2plan®
wealth management

financial Newsletter

Edition 20 – Autumn 2016

What is the British Pound worth vs. Euro?

What is the British Pound worth vs. Dollar?

World stock market performance over last ten years.

KEY FACTS & FIGURES – The UK Economy		
BoE Base Rate	0.25%	Aug 2016
Unemployment	4.9%	May 2016
Inflation (CPI)	0.5%	Jun 2016

Agenda

– Cover for severe illnesses
– Assessing your Attitude to Risk
– How will the dividend tax changes affect you?
– Market outlook – Fidelity
– Market outlook – Invesco Perpetual
– Market outlook – Rathbones
– Market outlook – Architas
– Concern over interest-only mortgages
– Pension scam warning signs
– Variety is the spISA life
– I'd put my mortgage on it

Base rate cut

On 4th August 2016, the Bank of England's Monetary Policy unanimously agreed to cut the base rate from 0.5% to 0.25% – a record low and the first cut since 2009.

UK economic outlook

The UK economy is estimated to have increased by 0.6% in quarter 2 (April to June), compared with growth of 0.4% in quarter 1.

GDP was 2.2% higher in quarter 2 2016 compared with the same quarter a year ago.

Output increased in two of the main industrial groupings within the economy with services increasing by 0.5% and production increasing by 2.1%. In contrast, construction decreased by 0.4% and agriculture decreased by 0.1%.

Inflation

- The Consumer Prices Index (CPI) rose by 0.5% in the year to June 2016, compared with a rise in the year to May.
- The June rate is a little above the position seen for most of 2016, though it is still relatively low historically.
- Rises in air fares, prices for motor fuels and a variety of recreational and cultural goods and services were the main contributors to the increase in the rate.
- These upward pressures were partially offset by falls in the price of furniture and furnishings and accommodation services.

UK unemployment

- The unemployment rate was 4.9% in the three months to May 2016, the lowest figure since July to September 2005.
- There were 31.7 million people in work, 176,000 more than the three months to February 2016 and 624,000 more than for a year earlier.
- The employment rate (the proportion of people aged 16-64 who were in work) was 74.4%, the highest since comparable records began in 1971.
- There were 8.87 million people aged from 16 to 64 who were economically inactive (not working and not seeking or available to work), 46,000 fewer than for the three months to February 2016 and 181,000 fewer than for a year earlier.

Cover for severe illnesses

A death isn't the only threat to finances. Severe illnesses can have a devastating impact on them, yet sales of Critical Illness Cover and Serious Illness Cover still lag behind life-only Term Assurance sales. In 2014, there were 832,935 new life-only Term Assurance policies compared to only 446,513 Term & Critical Illness and 18,208 standalone Serious Illness Cover policies.

Given that you're much more likely to suffer from cancer, a stroke or a heart attack before the age of 65, taking out Critical/Serious Illness Cover should be a consideration. Not only that, but the way we experience illnesses has changed and people are living longer now than ever before. Medical advances have meant they're diagnosed earlier and treated better.

So now, illnesses previously viewed as critical can actually have less of an impact on our day to day lives. However, because more people are surviving critical illnesses, they're now facing a greater number of serious illnesses, those that aren't as life-threatening, but still have a significant impact on the way we live our lives.

Are 100% payouts the right solution?

Typically, Critical Illness Cover pays a one off 100% lump sum payment for conditions covered on the policy. In most cases, following a claim, their cover comes to an end. However, there are problems with this:

- Once a claim has been made and any existing cover comes to an end, a new policy needs to be taken out if an individual wants to keep the protection in place. This would mean a full underwriting process is undertaken, and with a critical illness on their medical records it may be that cover is harder to obtain and even if it can there could be restrictive exclusions and expensive loadings applied.

