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Investor / Saver / Retired

Woodford investor? Here's what you could do?

If you're wondering when you'll get your money back if you're invested in the Woodford Equity Income fund, it's not great news. Link has advised that the liquidation process will begin on 17 January 2020. However, liquidating the entire fund is likely to take time. According to some experts, it could take over a year to fully close the fund and return money to investors. Unfortunately, you could be waiting a while to get your money back. Additionally, investors should also be aware that they may receive back less than they invested as the fund has continued to underperform recently. All in all, the Woodford situation is a complete debacle and not a good look for the investment management industry. In terms of what next, given the dismal performance of the Equity Income fund, however, investors will be nursing losses. It's also not good news regarding charges. Until Tuesday, when the winding up was announced, Woodford Investment Management was taking an estimated £65,000 a day in charges from investors in the fund, even though it was suspended and they were captive customers. From Tuesday the annual charge will go to Link, which will pay the fees and costs of BlackRock and PJT Partners, plus sundry other charges such as legal, auditing and custody fees. The dealing costs on the fund are likely to be much higher than normal because the managers will be selling off all the holdings.

Investor / Saver / Retired / Business Owner / Estate Planer

Tax reliefs for wealthy under the spotlight

Savers and investors could be slapped with an extra £120billion in tax over five years under a major shake-up of capital gains tax touted by an influential think-tank. Capital gains tax on people's wealth held in investments and the sale of second homes and buy-to-lets should be hiked to income tax levels, while the annual exempt allowance of £12,000 should be slashed to £1,000, it says. A tax raid on entrepreneurs was also outlined by the Institute for Public Policy Research, which could see those who have built up companies lose their special 10%. The tax grab could be even greater if combined with a separate idea to scrap the current CGT exemption for people's main properties - a new homeowner tax recently floated in a report commissioned by Labour. Under the Just Tax plans published by the Institute for Public Policy Research today, a basic rate income tax payer would face a CGT hike from 10% on investments and 18% on home sales to 20% across the board. Higher or additional-rate taxpayers currently have CGT levied at 20% on their assets and 28% on properties which are not their main home. They would see their CGT rates soar to their income tax levels of 40% and 45% respectively, according to the report.

Investor / Saver

More scrutiny over peer to peer lending

The City watchdog has beefed up its scrutiny of the peer-to-peer lending sector in the wake of the Lendy collapse. The Financial Conduct Authority (FCA) has faced criticism over its supervision of Lendy, having authorised the P2P property development lender just 10 months before it went into administration with a mountain of defaulted loans. Industry insiders have noted a change in the FCA's attitude in recent months as its reputation has been hit by the Lendy scandal as well as the fallout over the collapse of P2P lender Collateral and minibond provider London Capital & Finance. Some experts think the regulatory tightening may deter some new entrants. If you are a P2P lender moving from appointed representative to full authorisation or new to the market or existing, we are seeing increased scrutiny. The FCA doesn't want to stifle innovation but it has a duty to ensure customers understand what they are investing in. With the new regulations set out in the June policy statement, there is a higher bar that needs to be achieved in terms of ongoing compliance. There may be some unintended consequences as it could deter new entrants but the industry is agreed that a tougher stance is broadly positive.

All

Weak property price growth

Asking prices for British houses put on sale in October showed the smallest seasonal increase since the financial crisis, as all but the most determined sellers waited for greater certainty over Brexit, industry figures showed on Monday. Rightmove said that the average asking price for homes sold via its website was 0.6% higher in October than in September, well below the average 1.6% rise seen for the time of year and the smallest increase since October 2008. With upward pricing power now pretty flat, some sellers who are motivated by maximising their money seem to be holding back. They may be waiting for more certainty around both achieving their price aspirations and also the Brexit outcome. Up to now we have seen a slowdown everywhere but in the jobs market and in the consumer economy. A decline in consumer confidence this quarter, combined with a fall in official unemployment figures, show that the period of remarkable resilience may be coming to an end.

