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

I've always been a fan of music and of how it can evoke such powerful emotions and memories.

One of my first musical memories was hearing Mark Knopfler of Dire Straits singing 'Sailing to Philadelphia' on Radio 2 as I was carted off to school one morning by my mother. I never knew what the song was at the tender age of five, but that memory and emotion came flooding back when I heard the song again many years later. Never did I imagine that one of my desert island discs would be about an 18th century astronomer and surveyor.

Anyway, I've been rekindling my relationship with the music of Billy Joel recently. In terms of his best work, it's a hands down win for 'Piano Man' and 'Vienna'. However, the song that has most resonance with an article about stock markets has got to be 'We didn't start the fire'. For those not familiar with the song, it is a chronicle of over one hundred events spanning half a decade that emphasises the sheer volume of significant events that occur in the world on a regular basis. This got me thinking about stock markets and the numerous events that have occurred over the last decade. Many of these events were seen as hugely significant and most led to bouts of volatility in the market as people feared the potential ramifications of them.

Testing my memory of the last decade is tricky after an over-indulgent Christmas but the non-exhaustive list of events includes: the Eurozone crisis parts un, deux and trois, fears over the PIIGS (Portugal, Ireland, Italy, Greece and Spain) status in Europe, the numerous fears over the US debt ceiling, the Scottish independence referendum, four UK general elections, the Brexit referendum, the slowing of Chinese growth, the collapse of the Chinese stock market, the taper tantrum, the end of Quantitative Easing, the first interest rates rises for a decade, the oil price crashing 75%, the legacy issues of the financial crisis, the Ukrainian crisis, and that American election.

Yet here we are. The world is still turning, and the markets are celebrating the best and longest bull run on record. When you're living through these events, they can be scary, and can seem like the most consequential events in memory. But they're not. Now, of course they need to be analysed rationally, and you need to ensure that you're well-diversified and positioned appropriately; but, in most instances, they sort themselves out and present good buying opportunities for the patient investor.

I occasionally wheel out a quote by Benjamin Graham, 'the father of value investing', who said that 'In the short run, the market is a voting machine; but in the long run, it is a weighing machine'. I usually use this as a short-term reminder for one to be stoic in the face of market uncertainty but now use it to prove that it has been correct over the last ten years, correct over the last fifty years and correct over the last one hundred years. Patience is one of the best virtues an investor can have and will continue to be a powerful tool in this next decade.

I've got no idea what the coming year will hold, let alone the next decade. One thing I am sure of, though, is that there will continue to be highly significant and potentially scary moments for the stock market. These will provide opportunities for the patient investor and we believe that equities will continue to provide adequate returns above the level of inflation. This year may see volatility as our relationship with the European Union continues to evolve and the Americans undertake another election; but we continue to be positive about the long-term prospects for the world.

I hope to be writing an article this time next year about Yazz and 'The only way is up'; but if it's about Billy Ocean and 'When the going gets tough', then so be it.

Dan Boardman-Weston
Chief Investment Officer

The Senior Managers and Certification Regime

Background

Following the 2008 financial crisis and subsequent review of the financial services industry, decisions were made to introduce a new regime that was more focused on firms' senior managers and individual responsibility. This resulted in the creation of a new Senior Managers and Certification Regime (SMCR).

The SMCR was initially introduced for banks, building societies and large investment firms in March 2016 and was extended to cover other FCA regulated firms such as BRI from 9 December 2019.

Overview

The SMCR's overarching aim is to reduce harm to consumers and to strengthen market integrity. This is achieved by raising the standards of conduct for everyone who works in financial services, and by making senior people in firms more responsible and accountable for their conduct, actions and competence. The regime shifts the responsibility of activities within a firm onto senior managers.

Advisors must be certified by the firm that they work for and will be issued with a practising certificate provided that they meet the FCA's fit and proper test. Whilst the FCA will no longer approve advisors in the same way, individuals approved by their firms will feature in the FCA's new Directory once this goes live (sometime in 2020).

