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CLEARVIEW

November 2016

Welcome to our second edition of ClearView, our regular snapshot of what is happening in the financial services world. In this issue we will look at market volatility, something we have become accustomed to of late. We also look at the big question of 'when can I retire?'. Lastly we delve into the world of ISAs.

Shepherd and Wedderburn Financial will continue to provide regular updates on the topics that are current and on people's minds in this ever changing financial planning landscape.

John Mortimer,
Head of Shepherd and Wedderburn Financial

Elected

Alice Cooper's single Elected reached No. 4 in the UK Charts in 1972. He is a good golfer and plays off 4 with a lazy draw. He also ran for the US Elections again this year! We now have the result and we do not have an aging rocker leading the USA. So from one general election to several more - we have France and Germany singing their own versions of Mr Cooper's anthem in the spring and autumn next year. The following year we have the UK standing on its own two feet if all goes to plan - not sure what we will be singing in the run up to that one.

So will we have turbulent times ahead? Probably. Market volatility? Probably. With all this going on it is worth remembering that stock markets, by their very nature, are becoming more volatile. The algorithms that react and cause larger movements than before are at play. However if we look back over the past few years and look at the FTSE All-Share Index it has increased by nearly 32% over 5 years (source: London Stock Exchange to 31 October 2016). The reason I chose five years is that this is the period that we try to focus clients' minds on when they are considering investing. If they are looking for investment returns over a shorter period of time, the answer is generally deposit based. Within the past five years we have seen monthly swings of nearly 12% so the longer term view makes life much easier to deal with. As another example, within the past few months in the global markets, over $2 trillion was wiped off these markets after the UK voted to leave the EU – this has now all been fully recovered!

With active financial planning however, these swings should have a reduced impact on a client's wealth (and health). If, for example, a client required access to investments I would generally have recommended that these would have been moved to a safer haven well in advance of the point when the cash was actually required.

The other financial planning angle is spreading risk – the All-Share-Index will generally only represent a proportion of a client's portfolio. I would always recommend a spread of invested assets which is designed to reduce risk and the effects of market movements.

So by the summer of 2018 we will know the results of the various European elections and we hope to know where the UK stands as a result of our exit from the EU. Will Alice Cooper be happily singing Schools Out (No.1 in the UK charts 1972) and practicing his backswing or will we all be humming something from Muddy Waters!

John Mortimer

GROWING YOUR MONEY

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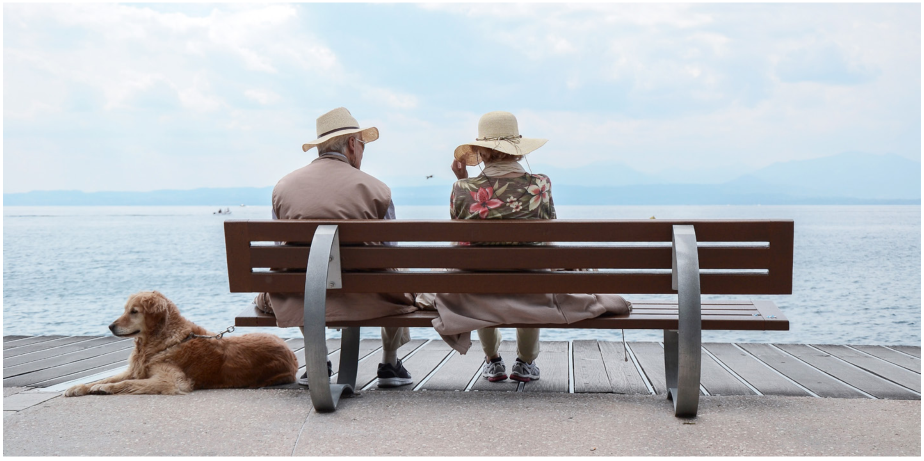
Can I Go Now?



One of the most asked questions by soon-to-be retirees is "have I got enough to live on?" Before that can be answered the most important question I need to ask is "how much do you need?" Most clients will, if questioned, give me some kind of generic answer; "what I spend now", "half of my income" or as I have experienced many times "not very much". Sound financial planning is about quantifying need. With my clients I like to do a relatively straight forward exercise, I ask them to write a list of their current expenditure and then write a separate list showing that expenditure assuming they retired yesterday. Only once I understand what is needed can I answer the question as to whether there is enough.