- The recovery times for some critical illnesses can be fairly short, and in these cases an individual may have been able to return to work relatively quickly. Yet with a typical Critical Illness Cover policy, they'll probably have received a 100% payout when it may not necessarily have been needed. It could be easy, in such a situation, for them to see the money as a windfall and spend it on luxuries such as buying a larger house, a new car or a family holiday. However, the unfortunate reality is that 49% of people who have one chronic condition go on to suffer from further illnesses, and if they'd already received their full payout they wouldn't have access to any more financial protection.

There are alternative protection products available, where the amount received is based on how severe their illness is and the effect it has on their lifestyle. That way, the money is received when it's truly needed. And if the policy has the added assurance of continuous cover – if the payout isn't 100%, there will still be remaining cover in place should the condition worsen or if they are diagnosed with a new illness.

Not ill enough to claim

Typical Critical Illness Cover adopts a one size fits all approach to covering and paying claims. Providers typically cover around 45 conditions, and in order to be eligible for a payout, illnesses must meet very specific criteria. This is one of the major downfalls of a typical Critical Illness Cover approach: although it pays 100% of the sum assured, claimants normally have to be very sick in order to successfully make a claim. Suffering from any grade of cancer will put an added strain on you financially as a result of attending appointments and treatments, missed days of work, arranging alternative childcare and the added transport and parking costs incurred whilst attending appointments.

There are products on the market that pay out different percentages of the sum assured based on how severe the illness is. This means that even low grade cancers, mini strokes and minor heart attacks, which aren't eligible for a payout on a typical Critical Illness Cover policy, will receive an appropriate payout, helping to ensure that any extra costs that arise as a result of treatment and any lost income is covered.

And as not all conditions are covered at 100%, these policies usually cover a broader range of illnesses. Some products on the market cover upwards of 170 conditions, compared to 45 from a typical Critical Illness Cover policy. Research also shows that individuals are up to 2.5 times more likely to receive a payout, so you can be safe in the knowledge that you're financially protected and can focus on the most important thing, getting better.

Article written by Justin Taurog, Managing Director of Sales & Distribution – Vitality Life.

Assessing your Attitude to Risk

Asset allocation is one of the keys to long-term investment success and 2plan wealth management's strategy is based upon using various asset allocation strategies. This is because it is important to not put all your eggs in one basket and rather than trying to pick a single investment type, a mix of asset classes can spread investment risk and therefore improve the potential for long-term returns.

Your 2plan wealth management Independent Financial Adviser (IFA) will agree the asset allocation with you based on your individual financial goals and objectives. This will be aided by determining your attitude to risk, essentially establishing the level of risk that an individual is willing to take when making an investment.

As part of the advice and ongoing review process 2plan wealth management utilises a set of psychometric questions in order to understand and gauge every clients' attitude to risk. This can then form the basis of an agreed investment strategy.

Initially this will happen at the main fact-finding or data gathering meeting with your adviser. Your 2plan wealth management IFA might provide you with a paper version to complete prior to the meeting or this may be completed directly on their tablet computer at your meeting with them.

