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

The summer months are currently being dominated by political events around the world: some good, some bad, and some remaining unresolved.

Donald Trump is never far away from the news, from controversy or from Twitter. The historic meeting with Kim Jong-Un was a politically staged masterpiece. The cameras of the world were on Singapore; and who cares if little of substance came out.

Whilst in the ascendancy “back home”, Trump wasted no time in signalling more tariffs against the Chinese having already let the G7 know his thoughts – provided they read his Twitter feed. Trade war rhetoric looks set to continue.

In Europe, Italian politics dominated and clashed with the EU establishment. This will be a feature in the coming months. Whilst easing austerity will be the major headline (not that the Italians can afford to), the thorny, emotive and humanitarian subject of immigration is again hitting the continent. Nationalism is appearing again much as it did two years ago; and even Angela Merkel is facing political embarrassment amongst her minority coalition.

Finally, Brexit and politics in the UK are again top of the agenda with amendment after amendment passing back and forth amongst the two legislative houses. We have a divided government, a divided opposition and a divided country (countries) with no sign of resolution. “Cans” have been kicked down the road for months, but eventually you do run out of highway. Our belief is that there will be a deal agreed and that we will increasingly see industry both in the UK and Europe exert more pressure and common sense on politicians. This, coupled with public frustration and anger, should ensure a conclusion which will probably be unsatisfactory to all.

Against this unsettled political backdrop, markets have been surprisingly resilient. The widely anticipated rise in US interest rates was taken in its stride. Mario Draghi calmed European markets by highlighting the end of QE (Quantitative Easing) this year; but interest rates in the eurozone are unlikely to rise for at least 12 months.

From our perspective, BRI currently still favours equities over bonds and bonds over cash. We continue to prefer overseas markets/earners to the UK. The recent Chamber of Commerce survey downgraded UK GDP expectations again and talked of Brexit uncertainty affecting investment and sentiment. Good companies, though, will always be good companies; and whilst we are conscious of shorter term influences, we do invest for longer term returns.

We believe, however, that the UK will continue to see increased corporate activity. This may be caused by the renewed weakness in sterling, the openness of the UK market or the cheap valuations now being seen in certain stock and sectors. The weaker currency will also benefit the index dominant dollar earners, helping to cushion against any political/Brexit-led falls.

Enterprise Investment Schemes

Demand for tax advantaged investments is rising as tax changes and pension restrictions start to affect wealthy investors. For sophisticated investors contemplating the wide range of investment options, Enterprise Investment Schemes (EIS) provide an appealing alternative due to the many tax reliefs available.

Investing in Enterprise Investment Schemes is encouraged by the government to raise funds for a greater number of small businesses, and this is reflected in the high rates of tax relief on offer. The main attraction for the government is the contribution small businesses make to the UK economy: they create jobs and generate tax. The main attraction for investors is the chance to invest in the newest and most exciting businesses with the added benefit of tax relief.

Who might consider an EIS?

EIS investments are for wealthier and sophisticated investors who are not reliant on the amount they invest and can tie up their capital for the longer term. They must be able to accept the risk that they could lose some or all of their investment.

Typical EIS investors might include those:

- with a large Income tax bill
- who are affected by the reduced pension contribution and lifetime allowances
- who have sold a business, investment property or shares and want to defer paying tax on a capital gain
- who have received a tax-free lump sum from a pension and want to reinvest the lump sum and get tax relief again

There are five main tax reliefs available through EIS investments that can be broken down into five easy-to-understand incentives:

1) Capital Gains Tax (CGT) Deferral

Let us imagine a prospective investor, Mr Smith, who has sold one of his assets, in this case a property he owns with a value over £450K. His net capital gain from the sale is £100,000. Under usual circumstances, assuming he is a higher rate tax payer, Mr Smith would be liable to CGT at a rate of 28%. However, by reinvesting the £100,000 in EIS shares, he would be eligible to defer this CGT liability for the next few years.

This deferral would continue to last until a changeable event occurred. For instance, if Mr Smith were to sell his EIS shares after holding them for at least three years, the gain would be ‘revived’, and he would become liable to pay the CGT at a rate of 28%, as before. However, this revived gain would be applied to the current tax year.

Should he wish to do so, Mr Smith could then reinvest the revived gain back into a new EIS investment, at which point the CGT would again be deferred. He can continue to defer the CGT in this way until it is written off upon death.

There is no upper limit to the amount invested across all EIS shares. There is only a maximum amount that can be invested in any one year: £1 million.

