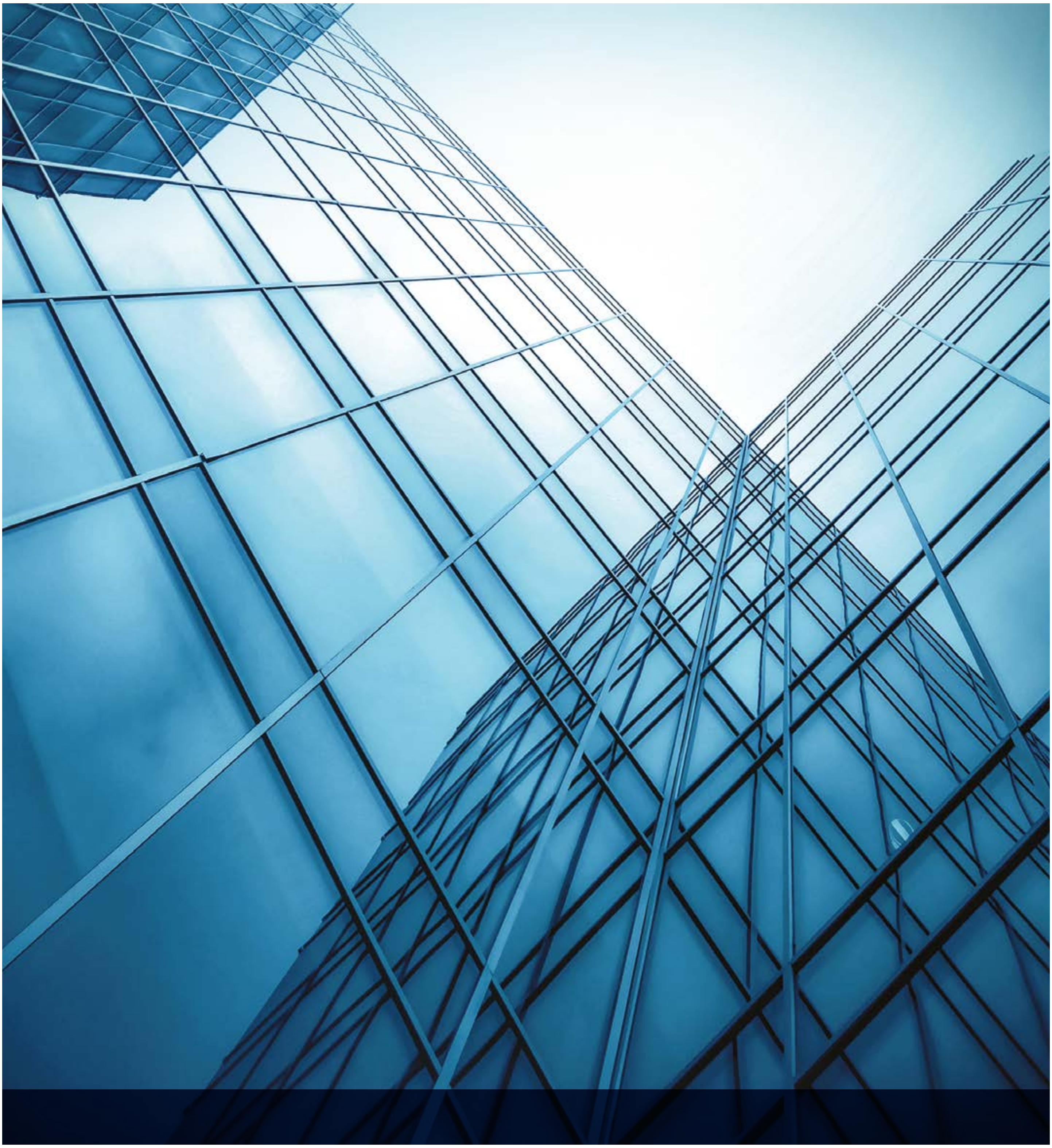
BRI Wealth Management PLC

BULLETIN

January 2017

We hope you enjoy our new style **Newsletter**



Contents

Page 1
Market Commentary

Page 2
Market Commentary *(continued)*
ISA Changes

Page 3
Capital Gains Tax
Lasting Power of Attorney

Page 4
The Times They Are A Changin'

Page 5
The Times They Are A Changin' *(continued)*
Death in Service

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Market Commentary

Many years ago, the American writer and humourist, Mark Twain, said of October 'This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August and February'. I think this neatly sums up 2016 due to the sheer number of implausible possibilities that became reality and the starkly different markets we faced in most months of the year. Here is a short summary of 2016 that is not too heavily focused on the B word or the T word.

ISA Changes

Savers will be able to contribute to one Lifetime ISA in each tax year, as well as a cash ISA, a stocks and shares ISA, and an Innovative Finance ISA, within the new overall ISA limit of £20,000 from April 2017.

If you would like some advice on the different ISA types, please do not hesitate to contact one of our advisors on 01676 523550.