The New Directory

The FCA's new Directory enables consumers, firms and other stakeholders to find information on individuals working in financial services. It will provide access to information available through the Financial Services Register (the FS Register), as well as information about other individuals, including those performing roles no longer made public on the FS Register following the introduction of SMCR.

Political Update by Mark Garnier

The dust is settling from the election, and what an election! After three years of uncertainty, the last two descending into chaos, the 80-seat majority achieved by the Conservatives now presents (fingers crossed) up to five years of political stability.

But what does this mean for our collective future? The simple answer is predictability.

The most important factor is delivering Brexit. With a big majority and a fair number of the awkward squad no longer in Parliament, the 31st January 2020 exit is easily achievable. This takes us to the eleven-month period where we will need to negotiate our future relationship with the EU. It is a tight timetable, especially when considering that any future deal must pass the extensive ratification process. But it was a date that was agreed by the EU as well as the UK, so both sides consider it possible. From 1st January 2021, we will be a fully independent nation.

Beyond Brexit is the business of running the country. A budget is planned for early spring providing clarity on the direction of travel of our country. Boris Johnson has done well in Labour heartlands in the North, and it will be interesting to see just how quickly he chooses to reward this support. Key will be infrastructure projects to improve links between the northern cities. Beyond that, he has pledged to support the NHS with increased expenditure and resources, and the budget will deliver more details, including for all public services.

Indeed, the first few months will be interesting, indicating just what type of PM Boris will make. Many have accused him of running a right-wing government, but there is no doubt that his One Nation credentials are sound, evidenced by him twice winning in London. London is certainly left of centre and his re-election for a second term could only have been achieved from the centre ground of politics. But we need to see what these One Nation policies look like.

And it will be interesting to see how Boris heads off the harder line Eurosceptics in the European Research Group. This will give us a clue as to how confident and how centrist Boris really is.

However, all is not simple and there are still some issues to be resolved.

The future relationship with the EU will be negotiated at the same time as UK/US trade talks. Look out for chlorinated chicken debates and NHS sell-off unicorns to quicken the pulse. But at the heart of this is the regulatory alignment we choose – US or EU. How we pivot (or not) is important for our wider economy; and a realignment with the US would be problematic for our economy that sees 43% of total trade conducted with the EU.

North of the border, there will be an almighty fight for independence. With 48 of 59 MPs being SNP, Nicola Sturgeon feels empowered, recharging her zeal for separation. Heading off this issue is doubly important as nationalists hold the balance amongst Northern Ireland seats. This is an issue that will be difficult to put to bed.

And finally, what of Labour? Good government needs effective opposition. Labour will descend into a possibly ugly leadership contest and it will be interesting to see how deep the hard left have embedded themselves in the party. It is probably too early to tell how this will play out, but who emerges as leader of the opposition is a significant factor in terms of the way in which the government conducts itself politically.

So, look forward to a period of greater political stability and predictability, with a loosening of the purse strings in the Treasury. It is a welcome change from the last few years.

Why are buy-to-let investors exiting the market?

Buy-to-lets have attracted a great deal of negative press in recent years, with investors taking blame for rising house prices and the difficulties faced by first time buyers and "generation rent".

The government has in recent years penalised buy-to-let investors with tax and regulatory changes, which has resulted in many investors leaving the market. Many commentators feel that in the current political climate, buy-to-let investors will continue to be seen as an easy target to blame for rising house prices, and it is likely that the government will continue to target investors with punitive tax measures. We have highlighted below some of these recent measures and the impact they can have.

Income tax and mortgage relief

Since April 2017, the way landlords have to declare their rental income has changed. Tax relief on mortgage interest is being gradually phased out. By April 2020, landlords won't be able to deduct mortgage expenses from rental income and will instead receive a tax-credit of 20% on mortgage interest payments. As a result, many landlords will see their tax bills rise significantly, particularly if they are higher rate or additional rate tax payers.

