

BIRCHWOOD INVESTMENT MANAGEMENT LTD NEWSLETTER



July 2017

It's plain sailing...

Don't get caught out by the currency rip-offs!

According to some sources the pound could drop as low as €1.10 in the coming months, which is not good news for anyone travelling to the Eurozone this summer, as they will get less currency for their sterling to spend abroad.

With falling exchange rates, it is more important than ever to seek out the best rates when planning a trip. However, this isn't always how it turns out and often we are rushing around at the last minute and forget to arrange currency before leaving, therefore we end up buying our holiday money at the airport, which is probably the worst thing we can do. Airports give notoriously bad rates and getting your currency there should be avoided. The pound to euro rate hit less than £1 to €1 in airports back in October 2016. If you can plan ahead, there are much better options to consider and typically the best rates are often online websites. MyTravelMoney and TravelMoneyMax can help find the best deals and rather than you visiting a bureau de change, you may be able to pay by bank transfer and have the currency posted directly to you, often by special delivery. Some of the most competitive providers currently, are Travel FX, Best Foreign Exchange and No 1 Currency but you should always check their rates first. Do not fall for the 'no commission' adverts you may see at a bureau de change,

as many make their money by offering you uncompetitive exchange rates instead.

If you are likely to use your credit or debit card abroad, you might want to consider opting for 'plastic' designed for use abroad. Among the best is Halifax's Clarity Card. It does not levy the typical 2.75% or 2.99% fee on spending and in addition does not charge for cash withdrawals abroad, although the local cash machine may levy a separate charge. Other credit cards that do not charge for overseas spending include Everyday from new provider Creation and MBNA's Everyday Plus American Express.

If you're thinking about taking out a prepaid currency card, check out the 'This Is Money' guide, to see how they work and then finding the best deal. They offer some of the best exchange rates and allow you to load up on foreign currency before you go, or while you are abroad, they can be used like a debit or credit card for payment. Prepaid cards are offered by CaxtonFX, FairFX and WeSwap among others.

One of the biggest 'rip-offs', however, comes when we go to use our ordinary cards abroad,

whether credit or debit. These can incur additional charges that holidaymakers often don't account for. People have been getting overcharged to the tune of £380million a year by making payments in pounds rather than the local currency. Restaurants, shops and even cash machines routinely add up to 10% on bills presented to tourists using a so-called 'dynamic currency conversion' trick. This allows retailers and banks to set their own conversion rate, which is usually worse than the one applied by your credit or debit card provider. So, when you are presented with the bill, insist on it being in the local currency rather than in sterling. This also applies to bank withdrawals as well, so when using a cash machine, you will be given the option of sterling or the local currency so make sure you use the local currency option. The basic cost of travelling abroad has increased due to the weakening of sterling, so don't get ripped off with unnecessary charges as well.

Once the flights are booked, hotels arranged, organise your currency and then sit back and enjoy the trip!



Can you afford not to have discretionary management?

A recent survey carried out by consultancy 'Threesixty' on more than 130 companies that offer Independent Financial Advice found that 87% said they regularly recommend clients put their money with Discretionary fund managers, and this figure has risen from 78% last year.

There are many advantages to having a portfolio managed in this way, particularly at a time when unexpected changes in the political situation, or natural events, can create dramatic fluctuations in the value of investments. In these situations, quick action can be vital and the Discretionary manager has the authority to act immediately without having to contact each client individually, setting out a detailed explanation of what changes they propose making and why, and waiting for the client to confirm their agreement to proceed.

Most Independent Financial Advisors may be authorised to advise clients on which funds to purchase but when market conditions change, or fund managers switch the company they work for, they are not able to make changes within a portfolio without writing to the client explaining the reasons for the changes they propose making and waiting for their clients to confirm that they wish to follow the advice.

The problem for the client is that Independent Advisors who are not authorised to offer Discretionary fund management need to recommend that their clients place the investments using a separate Discretionary fund manager with all the additional costs this implies as the advisor charges for their services and the fund manager adds their charges. These

charges vary and recently the FT reported that with typical IFA management charges of 1% a year, the addition of a Discretionary Management service would likely push the bill well beyond 2%.

