news

BRI Wealth Management PLC

January 2015

Knowledge . Service . Trust

inside:

Market Commentary

Effective Portfolio Management

Are you ready for auto-enrolment?

BRI News

Effective Portfolio Management

ISAs

As you may be aware, the ISA regulations were reformed in July this year with the aim of providing savers with a new, simpler product. Called the 'New ISA' (NISA), it introduced greater flexibility for savers as to how they could manage their cash and stocks and shares ISAs. The main changes from the previous regime are:

- an increase in the annual ISA subscription limit to £15,000 that can now be split between one cash and one stocks and shares ISA as the investor wishes;
- an increase in the Junior ISA limit to £4000;
- relaxation of the eligibility around securities that qualify for investment so that certain securities with less than 5 years before maturity can be placed in a stocks and shares ISA;
- removal of the flat rate charge which applies to interest paid on uninvested cash in a stocks and shares ISA, as well as other restrictions on holding cash within stocks and shares ISAs.

The possibility of transferring cash ISAs to a stocks and shares ISA without affecting your annual subscription remains in place; and should you be seeking income above the rate currently offered on most cash ISAs, this might be an appropriate course to follow as part of an overall savings and investment strategy. Should this be of interest, please do not hesitate to contact your advisor.

At the Autumn Statement the Chancellor announced that, if an ISA holder dies, their spouse or civil partner will inherit the ISA benefits: they will be allowed to invest as much into their own ISA as their spouse used to have via an additional allowance, as well as utilising their normal annual ISA limit. Spouses will be eligible to claim this additional allowance where the ISA holder has died on or after 3 December 2014. Spouses will be able to claim their additional ISA allowance from 6 April 2015.

Note that this is about giving the surviving spouse an additional ISA allowance only. It is not related to the assets in the ISA other than being determined by their value at date of death. The actual assets will be distributed in the usual way according to the Will. The spouse will be entitled to the additional allowance even if the assets have been left to someone else or have been used to meet expenses from the estate.

> "...if an ISA holder dies, their spouse or civil partner will inherit the ISA benefits."

Capital Gains Tax

It is also the time of year when we think about year-end tax planning and the utilisation of your annual Capital Gains Tax allowance. For the 2014/15 tax year your tax-free allowance – called the Annual Exempt Amount – is £11,000 (£5,500 for Trusts), with tax paid on your overall gains above this amount. It is important to remember that you are allowed to net off your gains and losses, particularly losses from earlier years that have been registered with HMRC. 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.

In fact it is quite common to think of CGT and ISAs in the same breath, since one very often raises funds within the taxable account to satisfy a subscription to the ISA. 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; but if you would prefer to speak to your advisor before then, please do not hesitate to call.

By asking these questions we seek to arrive at a consensus over the effective management of client portfolios. 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 £200,000, growth of just over 5 per cent in the first year creates a notional gain at the £11,000 threshold. Of course, many of our clients are long-term investors and will be sitting on gains far in excess of the annual exemption. This raises the question as to whether such portfolios should be constrained by CGT or managed with regard to one's personal taxation position. In other words – and this is especially relevant for larger portfolios subject to CGT – should the payment of Capital Gains Tax be considered an acceptable cost within the context of Effective Portfolio Management?

> "CGT is payable on net gains above the Annual Exempt Amount."

As we alluded to earlier, CGT is payable on net gains above the Annual Exempt Amount. Tax paid will be at a rate of 18%, 28% or a combination of both depending on the individual's personal rate of taxation. It is important to remember that any gains chargeable to tax are added to income in order to determine the rate at which tax is paid. What is also important, but mostly ignored, is to view the tax paid at an effective rate, that is to say, the tax paid as a percentage of the overall gain rather than of just the chargeable gain.

For higher rate taxpayers especially, understanding the effective tax rate may help with planning for regular external commitments or for future capital expenditure. Either way, we would welcome the opportunity to hear our clients' thoughts on this subject and would encourage you to speak to your advisor.

Are you ready for **auto-enrolment?**

Automatic enrolment is a Government initiative to help more people save for later life through a pension scheme at work. In the past, many workers missed out on valuable pension benefits, either because their employer didn't offer them a pension, or because they didn't apply to join their company's pension scheme. Even if a company employs just one person, it must provide a workplace pension.

The Government has allocated companies a staging date depending upon how many employees are in their PAYE scheme. A staging date is when a company's automatic enrolment duties come into force and is based on the total number of people in their PAYE scheme.

