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Technical Update No. 11 7th June 2018

Saver / Investor

Boon for ethical investing

UK investors seized the bull market last year, as statistics from the Investment Association last week revealed investors ploughed a record net £63bn into funds, ending 2017 at an all-time high of £1.2 trillion. Of particular interest, though, is mounting evidence that investors are seeking to put their money into ethically sound businesses. Investors bought £138m in ethical funds in March 2018 compared to just £32m at the same point last year. A further market indicator of appetite is the increasing number of passive funds prioritising green and socially responsible companies - more exchange traded funds (ETFs) with environmental or social goals (ESG) entered the market in May 2018 than in any previous month. While ethical funds still only represent 1.3% of the market, that number is up from 1% at the end of 2015 and the old trade off of between doing good and delivering good returns is evaporating as performance picks up.

All

UK economic slowdown

UK gross domestic product was estimated to have increased by 0.1% in the first quarter of 2018 which is the slowest pace of growth in five years. The bad weather experienced early this year is believed to have been the main cause for the downturn in construction and high street spending as, overall, household spending grew by 0.2% - the lowest it's been for three years. Additionally, business investment decreased by 0.2% which will no doubt highlight concerns over the strength of the UK economy and its ability to maintain stability after it leaves the EU. While first-quarter growth was clearly dragged down by the elements in February and first half of March, the extent of the slowdown suggests an underlying loss of momentum in the economy.

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Saver / Investor / Estate Planner / Property Owner

House prices fall

UK house prices haven't perked up yet this year, with the latest report from Nationwide saying they fell 0.2% month-on-month. Annual house price growth has now slowed to 2.4% from the 2.6% recorded in April. The dip in May makes it the third fall for house prices in the past four months. The average price of a property - when not seasonally adjusted - was £213,618 in May 2018, compared to £213,000 the month before. With annual house price growth confined to a fairly narrow range of circa 2-3% over the past 12 months there seems to have been little change in the balance between demand and supply in the market over that period. Most commentators share the view that there are few signs of any imminent change.

Saver / Investor

Future price stability for Bitcoin?

Bitcoin price has fluctuated since its December high of just under $20,000 – but some cryptocurrency experts now believe bitcoin could have a "more stable" price in the future (though this could take decades). The sense is that volatility is not going to go away any time soon, especially since there are still plenty of bitcoin 'whales' or people who are involved in bitcoin early on who have amounted a large stockpile. That's going to be a threat in the near-term and possibly for the long-term. However, once the adoption rate of bitcoin is normal and has reached full market penetration, which we are nowhere near at the moment, and once there is more liquidity in the market, it's likely there will be a much more stable price fluctuation. There are a lot of 'ifs' though.

Saver / Investor / Retired / Estate Planner

Emergency tax on pension lump sums

A report commissioned by the government has called for a rethink to the use of the emergency tax code on pension withdrawals. Currently pension freedom payments are taxed at an individual's marginal rate and if an individual draws a large amount in a single month then they can be taxed at a higher, emergency rate of tax. Individuals who are charged this higher rate can then reclaim this tax from HMRC by filling out a form however this is not always claimed back. In a report by the Office of Tax Simplification (OTS), the body called on the government to review the way pension withdrawals are taxed, accusing the current system of creating a lot of confusion. This would seem to be borne out by the £300 million overtax on pension payments since pension freedoms were introduced.

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Saver / Investor / Retired / Business Owner / Employee / Parent

Crackdown on costly credit – but is it enough?

Consumer groups have reacted with disappointment to a crackdown on high-cost credit by Britain's financial watchdog, saying it fails to address "unfair" unarranged overdraft charges or extend to a cap on the doorstep lending market. Following a wide-ranging review into the sector, the Financial Conduct Authority (FCA) is proposing reforms to bank overdraft charges, rent-to-own operators and catalogue credit and store cards. The watchdog is also considering a number of measures to make it easier for customers to manage their accounts, including mobile alerts warning of potential overdraft charges and stopping the inclusion of overdrafts in the term "available funds". However, Which? said it was wrong that the regulator was not taking action on unarranged overdraft fees given that that banks are estimated to have raked in £2.3 billion in revenue from overdraft charges in 2016 alone.

Saver / Investor / Estate Planner

Tax shake-up good news for savers?

ISA savers should be able to hold more than one of the same type of wrapper during a single tax year, the government's tax adviser has said. The Office of Tax Simplification (OTS) has said ISA rules should be made simpler for investors to administer. It suggests changing the rule where only one type of ISA can be opened at a time and instead letting savers hold multiple products, such as more than one Innovative Finance ISA from different peer-to-peer lenders or a variety of cash ISAs, as long as they remain within the annual allowance.

Saver / Investor / Business Owner / Estate Planner

More potential dividend tax woes for the wealthy

The complexity of dividend taxation could be swept away under a proposal to remove the current system of discounted rates and treat payments the same as income tax. Less positively, though, the proposal by the Office of Tax Simplification (OTS), would likely hit wealthier, older savers and business owners by removing some of the discounts currently applied to dividends versus earned income. Dividends held outside tax wrappers are currently subject to a tax-free allowance of £2,000. Above that, within the basic tax rate band dividends are taxed at 7.5%, in the higher rate band at 32.5% and in the additional rate band at 38.1%. Those offer a substantial discount to income tax set at a basic rate of 20%, higher at 40% and additional at 45%. But the proposed changes would have the effect of increasing the amount of tax due from those who receive amounts of dividend income above the allowance. It would also impact on the taxation of profit extracted as a salary or as a dividend, from family-owned companies.

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Time to buy UK shares?

Brexit uncertainty and the prospect of a (anti-business) Labour government has caused UK stocks to become some of the cheapest in the world - £1.8 billion was withdrawn from the Investment Association's UK All Companies sector in 2017 alone. While this negative sentiment represents a source of concern for some investors, it has also created opportunities and some real value for money versus some international peers. In considering UK shares it is worth bearing mind that: uncertainties are now largely discounted (having been priced in), policy uncertainty is reducing, consumer sentiment is bottoming out and, perhaps more importantly, that the UK equity market is global in nature - as is the source of its revenue and profit. The banking sector is regarded as a particular sector offering value, while more defensive sectors like utilities and telecoms are regarded with less optimism.

Saver / Investor / Retired

Warnings over pensions transfers

New data reveals how savers are abandoning so-called "gold-plated" pensions in their droves with officials estimating more than £30bn drained out of schemes in 2017 alone. Experts said the surge of transfers was likely caused by savers rushing to access the pension freedoms and final salary schemes offering high cash sums in exchange for members giving up pension rights. The latest figures published by the Office for National Statistics show the sum paid out by company schemes in recent years has increased six-fold over the past three years. Just £5.4bn was withdrawn in 2014, rising to £34.2bn last year. Against this backdrop new complaints about occupational pension transfers and opt-outs rose 11%, from 496 in the year ending March 2017 to 553 this year. Accordingly MPs are demanding SIPP providers take more responsibility. While the pension freedoms may offer greater flexibility retirees should think very carefully about giving up the guarantee DB pensions provide.

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If you have any questions related to this update or indeed anything else then please contact your adviser at Champain.

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