2) Income Tax Relief

Assuming Mr Smith's income is sufficient to pay the equivalent in Income Tax, 30% Income Tax relief would be available for the current tax year, saving £30,000 of his £100,000 net capital gain invested in EIS shares.

It is possible for this Income Tax saving to be carried back to the previous tax year. Investors such as Mr Smith will want to take advantage of this if they have not paid a total of £30,000 in Income Tax this year (using the previous year's Income Tax to fill the remainder).

3) Capital Gains Tax Relief Incentives

In addition to Income Tax relief and CGT deferral, Mr Smith would also have access to Capital Gains Tax relief on any profit made on the investment, with some caveats. The shares must be held for no fewer than three years and Mr Smith would not be able to claim CGT relief from any business in which he holds more than a 30% stake. On sale of his EIS shares no Capital Gains Tax will be due on the profit. It is also worth noting that most private companies will not pay dividends to shareholders, but for those that do, tax is still paid at the usual rate.

4) Inheritance Tax (IHT) Relief

For investors seeking to mitigate Inheritance Tax, alternative investments through EIS provide further benefits. Shares in companies that qualify for EIS can be eligible for Business Relief for Inheritance Tax purposes at rates of up to 100% after holding the EIS shares for two years. This reduces or eliminates any liability for Inheritance Tax connected to these shares.

5) Capital Losses

Finally, if any Capital Losses are incurred after the disposal of EIS shares, the loss can be classified as an 'allowable loss'. This will provide Loss Relief which can be set off against other Capital Gains or Income Tax.

The tax advantages are significant, but you should make your decision to invest based on the merits of the investment itself, not on the tax benefits. Tax rules can change, and tax benefits depend on individual circumstances. To retain the tax benefits of an EIS you need to hold it for at least three years and the investment must remain qualifying. There are also risks associated with these investments which should be considered carefully before investing.

If you would like to find out more about EIS investments, please contact one of our Financial Planners, who have a wide range of expertise in EIS investments and who will be able to discuss the issue with you in more detail.

A Golfing Success!

Two of BRI's advisors, Peter Baxter and Ben Crabbe, recently took part in a charity golf competition at Handsworth Golf Club. The event raised over £7,200 in aid of Multiple Sclerosis.

Congratulations to Peter, Ben and their team for winning the competition and raising awareness for a debilitating condition which affects more than 100,000 people within the UK.

A Random Walk through Probability

During the office draw of the World Cup sweepstake I (*Peter Baxter*) asked myself how probable it would be for me to draw one of the teams most fancied to win. My capital outlay was just £2 but this mattered; the prize for the winner is a mighty £30, presenting a return of 15 times one's initial investment. How often does one enjoy this level of return from what is, admittedly, a random selection process?

It rather reminded me of when I became a partner's assistant, coincidentally in the same year as the establishment of the index commonly known as the Footsie. Consisting of 100 of the largest companies by market capitalisation quoted on the London Stock Exchange, this index began life in 1984 with an initial value of 1000. At the time of writing this article, the index stands at 7631, thereby multiplying an initial investment by 7.6 times, around half of that delivered to the lucky winner of the office sweepstake. And, of course, winning the sweepstake will not have taken 34 years, just 34 days.

