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Investor / Saver

Dog funds

The number of funds that have consistently underperformed in the markets they invest in this year has risen by a third, new data has shown. This is partly due to the gulf between the performance of growth versus value and income funds, which has been exacerbated by the pandemic. The difference in performance levels is striking. While the average fund in the IA Global sector posted a 32.4% return, the best performer managed to make a 162.6% return, and the poorest ended up down 9.6%. This highlights the need to be super selective when choosing a fund manager to look after your cash and, once invested, how important it is to continue to regularly monitor your investments and check whether they are delivering value for money. Bestinvest's Spot the Dog report, which has been exposing badly performing funds since it launched in 1994, named 119 market investment funds in its latest report, collectively representing £49.6bn in customer's long-term savings. The research, which is released biannually, uses statistical fund performance data to identify funds that have performed badly compared to their benchmark. Fund giant Invesco retained the "top dog" spot for the sixth time in a row, with 11 funds worth £9.2bn of assets. Jupiter climbed up to second place, after acquiring Merian Global Investors last year, while St. James's Place and Schroders came in third and fourth place, respectively. The highest count of consistent underachievers was found in the global equities sector, while North America had a prolific number of dog funds at 21.

Investor / Saver

Investment opportunities amid global mining boom

RioTinto will hand investors the largest dividend in its 148-year history as it cashes in on a mining bonanza. The company will pay out £6.5 billion, equal to 400p per share, after a surge in the price of steelmaking ingredient iron ore boosted profits by more than a third. Iron ore rose in value by almost 85% last year, climbing above $175 a tonne, as demand rocketed from China's steel industry. The country has been stockpiling the commodity as it plans to unleash a post-Covid economic boom. Rio's bumper pay-out came a day after fellow FTSE 100 miners BHP and Glencore promised to hand investors huge sums – £3.7billion and £1.2billion respectively – after they too benefited from rising commodity prices. The results have added to growing speculation that the market is entering another 'supercycle' that will see the prices of commodities soar. A construction boom in China, economic stimulus in the US, the green revolution and lower stocks of commodities are all forecast to bolster prices for years to come. Commentators believe this is another example of the strong pay-outs on offer in the sector and the likely ability, and intent for this to continue, especially as iron ore prices stay elevated, should help to underpin share prices.

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Investor / Saver

Gamestop and equity bubble fears

The flood of retail investors piling into markets like the Redditors behind the Gamestop mania has been described as a “harbinger of over-exuberant markets” and evidence of potential equity bubbles brewing. Down on its luck video game retailer Gamestop took the investment industry by storm at the end of January after an army of amateur traders on Reddit targeted the stock, with the intent of sending its shares “to the moon” and letting Wall Street have it. What followed was a frenetic week of trading which saw other beaten up and shorted stocks US cinema chain AMC and out of fashion mobile phone company Blackberry take off. At its peak Gamestop was up 1,500% at $483 a share compared to its $17 price tag at the start of the year. Hedge fund Melvin Capital, which heavily short the stock, lost more than 50% last month. Since then, the dust has settled, and its shares are back down to $60 with some of the loss of momentum down to brokers Robin Hood, Charles Schwab and Etoro restricting trades as they struggled to cover their positions. Though the Gamestop bubble appears to have burst, the week of explosive trading activity has some investors worried valuations are looking frothy. Ruffer Investment Company likened the situation to prior bubbles formed by speculative trading on margin in its January investment update. The David and Goliath nature of the story has captured the imagination of the press but taking a step back it reveals some more interesting insights into market dynamics. Gamestop is not the only stock accused of being a speculative bubble. Tesla, which has seen its shares rocket 700% in the last year, has been flagged as being overvalued for months. The electric car maker was also at the centre of a squeeze a year ago which caused a massive headache for short sellers like former Jupiter Absolute Return manager James Clunie. Bitcoin has also been hailed as a speculative trade and its violent price swings in 2021 have prompted the Financial Conduct Authority to sound the alarm. But most experts don’t think it’s enough to destabilise the equity market. The speculation has been fairly tightly contained in a handful of stocks that had been well-scoped out by investors beforehand as being heavily shorted and ripe for a squeeze. The failure of this action to broaden out into silver for instance is, according to commentators, encouraging as it suggests that the broader market is still more being driven by stimulus, sentiment around the economy re-opening and corporate earnings.

Parent

The cost of un-used university housing

The 2020/21 results of the National Student Accommodation Survey, published las week, and carried out by 'Save the Student' reveal the financial toll of the pandemic related to students' living situations. Based on its calculations, 'Save the Student' estimates a total of nearly £1 billion (£933,270,890) has been spent by students on unused accommodation in the UK in the 2020/21 academic year so far. The UK-wide survey polled over 1,300 university students between 20 January 2021 and 8 February 2021, to explore the realities of how student living has been affected by the Covid-19 pandemic. Findings from the survey showed a 10% drop in students who view their accommodation as good value for money, with 1 in 2 students feeling their accommodation is poor value for money. With the uncertainties of the last few months resulting in the non-occupation of student accommodation, the survey found that 32% of students questioned had been offered a refund on their rent, of which 9% were offered a full discount, and 23% offered a partial one. There was also a notable difference in the number of students' approaching their halls for rent rebates and those asking for rent rebates from private landlords. In university accommodation, as many as two-thirds have asked for a refund, compared to just under one in five students with private landlords. The figures show that overall very few students are currently living in university accommodation or private halls. 52% of students are still in the same living situations as originally planned, but a third of students in the survey had moved back home to live with their parents or guardians. The national survey shows that since the start of the 2020/21 academic year, around 43% of students have spent three months or less in their properties and revealed that if students had known what would happen this year, over two in five would have chosen their accommodation differently. Save the Student's report calculated the cost of unused accommodation finding that on average students spent £1,621 on empty rooms to which they haven't had full access to this academic year.