Birchwood have been authorised to provide Discretionary Management since 1984 and we are one of a very small proportion of the financial advice community who have obtained the additional qualifications required to be authorised to provide this level of service. This is a very clear advantage to our clients.

You may not be aware that Birchwood have a Discretionary Management service which was established in 1984. Now that the company has grown in size, so too has the Investment Team who make the decisions on how clients' money is invested. With their extensive experience, advanced educational credentials and in depth understanding of the financial markets, they are ideally placed to identify opportunities to benefit the client. The committee meets once a week where they will review funds, trends and current market changes to ensure that we are adopting the appropriate strategy for our clients. Whilst having access to research tools members of the committee regularly meet with individual fund managers to gain an insight into specific funds to have a better understanding of how the fund manager picks individual stocks to improve performance and achieve the fund's objectives.

As senior Analyst, Jacob H Schmidt heads up our investment research. He has over 25 years in trading, investing and research all major asset classes, having worked for Creditanstalt-Bankverein in Vienna, Citibank London and



investment bank Donaldson Luftkin & Jenrette (now part of Credit Suisse) where he was Vice President, Derivatives and Head of Germany, Austria and Switzerland.

At Birchwood, we do not believe in chasing the market. All too often, investors become obsessed with following the latest trends but, as well as being a high-risk strategy, anyone jumping on the bandwagon after it starts to move is likely to miss out on the initial gains. Selecting complementary funds which will provide consistent gains in differing market conditions is the best long-term strategy for growth.

If you are not already using our Discretionary service and are interested in considering this option, you should contact your adviser to see if the service would be suitable for your circumstances. It is straightforward to transfer over to our Discretionary service and unlike many Discretionary managers, there is no additional cost for our Discretionary Management service compared to our advisory management service.

Mortgage market responds to 'Bank of Mum and Dad' phenomenon



Research from the Centre for Economics and Business Research think tank predicts that UK parents will contribute as much as £6.5 billion to their children's property purchases this year, representing more than a quarter of new home purchases.

But if you are looking to support your children with a home purchase, there is more to consider than simply how much of a contribution is affordable. It is also important to consider exactly how you will contribute.

There has been a lot of innovation in the mortgage market in recent years to take account of the Bank of Mum and Dad phenomenon.

These have been triggered in part by the possible Inheritance Tax implications of gifting and the need for any lending to be declared to a mortgage lender, and therefore included in affordability assessments – something that

could potentially derail a mortgage application.

Guarantor and joint mortgages are two of the eye-catching products the market has responded with. If acting as a guarantor, parents would be liable for outstanding repayments, should a child not be able to make them. The property would nevertheless be owned by the child.

Joint mortgages, on the other hand, would share ownership between the generations, meaning that parents would be jointly liable for repayments.

In response to this phenomenon, a third type of product has emerged in the marketplace – the savings offset mortgage. These products allow parents to offset their savings against the mortgage, meaning the child can obtain a better rate. The savings are usually held in an account with the lender and can only be accessed after a defined period of time after meeting certain conditions.

Market Report

30 June 2017

Global Review



Politics again dominated sentiment in the second quarter with US retaliation against chemical weapons attacks in Syria and comments from the US Federal Reserve on the record high levels of equity indices both initially alarming investors. As sabre rattling in the Middle East subsided, markets reacted positively to Emmanuel Macron's strong showing in the first round of the French Presidential election pushing equity indices back to their previous highs.

Prime Minister Theresa May's announcement of a snap election in the UK added to volatility in April but whilst the loss of the Conservative's majority was negative for UK markets, global equities continued their upward momentum. Year-to-date global indices have made close to double digit returns with the easing of political uncertainty in Europe and news of the "biggest tax cut and largest tax reform" in history from US President Trump adding to rising confidence.

