

BIRCHWOOD INVESTMENT MANAGEMENT LTD NEWSLETTER



January 2018

It's plain sailing...

Millennials warned to plan ahead as intergenerational wealth gap widens

Britain's younger generation are likely to get left behind due to debt and high house prices creating an inequality of wealth, according to a new report.

The Institute for Public Policy Research (IPPR) has found that the poorest half of the country has an average household wealth of just £3,200 in net finances, property and pensions.

Commissioned by Channel 5, the report revealed that fewer than half of millennials (those born between 1981 and 2000) are expected to own their own home by the age of 45, while debt amongst this group is also rising. This also poses issues for the children of these millennials who will have no property inheritance passed down to them and a greater need to focus on saving for retirement.

A separate study recently conducted by the Financial Conduct Authority (FCA) found that 25-34 year olds have above average debts, despite making up only 18% of all UK adults. On top of this one fifth of 25-34 year olds have no savings and a further third have less than £1,000.

According to the IPPR, "every generation since the post war baby boomers has accumulated less wealth than the generation before them and at the same age. The next generation is set to have less wealth, largely due to housing inequalities."

Home ownership has been falling across all age groups since the mid-2000s and is at its lowest in nearly 30 years. But for 25-34 year olds, it has fallen from 59% in 2003 to 37% in 2015. In fact in London house prices are now over ten times the average salary for first time buyers.

This makes it "increasingly hard" for younger Britons to share in the UK's wealth, according to the report, unless they have "substantial" support from family. A survey undertaken by YouGov/Royal London, shows a growing intergenerational divide where wealth is held by older generations (aged 75-85) who are

keen to pass some of this wealth directly to their grandchildren, split on average between 4-5 recipients. However, less than a quarter of those aged 25-44 (four million out of 17 million) will inherit from grandparents, leaving many younger family members excluded altogether from inheritance, especially as their parents are in many cases already part of the "Generation Rent" with private renters accounting for more than 20% of the housing market. It is this "sandwich generation" (aged 45-64) who feel under more pressure to pass on any accumulated wealth as they can see for themselves, the pressures their children are and will be facing.

The think-tank is calling on the Government to take action over the generational wealth gap as part of a radical rethink of economic policy for "post-Brexit Britain", but experts also agree that it is down to individuals to review their savings to ensure they are financially secure.



GDPR – are you ready for it?



If you haven't already heard of GDPR (General Data Protection Regulation) then from early 2018 you will start hearing about the new data protection rules coming into force on 25th May 2018. Regardless of whether we're in or out of the EU, Great Britain are legally obliged to comply with these new guidelines, which are intended to stop the nuisance spam calls and emails that fly into our inboxes on a weekly or daily basis and give consumers content they actually want! Going forward, as consumers, we'll all have to give our express consent to any company who wish to send us marketing and promotional messages and will have the right to ask how our personal details are stored by those companies we transact with.

At the NLPFM group, we're already working hard towards becoming compliant before the May deadline and have always taken the handling and security of our customer data very seriously, including substantial investment

into a secure database management system. We also want to make sure we only send you marketing information that is relevant to you and what you want to see. We will shortly be contacting all of our clients to ask if they wish to opt-in to receive key messages and choose how you would like these delivered – ie email or post. If you choose not to opt-in, this will mean we'll be unable to keep you updated with financial news, new and interesting products, promotions, quarterly Newsletters, monthly e-Newswires, recommendations, or any company changes.

We will still continue to send out valuations and we very much hope that you'll decide to continue hearing from us with regards to marketing materials, as we always try to make these relatable to you, our customers. If in the meantime you have any questions relating to your data, marketing or GDPR then please get in touch.

Apprenticeships within the Financial Services Industry

With the BBC's "The Apprentice" show in its thirteenth series, it isn't just Lord Sugar who hires apprentices. With university students facing ever increasing debt and many school leavers not wishing to go onto higher education, apprenticeships are proving to be an ideal stepping stone between academia and the workplace. Whilst the perception of apprenticeships tends to be "trade" orientated, many more sectors are now seeing them as an ideal opportunity to boost their workforce with record levels of apprenticeships – 491,300 – starting in the 2016/17 academic year.

Within the financial services industry, the NLPFM group, consisting of Birchwood Investment Management Ltd and NLP Financial Management have between them taken on four apprentices over the last four years, three of whom are now full-time employees. All four apprentices said that whilst at school, the emphasis was purely on university places with little or no advice for those students who wanted to work straightaway, or who were unsure of where to take their career.

Charlie Ferry joined Birchwood in 2013 age 17, as an apprentice through John Laing Training (JLT). Initially he worked as a paraplanner support administrator. After passing his GCSE's with the costs involved of going to university he decided to build on his entrepreneurial spirit (he still sells Christmas trees during the festive season) and apply for an apprenticeship to earn as he learned. Fast forward four years he's worked hard to develop his position and is now an established member of the team, storming through his paraplanner exams with his eyes firmly focussed on eventually qualifying as a financial adviser.