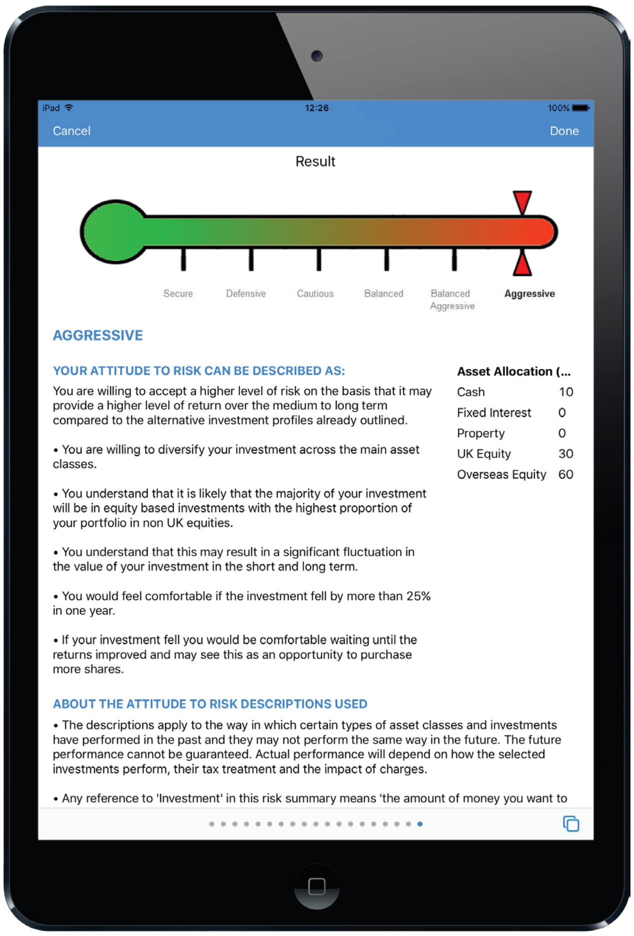
It may be that your circumstances or opinions change due to influences such as a change in your personal circumstances, world events or even news on the economy. This is why it is important that your attitude to risk is re-assessed prior to any new advice or changes that take place with regards to your financial plans. This is a process that will happen as part of any ongoing service agreement that has been established with your 2plan wealth management IFA.

To assist with this process 2plan wealth management has now created a bespoke application for the iPad, downloadable from the Apple App store. You simply need to search for "2atr" to find this.

When you are due for a review meeting with your 2plan wealth management IFA you will need to let them know that you have an iPad and they will send you a simple code via email that allows you to then log in and run through the process in your own time. This process will need to be completed for each individual.

Once you have completed the psychometric questions the app will state your established attitude to risk, including providing a definition of it as well as a breakdown of the asset allocation.

The app also enables you to then send the results to your 2plan wealth management IFA so they can have the data available ahead of any meeting, allowing them to review this information in conjunction with your previous records, as well as providing more time at your meeting to discuss your objectives and help achieve your financial goals.



How will the dividend tax changes affect you?

Following an announcement in the March 2016 Budget, the tax credit that meant dividends that were paid with a 10% tax credit was scrapped with effect from 6th April 2016. Previously, this meant that for every £1,000 of dividend income received it was assumed that £111 in basic rate tax had already been paid, making the total dividend £1,111.

As of this date however, all dividend income is treated as gross (i.e. untaxed) and the rate of tax payable on dividends depends on the investor's other taxable income. Every investor now has a £5,000 tax-free dividend allowance in addition to their personal allowance. After this, the personal tax liability for taxpayers increases by 7.5% (basic rate), 32.5% (higher rate) and 38.1% (additional rate).

Essentially, this now makes life better for many small investors seeking an income. If you have dividend income (held outside of an ISA) of £5,000 or less per year you will pay no tax on your dividends, even if you are a higher rate taxpayer as any dividends are covered by the £5,000 dividend allowance.

If your total income is less than £11,000 your income is covered by your personal allowance and your dividend allowance is effectively unused. If your dividend income is received through shares in an ISA, as now, these remain tax-free and the dividend allowance will not affect this income.

It's important to make the right investment fund choices to meet your own personal objectives and that includes minimising your tax liability. The following actions can help offset the loss of the 10% tax credits:

- Maximise ISA and pension investments – these are not subject to taxation on the yield generated by the fund.

- For couples, make the most of each person's £5,000 dividend income allowance by considering a split of your investments.

- Use the new personal savings allowance for other types of investment fund. In most cases, the income from fixed interest funds and corporate bonds is subject to interest tax, not dividend tax. From April 2016 the first £1,000 of interest income from these holdings will be free of income tax under the new personal savings allowance (£500 for higher rate taxpayers).

If you have any questions regarding these changes and how it may affect you and your investments please speak to your 2plan wealth management IFA.

Market outlook – Fidelity

Result aside, the referendum has provided investors with interesting food for thought and is a reminder of how the landscape has evolved over the years.