UK



With Brexit negotiations looming, Theresa May announced a snap general election on 18 April in the hope that the Conservatives would increase their parliamentary majority and therefore strengthen the government's position during talks with the EU. With a large lead in the opinion polls, the pound surged with the expectation of a comfortable Conservative victory. The FTSE 100 index struggled to make

ground as a result with stronger sterling squeezing the overseas earnings of larger international companies.

The weakness of the pound since the EU referendum has seen inflation rise with a jump of 2.9% in May, a four-year high and well above the Bank of England's 2% target. This was reflected in the latest meeting of the Monetary Policy committee with members voting 5-3 to keep interest rates on hold. This was the first time in six years that more than one member has voted for a rise in the cost of borrowing. However, the majority of members still have concerns about the impact of the UK leaving the European Union and remain accommodative.

US



The US Federal Reserve raised interest rates as expected in June and confirmed its plan for one more hike in 2017. The Committee also expect to tighten liquidity conditions in the near future by not reinvesting money from maturing bonds held as part of its quantitative easing programme. Despite economic growth falling to 0.7% in the first quarter, the Central Bank were encouraged by the robustness of the labour market and the reversal of a recent slowing in factory activity.

The actions of President Trump continue to be a major factor in the short-term direction of financial markets. The US missile strike on Syria and the possibility of the President being impeached saw the markets fall heavily, whilst Trump's first legislative victory to repeal the Affordable Care Act and his proposals for wide ranging tax cuts boosted confidence. The latter pushing each of the major US equity indices to new all-time highs.

Europe



The French equity market rallied to a nine-year high on news that the pro-Europe candidate, Emmanuel Macron, won the highest number of votes in the first round of polling for the Presidential election. An election he comfortably won in May after forming the En Marche party only a year earlier. With Chancellor Merkel's Christian Democratic Union Party also successfully negotiating local elections in Germany, the EU project remains intact.

Macron's success has lifted sentiment to a 10-year high with markets already buoyed by rising employment and an improving growth outlook. Economic expansion of 0.6% in the first quarter fell only just short of the 0.7% seen in the US. Despite the early signs of improvement, the European Central Bank reinforced their commitment to the quantitative easing programme and held interest rates at near zero with no inflationary pressure evident.

Japan



The Bank of Japan also held interest rates as expected, continuing with the negative deposit rate introduced last year, as core inflation of 0.4% remains well below the Bank's 2% target. Despite the very tight labour market with the unemployment rate at historical lows of 3%, household spending has been declining for more than a year

with the inflation figure driven more by rising energy prices than consumer demand.

Economic growth for the first quarter has also been revised down to 0.3%, well below consensus expectations, with disappointing private consumption again the primary driver. More positively, this was the fifth consecutive quarter of growth, the longest run of expansion for eleven years. The Bank of Japan have expanded quantitative easing to include equity purchases whilst the government have embarked on a huge programme of infrastructure spending ahead of the Tokyo Olympics in 2020.

Asia



MSCI, a leading provider of financial market indices, announced plans to add Chinese A shares, those with limited foreign ownership, to its benchmark products from May 2018. Many of the companies can already be traded freely via their B shares. Until the Chinese authorities relax controls, the listing will be limited to 5% of the level justified by their market capitalisation. This equates to just 0.73% of the MSCI Emerging Market Index.

The ratings agency Moody's has downgraded China's creditworthiness on concerns that debt across the broad economy is growing ahead of economic expansion. Economic growth of 6.9% year-on-year exceeded expectations in the first quarter but broad credit growth was 12.9% in May despite the People's Bank of China pursuing a policy of selective tightening. The authorities have also taken steps to combat the country's large shadow banking sector not reflected in the headline numbers.

**STOP
PRESS**

You may not be aware but we have updated our website which is now live and we are continuing to improve it for the use of our clients. For those of you that wish to review your portfolio we have a new online portal and our old one should **not now be used**, as it has not been updated since

the 1st May and would only show out of date valuations. If you would like to register on the new portal just 'click' Register and follow the online instructions. If you have any problems with this, please contact either Wendy or Dom who will be happy to assist you.