Charlie Ferry, Sam Rafferty and Dom Mason

As Charlie moved up in Birchwood, his original role then became vacant again, so following advice from Charlie, Sam Rafferty applied through the same apprentice scheme and started at Birchwood in mid 2014. Sam, who was 24 when he joined, had already worked in a few companies, but had also experienced redundancy and zero-hour contracts and credits the apprentice scheme for giving him a pathway into the financial industry that he would never otherwise have found. Like Charlie, Sam became a permanent member of the team after his first year and is now half way through his studies to become a fully qualified para-planner and then financial adviser.

Whilst Dom Mason was at school, he knew he didn't want to go to university so after a spell of working at a 'well known' DIY retailer, he started looking around for roles that would provide him with more prospects. Having not initially thought of financial services, in 2016 aged 18, he applied for an administration apprentice position (also via JLT) that Birchwood needed to fill and has never



Denise Amagyei

looked back. Now permanently employed as an administrator, Dom loves the responsibility of his role and sees his future firmly within Birchwood and the world of finance.

Denise Amagyei had started university to study accountancy but felt it wasn't the right fit for her. Following retail work she needed a full time role and applied for a JLT administration apprenticeship at NLP Financial Management starting in March 2017. Although she's still unsure of her future, Denise has learnt invaluable skills working within an office environment but would highly recommend her experience of earning whilst receiving "on the job" learning.

For the NLP FM group, working with apprentices has been a positive and mutually beneficial experience. They've secured three new team members who have had bespoke training from the bottom up and gained helpful insights from the perspective of younger people entering the workplace.

Market Report

04 January 2018

Global Review



Global equity markets have advanced to new all-time highs with the benchmark MSCI All Country World Index returning +23.6% in local currency terms over the twelve months since Donald Trump's victory in the US presidential election on 8 November 2016. Synchronized global economic growth, benign inflation, accommodative central banks and the recent legislative successes of the Trump administration, most notably on tax reforms, have boosted investor confidence.

Whilst the breadth of economic growth has prompted more hawkish comments from the world's central banks, policy remains accommodative with only the US Federal Reserve tightening, albeit from very easy levels. Politics continues to moderate policy with the Bank of England wary of the impact of Brexit, the European Central Bank conscious of a German minority government, unrest in Catalonia and the Bank of Japan contending with a snap general election.

UK



Brexit negotiations will proceed to stage two after Britain and European Union leaders agreed a compromise deal over the size of the divorce bill and the rights of EU citizens living in the UK. Both sides had been under pressure to deliver a deal as political uncertainty on the continent and the threat of businesses leaving the UK increased. Sterling had been strengthening as the possibility of a deal grew stronger but fell back

as parliament voted in favour of an amendment to the Brexit bill allowing MPs a vote on the final terms of the deal.

The Bank of England raised interest rates for the first time in over 10 years at its November meeting. The 0.25% hike reversed the emergency cut in August 2016 implemented by the Bank following the EU referendum. Governor Mark Carney was keen to stress the gradual pace of hikes planned with the Bank forecasting just two more rises over the next three years. This further undermined sterling with markets expecting a more hawkish tone as inflation remains well above target.

US



As expected, the US Federal Reserve raised interest rates for the third time over the last year. This was the fifth hike since the US central bank began tightening at the end of 2015. November's jobless rate was 4.1%, close to full employment, and retail sales were much stronger than expected during the month. Inflation was subdued but the Fed believes this is temporary and raised its forecasts for economic expansion over the next three years, expecting growth of 2.5% in 2018.

Stock markets have reacted positively to the stronger economic outlook and the measured approach from the Fed. Share prices have also been boosted by the approval of controversial tax reforms expected to disproportionately benefit the wealthy and corporations. Whilst the legislation is forecast to add \$1.5 trillion to the country's national debt, projections also suggest a 0.5% boost to economic growth in 2018. This would increase the likelihood of a further three interest rate hikes next year, one more than current market expectations.

Europe



The European Central Bank has extended its quantitative easing programme to at least September 2018 but reduced the monthly injections into bond markets from €60bn to €30bn. The Bank also reiterated its intention to keep interest rates at or near zero for an "extended period of time" and at least until the conclusion of the bond buying programme. Whilst unemployment is at its lowest level since early 2009, inflation within the Eurozone is still a concern with the core measure stuck below 1%.

General elections in both Germany and Austria were seen as successes for the right wing populist parties. In Germany, whilst the Christian Democratic Union won the most seats, it was the party's worst performance with Angela Merkel as leader. The Chancellor's position is so weak that 3 months after the election the CDU has yet to form a new coalition government. The conservative Austrian People's Party succeeded in taking power from the centre-left SPÖ but were forced to form a coalition government with the right wing Freedom Party of Austria after the FPÖ gained an additional 5% of votes.

