BIRCHWOOD INVESTMENT MANAGEMENT LTD

NEWSLETTER

October 2017

It's plain sailing...

Pension scammers move cold-calling offshore to beat the ban

Despite a recent ban by the UK government, cold-calling pension scammers have been moving outside of the UK, according to research undertaken by a pension scam campaign and support group Pension Life.

Pensions campaigner and Pension Life founder Angie Brooks told International Investment that while the UK government's move to ban cold-calling, including emails and texts, is to be welcomed, bigger criminal sentences need to be handed out, or the scammers will continue to operate outside of regulatory rules, regardless of government bans.

Angie Brooks also warned, that cold-calling centres who have been targeting social media sites for 'leads', have already been set up in places such as Kuala Lumpur, where labour is cheap and activities are harder to detect.

"It is excellent news that the (UK) government is at last going to take some long overdue action to try to prevent pension scams and that both the regulators and HMRC are going to join in to support this initiative," said Brooks.

"But the government must understand that until and unless the scammers are prosecuted and put behind bars, they will just keep on scamming and finding ways around any preventative measures". She continued, "In fact, they already have and cold-calling centres have been set up in Kuala Lumpur and other similar places. The scammers "harvest" contact details from social media and also buy contact databases which are sold illegally."

Brooks said that she has in her possession an example of one of these databases with 22,087 contacts which, she says can be sold for around £1m, a reflection, she says of the amount that can be made from such activities

The UK government estimates that £5m has been lost to scammers in the first few months of 2017. Brooks says that this is "of course, terrible news for the victims who will have lost their life savings," but, she says, there she strongly suspects the real figure is actually much higher than the estimates. "The scammers have made a great deal of money from scams over the past seven years and enjoy their magnificent mansions, top of the range sports cars and luxurious life styles," said Brooks. "They are not going to give their evil trade up without a fight. Until and unless it is made absolutely clear that pension scamming is a criminal offence and there are numerous high-profile prosecutions, the scammers will not stop."

Treasury to limit statutory right to transfer pensions

The Treasury has confirmed plans to limit the statutory right to transfer pensions in a bid to clamp down on fraud.

In a response to its consultation paper issued in December 2016, it said it would introduce tougher measures around transfers and the setting up of small self-administered schemes (SSAS).

Under new measures, individuals will only have the right to transfer their pension if it is moved into a personal pension scheme authorised by the Financial Conduct Authority (FCA), moved into an authorised Master Trust scheme, or when a genuine employment link to the receiving pension scheme can be evidenced.

The Treasury will also consider how best to extend the criteria under which there is a statutory right to transfer to qualifying recognised overseas pension schemes (QROPS).

It further noted that SSASs "were vulnerable to scams" and suggested increasing regulation in this market.

Meanwhile, the Treasury expressed its intent to work on the "final and complex details" of the ban on cold calling in relation to pensions.

It said a blanket ban will be introduced on all pension cold calling – including texts and emails. Details of the ban will be worked on "during the course of the year" and implemented "when parliamentary time allows".

Recent figures show that 97 per cent of all pension fraud cases brought to Citizens Advice stemmed from cold-calling.

Elections and markets

Elections can be big events for markets and we have become quite accustomed to them in recent years. In three years, we have had two elections in the UK as well as Scottish Independence and EU referendums. Further afield we had the US election in late 2016, Dutch, Spanish, German and French elections, and an Italian referendum with elections to come.

All these big events have the potential to move markets and so need close attention. However, it would have been almost impossible to call the results of all of these correctly, and even if this was managed, to then call the market impact would be harder still.

Brexit and the US election have been the two best examples of an unexpected result followed by an even more unexpected market reaction. After the Brexit vote Sterling fell around 20% against the dollar and the UK market was off 4% on the day. This would have been the most expected consequence of the leave vote. What was less predictable was the market then rallied back to its previous level in just 2 days and then went on to rally a further 15% to the end of the year and has carried on in 2017. The US election played out in a similar fashion with markets immediately selling off with the surprise Trump victory but this time they took less than a day to reverse these losses and rally to new highs.

These two huge unforeseen results, and even more surprising market reactions show us the perils of trying to position portfolios for specific events.