- Employers with 50 to 249 people in their largest PAYE scheme will be staged between 1 April 2014 and 1 April 2015.
- Employers with fewer than 50 people in their largest PAYE scheme will be staged between 1 June 2015 and 1 April 2017.
- New employers setting up businesses from 1 April 2012 up to and including 30 September 2017 will have staging dates between 1 May 2017 and 1 February 2018.

For more information on auto-enrolment, refer to **www.thepensionsregulator.gov.uk**

Autumn Statement –

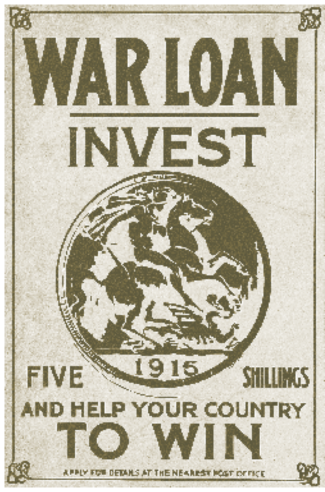
The Google Tax

George Osborne has promised to impose a 25% tax on multi-national companies' profits that arise in the UK but are only reported as taxable income in lower cost areas' jurisdictions.

This has been dubbed the 'Google Tax' following the dispute relating to the IT giant booking ad-sales in Eire's lower tax regime, even though many of the sales staff were based in the United Kingdom.

War Loan 3.5% to be redeemed

The Chancellor has (finally) announced that the £1.9bn of outstanding 3.5% War Loan is to be redeemed in March 2015.



This was initially issued during World War I to help fund the war effort. The initial coupon was 5% which was then reduced to 3.5% in the 1930s as part of the then Government's attempt to reduce the servicing costs of the national debt (some issues just don't go away).

The stock is one of the very few undated issues and hence had no maturity date – the terms state that the Government is required only to give 3 months' notice.

With interest rates where they currently are, it is now a cost-saving method to redeem and re-finance this small element of debt.

Stamp Duty changes

George Osborne announced a review of the much criticised stamp duty system for the housing market, which will benefit 98% of buyers.

With immediate effect, buyers will not pay tax on the first £125,000 of a house purchase, with 2% then payable up to £250,000, 5% to £925,000, 10% to £1.5 million and 12% above that.

Regional house builders' share prices did move up slightly, immediately after the announcement.

Market Commentary

Whilst 2014 brought significant political and economic instability to certain parts of the world, this largely failed to filter through to equity markets. Whilst normally deteriorating global economics and the end of ultra-loose monetary policy in the United States would spook investors, it did little to dent the still raging bull market. However, the final quarter of 2014 saw two particularly large bouts of volatility in global markets, with the FTSE 100 managing two quick falls of nearly 10%. Most ground was recovered each time; but the recovery looks far from convincing.

The FTSE 100 actually ended the year **down 2.5%**, up 1% with dividends included; but this masked the sharp divergence in performance between different sectors. Oil and gas producers tumbled 13% due to a sharp 50% fall in the oil price caused by increasing supply and waning demand. This was a relatively strong performance compared to supermarkets shedding a third of their value in the face of heightened competition from the discount supermarkets. Luckily, various other sectors such as Property and Defensives posted solid gains in the face of economic adversity. Whilst this economic uncertainty did little to aid certain equities, it enabled the seemingly perpetually expensive Gilts to mark another year of eye-watering returns. The potent combination of geo-political risks, weakening economics, low inflation and low interest rates led 10 year government bonds to produce a 14% return, currently yielding 1.6%. The image of picking up pennies in front of a steamroller springs to mind.

As regards the rest of the world, our commentaries are becoming reasonably similar each quarter. America is going from strength to strength with growth of 5%, low unemployment and low inflation. The Eurozone is continuing to stagnate with no growth, no new employment and no inflation; whilst China is showing worrying signs of deterioration after the overheating of the economy of the last few years. These trends look set to continue into 2015; and whilst lower growth in Europe and China is bad for companies' profitability, the chance of looser monetary policy from both economic titans is likely to provide a supportive environment for most asset classes.

Looking ahead to 2015, we continue to see major events that are likely to cause heightened volatility in global markets. In America due to the continued economic expansion, it is likely that interest rates will have to be raised from their historical lows. Interest rate rises are usually bad for markets in the short term, and this effect is likely to be exaggerated due to the length of the low interest rate and the risk-taking that has been caused by low rates. Though interest rates are unlikely to be rising in Europe for many years, political risk has once again come to the fore. The Greek general election that is being held in late January looks increasingly likely to be won by the far left party promising to renegotiate Greece's position in the Eurozone. The prospect of partial Eurozone fragmentation is one that is weighing – and will continue to weigh – on global equities in the short term. We are also cognisant of the upcoming UK general election, the slowing Chinese economy and the prospects of increasing social unrest in Emerging Markets due to lower oil prices.