Japan



By contrast, the Liberal Democratic Party secured over two-thirds of seats in the lower house following Japan's snap election in October. With the party also holding a two-thirds majority

in the upper house, Prime Minister Abe now has the mandate to push ahead with his expansionary policies. The stable political outlook coupled with strong corporate earnings lifted local equity markets to their highest close in over 25 years.

Investor sentiment was also buoyed by stronger than expected economic growth in the third quarter. The Japanese economy expanded by an annualised 1.4% and continues the country's longest period of uninterrupted expansion in more than a decade. Robust growth has led to a shortage of labour despite reforms encouraging more women into work. The unemployment rate dropped to 2.7% in November, the lowest level for almost 25 years.

Asia



Economic growth in India is expected to fall below 7% in the current fiscal year following the disruption of demonetisation and tax reforms. The economy expanded by 7.1% in 2016-17. After criticism that demonetisation did little to bring illicit wealth back into the economy, the government announced a huge recapitalisation of state owned banks. The \$32bn injection represents more than 70% of the bank's capital requirements and is intended to revitalise lending.

The 19th National Congress of the Communist Party was held in October electing Xi Jinping as General Secretary for a second five-year term. Reinforcing his position, the Congress agreed changes to its constitution by incorporating new ideology from the party leader. In his opening address, Xi pledged to expand economic and financial reforms as the country's economy transitions from high volume to high quality growth.

End of the Tax Year considerations

Although the end of the tax year seems a way off, it is never too soon to start looking at tidying up tax returns before the end of January, topping up pensions, utilising Capital Gains allowances, topping up, or investing in a new ISA and considering if you would like to gift cash or assets to loved ones.

Pension Contributions

As a UK taxpayer you will get tax relief on pension contributions of up to 100% of earnings, or the £40,000 annual allowance, whichever is lower.

However, the contribution level will change if you are withdrawing pension income from a **Flexi Access Drawdown** arrangement. With this option, the amount you can still pay into your defined contribution pension pot each year falls to £4,000 (known as the money purchase annual allowance MPAA), once you begin to take the rest of your money in your pot. If you only take your tax-free cash lump sum, then your Annual Allowance remains at £40,000.

With Smaller Sums Drawdown, the amount you can still pay into your defined contribution pension pot each year falls to £4,000 as soon as you take your first payment. This is known as the money purchase annual allowance, or MPAA.

ISA's

We also have our annual ISA allowance of £20,000. Remember that income and capital gains are tax-free and are available to any UK resident over the age of 16, also parents can invest up to £4,128 per annum into a Junior ISA fund for children under 18.

We will be issuing our thoughts on some ISA options in a few weeks' time.

Capital Gains Allowance

As you will be aware, you only have to pay CGT on your overall gains/profits above the tax-free allowance of £11,300 when you dispose of assets. The CGT rate is 10% for basic rate taxpayers, whereas for high rate taxpayers it



is 20%. Using this allowance can be extremely useful each tax year as the profits can then be reinvested into an ISA if you have not used any, or all of your ISA allowance for the current tax year. Another thing to consider is if your spouse or civil partner is a lower rate taxpayer, then transferring assets into their name can reduce your tax liability. Moving assets between spouses and civil partners is exempt from capital gains tax and will not incur inheritance tax either.

Inheritance Tax

Although this is only payable on death, making a gift to your family and friends while you're alive can be a good way to reduce the value of your estate for Inheritance Tax purposes and benefit your loved ones immediately. Estate planning can be a complex area so getting the right advice from your advisor can help you avoid several big pitfalls when making a gift.

We all have allowances each year and while we are living, we can give away assets, or cash up to a total of £3,000 without incurring Inheritance Tax. Gifts worth more than the £3,000 allowance are subject to Inheritance Tax and the amount of tax payable depends on whether it was given within the seven years before the person died. If the death falls outside of the seven year period it becomes fully exempt from Inheritance Tax. During the seven year period, your gift is known as a 'potentially exempt transfer' or PET. There is no limit to how much and how often you can give to a charity without incurring IHT. You can also give smaller gifts under £250 to anyone other than a person who has received the whole £3,000 and you can give a wedding gift to a child of up to £5,000. There are a range of other gifts that are allowed and if you want to discuss this with your adviser or any other IHT issue, please contact them and they will be able to help you.

Birchwood Investment Management Limited does not take any responsibility for the consequences of any action taken or refrained from as a result of this newsletter. The Financial Conduct Authority does not regulate advice on tax or trust planning.



www.birchwoodinvestment.com



Birchwood Investment Management Ltd, 8 Prospect Place • Welwyn • Hertfordshire AL6 9EN • UK
Tel: 01438 840 888 (Welwyn) • 0161 932 1038 (Manchester) • Fax: 01438 840 097 • Email: info@birchwoodinvestment.com

Birchwood Investment Management Limited is Authorised & Regulated by the Financial Conduct Authority.

Birchwood Investment Management Ltd is part of the NLPFM Group.