January

In China, weak economic data and the slowest GDP growth rate since 1990 causes the Shanghai stock market to fall sharply.

Crude oil falls below $30 for the first time since 2003.

February

Oil continues to plummet, suffering an 11% fall in two days and hitting $27.

The People's Bank of China cuts the reserve requirement in order to stimulate loan growth in the economy.

March

The European Central Bank cuts interest rates and boosts quantitative easing in an attempt to kick-start growth within the Euro area.

The Federal Reserve in the US decides not to raise interest rates and guides to fewer increases in the future due to economic uncertainty.

April

Saudi Arabia lays out its 'Vision 2030', a plan to diversify away from oil, including selling a stake in the multi-trillion dollar national oil company.

Apple's iPhone sales drop for the first time in the history of the company.

May

Donald Trump gains the Republican nomination for President.

June

The UK market surges as polls show a majority of voters favouring to stay in the European Union.

The UK market and sterling plummet as voters choose to leave the European Union.

David Cameron steps down as Prime Minister after 6 years in office.

July

Following the sharp decline in sterling, British chip design darling, ARM Holdings is acquired by a Japanese firm in a $32bn deal.

August

The Bank of England cuts interest rates from 0.50% to 0.25%, Quantitative Easing is resumed and growth forecasts are lowered.

UK markets continue to surge due to weak sterling.

September

OPEC members agree to cut production, oil rallies along with stock markets.

October

A relatively quiet month on the global stage, much needed respite after a tough 2016.

November

Respite is over. Donald Trump is elected President of the United States of America, winning the Electoral College vote but losing the popular vote. Stocks rise, bonds fall, forecasters despair.

US consumer confidence rises to the highest level since 2007.

December

US unemployment falls to a nine year low of 4.6%.

The Federal Reserve raises interest rates by 0.25% to 0.75%. The solitary rate rise of the year, compared to four rises that were expected.

After the unexpected 2016 that we saw, one wonders whether 2017 can possibly have that much surprise in store for us. Along with the aforementioned Twain quote that reminds me of 2016, there is one more that I find my mind wandering to. As the economist John Galbraith once said 'There are two kinds of forecasters: those who don't know, and those who don't know they don't know'.

Understanding Capital Gains Tax – and making the most of your allowance

It is approaching that time of the fiscal year when we think about year-end tax planning and the utilisation of your annual Capital Gains Tax allowance. For the 2016/17 tax year, your tax-free allowance – called the Annual Exempt Amount – is £11,100 (£5,550 for Trusts), with tax paid on your overall gains above this amount.

You are allowed to use losses, including losses from earlier years that have been registered with HMRC, to reduce your taxable gain in the current tax year. Losses can be carried forward indefinitely, but only those that have been registered no later than 4 years after the end of the tax year in which you disposed of the asset.

Capital Gains Tax is a tax on the profit when you sell (or 'dispose of') something (an 'asset') that's increased in value. It's the gain you make that's taxed, not the amount of money you receive. For individuals, tax paid will be at a rate of 10%, 20% or a combination depending on the individual's personal rate of taxation.* It is important to note that any gains chargeable to tax are added to one's gross income in order to determine the rate at which tax is paid. Trustees and personal representatives pay tax at a flat rate of 20% (28% on residential property).

The general view of the Annual Exempt Amount is that, whilst welcome, it is not overly generous; and for a portfolio with an initial value of £220,000, growth of just over 5 per cent in the first year creates a notional gain close to the £11,100 threshold. Please note, if you do not fully use your Annual Exempt Amount it does not carry forward, hence the expression 'use it or lose it' applies. So, if the inherent gains in your portfolio are significantly in excess of the Annual Exempt Amount, not only should you ensure you fully utilise your personal exemption, it would also make sense to consider transferring assets to your spouse or civil partner so they too can fully utilise their personal exemption.

Such activity helps to ensure portfolios remain, as far as possible, unconstrained by Capital Gains Tax. However, with regard to larger portfolios we often question whether the payment of Capital Gains Tax should be considered an acceptable cost within the context of efficient portfolio management. Or, to put it another way: should we not view the tax paid as a percentage of the overall gain rather than of just the chargeable gain? In other words, the effective rate of tax.

For higher rate taxpayers especially, understanding the effective tax rate may make the task of planning for regular external commitments, or for future capital expenditure, less burdensome.

As is our usual practice, we will be writing to clients early in the New Year to ask if they have either taken, or intend to take, profits outside of their BRI portfolio in the current tax year or have losses carried forward from earlier years; if you would prefer to speak to your advisor before then, please do not hesitate to call.

*Gains on residential property are payable at 18% or 28% depending on your personal rate of taxation. Sole traders or partnerships may qualify for Entrepreneurs Relief on which gains are taxed at 10%.

Lasting Power of Attorney

You may not be aware that your lasting power of attorney (LPA) should always include explicit permission to outsource investment decisions to a Discretionary Fund Manager (DFM).