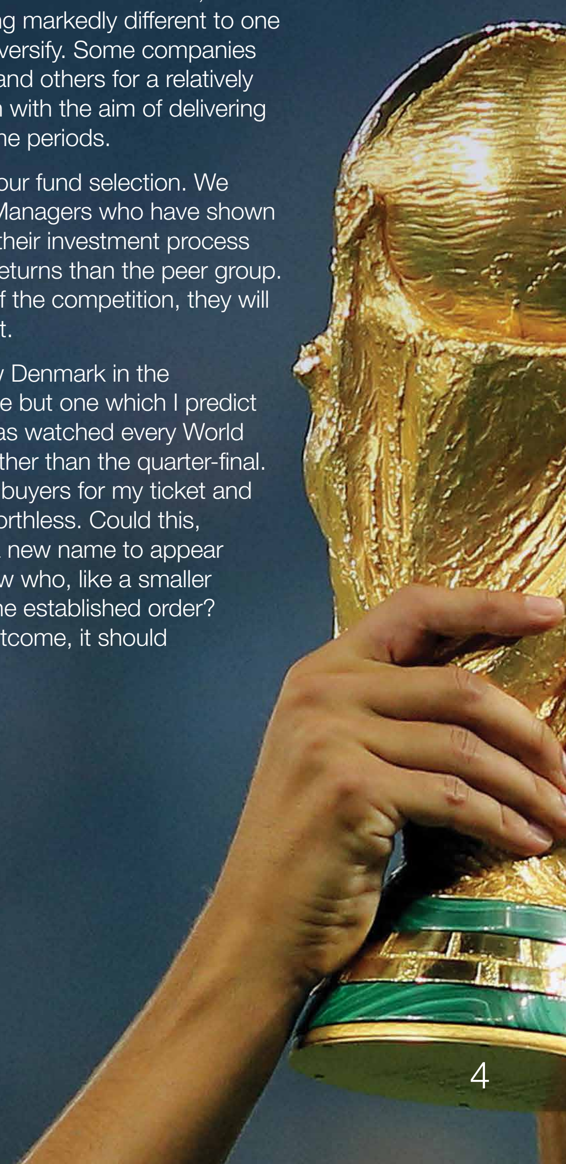
So why does the randomness of the office sweepstake remind of my first days as a fully-fledged stockbroker? Although not in any way as random, the process back then for constructing a portfolio tended to follow a similar line in probability in that former 'winners' – much like World Cup winners Brazil and Germany – would expect to remain successful over time. From an investment perspective, I might consider Royal Dutch Shell (formerly Shell Transport & Trading) as my Brazil, having increased their value to shareholders several times over since 1984. Uruguay, a team difficult to beat but who last won the World Cup in 1950, could be Marks & Spencer, which in my early stockbroking career would have been the first company name in my list of shares to buy but which today struggles to remain a truly competitive force in the High Street.

What this all means is that while it seems obvious to many that the eventual champions will probably be a former winner, nothing can be so predictable.

At the outset of every football match, the chance of winning is the same as losing even if one team will always be favoured over the other. Past performance, as we are inclined to say with our recommendations, should not be used to predict future outcomes. At BRI, we understand that stock prices of individual companies take a random path and are therefore independent of each other, the economics of businesses being markedly different to one another. Hence the need to diversify. Some companies we will hold for the long term and others for a relatively short time, but each is chosen with the aim of delivering value for our clients over all time periods.

The same process applies to our fund selection. We choose to place money with Managers who have shown over an extended period that their investment process consistently produces better returns than the peer group. So long as they keep ahead of the competition, they will continue to attract our support.

Back to the World Cup. I drew Denmark in the sweepstake, a half-decent side but one which I predict (speaking as someone who has watched every World Cup since 1970) will go no further than the quarter-final. Unfortunately, there will be no buyers for my ticket and my investment will become worthless. Could this, however, be the moment for a new name to appear on the trophy, a former minnow who, like a smaller company, rises to challenge the established order? Perhaps not. Whatever the outcome, it should be fun.



Fraud Warnings

With the rise of digital technology and online access, the number of online frauds and phishing scams is constantly increasing. There is a long list which can be found on **Action Fraud's** website www.actionfraud.police.uk/fraud-az-online-fraud. Fraudulent behaviour is constantly adapting to new technologies and there have been some recent variations, two of which we have described below.

Example one: Account Takeover Fraud

A fraudster hacks into the email account of a person who is a client of a financial services company, such as BRI. The fraudster then contacts the company, leading to a subsequent exchange of emails regarding a request for money.

The new variation on this type of fraud is that the criminal asks for the funds to be sent to the client's normal bank account. The financial services company sends the funds.

The fraud continues with the criminal then impersonating the financial services company and contacting the client to advise them that funds have been sent to them in error. The criminal then provides their own bank details to the client and the client sends the funds on.

Please rest assured that BRI will confirm any email requests with clients over the phone and If you do receive an email that asks you to send funds to BRI or other third-party, please ensure that you verify this instruction first.

Example two: Tax Rebate Scams

HMRC are processing genuine tax refunds for the 2017/18 tax year and fraudsters are sending scam messages which claim that taxpayers are entitled to a rebate. These messages go on to request that the taxpayer provides their personal account details in order to make their claim.

HMRC are keen to stress that they will only ever inform individuals of a tax refund by post or through their employer, and never via email, text messaging or voicemail.

HMRC are advising taxpayers not to click on any links, download any attachments or provide any personal information, and are requesting that they forward any suspect messages to HMRC.

Advice

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 https://takefive-stopfraud.org.uk/ which provides invaluable guidance on cyber security.