The last 20 years has been a relatively benign political environment for financial markets globally. Economic policy of mainstream left and right parties has been remarkably similar, leading to ongoing relaxation of trade and border barriers. However, this has led investors into a false sense of security about the impact that politics can have on markets.

Political complacency has now given way to resurgence in populist movements on both sides of the Atlantic. Most parties have stayed safe on economic policy, but there are today many examples of individuals gaining power with a promise to unwind the trends of globalisation.

In part, the EU referendum is an extension of this theme but a big lesson is that politics now moves the needle for investors more than it has done so for a long time. Arguably, it is also much harder to anticipate.

Impact on currencies

The asset class most directly affected by the rise in political risks is currency. Since the beginning of the referendum campaign, sterling volatility has risen sharply. In contrast, bonds have been supported by the belief that there is ultimately a buyer of last resort in the form of the central bank.

Typically, signs of political turbulence, and the resulting increase in economic uncertainty, entrenches the belief that central banks will stay accommodative and intervene to support markets if necessary. Indeed, it's hard to fight an authority that controls the monetary printing press.

Central banks have been hugely successful over the past 25 years in combating the damaging effect of high inflation. But in doing so, they have focused on cyclical trends, supporting markets in times of short term stress. This has been the correct approach during extreme economic volatility, such as the financial crisis, but it has come at the cost of ignoring secular trends.

Central banks have watched from the sidelines a multi-generational rise in debt (across household, corporate and government sectors), as well as ageing populations confronted with yields at record lows and in need of retirement income.

They have also expanded their toolkit through this time, embracing quantitative easing and negative interest rates. But in spite of these efforts, the marginal impact of monetary policy support has diminished.

Investors must stay alert to the risk of a new wave of political instability. Currencies are likely to bear the brunt of this uncertainty, acting as the first shock absorber. But as central banks help to cushion the economic impact, there is a limit to further easing and experimental policy. Indeed, a step too far down the path of negative rates or quantitative easing could breed an even greater wave of instability impacting currencies globally.

Article written by Ian Spreadbury, Senior Portfolio Manager – Fidelity International.

Market outlook – Invesco Perpetual

The UK's vote in favour of Brexit has cast us into uncharted waters with a level of uncertainty we have not experienced for a long time. In the coming weeks and months, there may be delays to consumer spending, companies' recruitment and foreign direct investment as the nation and wider global economy digests the decision. In combination, these factors present substantial short-term headwinds to the UK economy.

Over the longer term, however, we believe the UK economy can cope with life after Brexit and we remain optimistic about the future outlook. We have a dynamic economy which has adapted to change before.

As far as the stock market is concerned, the resultant fall in sterling may have a positive impact – circa 60% of the FTSE 100's earnings are derived overseas and we may see upgrades to forecasts and dividends from these large overseas earners if the fall we have seen in sterling, especially against the US dollar, is maintained. After the initial volatility, this should limit the negative impact of the Brexit vote on UK equity markets.

Article written by Mark Barnett, Head of UK Equities – Invesco Perpetual.

Market outlook – Rathbones

Many UK open-ended property funds have raised the drawbridge, effectively locking in investors to prevent a costly run on their units.

Following Brexit, investor outflows started to accelerate and fears rose, fuelling mainstream media attention and investor concern. This has boosted negative sentiment in the sector and sparked fears of a slump in the property market.

So is the gating of these funds an overreaction? No, it's entirely appropriate. The managers are trying to protect their unit-holders from a fire sale in the underlying assets. By its nature, property is an illiquid asset – it can take more than six months to buy or sell one building. This mismatch with daily dealing open-ended funds can, in extremis, cause runs, where funds cannot keep up with the flood of redemptions.