The table below details how the changes affect a higher rate tax-paying landlord receiving £950 rent a month (£11,400 per annum) and paying £600 per month (£7,200 per annum) towards their mortgage.

Tax Year	Proportion of mortgage interest deductible under previous system	Proportion of mortgage interest qualifying for 20% tax credit under new system	Tax Bill per annum	Tax Credit per annum	Annual Net Profit
Prior to April 2017	100%	0%	£1,680	£0	£2,520
2017-18	75%	25%	£2,400	£360	£2,160
2018-19	50%	50%	£3,120	£720	£1,800
2019-20	25%	75%	£3,840	£1,080	£1,440
From April 2020	0%	100%	£4,560	£1,440	£1,080

The above table shows that as a result of the changes, the landlord's net profits would reduce by 57%.

Stamp Duty

Since April 2016, landlords pay an extra 3% of Stamp Duty on each band when purchasing a buy-to-let property.

The surcharge can potentially add thousands of pounds to the Stamp Duty bill. The table below summarises the rates.

House Price	Standard Stamp Duty Rate	Buy to Let Stamp Duty Rate
Up to £125,000	0%	3%
£125,001-£250,000	2%	5%
£250,001-£925,000	5%	8%
£925,001-£1.5m	10%	13%
Over £1.5m	12%	15%

A £300,000 property would generate a Stamp Duty tax of £5,000 under the standard rate. Due to the increased rate, a buy-to-let investor would be charged an additional £9,000 and face a total Stamp Duty tax of £14,000 for this property.

Capital Gains Tax (CGT)

Buy-to-let investors face an increased CGT rate of 18% for basic rate tax payers and 28% for higher and additional rate tax payers, in comparison to rates of 10% and 20% for other investments such as stocks and shares.

Alternative Investments

Whilst many investors continue to find value in buy-to-let investments, there is no doubt that these investments have become less profitable due to changes in tax and regulation; and in the current political climate, it is likely that buy-to-let investments will continue to be taxed harshly. As a result, more investors are instead choosing to invest in a number of tax-efficient investments such as ISAs, pensions, VCTs and other schemes which benefit from tax relief.

Investments within an ISA, for example, are free from CGT and income tax.

If you would like further details on potential alternative investments, please contact one of our Wealth Managers who would be happy to discuss this with you.

Capital Gains Tax reminder

As we move through the final quarter of the current tax year, we will be looking to utilise, where appropriate, your annual Capital Gains Tax allowance. For the 2019/20 tax year, your tax-free allowance – called the Annual Exempt Amount – is £12,000 (£6,000 for Trusts), with tax being payable on your overall gains above this amount.

You can 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.

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.

It is worth mentioning that ISA planning is not just about subscriptions; there is also the facility to transfer ISAs between providers without affecting your annual subscription. If your ISA is 'flexible', you can take cash out and then put it back in during the same tax year without reducing your current year's allowance.

Satisfaction survey highlights

HOW SATISFIED ARE YOU WITH THE CONTENT & QUALITY OF THE REPORTS THAT YOU RECEIVE FROM US?

VERY SATISFIED

98%

HOW SATISFIED ARE YOU THAT WE TAKE INTO CONSIDERATION YOUR INDIVIDUAL CIRCUMSTANCES & REQUIREMENTS WHEN WE MANAGE YOUR PORTFOLIO?

SATISFIED

98%

DO YOU FEEL THAT WE CONTACT YOU REGULARLY ENOUGH TO DISCUSS YOUR PORTFOLIO OR THE STOCK MARKET?

ENOUGH

94%

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Trust alert!

The law relating to registering trusts with the HMRC Trust Registration Service is changing. The new law will be in place by January 2020 and it is looking likely that all UK resident express trusts, together with certain non-EU resident trusts, will need to be registered regardless of whether they have a UK tax liability.

Registration also applies to any non-UK resident trust which receives income from UK sources or has assets in the UK on which it is liable to pay UK taxes.

Please contact us urgently if you have a trust and you need advice as to whether this trust needs to be registered.