<http://www.birchwoodinvestment.com/>



Market volatility – A buying opportunity!

When volatility in the stock market picks up investors are often tempted to disinvest in order to avoid losses, particularly after strong runs from equity markets. What is perhaps not appreciated is that stock markets, as demonstrated by the chart, frequently experience double digit drawdowns. The FTSE

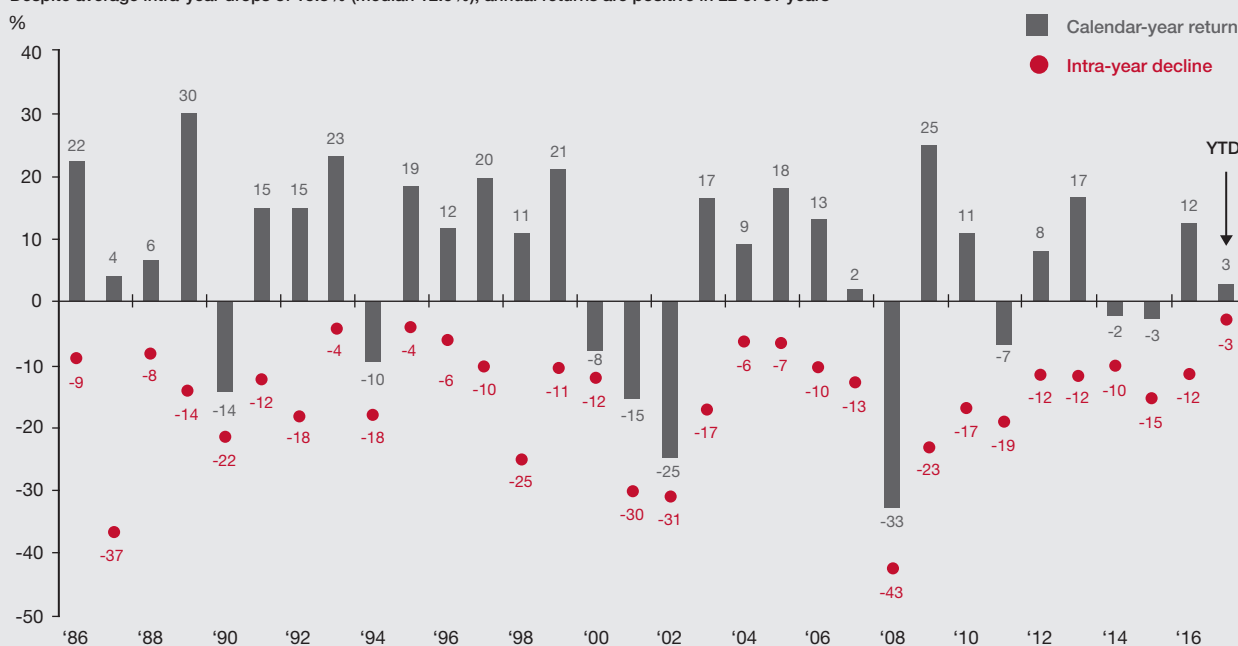
All-Share Index has fallen by at least 10% during each of the last eight years since the Global Financial Crisis and yet the total return for the Index (including reinvested dividends) has been +132.8%, an annualised return of over 11%. More often than not, a stock market pullback is an opportunity to invest, not a reason to sell.

Financial Markets currently remain strong and good value based on the global economic outlook. However, the UK markets have benefitted greatly from the reduction in the value of the currency and any rebound in the value of sterling could trigger a fall in the FTSE 100. This would provide an excellent buying opportunity.

Annual returns and intra-year declines

FTSE All-Share Index intra-year declines vs. calendar-year returns

Despite average intra-year drops of 15.8% (median 12.6%), annual returns are positive in 22 of 31 years



Source: FactSet, J.P Morgan Asset Management. Returns are based on local price only and do not include dividends. Intra-year decline refers to the largest market fall from peak to trough within a short time period during the calendar year. Returns shown are calendar years from 1986 to 2016. *Guide to the markets – UK*.

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