ASPEN WEALTH MANAGEMENT

Newsletter

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Missing out on ISA returns?

HM Revenue & Customs has reported that in the tax year 2015/16 80% of the 12.7 million people who invested in Individual Savings Accounts put their money into cash ISAs - a similar figure to that for 2014/15. This, despite historically low returns and with little current prospect of beating inflation.

Insurers Royal London have calculated that the consequence of investing in cash ISAs rather than stocks and shares ISAs is that investors have missed out on £100 billion of returns.

The term 'stocks and shares' ISA is somewhat misleading, because for most people the alternative to a cash ISA is to use the ISA allowance to invest in managed funds, rather than individual stocks and shares.

These can invest in widely diversified portfolios of stock and shares and bonds and thereby greatly reduce the risk of investing in individual shares.

For those wishing to switch their cash ISA to a stocks and shares ISA, it is important not simply to sell the ISA but to make a formal ISA transfer request, so as not to lose the ISA's tax-efficient status. If lost, this cannot later be reclaimed.

Reasons for setting up a trust

A trust is a legal arrangement which enables a person ('the settlor') to transfer the legal ownership of property, shares or cash to another person ('the trustee') to hold on behalf of a third person or persons ('the beneficiary").

The main reason for setting up trusts is the protection of family interests. For example:

• *To protect wife and children*

If a settlor wished to ensure that their spouse and children were adequately provided for in the event of their death, they might create a trust in their Will giving the spouse the right to live in the family home for the remainder of their life, while at the same time ensuring that the house would go to the children of the marriage on the death of the surviving spouse. By doing this, the settlor would be able to prevent the spouse cutting the children out of their Will in the event of the spouse's subsequent re-marriage.

• *Personal injury trusts*

People who have received Court awards as compensation for personal injury can benefit from having the award held in a personal injury trust, because money held in the trust and any payments made from the trust are generally disregarded for the purposes of the means testing of Social Security benefits

• *To provide for individual children*

A parent or grandparent might wish to set up a trust to provide for the financial needs of one or more of their children, such as education.

• *To protect vulnerable children*

A settlor might alternatively wish on their death to put inheritance money into the hands of trustees to prevent an immature or irresponsible child from extravagantly dissipating a gift. Similarly, the interests of a son or daughter could be protected against the risk of assets being lost as a result of bankruptcy or divorce.

• *To provide for long term care*

A trust could be created to hold sufficient funds to provide for the long-term care of an aged dependant, such as a widowed mother, with provision that on the death of the beneficiary the trust capital would revert to the family or settlor.

• *Generation skipping*

If a settlor was confident that their spouse had ample funds for their own needs, and wished to avoid adding to those funds and thereby creating an unnecessary tax liability, he or she could set up a trust for the primary benefit of the children, while permitting access for the surviving spouse if needed.

The ageing population

Government statistics are projecting that by the year 2020 there will be 12% more people in the UK aged 65 and over than there were in 2015. This compares with an overall population growth of just 3%.

Another prediction is that the number of retired people will have increased by 1.1 million in the three years after 2015, making this the fastest growing sector of the population.

Meanwhile we have become accustomed to the assumption that improvements in medical science will result in ever-increasing lifespans, with consequent pressure on family finances.

However, this assumption has been cast into doubt by research undertaken by the actuarial profession (actuaries are the number-crunchers who are said to have found accountancy too exciting).

Figures produced by the Continuous Mortality Investigation of the Institute and Faculty of Actuaries suggest that for a number of reasons lifespans may not be increasing as fast as had been thought.

What are the messages of these various statistics for retirees wondering how long their finances will last? Very often, the answer will depend on the type of pension scheme to which they belong.

Members of occupational pension schemes have the great benefit of certainty as to the income they can expect to receive. The investment risk in funding undefined periods of retirement falls on the employer, and many occupational schemes are suffering from massive financial deficits.

The employers who fund these schemes are offering what appear to be extremely attractive terms to employees who transfer to personal schemes, in which the investors bear the investment risk.

However, personal schemes enjoy the benefit of much greater flexibility as to the times at which and the ways in which benefits can be drawn.

Comparing the benefits of the two types of scheme is a complicated exercise and requires specialist professional advice.

The twin dilemma facing many personal pension holders is how long they will live and how long their funds will last. In this respect the actuaries' conclusions may give rise to mixed feelings.

LISAs

Whilst providers are thin on the ground, since April, Lifetime ISAs have become available for those aged under 40. This enables savings of up to £4,000p.a. with a government boost of 25%. The funds can be accessed for a house purchase as a first-time buyer or at state pension age. Conditions and earlier access penalties apply but they are worth examining.

Equities

Geopolitical concerns (Syria and North Korea) and the proximity of the French Presidential elections combined to keep equities under wraps for most of April. However, the market was relieved by the victory for Macron, leading to a good rally at the end of the month. In Europe, the Dax in Germany (+3%) and the Italian MIB (+3%) led the way, with the UK (FTSE 100) also +2%, though Sterling's rise on the announcement of the General Election meant that in US Dollar terms, it was a laggard, down 1% in April. Further afield, EM equities were up 2% in April, whilst the S&P 500 returned 1%. At the Year-to-Date point, there were some stunning gains, with Spain up 20%, Athens +15% and EM Equities and European Banks 14% higher in the first 4 months on the year.

