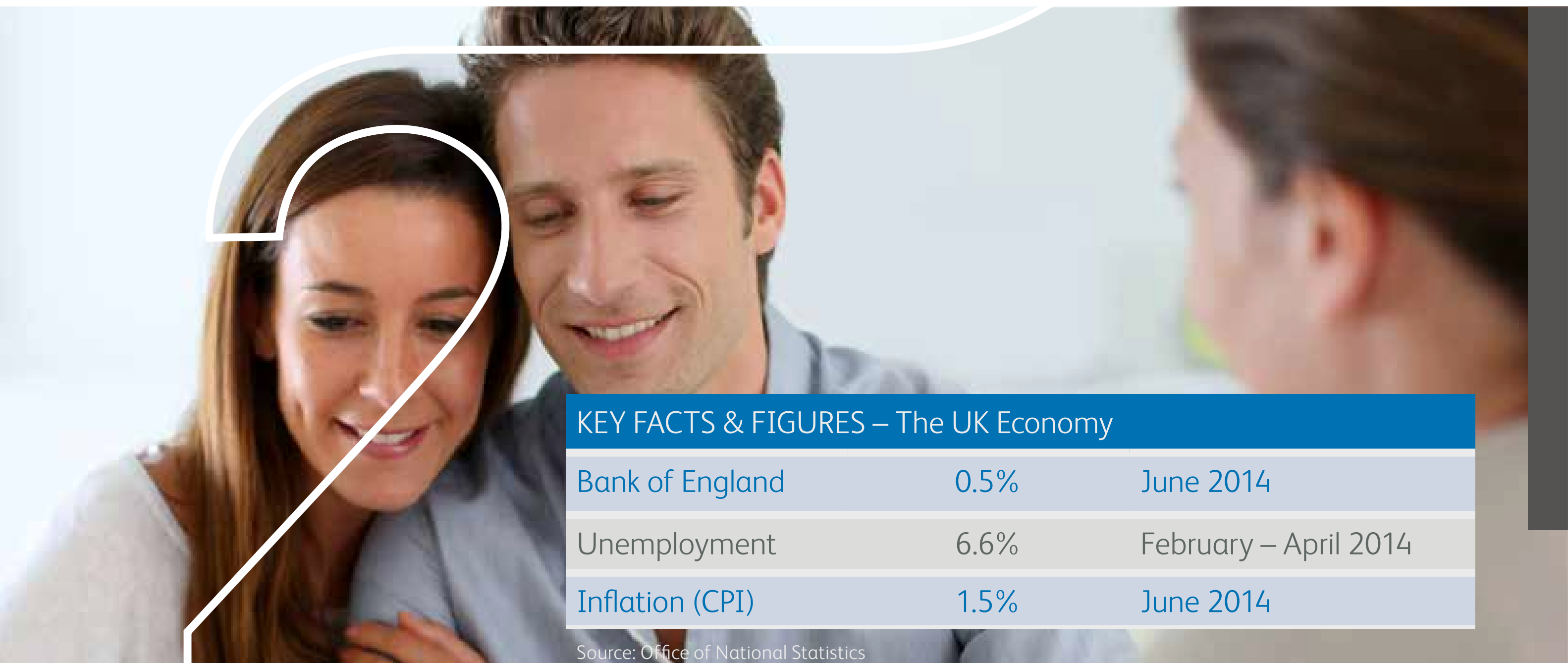
2plan® wealth management

financial Newsletter

Edition 12 – August 2014



KEY FACTS & FIGURES – The UK Economy		
Bank of England	0.5%	June 2014
Unemployment	6.6%	February – April 2014
Inflation (CPI)	1.5%	June 2014

Source: Office of National Statistics

Agenda

1. Economic Update
2. What are NISAs?
3. Passive and Active Fund Management
4. The Mortgage Market Review
5. Our New Personal Client Agreement
6. Where Does An Adviser Add Most Value?