Investor / Saver

Cash ISAs see record amounts pulled from accounts

Today, the cash ISA is becoming unloved for the majority. Rates are pitiful – even more so than regular accounts. While the nation became one of accidental savers last year, you'd expect the reserves of cash ISAs to have plumped as well. Instead, what has happened is the largest outflow of cash ISA money in a six month period on record. So is the cash ISA now a dead duck and what is prompting such an exodus? There was £4.8billion withdrawn from bank and building society cash ISAs in the final six months of 2020. This is the highest outflow in a half year period on record, according to Bank of England data analysed by AJ Bell. This is despite £72billion flowing into cash deposit accounts in the same period – more Britons managed to save in the pandemic, with the Office for National Statistics savings ratio measure setting a record high between April and June 2020, and still way above normal levels in the following three months. Meanwhile, the first half of 2020 saw the smallest amount of money enter cash ISAs except for 2017, which was likely due to the new Personal Savings Allowance. The PSA was revealed in April 2016. For basic-rate taxpayers, £1,000 of savings interest can be paid tax-free, while for higher-rate taxpayers this is a lower £500. Essentially, with rock bottom savings rates on offer, the chances of nudging over these amounts at present is small. Based on the 0.35% interest rate currently on offer from the typical cash ISA, that would mean a basic-rate taxpayer would need £285,700 held in a cash ISA account before the wrapper delivers any tax benefit. For a higher rate taxpayer, the figure is £142,800. There could now be an argument to say that cash ISA saving is now really for wealthier people. Additional rate taxpayers do not have a PSA, and it means the ISA wrapper is a vital tool. In a clear case of the law of unintended consequences, a progressive tax policy introduced in 2016 has therefore tilted cash ISAs towards being a product which is best suited to wealthier members of society.

All

Covid causes taxing times for expats

COVID-19 is having a potential unforeseen tax consequence on expats whose travel plans are disrupted as government close borders and impose self-isolation periods. The travel bans could have an impact on where expats pay tax. Many expats are concerned that if they are forced to alter their travel plans due to the coronavirus pandemic, they could become tax resident in a country which will tax them at higher rates. Some countries have safety valves to ease the stress for expats, like ignoring residency rules due to exceptional circumstances brought about by COVID-19. Others have allowed periods of grace for filing tax returns. HM Revenue & Customs understands that COVID-19 affects the travel plans of British expats and other non-residents and has resulted in many people spending more time in the UK than they had planned. New guidance clarifies that expats can disregard extra stays of up to 60 days if:

- A health professional orders you to self-isolate in the UK due to coronavirus.
- Government advice stops you leaving the UK.
- You cannot leave the UK due to the closure of international borders.
- Your employer asks you to temporarily return to the UK due to coronavirus.

These reasons are in addition to the normal exceptional circumstances allowed by HMRC, which are:

- Local or national emergencies
- Natural disasters
- War
- An unexpected life-threatening illness or injury to yourself, your spouse or dependent child.

All

HMRC drop late payment fines

Self-assessment taxpayers who pay their tax or set up a payment plan by April 1 won't be charged a 5% late fee. But taxpayers are still urged to settle any outstanding amount as soon as possible, as you're still charged interest. Normally, a 5% late payment penalty is charged on any unpaid tax that is still outstanding after 30 days. After this, you get charged another 5% of what you owe at six months, and another 5% again at 12 months. But because of the coronavirus pandemic, HMRC has agreed to waive the 5% payment penalty charged on unpaid tax that is still outstanding on 3 March, as long as you pay or set up a payment plan by 11.59pm on April 1. A 5% late payment penalty fee will still be charged after 1 April, and again at six months and 12 months. Those who can't afford to pay their tax bill in one lump can choose to spread their payments across monthly instalments through "Time to Pay" on the HMRC website. But again, you should be aware that interest worth 2.6% will still accrue on any outstanding payments, even if you've set up a plan.

Property Owner

London's Landlords are feeling the burden of buy-to-lets

The coronavirus pandemic has had many unseen consequences. A year ago, we couldn't have imagined that London would no longer be the hub of activity it once was. A shift towards remote working, increasing property prices and decreasing rental rates have had a significant impact on the buy-to-let market in the capital. According to CIA Landlord's annual report, only six out of 33 London boroughs will prove profitable for landlords in 2021. It has taken a global pandemic to disrupt the order of things. The coronavirus pandemic has resulted in a seismic shift towards home working and a significant percentage of office workers want this to be the norm going forward. Now, many are starting to look outside the capital for a place to live. As a result, London's profitability for landlords has decreased by a whopping 48% since January 2020, according to CIA Landlord. However, landlords still need to pay their monthly mortgage costs, monthly fees for maintenance and letting agency fees, averaging £1,134 per month in 2021. But as Londoners move away from city rentals, the market is rapidly becoming unprofitable for buy-to-let investors. Coronavirus, the stamp duty holiday and fluctuating house prices have all led to uncertainty in the buy-to-let market. In reality, these changes have meant that location has become an even more important factor when choosing a buy-to-let property. Whereas central London used to offer the highest potential, the pandemic has meant that areas such as Brighton, Bangor, Portsmouth and Leeds are now the most profitable in the country.

Past performance is not a guarantee to future performance. You may get back less than invested.
Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts and reliefs from taxation are subject to change. The FCA does not regulate tax advice.

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