If you did not realise that you have to be explicit about these wishes, you are not alone. Many people are not aware that an LPA must include express power before delegating decisions to a Discretionary Fund Manager (DFM). But without it, investment dealings will often be refused.

It is within your best interest to guarantee that your LPA includes the express power described above. This will ensure that your investments can continue to be managed in the event that your LPA is required. You may wish to discuss this matter with your attorney or solicitor to ensure the necessary permission is in place, as this is an area of growing concern for the legal and financial sector.

The Times They Are A Changin'

2016 marks the year that Bob Dylan won the Nobel Prize for Literature. The third verse of an especially poetic song of his seems relevant for the political world we appear to be living in.

Come senators, congressmen

Please heed the call

Don't stand in the doorway

Don't block up the hall

For he that gets hurt

Will be he who has stalled

There's a battle outside and it is ragin'

It'll soon shake your windows and rattle your walls

For the times they are a-changin'.

– Bob Dylan

I think this verse sums up the American political mood quite well, along with the referendum disposition by the UK public and the swathe of anti-establishment feeling across the European Union.

Certain portions of society are unhappy. Over the last forty years we have seen globalization, free trade, immigration, mechanization and technology completely change the world that we live in. For many, this has led to a dramatic improvement in the quality of life, but to the man with the new found voice, it has led to actual or perceived hardship. Forty years ago, a blue-collar worker could earn a decent living. But the rise of automation, technology, and globalization, has seen jobs being lost to machines or foreign climes. This long term structural change in the global economy has been exacerbated by the Global Financial Crisis, where large portions of society (lacking in assets) have seen their purchasing power eroded by poor wage growth, low, but persistent inflation and house price increases forcing up rents. They're angry. And they've been angered not only by the problems themselves, but also by the lack of resolution.

Most Western political systems can be a quagmire for policy changes and trying to get things done. Too often, Punch and Judy politics obstructs any form of change, with the opposing side often disagreeing with something just for the sake of it. Maybe that's me being overly cynical. But this perceived or actual obstruction angers people. It is the sign of a good democracy to have robust debate and a strong opposition, but often it just feels like childish squabbling. The American population clearly agrees with Dylan: 'Don't stand in the doorway, Don't block up the hall, For he that gets hurt, Will be he who has stalled'. A little more cooperation within politics might actually start leading to tangible changes and improving the public's perception of our politicians; neither of which would be a bad thing.

People voted for Trump because they wanted change. For whatever reason, they felt let down by the established political classes and saw the message of change as an appealing alternative to the status quo. Whether he is the right man for the job is a separate debate, but the people who voted for him feel like they have a better chance of changing the system with him than with Clinton. People voted to leave the European Union for very similar reasons: anger at the world they live in, with nobody listening to them, and nobody changing things. Was the European Union the sole cause of all the woes of UK voters? Was it the modern day equivalent of Pandora's box? No. It was not perfect, and it did not suit everybody. But ultimately, it was just the most tangible entity to lash out at.

Our politicians do need to heed the call of the dissatisfied public. If not, there will be more political shocks and the system will become more and more unjust for the majority.

So far, markets have been remarkably sanguine about a Trump presidency. The initial shock and fall, which has become all too common in markets, was short and shallow. A starting 160 point decline in the UK was reversed and now the market is back above 7000. This does seem quite peculiar given the fact that not many people were expecting a Republican win and still nobody knows what it means (sound familiar to something else?). The list of global concerns that I bore people with has now gotten slightly larger, and our eyes are firmly fixed on how these developments will continue to evolve in 2017.

Whilst remaining cautious on the future direction of markets, we are still looking to take advantage of irrationality and fear to buy into good quality companies and funds that should deliver meaningful growth over the longer term. Our job as stewards of your capital remains at the forefront of our minds and we are well prepared to navigate the battle outside that's ragin'.

Death in Service

Are you aware that a traditional death in service scheme forms part of your pensions lifetime allowance? This is a limited amount of pension benefit, currently £1,000,000 that can be drawn from pension schemes – whether lump sums, retirement income or as death benefits – and that can be paid without triggering an extra tax charge.

At death, all pension benefits are tested against the lifetime allowance and if pensions and death in service (not applicable if you are already retired) are over the allowance, there will be a tax charge levied. If taken as a lump sum this would be 55%. Something to watch out for.

Death in service is often a free benefit so it is likely to be better to have than not to have even after a tax charge but for those individuals who can control or influence how they receive benefits it may be better to come out of the death in service scheme and start a relevant life policy which does not form part of the lifetime allowance.

Individuals should be aware that if they move jobs and join a death in service scheme it will invalidate any protection they may have on their lifetime allowance. This could easily be done without them realising, and is likely to be the case with auto enrolment, although they would have 30 days to opt out before protection is lost. If already in an existing death in service scheme then they can retain membership without losing protection.

This can be a complicated area of legislation, therefore we would recommend talking to one of our financial planners if you have any concerns.