Base rate remains stable

UK interest rates have been kept on hold at a record low of 0.5% for five years.

Inflation

- Lower fares for flights and ferries helped to push the rate of inflation down in May to 1.5%, its lowest level in four-and-a-half years.
- The Consumer Prices Index fell to 1.5% in May from 1.8% in April, according to the Office for National Statistics (ONS).
- A fall in food prices also helped drive down the rate of inflation.
- The rate of Retail Prices Index (RPI) inflation, which is calculated differently, was down slightly from 2.5% to 2.4%.

Unemployment

- The UK jobs market continued to improve in the three months to April, although the rate of wage increases slowed sharply, official figures show.
- The number of people out of work fell by 161,000 to 2.16 million, bringing the unemployment rate down to 6.6%.
- The number of people in work rose by a record 345,000, to 30.5 million, most of which are in full-time employment.
- The quarterly rate of earnings growth, including bonuses, slowed to 0.7% from 1.9% the previous month.
- This was largely due to delayed bonus payments, the ONS said. Excluding bonuses, pay rose by 0.9%.
- The total number of people out of work is now at its lowest level for more than five years, with youth unemployment, which covers 16-24 year olds, standing at 853,000.

What are NISAs?

Taking advantage of the new ISAs and maximising their value.

Offering flexibility in terms of cash or stock and shares options, ISAs have been great for ensuring that you don't pay more tax than you need to.

For example, a basic rate taxpayer putting money in a normal savings account loses 20% of the interest to the taxman, with those on a higher rate losing 40% and those at the top rate 45%.

Previously, the most you could put in to an ISA was £11,880, with a limit of £5,940 into a cash ISA. But from 1st July 2014 - when ISAs became New ISAs (NISAs) - that amount rose to a very welcome £15,000. There was also an increase to the amount that can be invested into a Junior ISA, rising from £3,840 and £4,000.

This applies to all existing ISAs and new accounts opened after 1st July which means that even if you have already made a contribution in the 2014/15 tax year you can make an additional contribution up to a maximum total of £15,000 for the current tax year. The Government has changed the name to NISA to reflect the significantly increased limits and flexibility that will be available to account holders.

NISAs are more generous than their predecessors and will offer flexibility to save your NISA annual allowance of £15,000 in cash, stocks and shares or any combination of the two. Under the NISA rules, you will also be able to transfer previous years' ISA savings freely between stocks and shares and cash if you wish.

There are two types of NISA:

- Cash NISA, which acts as a savings account into which you deposit cash
- Stocks and shares NISA, which acts as a tax-efficient wrapper for your investments

Cash NISAs may be suitable for short-term savings, so that you can get at your money easily, while stocks and shares NISAs may be appropriate if you can afford to leave your money untouched for longer periods. You can pay into one account of each type during the tax year, which runs from 6th April to 5th April the following year.

The rule for old ISAs whereby a limit was placed on the amount that can be invested in cash has now been abolished, meaning savers can invest the full £15,000 in cash accounts if they wish to do so. Transfers from stocks and shares NISAs to cash NISAs will be allowed, as well as the reverse.

And, while there are limits on the number of NISA accounts you can subscribe to each tax year (one cash NISA and one stocks and shares NISA) there are no limits on the number of NISAs you can hold over time - you could, for instance, open 10 NISAs over 10 years.

A recently conducted survey found that the number of British adults actively investing in stocks and shares ISAs rose 22% over the past year, with the biggest increase (of 45%) in ISA savings among over - 55s and those planning for retirement.

This age group appears to be increasingly switched on to the potential of investing through an ISA. With interest on cash savings still relatively low, investing in the stock market is a good option for those willing to take on investment risk. This type of investment could be right for savers looking to outperform interest from the high street banks and generate more growth and income in return.

For many people, a common way to save for their retirement has been through a combination of pensions and ISAs. Pensions provide initial tax relief whereas NISAs are more flexible, meaning you can access your money whenever you want.