Rathbones' enthusiasm for open-ended property funds has cooled over the past year. Inflows poured into these vehicles during 2014 and 2015, and prices in the underlying property market rose dramatically. We thought this was unsustainable. Further, open-ended property funds are as much hostage to inflows as they are to outflows: we are sceptical that the properties purchased with this wave of money were always quality assets. If we are right, the risk of these property portfolios is potentially higher than that measured by risk modelling.

Therefore, we have been taking profits and have reduced our overall exposure.

However, we are not bearish on the property market in the long term. Property investors should be taking a long-term view. This is probably a healthy correction after years of upward revaluations. In fact, we believe some property investment trusts (REITs) are looking attractive as their share prices are heavily discounting net assets. The current epi-centre of this storm is the UK, but we think it is unlikely to cause a meltdown in the wider global property market.

We would be happy to reinvest in property assets once the market has rebased – there could be the opportunity to pick up some assets at significantly lower prices.

And that is the beauty of having a genuinely active discretionary manager. They have the flexibility to take advantage of the opportunities as they present themselves, rather than waiting for the fixed and arbitrary rebalancing dates that many model portfolio services adhere to.

Article written by David Coombs, Head of Multi-Asset Investments – Rathbones.

Market outlook – Architas

The first half of 2016 has clearly not been a smooth one for equity investors and passive investing is no exception. Tracking an equity index has given you something of a bumpy ride, but returns have typically risen despite all of the drama over Brexit. For example, the FTSE 100 index is up from the beginning of the year; 6.6% gains over a six-month period mask the fact that at one point in February the index was down nearly 12%. In fact, since the 2016 low in mid-February the index is up over 17%. Not bad for a period when the nation voted to leave the EU!

If you had started investing in the FTSE 100 at the beginning of the second quarter the returns were 6.5%, near identical to the returns for the whole six months. This pattern was replicated by many global or regional indices as equity markets seesawed, serving to highlight that trying to time your investment is a difficult thing to achieve successfully. With such unpredictable returns and the potential for further volatility ahead, some people may opt to avoid this uncertainty by keeping assets in cash.

Is cash king in times of volatility?

So is cash king or is cash trash with unpredictable markets? Having a cash cushion gives you that liquidity buffer and some instant firepower if you do want to invest and it will also reduce overall portfolio losses in a falling equity market.

But on the other side, you could have a long wait if you are looking for the perfect moment to invest from a cash pile. The low interest rate environment shows no obvious signs of change and this is not good for holders of cash. The knock-on effects from this and possible rising inflation would surely eradicate any potential returns from cash in real terms from an already meagre level.

Time in the market not the timing of the market

It's always important to be aware of the risk to your investments, particularly during periods of volatility. Instead of agonising about when to invest in the market, there is a rule of thumb that says it is for how long you invest rather than when you invest that makes the difference. Investing in the broader equity market through indices has historically been much riskier for the short-term investor than the long-term investor.

This suggests that you shouldn't necessarily be deterred by the current market environment. By chopping and changing your portfolio due to short-term market noise, you could end up doing more damage than simply holding your nerve and staying invested over the long term. Speak to your 2plan wealth management Independent Financial Adviser about what you really want from your investments and work towards achieving that because focusing on the short term and not remaining invested is the greater danger to your long-term goals.

Article written by Steve Allen, Senior Investment Manager – Architas.

Concern over interest-only mortgages

Thousands of people with interest-only mortgages expiring this year do not have a repayment plan – putting their homes at serious risk of repossession.

40,000 interest-only mortgages are set to reach the end of their term in 2016, but experts suggest that only half of these homeowners have the capital in place to repay the loan.

And according to the charity Citizen's Advice Bureau, this is just the tip of the iceberg, with 934,000 interest-only borrowers without a plan to pay off their mortgage.

The ins and outs of interest-only

Unlike a repayment mortgage, where the borrower pays off the capital and interest on their loan each month until the debt is cleared, an interest-only loan offers a cheaper monthly premium, but requires a single repayment of the capital at the end of the term. Normally this is cleared using the proceeds from a separate investment vehicle.

