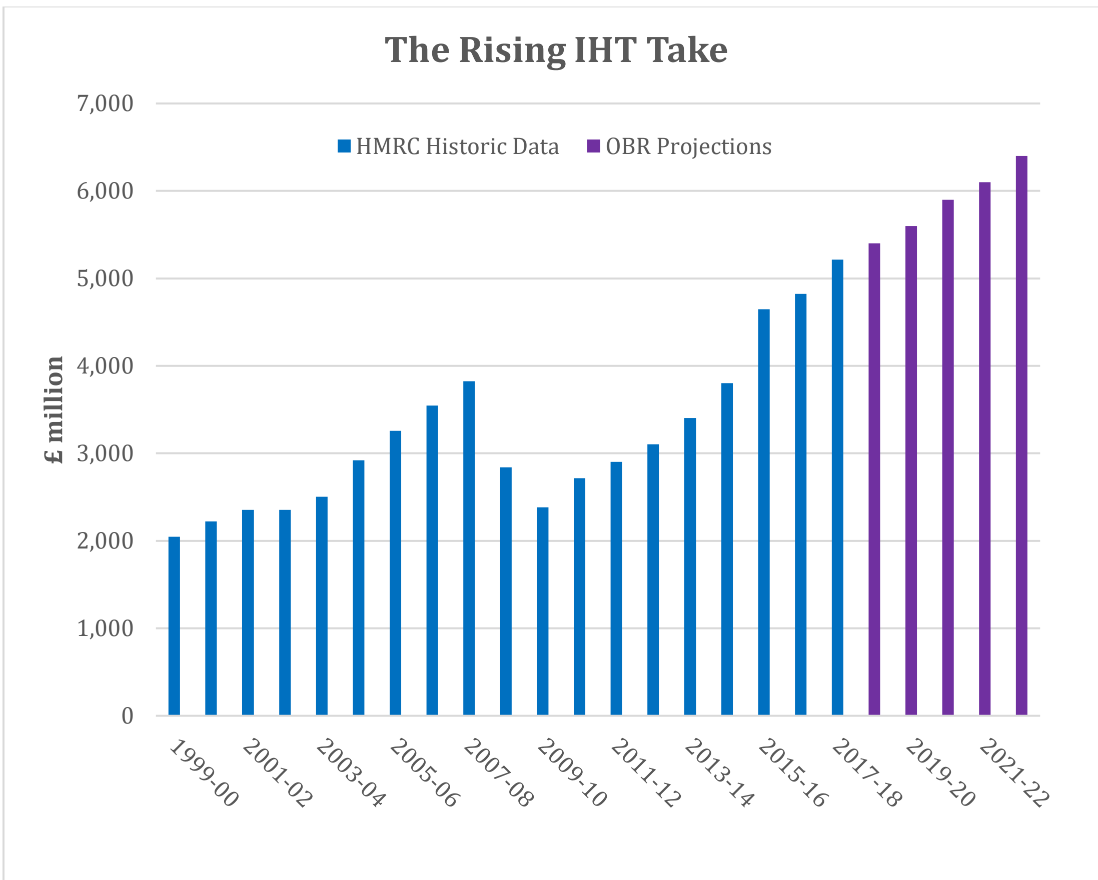
Whatever the future holds, the past near nine and a half years have provided a reminder of the wisdom of international diversification of investments.

Record inheritance tax revenues ahead of simplification review

2017/18 produced record inheritance tax (IHT) receipts according to HMRC data published in July.

The latest release of the annual statistics revealed IHT produced £5.228 billion for the Exchequer in 2017/18, an increase of two thirds over just five years. As the graph shows, IHT revenue has been rising rapidly since Treasury receipts hit a low in 2009/10, owing to the impacts of the financial crisis and the introduction of the transferable nil rate band.

The Office for Budget Responsibility (OBR) expects the growth to continue, although the rate of increase will slow for the next few years because of the introduction from April 2017 of the residence nil rate band.



The Office of Tax Simplification (OTS) is currently undertaking a "general simplification review" of IHT. The OTS is focusing on the administrative aspects of IHT, but it is also looking at the "complexities arising from reliefs and their interaction with the wider tax framework". With the OTS due to report ahead of the Autumn Budget, it is possible changes and/or pre-emptive legislation will be announced then.