Our advisers think the benefits of NISAs are very attractive indeed - meaning they will help the Government achieve its objective of encouraging more people to save - and are a highly desirable option to combine with other financial planning that 2plan wealth management IFAs can advise on as part of a broader strategy.

Passive and Active Fund Management – so what is the difference?

When it comes to placing your money into an investment fund, there are two main kinds of investment you will be made aware of – ‘active’ management and ‘passive’ management.

Like many things, both have their pros and their cons.

Passive management is when an investment is made in accordance with a pre-determined strategy that doesn’t entail any forecasting. In other words, any use of market timing or stock picking would not qualify as passive management.

The idea is to minimise investment charges and to avoid the adverse consequences of failing to correctly anticipate the future.

The most popular method is to mimic the performance of an externally specified index, such as a stock market. By tracking an index, an investment portfolio should have good diversification, low turnover and extremely low management fees.

Passive management is most common on the equity market, where index funds track for example the FTSE 100 or All-Share Index, but it is becoming increasingly common in other investment types, including bonds, commodities and hedge funds.

Active management, on the other hand, is a portfolio management strategy that sees a fund manager or research team make specific judgements with the goal of outperforming an investment benchmark index. The effectiveness of an actively managed investment portfolio obviously depends on the skill of the fund manager and research team.

In basic terms, a passive management fund is a tracker fund effectively run by a computer with low costs that follows a particular index. Active fund managers will charge more, but will endeavour to outperform the market.

Debate has raged over the years as to which is the most effective way to invest your money – active or passive fund management. There are upsides and downsides to both styles of management, depending on your circumstances.

The fact of the matter is that not many fund managers manage to beat the stock market but if you do pick the right fund manager or research team, the returns can be well worth the fees you pay for them. Indeed, some areas of investment are far better suited to active rather than passive management. Again, it comes down to your own personal set of circumstances and your attitude to risk.

As Independent Financial Advisers we will base our research on providers and products across the whole of the market. There are many products and investment styles available.

As part of the Advice stage of the 2plan wealth management Financial Advice Process, your adviser will assess your objectives, review any existing plans you have in place, conduct research and based on your attitude to risk will devise an investment strategy in order to recommend the most suitable solution tailored to you.

The Mortgage Market Review – what will it mean for the borrower?

New rules in the mortgage industry will encourage more ethical behaviour and prevent people borrowing more than they can afford. We look at what the rules mean for consumers and how borrowers can find the best deals.

Changes to regulations around mortgages which are designed to prevent irresponsible lending have come into effect.

The Mortgage Market Review (MMR) was started in 2009 as a comprehensive review of the mortgage market. It was in response to the problems many faced after over-reaching with mortgages during the height of the market in 2007.

After the crash and a long period of nervousness, the housing and mortgage market has picked up, so the changes have come at an important time.

The regulator behind the new rules, the Financial Conduct Authority (FCA), said they will prevent a return to irresponsible lending that took place in the run-up to the credit crisis.

So what does it mean for consumers?

Well, the main thing is you shouldn't be able to borrow what you can't afford to repay.

There have been some issues such as people already in the system having to start the process from scratch, as well as longer mortgage interviews. But generally the changes will protect consumers.

The most significant change is mortgage lenders and building societies can no longer act irresponsibly and suggest unaffordable mortgages to people compared to their incomes.

Advisers now have to suggest credible, affordable schemes, making sure people can cope when interest rates go up. They won't just work out whether you can afford the current interest rate, they'll work out whether you could afford a higher interest rate.

They'll also take into account spending habits, and self-certification mortgages are now banned as lenders will have to check how much you earn, rather than trusting your word.

Another change relates to interest-only mortgages. Although lenders can technically still grant them, they can only do so where a "credible strategy for repaying the capital" is proven. Lenders will have strict criteria in place as to what they will accept as a credible repayment strategy. Most lenders won't take the sale of the house as part of that.

