



BRI Wealth  
Management PLC

# BULLETIN

October 2018

We hope you enjoy our **Newsletter**



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# Market Commentary

A market commentary I wrote eighteen months ago opened with the following statement: 'Seeing as Donald Trump was inaugurated as the 45th president of the United States and Theresa May invoked Article 50 of the Lisbon Treaty, markets have been surprisingly calm'.

Not much has changed since then, with markets still seeming to adopt a remarkably relaxed attitude to developments concerning Brexit and the unconventional diplomacy of the United States. The relaxed attitude is unlikely to last forever as the issues on both sides of the Atlantic are likely to come to a head over the next six months. Whilst it is foolish to try and predict the outcomes of these events, we believe it is prudent to prepare for negative eventualities. With this in mind, we've made sure that portfolios have a decent portion of lower-risk assets to mitigate any substantial falls.

The market declined marginally over the last quarter, which can be attributed to a slight strengthening of sterling causing falls in large multinational firms. However, barring some deterioration in geopolitical matters, it looks fairly well underpinned due to the insatiable demand for income from investors. Until interest rates rise substantially, equity investments will remain one of the only asset classes where investors can generate a relatively high income.

The market did, however, get revved up for Aston Martin (pardon the pun) floating on the stock exchange; but it appears investors may have confused their love of the cars with making sound investment decisions. Whilst this could be a highly successful business in the future, Aston Martin was priced at fifty times profits, which seems very expensive for a cyclical business that is reported to have gone bust seven times in the past century. We prefer businesses which we perceive to be less volatile and which are not priced at excessive valuations. Only time will tell if we are right or wrong with our analysis; however, the share price fell on the first day of trading, which is not a ringing endorsement.

Whilst we are wary of what is going on in the world, we are still finding the opportunities to deploy capital into good quality investments at attractive prices. However, it is important to strike a balance between being defensive and aggressive due to the uncertainties that could afflict the market over the coming months.

Our departure from the European Union and the potential trade wars instigated by America are the most important issues of the moment and these have been well analysed and reported on by the press. It doesn't seem sensible to comment thoroughly on these matters until a conclusion has been reached. When this time does come over the next few months, a more substantive analysis will be provided by us on what this means for investment markets going forward. Until that point, we shall continue to aim to deliver attractive returns without taking undue risk.

Commentating on the market can often be a precarious pastime and the UK market has fallen to just over 7,000 since this piece was written earlier this month. Global growth and US interest rate rhetoric, among other factors, has caused recent market volatility. It is worth noting that our investment process and thinking remains the same. It is sensible to have capital invested in low-risk assets and have cash available to take advantage of market weakness. We are watching the current developments with interest and will look to increase equity exposure within portfolios when opportunities arise.



# Why India, why now?

With a population of over 1.35 billion, India is now the second largest country after China. The UN estimates that by 2050 India will have overtaken China as the most populous country in the world. The Indian economy has been growing at approximately 7% p.a. for more than a decade and is expected to continue to grow at a similar pace.

**Over the last few years India has emerged as one of the most attractive destinations not only for investment, but for businesses also. There are many interconnecting medium-term and long-term drivers that will keep India on track to hold its position as one of the fastest growing economies in the world.**

India has very desirable demographics. The median age is 27 years old, making it the largest young population in the world (over 600 million people are under 25). This also means that a higher proportion of the population is of working age. According to the International Monetary Fund (IMF), India has three decades before it hits the point where the working age of the population begins to decline.

Over the years, India's growth rate has become more stable and more diversified across sectors such as Agriculture, Industry and Services. India's growth has been driven by an increasing share of investment and exports, with a large contribution from domestic consumption by the ever-growing middle-class population. The growth has also been relatively resilient to economic shocks, both external and domestic. This can be attributed to the country's lack of dependence on a few products/natural resources, as well as to a diversified trade basket and broad range of trading partners. India's economy is very domestically driven: nearly 70% of revenues that come out of the Indian Stock Market (Nifty500) are from India.

India is currently undergoing mass economic reforms, making investing in India a long-term growth story. The introduction of the Goods and Services Tax (GST) in July 2017 will ensure a smoother flow of credit across the supply chain. In agriculture, reforms are in place to increase crop MSP (minimum support prices), aiming to double farming income by 2022. The demonetisation reform that was announced in November 2016 has meant that over 85% of the population now have bank accounts, helping the government to control money and credit flow.

The government is also planning a huge \$450 billion infrastructure spend over the next 10 years to upgrade its current road and rail networks (currently both the second largest infrastructure networks in the world) as well as upgrading its ports and airports, further helping the country to connect more efficiently with each other and with the rest of the world.

