BRI Wealth Management PLC

BULLETIN

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We hope you enjoy our **Newsletter**

Contents

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INVESTORS IN PEOPLE

Market Commentary

Rather than our traditional market commentary, we decided that this quarter, we would pose a range of questions to our Chief Investment Officer Vince Hopkins.

2017 finished well for world markets. How do you view the prospects for 2018?

The last few years have seen many global commentators unsuccessfully calling the top of this bull market. Worryingly, perhaps, we are entering 2018 with renewed optimism, fuelled by the prospects for global growth. The major markets of the US, Europe and Japan are all posting improved growth figures; however, the one major economy seeing continual downgrades is the UK.

Equity valuations – particularly in the US – are often highlighted as being stretched; however, the recent tax cuts will further enhance the earning growth potential which could in turn fuel either further share buybacks or dividend increases. Europe is recovering from a much lower valuation point, so further appreciation can be expected; and Japan is hitting new highs as the financial stimulus brings further economic benefits.

How do you view the coming year for the UK?

It is disappointing to say that we start the year on the same cautious note as in 2017. From leading growth expectations amongst the G8 only two years ago, we have slipped towards the bottom of the G20 league table. This outlook is no doubt impacted by Brexit uncertainties; and we cannot ignore the delicate political situation that the Conservatives find themselves in following the disappointing June election result. The left-wing policies of nationalisation, increased spending and higher taxes send a shudder through those who can remember the 1970s. If you are 40 or under, you will only have learnt about such things in history. This, coupled with the disenfranchised "youth", offers Corbyn growing support.

The UK market ended the year with quite a strong December rally; but from here, we favour overseas markets and UK companies with large overseas earnings.

Has currency played a part in investor returns in 2017?

Sterling was resilient in 2017, especially relative to a weak dollar. £ vs: $ appreciation is nearly 10% over the year which will reduce the returns from dollar-based investments.

With the current cable rate (GBP/USD) at 1.35, many forecast that this will fall below 1.30 or worse if there is more political turbulence. The pound also rallied from August lows against the euro when there was talk of possible parity. The rate did fall to 1.08 but has rebounded above 1.12, helped by the increase in UK base rates in October. The Euro is +4% over the year.

Commentators are always looking for causes of concern – which would you highlight as being your main economic worry?

One concern is the possible threat of US inflation growing more rapidly than expected, and then countered by the Federal Reserve taking interest rate action to control it. The US market is focused on a further three interest rate increases in 2018. If more were required, then this would affect bond and equity markets globally. There are undoubtedly inflationary pressures with continuing growth and high employment, and this might stimulate further wage inflation. Oil, too, has just hit a two-and-a-half year high which will add to costs; but this is also good news for both institutional and private investors as it secures the very significant dividend pay-outs from the oil majors.

Looking at the UK, the threat of an anti-capitalist government will have immediate and significant consequences.

Technology was a major theme in 2017 – do you see this continuing?

The simple answer is yes. The five FAANG stocks (Facebook, Amazon, Apple, Netflix and Google) have contributed 38% of the whole S&P rise. Their growth prospects look good as they continue to dominate their global sectors.

China has its BATs (Baidu, Alibaba and Tencent); and these three now make up 34% of the Chinese index and over 10% of the whole emerging markets.

Technological developments continue apace and in all aspects of our lives. More than half of the new cars sold in Norway in 2017 were electric or hybrid – the first time a country has reached this landmark. All major technology companies are international, which supports our favoured view of looking for growth outside the UK.

ISA reminder

If you have not yet used your ISA allowance for this tax year and intend to do so, please remember that this must be done prior to 5th April. ISA allowances of £20,000 per person can be used for cash ISAs or stocks and shares ISAs. If you have any questions, please speak to your advisor.

Regulation Corner

From 3 January 2018 all investment firms will need to comply with the requirements of new regulations, known as Markets in Financial Instruments Directive II (MiFID II). These regulations are designed to strengthen investor protection and further improve the transparency of the services that financial firms provide.

Some of the changes and their impacts are listed below:

Transaction reporting

With effect from 3 January 2018 we will need to report certain information to our regulator (the Financial Conduct Authority) about the clients for whom we are executing transactions and, in some cases, anyone associated with the transaction. For some categories of clients known as non-natural persons – such as Trusts – we will need a new identifier called a Legal Entity Identifier (LEI). Without this we won't be able to deal on their behalf. Natural persons, for example individual and joint accounts, will require a National Person Identifier. In most cases this will be the client's National Insurance number.