We believe it is much more prudent to build a robust portfolio which can perform in all market environments. This portfolio can be tilted to areas we like, or tilted away from areas we are nervous on, but we will continue to focus on building robust, diversified portfolios rather than trying to predict the outcomes of binary events and the following market reactions.

With this is mind we were particularly conscious of diversification heading into the UK election. Whilst a Conservative majority was expected, we knew from recent history that nothing is guaranteed. Sure enough, the result was somewhat unexpected and no party managed to gain a majority. This has created huge political uncertainty in the UK, which was already at extreme levels following last year's Brexit vote.

Partly due to this heightened political risk in the UK, and partly due to elevated valuations in a number of asset classes, we have a number of defensive positions within the portfolio which should perform well if markets experience a bout of volatility. We also have exposure to various currencies, including the safe havens of the US Dollar and Japanese Yen, which should outperform in periods of elevated risk.

As recent history shows, it is almost impossible to call the short-term direction of the market, but by focusing on a diversified portfolio which can perform in all conditions, we are confident we will continue to produce good risk-adjusted returns regardless of the political landscape.

Market Report

22 September 2017

Global Review

Equity indices have continued to trend higher buoyed by synchronized global economic growth, benign inflation figures and robust corporate earnings. Tensions surrounding the North Korean missile tests, devastation caused by the Atlantic hurricanes and the continuing struggles of the Trump administration, have all failed to halt market momentum. The nine-year bull market tested new all-time highs over the summer as central bank policy remains accommodative.

Whilst the US Federal Reserve have continued to slowly raise interest rates, only recently have they announced the unwinding of their quantitative easing programme launched in 2008 to combat the impact of the Global Financial Crisis. The European Central Bank and Bank of Japan continue with their stimulus measures, as the Bank of England push back their first interest rate hike with the impact of Brexit uncertain.

UK

With unemployment at multi-decade lows, stable economic growth and inflation climbing toward 3.0%, the Bank of England have begun preparing markets for the first hike in interest rates for 10 years. However, a slowing of economic growth in the second quarter to 0.3%, the weakest of the G7, led the Monetary Policy Committee to hold rates at its September meeting. Whilst expectations are that the cost of borrowing will rise by 0.25% by the end of the year, the Bank remains concerned by the impact that EU withdrawal is having on both private and corporate demand.

The impending rate hike has driven the pound to a one-year high versus the US dollar, spurred on by warnings from the Governor of the Bank of England that monetary policy could tighten faster than market expectations. Whilst raising interest rates would increase the cost of borrowing, a much weaker pound would also see household incomes squeezed in real terms. Both place pressure on the government to do more for public sector wages that have been capped since 2010.

US

The US Federal Reserve began preparing markets for the unwinding of the central banks $4.5 trillion balance sheet in June. Solid employment data and stronger than expected economic growth in the second quarter, accompanied by record highs in all three major stock indices, convinced the Bank to move. The gradual reduction in assets purchased as part of quantitative easing will begin in October when proceeds from maturing assets will no longer being reinvested. The Fed will want to gauge the impact of the move before raising interest rates further.

The major concern for stock markets has been President Trump. The President's threats of "fire and fury" in reaction to North Korea's continuing missile tests adding to ongoing concerns that his administration will be unable to deliver promised tax reforms. Some relief was provided by an agreement in Congress to raise the US debt ceiling, a legal cap on the amount government can borrow, to just over $20 trillion. The standoff in debt limit negotiations in 2011 wiped $2.4 trillion off the value of US stocks.

Europe

Guidance from the European Central Bank has also become more hawkish with economic expansion in the second quarter across the Eurozone surprising on the upside. GDP growth of 0.6% in the three months to June, equating to year-on-year expansion of 2.3%, was the fastest since 2011. This was followed by higher than anticipated inflation of 1.5% in August, a four month high but still well below the Bank's 2.0% target.

The strength and breadth of the economic recovery has so far failed to persuade the ECB to divert from its current path of quantitative easing and zero interest rates. The Bank is set to reduce its bond buying programme in early 2018 but remains concerned by the recent rise of the euro that has been strengthening ironically in anticipation of tapering. A stronger euro is a drag on both exports and inflation, with the latter still well below the ECB target.