The only asset class to retreat in April was Commodities; Oil fell 3%, Agricultural products (Wheat, Corn etc) were off 2%, whilst Silver fell 6% on the month. Strangely, Gold was up 2%. Year-to Date, Oil (Brent Crude) is down 11% since the start of the year.

May was a very strong month, with gains both large and widespread. Europe saw 5% plus gains in both France and Germany, with the FTSE 100 not far behind, up 4.9%. In the US, the Nasdaq also rose 4.1% but both the S&P 500 and the Dow lagged a little. Politics was the driver, as Investors flocked to European assets en masse, having been very bearish (and underweight), prior to Macron's victory. The Euro rose 4 cents versus the Dollar to close the month near €1.13. The weakening value of Sterling, which benefits the majority of FTSE 100 bigger companies as they are Multi Nationals, pushed UK markets up in line with their European neighbours; a fall in Unemployment in Europe, combined with improving Economic confidence indicators in both Germany and the UK, also provided a headwind for buyers. In contrast, the news of a possible Trump impeachment saw 370 points wiped off the value of the Dow Jones Index mid-month, leaving US markets (excluding the Nasdaq) off the global market pace. In EM land, Brazil fell 6% on more corruption allegations surrounding the Country's President, whilst China's sovereign credit rating was downgraded by Moody's. Still, the flood of money going into the region allowed the MSCI EM Index to rise 3.2% in Sterling terms. Asia (ex-Japan) was up 4.6% over the month too.

The much-anticipated OPEC meeting allowed a 6% intra-month rally in Brent Crude, but doubts about the ability of the cartel to make production cuts stick led to a May close $4 off the $54 per barrel highs. Both Silver and Gold were flat on the month, despite some sharp price swings in May.

In June, he first two weeks saw decent gains, but were wiped out by month end, with markets affected by the rise in US bond yields (see below). Only the Italian MIB Index rose on the month, but Germany and France lost 1.5-2% with the FTSE All Share down 2.5%. The Dow did better than most, as the announcement that the Big Banks would be allowed to re-start dividend payments boosted those shares. Elsewhere, markets had a much better time of it, led by Asia (ex-Japan) which was up 1.2% and Japan itself which rose 0.7%. Emerging Markets in general were flat on the month, though Brazil was once again down 2.5% as the political crisis showed no sign of resolution.

Commodities rallied at the end of June, (Copper was up 5.3%), as signs appeared to suggest that China was preparing to relax its recent monetary tightening measures. Oil rose sharply towards month-end to reduce its monthly losses but still down 5.3% on the month.

Bonds

Although most Government bond markets were higher in USD terms, the strength of the Euro and Sterling tended to blunt the local currency effect of the gains. Gilts were up 3-4% in USD but less than 1% in their own currencies in April. US Treasuries were up 1%, as were EM Bonds in April. European Credit generally did better than their US equivalents,

May saw smaller gains, with Spanish, Italian and US Government bonds up 0.7-0.8% on the month. Germany and Japan were down fractionally. Corporate bonds (Investment Grade) had a strong month (+1.7% Globally) followed by High Yield (both European and US) which rose 0.9%. As the risk appetite increased, Index Linked bonds fell out of favour somewhat, but still managed a 0.2% monthly gain.

June brought with it a sharply weaker US Dollar and some heavy selling in US Bonds, with yields rising the most since November 2016. Interestingly, the Long Bond (30 year) actually rose with all other maturities falling, as the yield curve ending unchanged, after flattening dramatically in early June. The market seemed to be starting to take the Fed's word that further rate rises were coming, with 5 year bonds bearing the brunt of the selling. In Europe, both Bunds and Gilts saw losses of 2-3 points, a sharp reversal of recent months. Corporates did better, basically flat on the month, as were High yield bonds, despite the weakness in Oil. Higher US rates left US Mortgage bonds lower, down around 1% on the month.

Property

April saw a huge range in returns across the Globe; the UK was the best performer (+4.8%) whilst the US saw declines of 3.5% on the month.

May saw a continuation of the trend towards European assets (see equity and bond comments above), with European property rising 5.6% on the month. Again Developed -ex US outperformed the Developed World Index by 2.4%, as the US saw another 1% decline on the month. Asia and Japan rose 3-3.5%, as global portfolio money flows continued to favour Emerging Markets in general and the Far East in particular (as it is seen as politically more stable and thus

In June, US Property saw a near 2% gain, whilst most other regions were flat/slightly down for the period. *Commentary courtesy of A. Meadows (EBIP)*

Example Returns

Based on Models Net of adviser and Investment Charges for portfolio worth under £1M.

Shown below are 4 portfolios out of 21 numbered according to their percentage exposure to equites & property

Aspen EBIP Portfolio	40	60	80	100
This Quart%	-0.15	-0.03	0.10	0.22
12 months %	8.60	12.95	17.39	21.92
36 months %	15.93	21.49	27.21	33.10
60 months %	31.64	44.84	59.08	74.44
120 months %	54.74	60.91	65.12	66.98

Individual returns may vary accordingly to asset allocation and timing. Past performance does not determine future return. Investments can fall as well as rise.