BIRCHWOOD
INVESTMENT
MANAGEMENT LTD
NEWSLETTER

July 2019

It's plain sailing...

The Benefits of a Regular Savings Plan

Establishing a regular savings plan out of surplus income could be an extremely effective way to help build your wealth and achieve your financial goals over the medium to long term.

There are a number of benefits to "drip-feeding" even small sums of money into an investment portfolio each month via direct debit.

Firstly, it can help to achieve smoother returns and balance out the risk. Part and parcel of investing is the fact that investments go up and down in value. Investing after prices have fallen means buying into your portfolio at a lower price and bringing down the average price you have paid since the start of the investment. This is known as "pound-cost averaging" and through regular investing, the peaks and troughs will be ironed out or smoothed over the longer term.

Furthermore, market timing is extremely difficult and even investment professionals do not have a crystal ball and cannot predict with any certainty which direction markets will move in the short term. Therefore, regular investing helps take the "guess work" out of when to invest, as investments will be made automatically on a given date each month. In fact, the average investor tends to follow the herd and invest more when the market is rising and less when it is falling, which will lead to worse returns over the long term.

Investing smaller sums on a regular basis could enable you to start investing sooner than if you were to wait for a lump sum to build up. This gives you more time to take advantage of the growth potential of compounding investment returns.

You also do not have to commit to a fixed amount each month, and can change the amount invested if required to suit your circumstances. Even investing a relatively small amount each month can lead to a significant pot over the long term, as shown in the table below, which assumes net investment returns of 4% per annum.

Another benefit is the fact that you will not forget to invest as the investments are made automatically and you should view the investments as part of your regular monthly spending.

Finally, when investing a larger lump sum, you may be committing all of your money to the markets in one go. By "drip feeding" money into the market every month, if the stock market does fall, you have only invested some of your savings and therefore future payments benefit from the cheaper share prices.

When it comes to investing, we highly recommend that you seek financial advice and we are happy to discuss your requirements with you.

Monthly Investment	10 Years	20 Years	30 Years
£50	£7,387	£18,400	£34,818
£100	£14,774	£36,800	£69,636
£250	£36,935	£91,999	£174,091

Bank of Mum & Dad lending soars

Parents are forecasted to lend out over £6.3billion* this year to give their children the chance to get on the first rung of the property ladder. Projections indicate that the Bank of Mum & Dad will become the 11th largest mortgage lenders in 2019, being involved in just over a quarter of a million or 19% of property transactions.

This will amount to individual loan values averaging £24,100 which is a sharp increase from £18,000 in 2018. What's more surprising, perhaps, is although 62% of people aged 35 years and under relied on their parents to help them buy their home, 22% aged 45-54 and 7% of those aged 55+ also received financial assistance from their family.

This situation doesn't look likely to change either with 35% of prospective house buyers over the next five years saying they will also be banking on these parental loans.

There are regional differences, with the North West seeing the Bank of Mum & Dad's loan amounts almost doubling in a year, from £12,900 to £24,000, whilst the South West has seen a £10,000 increase to £29,700.

Parents are also helping children buy larger properties with three bedroom houses or apartments being the most popular, followed by 15% of parents lending that extra financial support to buy four or more bedroom homes.

Being a parent means carrying a number of responsibilities for our children starting from the cradle and even if our children are still young, there will come a time when they will be looking to fly the nest and may come cap in hand, hoping we will provide a large cheque.

It's therefore prudent to consider how your financial planning can incorporate housing assistance for the next generation, alongside the more traditional retirement and pension planning – and start as early as you can!

Pension Lifetime allowance: Taxes you need to know about

Your pension pot, is a gleaming promise that "should" facilitate the retirement of our dreams, something waiting to bless our latter years and allow us to enjoy what we have truly earned, in the belief we are safe with what we've invested. Or so of course we hope!

It is important then to know should your overall "pot" exceed £1,055,000 (having risen slightly from £1,030,000 from April 2019) that once you begin to take a withdrawal from any of your pensions, then the lifetime pension allowance will immediately levy a 55% tax charge if taken as a lump sum or a 25% tax charge if taken as a regular retirement income (on top of the usual tax on that income). Unless you have in place a scheme such as a secured Enhanced Protection on your lifetime allowance (that was available between 5 April 2006 and 5th April 2009), this tax may be unavoidable, if you don't seek to make some form of provision.

To clarify, the pension lifetime allowance is essentially the total amount of money you are allowed to hold in pensions before additional tax charges arise on withdrawals, excluding the state pension, and this figure determines the tax threshold.

While at an initial glance, depending on your age and circumstances, £1,055,000 may appear to be a figure too distant for consideration, there are factors that you need to consider to determine how the lifetime pension allowance may really impact you.

Through the unencumbered access of auto enrolment, changing jobs, promotions with their stepped up contributions, private pensions and saving schemes (many people have several pensions), it's possible to have numerous streams of money consistently and significantly accruing into the pension reserve, only to immediately be forced to relinquish 55% when it may have been avoidable.