Valuation and 10% depreciation notifications

From 3 January 2018, we will provide clients with a portfolio valuation each quarter (currently every six months). In future, reports will be provided on valuations as at 31 March, 30 June, 30 September and 31 December.

New regulations also require that we notify clients if the value of their portfolio decreases by 10% or more between reporting periods. This notification must be made within one business day. Whilst falls of this level are unlikely, they are possible.

Effects of charges on returns

We will also provide clients with further information on costs and charges, such as underlying fund charges levied by fund managers, and their effect on portfolio returns. Our plan is to provide the information to clients annually, with the first report being provided at the end of December 2018.

Changes to our Terms and Conditions

We will be making changes to various documents including our Terms and Conditions. Once our Terms have been updated they will be posted on the Intermediary Download page of our website.

If you require login details for this, please do not hesitate to call our Intermediary Team on 01676 523 550.

Digital Assets

Digital assets are a growing part of many people's lives but can often be a forgotten part of estate planning.

Digital assets can include everyday matters such as online investment and bank accounts through to downloaded apps and media content (music, films, photographs and so on) as well as social media. Also included are electronic rights (i.e. royalties from publishing an e-book and so on) and other electronic ownership (such as website domain names and crypto currencies like bitcoin).

When dealing with a person's estate, either in terms of general assistance or as a result of death or incapacity, it is common to go through the individual's paperwork to establish their assets. However, digital assets typically do not leave a paper trail. Communication is generally by email, but unless the password to the individual's email account is known, it will often not be possible to access their emails.

Physical devices such as laptops, phones and tablets can also be inaccessible without the appropriate passwords; and the policies of software providers and hardware manufacturers vary. It is important to remember that many are not UK based companies (for instance Apple, Microsoft, Samsung, Facebook) and so operate under different legal jurisdictions.

There have been cases where sentimental digital assets such as family photos have been lost because the hardware provider will not override passwords to grant access to the device and may only offer to reset the device to factory settings (which wipes everything off the device).

Sharing or recording your passwords for digital devices and software presents its own risk and in some cases can be in breach of the relevant agreement, meaning that any normal protections might be lost (particularly in relation to online banking).

It is also worth checking the status of your digital assets. In some cases the software agreement can be more like a lifelong lease rather than actual ownership, which means that access to the software (e-books, music downloads and so on) can cease on notification of death.

Writing down a list of digital assets is a good start and allows consideration to then be given to how these can and should be dealt with by others in the event of something happening to you. The inclusion of appropriate instructions in Wills should also be considered.

Cyber Security

BRI takes cyber security very seriously and invests considerable sums of money in its cyber defences. We encourage all our clients to follow what are often quite simple precautionary measures to protect themselves from fraud. One useful source of information is the **Take Five to Stop Fraud** website which provides invaluable guidance on cyber security.

Some key areas to be aware of include:

Requests to move money to a 'safe' account

A genuine bank or trusted organisation will never contact you asking for your PIN or your full password, or request that you move money to a safe account. Do not give out personal or financial details.

Clicking on links/files

Do not be tricked into giving a fraudster access to your personal or financial details. Never automatically click on a link within an unexpected email or text.

Personal information

Always question uninvited approaches and never give out personal or financial details, in case it's a scam. Instead, contact the company directly using a known email or phone number.

Don't assume an email or phone call is authentic

Just because someone knows your basic details (such as your name and address or even your mother's maiden name), it doesn't mean they are genuine. Be mindful of who you trust – criminals may try to trick you into their confidence by telling you that you've been a victim of fraud. Criminals often use this to draw you into the conversation, to scare you into acting and revealing security details. Remember, criminals are also able to make any telephone number appear on your phone handset; so even if you recognise the number or it seems authentic, do not use it as verification that they are genuine.

Don't be rushed or pressured into making a decision

Under no circumstances would a genuine bank or other trusted organisation force you to make a financial transaction on the spot; they would never ask you to transfer money into another account for fraud reasons. Remember to stop and take time to carefully consider your actions.

A genuine bank or some other trusted organisation will not rush you or mind waiting if you want time to think.

Listen to your instincts

If something feels wrong then it is usually right to question it. Criminals may lull you into a false sense of security when you are out and about, or rely on your defences being down when you're in the comfort of your own home.