The remarkable growth and recent economic reforms are kick-starting the nation as a future global powerhouse. Further restructuring, improved governance and the continued removal of out-dated and inefficient economic strategies will help to accelerate growth rates. We feel positively about the country and have gained exposure through an Indian equity unit trust (which pays no income) investing in a range of companies that intend to benefit from the above themes and ongoing reforms. Our investment is a long-term thematic play that is typically at the higher end of the risk spectrum.

# Fraud Warning

The Financial Conduct Authority (FCA) and The Pensions Regulator (TPR) have launched a joint TV advertising campaign to help raise awareness of pension scams and the most common tactics used by fraudsters. As part of a larger project team, the regulators are also working alongside the National Crime Agency and HM Treasury, to name a few.

The FCA stated that *"the latest figures reveal that victims of pension scammers lost an average of £91,000 each in 2017... Victims of pension scams can lose their life savings and be left facing retirement with limited income."*

The new ScamSmart advertising campaign targets pension holders aged 45-65, the group most at risk of pension scams. This follows statistics that a third of pension holders between these ages do not know how to check that they are speaking with a legitimate pensions adviser/provider.

Cold calling is by far the most common method used by fraudsters, and the most common tactic is to offer a 'free pension review'. The FCA have listed some other potential scam tactics, shown below:

1. Unexpected contact about your pension via phone, post or email.
2. Promises of guaranteed high returns and downplaying of the risks.

3. Offering unusual or overseas investments that aren't regulated by the FCA, such as overseas hotels, forestry, green energy schemes.
4. Putting people under pressure to make a quick decision, for example with time-limited offers, and sending a courier round with paperwork to sign.
5. Claiming to be able to unlock money from an individual's pension (which is normally only possible from age 55).

If you think you may have been targeted, please report the crime to the FCA or TPR. Only use firms authorised by the FCA and if you are ever in doubt visit the ScamSmart website <https://www.fca.org.uk/scamsmart>

Nicola Parish, Executive Director TPR, said: *"£91,000 is a huge amount of money for someone approaching their retirement to suddenly have ripped from their savings. If someone cold calls you about your pension, it's probably an attempt to steal your savings. Our message is clear – hang up and report it."*



# Turning £6,000 into £15,000 when you earn between £100,000 and £123,700

**We often write detailed articles on some of the specific areas of pensions legislation, and so this article is intending to be short and to the point. If you earn between £100,000 and £123,700 per annum, did you know that you are paying an effective rate of tax of 62%?**

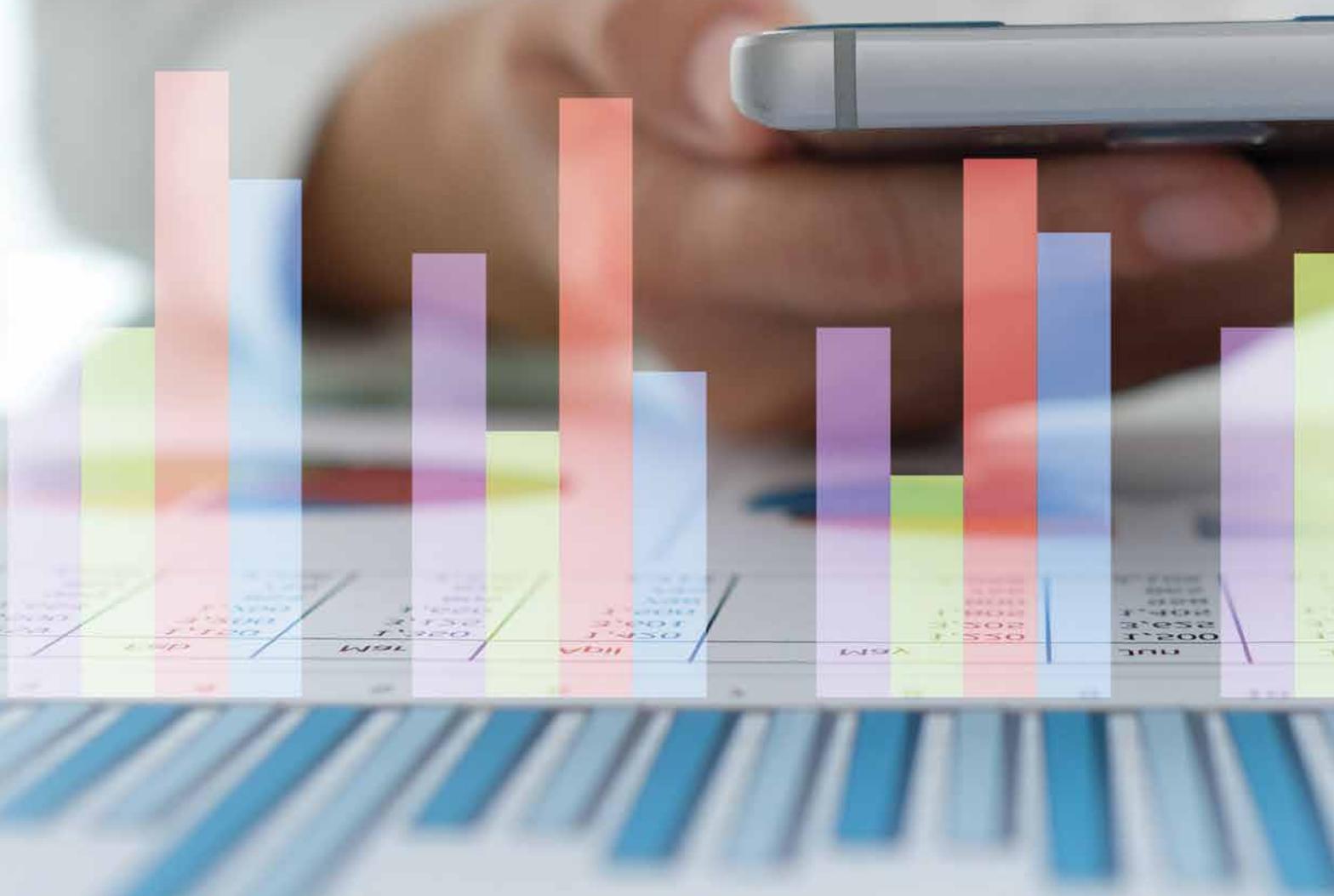
The Personal Allowance is the amount of income that an individual can earn tax-free and for 2018/19 this is currently set at £11,850. However, you lose £1 of this Personal Allowance for every £2 of income over £100,000. If we include a further 2% paid in National Insurance Contributions, this means that people in this income range retain only 38% of their income.