You can try and calculate the pension lifetime allowance for yourself however it will differ depending on whether you have defined contribution or defined benefit (final salary) pension schemes. The scheme providers will also carry out BCEs, or benefit crystallization events, each time benefits are taken from a registered pension scheme to ensure tax charges are applied and if several pensions are running concurrently, you could be faced with a surprise tax bill.

To reflect, and bring a little perspective, according to the latest Treasury data, the British public paid £20 million of lifetime allowance tax charges in 2011/2012 but a colossal £110 million in 2016/2017.

Clearly the revelation is more and more people believe their investments to be safe, structured and protected, yet as each penny is confidently and consistently dropped into the piggy bank, along comes the ruthless hammer beyond our control, and smashes down hard.

Whether the £1,055,000 threshold is potentially in sight, or even confidently and comfortably exceeded, consulting with a financial planner can truly aid you in tackling the complex myriad of options and schemes so ultimately you are not caught out, and gain the grand benefit potentially of saving significant sums of money.

Market Report

July 2019

Global Review

The World Bank revised down its forecast for global growth in 2019 after US President Trump reignited trade tensions between the US and China.

Mr Trump pressed ahead with higher tariffs on Chinese goods after already threatening India, Mexico, Canada and Europe with similar action. The bank described economic momentum as "fragile" and risks "substantial" with conditions in Europe attracting particular attention after a rapid deterioration over the last 12 months.

In reaction, the US Federal Reserve and the European Central Bank both released dovish statements in June th at lifted market expectations for further monetary easing.

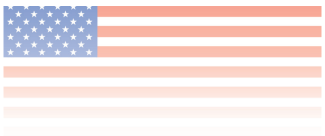
The Fed may decide to cut interest rates as soon as its July meeting, whilst ECB president Mario Draghi suggested that renewed asset purchases are an option should the economic outlook not improve. Brexit uncertainty, following Theresa May's failure to force a deal through parliament, has also subdued sentiment.

UK

European Union leaders granted Britain a further 6-month extension to agree Brexit terms allowing now former Prime Minister Theresa May a fourth attempt to present her Withdrawal Agreement to parliament. Despite May's promise to resign as Prime Minister after a disastrous result for the Conservative Party in the EU parliamentary elections, the Agreement was again rejected. The failure of government to deliver Brexit allowed the newly formed Brexit Party to take 29 of the available EU Parliament seats.

Brexit uncertainty and global trade concerns continue to dominate Bank of England policy despite inflation climbing to 2.1% in April, exceeding the Bank's 2% target for the first time this year. Economic growth remains subdued with expansion of 0.5% in the first quarter the result of weak performance in the previous three months. The Bank held interest rates at 0.75% in June, but some members of the monetary policy committee suggested markets are underestimating the pace of future hikes, particularly in the event of an orderly exit from the European Union.

US



Months of negotiations between the US and China failed to produce a trade agreement, resulting in an immediate increase in tariffs by the US on $200bn of Chinese goods. Retaliation from China amounted to a hike in duties on $60bn of US imports. After peaking at an all-time high, the benchmark S&P 500 index of leading US shares fell over 6% in May as a result, before recovering on more dovish comments from the central banks.

The US Federal Reserve held interest rates at the current target range of 2.25% to 2.5% at its latest meeting but removed the word "patient" when describing its policy approach.

Having failed to raise rates since September, the more dovish statement lifted expectations of policy easing and markets were further encouraged with similar comments from the European Central Bank. Global equity markets subsequently recovered with the S&P 500 regaining its all-time high.

Europe

The World Bank's concern over Europe has been illustrated by the German economy's lacklustre performance over the last 12 months, growing by just 0.7% and barely avoiding recession in the second half of 2018.

First quarter numbers were more encouraging, expansion of 0.4%, but May saw a rise in German unemployment for the first time since November 2013. The manufacturing sector has struggled in the face of tougher global trade and tighter pollution controls have hit auto production.

The European Parliament elections saw the rise of populist parties but not to the extent that many had expected. Mirroring the success of the Brexit Party in the UK, the League won over a third of seats in Italy, whilst support for its coalition partners the Five Star Movement fell away. The shift of power increases the chances of a general election.

Similarly, in Greece the ruling Syriza Party suffered a heavy defeat and, having lost its coalition partner in January, Prime Minister Tsipras subsequently called a general election.

Japan

Japan is enjoying a period of political stability after Shinzo Abe won his party's support to continue as Liberal Democratic leader and remains on course to become the country's longest serving prime minister.

Whilst Abe has been pushing constitutional reform to revise the country's defence policy, most voters are more concerned over the state of the economy and a shrinking population.

Economic growth fell to 0.7% in 2018 as demand from China and a slowdown in the technology cycle hit activity. A strong fourth quarter was followed by an unexpected expansion in the first three months of 2019, but this was largely the result of imports falling faster than exports.