Investor / Saver

Are VCTs worth the risk?

The amount of money invested in VCTs has increased sharply over the past decade, increasing by 374% from £154m in the 2008/09 tax year to £731m in 2018/19. VCTs are like investment trusts but only invest in small, young and typically unlisted companies. Although such companies are riskier and statistically more likely to go bust, investing in a VCT comes with a 30% income tax relief from the government and any returns are tax free. The trusts have performed well in recent years — the top 16 VCTs have all at least doubled investors' money on a net asset value return basis over the last 10 years while 2018 had the second biggest VCT season on record, according to data from the AIC. Many put the rise in popularity of VCTs down to the cuts to the pension allowances and restrictions on buy-to-let investing which has resulted in VCTs being one of the few tax efficient investment avenues left for wealthier investors. Any investment into VCTs should be measured and proportionate to the investor's overall portfolio, their appetite for risk and ability to tie their money up for the medium to longer term. The tax features on VCTs are attractive — though not as generous as a pension for a higher or additional rate taxpayer — but these exist for a reason. The tax perks are provided by the government to incentivise investors for the risks involved when investing in the types of fledgling enterprises that VCTs are focused on and that the policy makers wish to support.

All

Fall in UK millionaires

New research sheds light on global wealth composition - with an uncertain outlook for the UK.

Global wealth grew by 2.6% to $360 trillion over the past year, thanks to strong figures recorded by the US and China. Despite trade tensions, the two nations grew $1.9 and 3.8 trillion respectively, according to the Credit Suisse Research Institute, as Europe trailed behind with a growth of $1.1 trillion. As of mid-2019, the report estimates that there are 46.8 millionaires worldwide, a rise of 1.1 million from last year. The UK, on the other hand, has a posted a 'modest' loss of 27,000 millionaires as wealth per adult grew by 2.2 % overall over the last year. After a 'difficult year' following the result of the 2016 EU referendum, both the UK's exchange rate and stock market fell sharply, but wealth per adult between 2017 and 2018 rose by 21% in GBP terms and 13% in US dollar terms. Average wealth in GBP is now 41% above its 2007 level, but the UK's outlook now 'uncertain', the report noted, with future prospects depending on the outcome of Brexit.

Saver / Investor

IMF concerned about alternatives

Alternative assets are so hot right now. And the IMF is worried. Whether it be venture capital, private equity, real estate, hedge funds, art, jewellery, infrastructure, classic cars or music royalties, pension funds have never been more exposed to this cohort of financial assets. Very low rates have prompted institutional investors like insurance companies, pension funds, and asset managers to reach for yield and take on riskier and less liquid securities to generate targeted returns. For example, pension funds have increased their exposure to alternative asset classes like private equity and real estate. What are the possible consequences? Similarities in portfolios of investment funds could amplify a market sell-off, and illiquid investments by pension funds could constrain their traditional stabilising role in markets.

All

The rise of the 40 year mortgage

When you think of a mortgage term you most likely think 25 years. But it would appear increasing numbers of lenders are allowing borrowers to extend their mortgage to a maximum of 40 years. Advantages of extending the mortgage term to four decades are that the repayments are lower over a monthly basis. However, on the flip side of the coin, it also means borrowers are extending the period over which they are paying interest and therefore could end up paying more over time. While a longer-term mortgage will reduce your monthly repayments, the additional interest that accumulates over an extended period could be considerable. For example, a £250,000 mortgage with a rate of 2.5% over 25 years would result in a monthly repayment of £1,121 with total interest of £86,463 over the term. The same mortgage taken over 40 years would reduce the monthly repayments to £824 but would increase the interest to a total of £145,733 over the term. By extending the term to 40 years, borrowers would be increasing their interest payments by nearly £60,000. Particularly important to bear in mind is the fact that an extended mortgage term may go beyond pension age, so it is imperative that these borrowers consider their options and attempt to make provisions if their personal circumstances change.

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