Mortgage sales will need to be advised – lenders' staff will have to be qualified and will not just be allowed to sell home loans without assessing customers' needs.

So while everyone in the industry has to behave responsibly, consumers can still help themselves by choosing the correct adviser.

Only an independent adviser can look at the whole market and find the best deal and products particularly suited to the individual. An adviser in your local bank, for example, will still only act on behalf of the bank and have a limited range of options to advise on.

All in all, the MMR is a very welcome move that encourages ethical lending and sensible borrowing behaviour. The independent status of 2plan wealth management and our mortgage advisers mean that we are in a position to advise on the full spectrum of mortgage options and help you secure the one that works best for you.

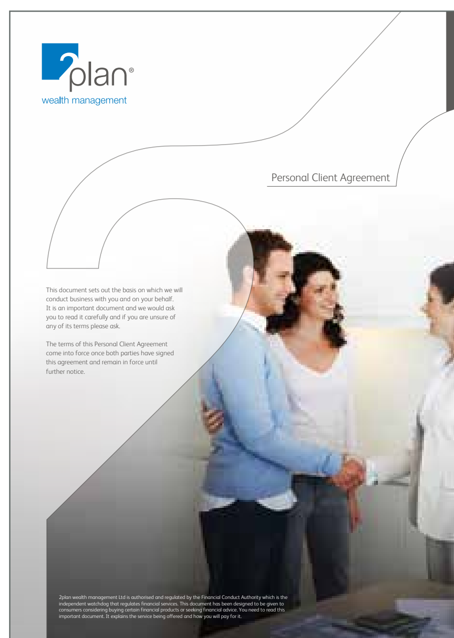
Our New Personal Client Agreement

The newly updated 2plan wealth management Personal Client Agreement (PCA) sets out the basis on which 2plan wealth management Independent Financial Advisers (IFAs) will conduct business with you.

The PCA – like all of 2plan wealth management's services – is designed to help our IFAs continue to build positive relationships with their clients and provide them with the most suitable advice.

It outlines 2plan's commitment to providing truly independent advice and delivering the appropriate level of service to our clients. As such, it a really key piece of disclosure designed to forge even greater trust between 2plan and its clients.

To provide some background, it has been mandatory since 31st December 2012 under the RDR (Retail Distribution Review) for all financial advisers to provide a set charging structure, agreed with you at outset, giving their clients full visibility of the charges they will incur for receiving an agreed professional advice.


2plan wealth management

Personal Client Agreement

This document sets out the basis on which we will conduct business with you and on your behalf. It is an important document and we would ask you to read it carefully and if you are unsure of any of its terms please ask.

The terms of this Personal Client Agreement come into force once both parties have signed this agreement and remain in force until further notice.

2plan wealth management Ltd is authorised and regulated by the Financial Conduct Authority which is the independent watchdog that regulates financial services. This document has been designed to be given to consumers considering buying certain financial products or seeking financial advice. You need to read this important document. It explains the service being offered and how you will pay for it.

The RDR is a set of UK regulatory changes introduced by The Financial Conduct Authority aimed at improving standards of financial advice, and consumers' understanding of the cost of advice. Ultimately, it was introduced to ensure that clients receive the best possible outcomes.

2plan wealth management was actually way ahead of the curve on this, introducing its own PCA more than three years ago to far exceed the regulator's expectations.

2plan wealth management is proud of its commitment to providing clarity across its services and meeting the standards set by the regulator.

We never rest on our laurels at 2plan in our efforts to maintain and improve our compliance and service levels, which is why we put so much effort into refreshing our PCA and making certain that we really set the standard in terms of our conduct in relation to clients.

Our commitment to providing purely independent financial advice is also manifest within the new PCA – it's something we feel very passionately about!

If an adviser is 'independent' or a firm advertises that it gives 'independent advice', this means that it's able to advise and sell products from any provider right across the market. That therefore means that you will get solutions and products tailored just for you. And that is what 2plan wealth management is all about.