The global trade war may see a further delay to October's planned sales tax increase with many believing the Bank of Japan has few tools left to stimulate the local economy.

Asia

The escalation of the trade dispute between the US and China has driven a greater scrutiny of Chinese economic data. May data was weaker than expected, with industrial production slowing to 5% year-on-year, increasing the likelihood that the authorities will continue to gradually increase stimulus measures.

Whilst President Trump and President Xi are expected to meet at the G20 meeting in Japan, the current trade dispute is unlikely to be resolved in the short-term.

The six-week long general election in India returned Narendra Modi and his ruling Bharatiya Janata Party (BJP) to power after a landslide victory.

Seen as an endorsement of Modi, he becomes the first leader to secure back-to-back government majorities for nearly fifty years.

The BJP must now deliver on its promised reforms to revive an economy that has been slowing for much of the last year despite claims of 7% growth.

Protect yourself with a LPA

A report published by Solicitors for the Elderly in 2018 estimates that by 2025, there will only be 2.2 million LPAs (lasting power of attorney) in place and yet projections show that around 13.2 million people will be at risk of dementia. Dementia is now the leading cause of loss of capacity, but it is not the only cause.

There is a common misconception that your spouse or civil partner will be able to seamlessly take over should you become unwell. However, the stark reality is that no one has the automatic legal right to take over your affairs once you are incapable of managing them. You are advised to think about taking the necessary precautions now, when you are fit and well, to ensure you have appointed your chosen trusted people to look after you in your greatest time of need.

What do you need to know about LPAs?

1. There are two separate documents. Property & Financial Affairs attorneys take care of payment of bills, operate bank accounts and property and investments and the attorneys can operate either immediately or only on loss of capacity. Health & Welfare attorneys can only make decisions if you lose capacity and make decisions about personal welfare such as where you will live, and decisions about medical treatment.

2. The Property & Affairs attorneys need not be the same as the Health & Welfare attorneys. You should consider who would act in each instance, and if you want to name substitutes.

3. Attorneys can be a spouse, children, relatives, friends etc. The attorney must be over 18. An undischarged or interim bankrupt cannot act as Property & Financial Affairs attorney.

4. If you would like to have more than one attorney, you can specify whether they act "jointly" (i.e. they must agree on any action before they proceed) or "jointly and severally" (each can act without reference to the other). It is also possible to specify that they act jointly on some decisions and jointly and severally for other decisions.

5. You can impose restrictions on your attorneys or provide guidance. Unless there are any particular reasons for doing so it is generally

better not to as even carefully thought out restricted guidance may create difficulties in unforeseen circumstances.

6. You can, if you wish, give your Health & Welfare attorneys the power to refuse or consent to life sustaining treatment. If you choose not to, this decision rests with the doctor/medical team, though in practice a doctor is likely to consult your attorneys in reaching his or her decision.

(article kindly supplied by NSS Legal Limited, London)

Don't Procrastinate – Nominate.

So, you are building up or have already accumulated a pension pot, to provide for you and possibly a surviving dependant during your lifetime. All good. But what if the worst happens and you don't get to fully enjoy the fruits of your prudence and you have not purchased an annuity?

In the majority of cases, the trustees of a money purchase pension scheme can pay out death benefits (typically the fund value on death) in the form of a lump sum or a pension. But whilst lump sums can be paid to anyone, whether nominated or not, only certain categories of beneficiary can receive a pension fund within a tax-efficient wrapper; these being 'dependants', 'successors' and 'nominees'.

• A Dependant is your spouse, civil partner, child under age 23, or someone financially dependent or interdependent on you – the member.

• A Successor is an individual nominated in due course, by a beneficiary. The scheme administrator can also select a Successor but only where no nomination was made by the beneficiary.

• As the names suggest, a Nominee is a beneficiary who has been nominated by the scheme member to receive benefits, usually via a previously submitted Expression of Wish form. The scheme administrator can also select nominees, but only where there is no dependant or nomination by the member.

It is important therefore to ensure that your Nomination is up to date and provides the flexibility for other beneficiaries to be included, (other than those who are dependent on you), to be able to receive pension benefits should the trustees so decide. Of course, your pension contract also needs to be capable of taking advantage of these flexibilities – many older contracts, such as Retirement Annuities and Executive Pensions may not.

Take note, that whilst the majority of modern pensions hold your benefits outside of your Estate and thus are not ordinarily assessed to Inheritance Tax, the Trustees will usually, under duty of care provisions, ask to see the last Will of the deceased. This helps to inform their decisions as to whom they should pay out plan benefits and therefore it is often helpful if some guidance is mentioned in a side letter to the Will, outlining your preferences in regard to your pension funds.

Getting this right can preserve your residual pension benefits for generations to come in a tax-efficient wrapper as well as potentially protecting them from creditors – getting it wrong could be costly for your beneficiaries.

Whilst death is assured as part of life's journey, it can take it's toll on those left behind - the last things your loved ones should have to deal with are challenges relating to your finances.

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