"...companies are generally in good financial health and the American and UK economies are performing well.

Although there are potential hurdles in the coming year, companies are generally in good financial health and the American and UK economies are performing well. Markets will remain tricky to navigate in the short term; but the volatility that is likely to ensue enables those with a long term approach to investing to buy shares in good quality companies at attractive prices providing solid and growing income.

Delegation forges strong links with China

In November, BRI's Head of Investment Management and Chief Investment Officer, Vince Hopkins (pictured far right) travelled to China for a 10-day trade delegation on behalf of the County of Worcestershire. Here's his report.

My role was as the new chairman of Worcestershire Ambassadors. Leading the delegation was Robin Walker, MP for Worcester, and Phil Dutton, former chairman of Worcestershire Ambassadors. Both Robin and Phil had been part of the initial delegation three years ago to the city of Hezhou in Quangdong province which was followed by a return visit from Hezhou to the county last year.

The aim of the trip was to build and develop links with the city of Hezhou (population approximately 1.5m) and also with another larger city, Huizhou (population approximately 5m, with ambitions to double to 10m within 5 years!). The initial links had started through Worcester University and a former graduate, a Chinese national who had returned to her city of Hezhou wanting to help bring the two cities together in a number of ways.

The Worcestershire delegation also included the Chief Executive of the Chamber of Commerce for Hereford and Worcestershire, the Chairman of Worcestershire LEP, senior representatives from both the county and city councils together with the head of the University's Business School. We also had several leading business figures from the county directly looking to initiate trade discussions in both cities.

We received magnificent hospitality throughout our time in China. As well as meeting with the local mayor and other senior government officials, we visited a wide variety of businesses, including a petrochemical plant, a power station, a tea producer, and a manufacturing company producing consumer electrical goods.

All meetings were conducted through interpreters which – whilst initially presenting a challenge – provided valuable learning in the art of being succinct and factual, with an over-exaggerated focus on body language. Central to our first day in Hezhou was the signing of the formal sister to sister city agreement in front of many television cameras, journalists and photographers. Hezhou will be returning to Worcester in September 2015 to repeat the ceremony on English soil.

First and foremost for all on the delegation is the desire to establish tangible and demonstrable progress in helping to enhance Worcestershire's trade and educational links with China. Members of the group now meet each month to review and progress action points and to ensure that momentum is maintained and opportunities are researched, progressed and documented.

As an investment manager for over 30 years, I was provided with a fantastic insight into a small part of the world's soon-to-be largest economy. Many have documented the vast infrastructure projects, both commercial and residential; however, the size and scale of these, viewed at first hand, were even greater than expectations. The physical numbers of the population, the size of the industrial parks and the infectious energy to succeed informed and underpinned every meeting.

With a complex venture such as this, it always takes a considerable time to start and record progress; and all on the delegation share the enthusiasm and drive to ensure that we do so.

> "As an investment manager for over 30 years, I was provided with a fantastic insight into a small part of the world's soon-to-be largest economy."

BRI's new meeting suite

Due to BRI's continuing expansion and rapidly increasing client base, we have recently invested in a new suite of meeting rooms and a seminar area to host client meetings, working lunches and our regular seminars.

The rooms have been equipped with state of the art flat screen TVs, and have been thoughtfully designed with our BRI colours in mind.

We feel that these rooms will enhance BRI House and provide a relaxed environment for future meetings. We look forward to welcoming you to our office on your next visit and sharing our new meeting suite with you!

New Staff

BRI are delighted to announce the appointment of the following staff member.

Nirjeet Lyall

Nirjeet joined BRI's Financial Services Department in June 2014 as a Financial Services Administrator. Nirjeet has over 16 years' experience of working within the financial services industry.

And finally...

We are very happy to announce that Marlena Eltringham gave birth to a beautiful baby boy called Patryk on 11 December 2014. Marlena and her husband are enjoying new family life and we wish them all the best!

Do we have your email @ddress?

Would you like to hear from us via email? If you don't think that we have your most up-to-date email address on our records then please let your BRI advisor know by emailing **invest@brigroup.co.uk**

BRI are on Twitter!

Follow **@BRIMouthpiece** for our current thoughts on the market and hot topics in the news at the moment.

BRI Wealth Management PLC

BRI Wealth Management plc
BRI House, Elm Court, Meriden Business Park, Meriden CV5 9RL
Tel: 01676 523550 Fax: 01676 522799 Email: invest@brigroup.co.uk Website: www.brigroup.co.uk

INVESTORS IN PEOPLE