In contrast, a restricted adviser or firm - as the name suggests - can only recommend certain products and/or product providers to you. That means that you may miss out on potentially suitable products that IFAs can source from right across the full spectrum.

Independent advisers work harder for you than a restricted adviser by virtue of the fact that they base their recommendations on a comprehensive and fair analysis of the entire market.

Don't be fooled into thinking there is any middle ground between the two types of advisers. Some advisers and firms may describe themselves as 'restricted universal' or 'restricted whole of market' in an attempt to make it look as though they are independent. They are not. They are restricted.

Where does an adviser add most value?

Providing true value to our clients by building long-term relationships and helping them to achieve their financial goals.

The issue of tax avoidance or 'evasion' has been a particularly well-publicised and hot topic this year, with high profile pop stars and celebrities being potentially forced to repay millions of pounds - and even the threat of jail - after the taxman had challenged their accountants' creative ploys to avoid paying tax.

Tax avoidance is not something that 2plan is at all interested in advising on. 2plan wealth management is not in the business of concocting weird and wonderful schemes that will one day land you in hot water.

Rather, we are interested in sitting down with you to really understand your financial goals and helping you achieve them. That is where a 2plan wealth management Independent Financial Adviser (IFA) can really add value.

If you have savings or investments that you would like to grow for the future or receive an income from, then you will want to be confident that the person advising you has your best interests at heart. And that they also have the ability to pull from the widest possible range of options from across the financial services market, so that they can find the most appropriate one for you. The truly independent nature of your adviser means that they can do just that.

Your 2plan wealth management IFA will sit down with you initially to identify your specific financial goals and assess your life stage – are you approaching or planning on retirement, for instance? That will naturally have a very important bearing on your financial planning.

All-importantly, your adviser will also assess your personal attitude towards investment risk. Understanding and managing clients' risk is a fundamental part of the adviser's role. Your attitude towards risk will help decide what type of investments you make.

A general rule is that the more risk you're prepared to take, the higher the potential returns could be. The downside is that any losses are potentially greater. If you want to take a more cautious approach, then it follows that your returns are likely to be lower, but any losses may not be as large as someone prepared to accept a higher amount of risk.

If you are willing to take some risk, you will need to understand that all investments will have fluctuations in their value in exchange for the opportunity to achieve above average returns.

Overall investors want the spending power of their investments to increase, or their income to maintain its spending power over time. They are happy to consider putting some of their money into stock market investments with the aim of getting a better return. They accept that they could make a loss on the money they invest. In assessing the level of investment risk a client may be willing to take, an attitude to investment risk questionnaire is typically completed.

While most standard attitude to investment risk questionnaires serve a purpose for an initial client meeting by enabling the adviser to understand a client's attitude to investment risk, such a basic approach lacks the flexibility needed to assess a longer-term outlook and distinguish this from any anxiety over short-term volatility.

Allying your adviser's human expertise and experience with technology specifically designed for the purpose will allow them to help you and them fully understand your attitude to risk and therefore advise on investments and financial planning options accordingly.

Our initial meeting might be about fact-finding and establishing goals at that time. But real financial advice isn't a simple one-off process. We also think it is extremely important to review your existing plans on an ongoing basis, as we know that circumstances change and that you will want to know what is happening with your investments.

We will therefore agree, where appropriate, to provide an agreed ongoing service in which we will keep you updated on your investments, reassess your attitude to investment risk by completing the attitude to investment risk questionnaire at each review meeting and if appropriate will make new recommendations and put these into place as necessary.

Ultimately, our service is about providing true value to our clients by building long-term relationships and helping them to achieve their financial goals.

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.

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The information contained in this newsletter is based on 2plan wealth management Ltd's current understanding of tax laws as at July 2014. These laws are subject to change at any time and 2plan wealth management Ltd cannot be held responsible for any decisions made as a result of this newsletter. Tax advice is not regulated by the Financial Conduct Authority.

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