Stay in control

Have the confidence to refuse unusual requests for personal or financial information. It's easy to feel embarrassed when faced with unexpected or complex conversations. But it's okay to stop the discussion if you do not feel in control of it.

If you've taken all these steps and still feel uncomfortable or unsure about what you're being asked, never hesitate to contact your bank or your advisor on a phone number you trust.

BRI to start using secure email

From the early part of 2018 we intend to use secure email when sending clients important or confidential information.

The introduction of secure messaging will mean that we can use email to communicate with clients more widely in a safe and secure way, without the need for additional hardware or software. Emails will be accessed through a password protected web portal.

Autumn Budget 2017

Philip Hammond delivered his second Budget as Chancellor on 22 November 2017 with only one or two small surprises. We look at the main announcements and what they could mean for you.

Tax allowances

The tax-free personal allowance will rise with inflation to £11,850 from April 2018. The result is that you'll pay less tax on your earnings. The higher rate threshold will rise to £46,350. The government say that in 2018/19, a typical taxpayer will pay £1,075 less income tax than in 2010/11.

Changes to the tax-free dividend allowance and ISAs

The dividend allowance will be £2,000 from April 2018, down from £5,000 this tax year.

The allowance means that you will not pay tax on the first £2,000 of any dividend income, even if you have other income.

It's a useful allowance, particularly if you're a smaller investor looking to get income from shares which aren't invested in an ISA. Any income you get from an ISA is tax-free whatever rate of tax you pay; and the annual ISA subscription limit for 2018/19 will remain unchanged at £20,000.

Annual capital gains tax allowance

This is going up from April 2018 by £400 to £11,700 for individuals and by £200 to £5,850 for trusts.

Lifetime allowance (LTA) for pensions

The Budget papers confirmed that the lifetime allowance for pension savings will increase in line with the Consumer Price Index (CPI), rising to £1,030,000 for 2018/19. The LTA currently stands at £1m.

While pension savings over this amount will attract an extra tax charge, pensions remain a very tax-efficient way to save. If you've built up considerable pension savings, the increase in the pension lifetime allowance is likely to be very welcome and potentially saves you or your family £16,500.

State pension

The state pension triple lock will increase by 3% from April 2018, amounting to £3.65 extra a week for those entitled to the flat rate pension.

The 3% rise means that the full basic state pension will go up from £159.55 to at least £164.37 a week, giving pensioners an annual rise of £250.

However, those who reached state pension age before 6 April 2015 and are on the old basic state pension will only see their entitlement increase from £122.30 to £125.97 a week, giving an annual increase of only £191.

Inheritance tax allowance (IHT)

If you pass on your home to a close family member when you die, there's an extra IHT allowance on top of the standard £325,000 nil rate band for each person. This is going up to £125,000 from £100,000 next April.

What this means is that more of your estate can sit outside of inheritance tax. Qualifying couples can pass on assets of up to £900,000 free of IHT to their loved ones.

EIS and VCTs

The Chancellor announced plans to double EIS investment limits for knowledge-intensive companies, while ensuring that EIS vehicles are "not used as a shelter for low-risk capital preservation schemes". This increase will now allow an investment of £2 million per annum into these arrangements.

The Chancellor also said that the government is publishing an action plan to unlock over £20bn of new investment in UK knowledge-intensive, scale-up businesses.

Stamp duty land tax

Good news and a welcome boost for many people trying to get on the property ladder as stamp duty is to be abolished immediately for first-time buyers purchasing properties worth up to £300,000.

To help those in London, the first £300,000 of the cost of a £500,000 purchase by all first-time buyers will be exempt from stamp duty, with the remaining £200,000 incurring duty at 5%.

Some 95% of all first-time buyers will benefit, with 80% paying no stamp duty.

The Office for Budget Responsibility has said that the stamp duty cut will push house prices up. It says it expects this policy to increase prices by 0.3%, with most of this effect occurring in 2018.

Corporate tax on property

The corporate indexation allowance will be frozen from 1 January 2018. Accordingly, no relief will be available for inflation accruing after this date in calculating chargeable gains made by companies.

Brexit

An extra £3bn will be allocated to prepare for Brexit over the next two years. The money will make sure the government is ready on "day one of exit".

It will include funding to prepare the border, the future immigration system and new trade relationships.