Japan

Japan's economy also exceeded estimates in the second quarter, completing six straight periods of expansion, driven by domestic demand. Quarter-on-quarter GDP growth of 1.0%, or 4.0% annualised, led the G7 in the three months to June. Similarly, inflation remains weak with CPI running at just 0.4% year-on-year. The continuing struggle to generate inflation has prompted the Bank of Japan to abandon both its timetable and target of 2.0%, suggesting the figure is not achievable even with current levels of quantitative easing.

Politics could again be a major market disruption with Prime Minister Abe calling a snap election in a move designed to exploit an opposition in disarray. As Theresa May discovered this is a policy that can backfire and is a gamble given Abe's low approval rating and the poor showing of his Liberal Democratic party in the Tokyo Metropolitan assembly elections. However, victory would secure 'Abenomics' beyond the 2020 Olympic Games.

Asia

China's economy remains robust driven by the increase in global trade. Exports disappointed in August but have been running close to 10% year-on-year in the first half of 2017. Imports exceeded forecasts in the same month as domestic construction activity remained buoyant and commodity prices rose. GDP growth of 6.9% year-on-year for the second quarter was also ahead of expectations with continuing fiscal stimulus maintaining economic activity above the government's 6.5% target.

India's economy disappointed in the second quarter with growth of 5.7% year-on-year, falling short of the 6.5% consensus estimate. The slowdown was attributed to the new Goods and Services Tax that saw manufacturing inventories run down ahead of its introduction in July. The impact of November's shock demonetisation, the removal of all 500 and 1000 rupee notes from circulation, has also been blamed despite claims that almost 99% of this money has been returned to the economy.

Making the most of the new IHT allowance

Positive market conditions coupled with the frozen nil-rate band have helped to significantly increase government inheritance tax (IHT) receipts this year but clients are still largely unaware of ways to limit liabilities.

Figures from HM Revenue & Customs (HMRC) showed IHT income surged by more than 20% in the first four months of the tax year with almost £2bn being taken from people's estates between April and July.

Analysis from NFU Mutual found the total had gone up faster this tax year than in any other since 2010. The provider said it signalled a more aggressive approach from HMRC.

When IHT receipts increase, it's usually as a result of a buoyant housing market but with property prices starting to stall, it's not clear what is causing the sharp rise in receipts, other than a more aggressive stance by HMRC. However, with the combination of the freezing of the nil-rate band at £325,000 for a number of years, positive market conditions improving the value of client assets and the overall increase in property values, it has resulted in a marked increase in the overall value of estates.

However, from 6 April 2017 the government introduced a new allowance for inheritance tax (IHT); the residence nil-rate band (RNRB). This allowance is in addition to each individual's existing nil-rate band for IHT of £325,000. The RNRB is designed to provide an additional IHT exemption for parents passing on their property to their children, grandchildren or even great-grandchildren.

Making the most of the allowance

The RNRB is currently £100,000 per individual and this is due to increase by £25,000 each year until it reaches £175,000 in 2020/21. When combined with the nil-rate band of £325,000 per individual, this will result in a total potential £500,000 IHT exemption per individual or £1m per couple.

In terms of just the RNRB, if a couple make full use of this extra allowance, this could save an additional £140,000 of inheritance tax. Note that the RNRB can only be applied to one property and is limited to the value of that property, subject to the maximum allowance of £350,000 per couple from 2020/21.

Loss of the allowance

The full RNRB is available where an individual's total estate is valued at £2m or less at death, and is tapered away by £1 for every £2 that the estate exceeds this limit. For estates valued at over £2m, where an individual's RNRB is tapered away, there is an effective IHT rate of 60%!

However, the RNRB may be reinstated by gifting assets away to bring the estate below the £2m threshold. It is therefore important to ensure appropriate planning is carried out to ensure that each individual makes the most of their available allowance.

Planning

As an individual each has their own RNRB, which is calculated on their death, sufficient planning must be in place on the first death of a couple to ensure their full RNRB may be passed to the surviving spouse / civil partner. Additionally, on the first death it may be beneficial for assets to be passed on to individuals other than the surviving spouse, or into Trust, if on the second death the estate is likely to exceed £2m.

The earlier you can plan the better. However, It is never too late, as planning can be effective right up until the date of death.

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