For example, a £150,000 mortgage at 5% over 25 years would cost £877 per month on a repayment basis, but only £625 per month interest-only. However, the latter leaves the original £150,000 capital debt to be repaid.

Don't get trapped

If you have an interest-only mortgage but you don't have a repayment vehicle in place, it is critical you review your finances as a matter of urgency.

Depending on the term left on the mortgage you could set up a repayment plan now, or you could look at switching to a repayment mortgage. This may mean higher monthly repayments, but there are a lot of competitive deals in the current 'low-interest rate environment'.

Another option could be to sell your home and downsize – something that may be a possible if older children have flown the nest but nevertheless a difficult decision if you don't want to lose a cherished family home.

If you wish to discuss your mortgage arrangements please speak to your 2plan wealth management adviser.

Pension scam warning signs

Research conducted by Citizens Advice has suggested that almost nine in ten people (88%) are missing common warning signs of a pension scam.

The report revealed that 76% of individuals felt that they were confident of identifying a pension scam yet just 12% were actually able to do so when a scam was presented to them, with particular risk coming from phone calls, post and emails that come out of the blue, offering the prospect of guaranteed high returns or free pension reviews.

The report estimates that two million consumers aged 55-64 have received unsolicited contact about their pension in the 12 months following the introduction of the pension freedoms in April 2015, which provided individuals with a greater number of options in terms of accessing their pension pot.

And almost two thirds of consumers (64%) said that they would consider an unsolicited offer about their pension and many would only consult informal sources about whether the approach was genuine.

The title of the report – 'Too good to be true' – showed how widespread the problem has become, with Citizens Advice, as well as the Financial Conduct Authority and The Pensions Regulator all issuing tips to help individuals identify a potential pension scam.

The research conducted by Citizens Advice highlights the importance of receiving quality, independent financial advice when considering or reviewing your pension options, particularly at a time when you are approaching retirement.

If you are contacted by a third party in relation to your pension or are simply looking for advice we would recommend that you always contact your 2plan wealth management IFA.

Your pension is one of your most valuable assets and for many individuals it offers the financial security to last throughout their retirement. As a client of 2plan wealth management you can be sure that your Independent Financial Adviser (IFA) only works in your best interests, putting you at the heart of everything we do.

We do not work with any specific firms and would never arrange for anyone to approach or contact you directly on our behalf. By having in place on ongoing service agreement with your 2plan wealth management IFA your situation and circumstances will be reviewed on a regular basis, agreed with you at outset, to ensure that the most suitable outcome can be achieved.

I'd put my mortgage on it

Half (50%) of the UK's mortgage holders have no life cover in place, meaning that 8.2 million people are leaving themselves and their families financially exposed if the unforeseen were to happen.

Scottish Widows' latest protection research also shows that only a fifth (20%) of the UK's mortgage holders have a critical illness policy, leaving many more millions at risk of financial hardship or losing their home if they were to become seriously ill.

A third (33%) admit that if they or their partner were unable to work for six months or longer due to ill health or personal injury, they'd be unable to live on a single income. And more than two-fifths (43%) of those who couldn't cope with a single wage say they would resort to dipping into their savings in order to survive.

Yet 43% say their savings would last for no more than a couple of months and 15% don't even know how much they have, meaning they could be relying on backup which doesn't actually exist.

Despite mortgage holders having a much bigger financial commitment on their hands, it's clear that too many of them are putting themselves at huge risk by failing to arrange cover for the unexpected.

Just under a quarter (23%) could only afford to pay household bills for a maximum of three months if they or their partner were unable to work, and 23% could make a maximum of just three monthly mortgage payments. Another 15% admit they're not actually sure how long they'd be able to cope with their mortgage payments.

Welfare reforms make the case for financial protection all the more pressing. A quarter (25%) of mortgage holders who say they'd be unable to live on a single income if their partner were unable to work also admit that they'd rely on state benefits to ensure they could manage financially.