## Example

Let us assume that your income has risen and your total earnings have increased from £100,000 to £115,000 per annum. After both income tax and NI, the pay rise of £15,000 will only increase your take-home pay by £5,700 per annum.

We can advise you on the precise mechanics for adding the gross amount of £15,000 into your pension, but the end result is that after tax relief it costs you a net £6,000 and £15,000 gets added to your pension.

We often advise clients to make full use of the various tax allowances that are available, but very few are as compelling as this. If this affects you or anyone that you know, please do get in touch.



# Perseverance Pays

We regularly speak about the value of investing for the longer term, but the effects of compound interest upon investment returns are often wildly underestimated.

In plain terms, compound interest is simply the result of reinvesting your returns each year, rather than paying them out. Every year that goes by, you receive investment returns not only on your capital invested but also on your previous investment returns (i.e. you get interest on your interest).

**So how much difference does it make? Let us look at some examples;**

## Example 1 – Investing a Lump Sum

Let us assume that we invest the sum of £100,000 in a stock-market based portfolio which we will assume grows at a steady 6.5% per annum. In reality we know that the returns from such a portfolio will be anything but steady, with markets rising some years and falling the next, but nonetheless this exercise will help demonstrate the point.

Starting Value	£100k
Value after 10 years	£187k
Value after 20 years	£352k
Value after 30 years	£661k
Value after 40 years	£1.241m

Every 10 years the cumulative total return is approximately 87%.

- For the first 10 years, the increase on your investment is therefore £87,000
- For the next 10 years however, the increase on your investment is £167,000 (£352k minus £187k), which is almost twice the amount made in the first 10 years
- If we remain invested over 40 years, the increase over the last 10 years is an impressive £580,000

## Example 2 – Saving for the future

James is aged 24 years old and is contemplating setting up an investment plan to save for the future. He is hoping to retire at aged 65 years old and asks BRI for some advice.

(For simplicity we will again assume the funds are invested in a stock-market based portfolio with annual investment returns of 6.5% per annum).

### Option A

BRI's advice is to start saving as soon as you can. From the age of 25, start saving the sum of £250 per month for the next 40 years into an ISA which will grow tax free.

### Option B

James hopes that his salary will rise in the future and is attracted to the idea of spending what he earns now and saving later. His alternative plan is to delay saving until he is 35 years old, when he believes he will be better placed to afford it and make up the difference and lost time by saving twice as much but over slightly less time, i.e. £500 per month for a 30-year period.

### Which option is best for James?

Option A will cost James a total of £120,000 whilst option B will cost a total of £180,000. However, despite costing less, option A will produce a bigger lump sum of £574,000 compared with the £556,00 produced by Option B.

### Conclusion

The advancement of technology over the last few decades has had a dramatic impact upon the speed at which stock markets now move, with computer algorithms driving huge trading volumes in the blink of an eye. The short-term traders and their strategies seen in the late 80's and 90's are no longer able to rely upon their gut instincts to outwit fellow traders, as the computers are faster and devoid of emotion. A longer-term strategy is therefore key to obtain longer term returns.