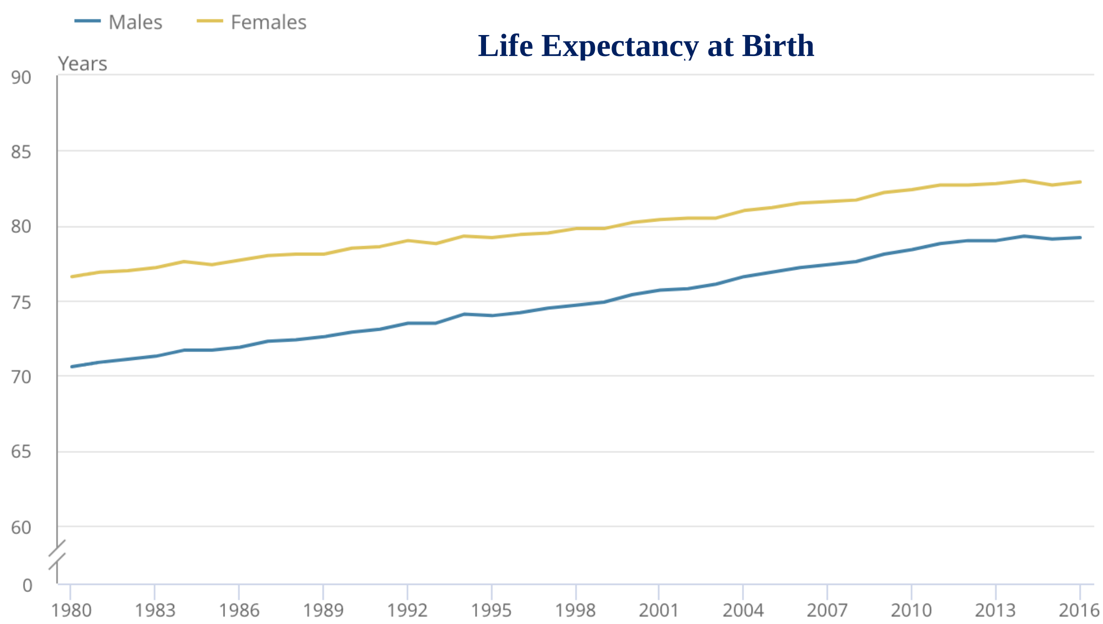
It is unlikely reforms will lead to a reduction in the money raised by IHT. It may be the most unloved tax in the UK, but Mr Hammond has to find an extra £20.5 billion a year for the NHS by 2023 and IHT receipts are above £5 billion a year and rising. The politics of any cut would also be difficult to implement.

There is a case for reviewing your inheritance tax planning now, and possibly taking some action ahead of the Budget.

We can help with your estate planning and IHT planning in several ways:

- Working with your other professional advisers to optimise the estate and tax- planning aspects of your will.
- Advising on the various tax implications involved in lifetime gifts.
- Reviewing your pension provision and suggesting ways to improve its role in your estate planning.
- Arranging investments and life assurance to help reduce or fund IHT.

Slowing down our old age
A paper published in August by the Office for National Statistics (ONS) casts new light on life expectancies in the UK.



Source: Office for National Statistics

Life expectancy has been increasing in the UK for a long time, as the graph shows. In 1980, the average life expectancy at birth was 70.6 years for a man and 76.6 years for a woman. In 2016 this had increased to 79.2 years for a man and 82.9 years for a woman.

What the graph also reveals is that the rate of improvement in life expectancy has been slowing down. The ONS data shows a marked deceleration in the 21st century.

Between 2011 to 2016, women's life expectancy at birth increased by 0.2 years compared with an increase of 1.2 years over the period from 2006 to 2011. For men, the corresponding increases were 0.4 years and 1.6 years. There was a similar effect for life expectancy at age 65, which rose by only 0.1 years for women and 0.3 years for men between 2011 and 2016, against 1 year and 1.1 years in the previous five years.

For the layman, this welter of data can be confusing, especially as the press coverage is not always well informed. A few important things to understand are:
The ONS life expectancy data imply that, on average, a man who was 65 years old in 2012 will live until 83.7, while a woman who was 65 years old in 2012 will survive until 86. The expected age at death also rises with age attained.

The data represents the entire UK, but past research has revealed significant differences between regions and even within the areas of single cities.

As well as regional variation, different sections of the population experience different mortality. For example, those with private pensions tend to live longer, probably because they are wealthier.

Crucially, the life expectancies are averages, so 50% of people will outlive the central figure. The spread around the widely-quoted average is significant and often overlooked. The ONS's own 'How long will my pension last' website (which has not been updated with the new data yet) shows that a 65-year-old man has a one-in-four chance of living until 94, and a woman of the same age a one-in-four chance of living to 96.

The data suggests your retirement may not be quite as long as previously thought, but there is still a good chance you will be living into your 90s. If your pension planning does not reflect that, the sooner you review it, the better.

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