But changes to Support for Mortgage Interest, which is the only safety net in place for many families if they were unable to pay their mortgage, mean that people now have to wait 39 weeks before receiving this benefit instead of the previous 13, which could be too late for many if they have no other protection in place.

Johnny Timpson, protection specialist at Scottish Widows, says: "None of us want to think about the worst, but our findings show that there are an alarming number of mortgage holders who could face a significant financial struggle in the event of an unexpected loss of income.

"Many people believe that they'll be able to rely on the State if the unforeseen happens, but recent cuts to welfare benefits are exacerbating their vulnerability.

"Taking out a mortgage is the biggest financial commitment many of us will ever make, so it's concerning to see that only half of the UK's mortgage holders have taken out life assurance, and even fewer have a critical illness cover. Having a financial plan in place will help protect your home in this type of eventuality and give greater peace of mind when it comes to what may be your greatest financial investment."

If you would like to review your mortgage financial resilience or general mortgage needs contact your 2plan wealth management adviser.

Article written by Johnny Timpson, Financial Protection and Industry Affairs Manager – Scottish Widows.

Variety is the spISA life

If you asked a number of different people what Individual Savings Account (ISA) means to them, it's likely that many would mention it is tax free and that they use theirs as an alternative to a standard cash deposit plan. The ISA's strengths are based on this message of simplicity.

Over the years since its inception in 1999, the ISA has been upgraded, expanded and tweaked but still retains its favourable tax status. Investment limits apply to all ISA variations but tend to increase each tax year in line with the Government's desire to encourage greater levels of saving.

In light of this, it is worth comparing and contrasting a number of ISA plan options, to consider their key features and benefits to make sure you're making the most of yours.

The Cash ISA uses bank and building societies deposits, which normally are protected by the Financial Services Compensation Scheme (FSCS). These plans tend to be used as an alternative to bank deposit accounts, particularly where the owner's income tax position or other deposits held mean they can benefit from the ISA income being tax free.

Stocks & shares ISAs allow investment in funds, shares or bonds and provide greater flexibility and scope for growth in value. As the investments are commonly managed by a third party, they can be more expensive to manage than a cash ISA. The nature of the investments can mean that this plan is higher risk and should be considered a longer term (5-10 years) option. They are attractive to people who want greater flexibility and dividends paid within their ISA tax free.

Help to Buy ISAs are used to buy a first home up to a specific value, dependant on location, where a 25% bonus (up to a maximum of £3,000) is added, helping the property purchase. It is restricted to true first time buyers but is a great way to increase a deposit, especially if both parties to the mortgage are first time buyers and can each benefit from the bonus – therefore achieving a maximum of £6,000 towards their first home.

Junior ISAs allow investments, either as cash or within stocks and shares, for under 18 year olds and remain until the 18th birthday is reached, when it is encashed or converted into an adult ISA. An advantage of the Junior ISA is that it cannot be accessed until the 18th birthday and hence could be used as a tax free savings plan for a specific purpose such as funding a gap year.

And then we have the Lifetime ISA. It was announced that from 6 April 2017, this ISA will provide a more flexible way to save for retirement or house purchase. 18 to 40 year olds will be able to use cash or stocks and shares of up to £4,000 a year, with a 25% bonus added at the end of each tax year. The expectation is that the money will be used for a house purchase or will be used as a retirement fund with no penalty from age 60.

With so many options, it can be thought that ISAs have become too complex. However each still offers the simple key savings aim of tax efficiency and each option should still be considered, not only as a standalone solution for a specific goal, but also as a combination of complementary components of holistic financial planning.

Article written by Tony Parker, Product Manager – AXA Wealth.

If you would like to discuss any of these topics in more detail, please feel free to contact me to make an appointment. If you have friends, family members or colleagues who you think would be interested in these topics, please pass this newsletter to them.

2plan®
wealth management

safety in numbers
2plan.com

safety in numbers