Many of us don't consider simple aspects to retirement. Retiring might mean small changes such as increased utility bills as we spend more time in our homes and prepare more meals. Everyone is different, perhaps retirement means you have time to hunt out bargains rather than pay for convenience like you did in your working life? Will you still have the gardener/cleaner now you have more free time? An important differential is want versus need. What we would like to have versus what we can have are often rather different. In many cases it is about sacrifice and working through the list of what you spend now and what you might like in retirement; you will soon see what you actually need rather than want. You might be happy to forgo a summer holiday each year to retire younger when you feel you have more energy to enjoy life; conversely waiting a few years so you can enjoy foreign trips may suit you better.

Spending in retirement has changed markedly as we are living longer. It is now commonplace to hear people talk about the "retirement smile". Picture high spending in the early years of retirement whilst we go on holidays and enjoy being healthy and active. Then we tend to slow down spending and spend more time at home, which generally coincides with the arrival of grandchildren and not wanting to jet off so much, babysitting and enjoying the new arrivals takes over. Income requirements can then dramatically increase in later life as health declines and care needs become an issue. Understanding that our spending may not always be the same gives us an opportunity to plan for such events.

Newly flexible pensions can be great at helping us facilitate our changing income requirements but we also need to make sure we make it last. Just another two weeks in Fiji won't hurt, right? Quantifying needs and understanding what pension provision you have will help you plan so your pension doesn't run out. Taking money from a falling investment can have devastating effects on a fund, especially in the early years. Understanding what level of risk the money is exposed to is also key. Does it match how you feel; is it realistic for a very long term investment; is it well spread out? Take too much risk, and your fund could drop considerably, too little and inflation could eat away at it.

Lastly, many clients are asking about Brexit and how this might impact upon all of this. Might we now have to work longer or retire with less? The markets are undeniably more volatile at the moment so irrevocable decisions such as annuity purchase are much tougher. In general advisers will be objective, not market led. Sitting down and analysing if a decision needs to be made now or if it should be delayed will be important. In the absence of a crystal ball we cannot second guess tomorrow. Using flexible arrangements that have the ability to be changed over time should most certainly be considered in circumstances such as we find ourselves in today.

Sarah Tory

Wiser ISA

It is becoming rather confusing which type of ISA is not only suitable, but also available. Let us consider terminology over the past few years but start with the ISA; this is an Individual Savings Account. We used to have PEPs – Personal Equity Plans and there were TESSAs – Tax Exempt Special Savings Accounts. Then there were TOISAs – Tessa-Only ISAs. We have had New ISAs and now have Junior ISAs, Lifetime ISAs, Help-to-Buy ISAs, Innovative Finance ISAs and the list goes on.

So which one or ones do I choose and should I have one (or more) at all? A good starting point is to consider the amount of risk you wish to take and more importantly what you actually would like to do. Cash or Investment is a good way to narrow down your options. Bear in mind that even Cash has its risks, not only from the future effects of inflation, but also from a bank failing or even the ISA provider not allowing access to the money within a fixed term for example.

Just when you thought it was becoming easy, we now have the personal savings allowance to contend with. This means interest earned on your ‘ordinary’ deposits is paid without the deduction of tax. If you are a basic rate taxpayer then the first £1,000 is paid without the need to pay tax. It is £500 for a higher rate payer. So basically is that not what a Cash ISA does? Why bother with Cash ISAs when I can put money on deposit and not pay tax on the interest? One really useful aspect of ISAs and financial planning is the ability to transfer your ISA in addition to your ISA annual allowance which is currently £15,240. For example you could transfer your cash ISA to a Stocks and Shares ISA when you require a yield or income payment in retirement. You could transfer your ISA into an AIM ISA and, after two years, the value is outside of your estate for inheritance tax purposes, reducing an inheritance tax bill by 40% on the ISA value. Even on death of a spouse or civil partner, the survivor can inherit the ISA value by way of an Additional Permitted Subscription.

Earlier this year the Lifetime ISA appeared on our radar – will this replace pensions? Will it encourage savers? If you are over 18 and under 40 then you can benefit from the 25% giveaway from the government. HMRC will add a 25% bonus to your ISA based on your contributions in each tax year and this will be paid right up until you reach the age of 50. You can invest up to £4,000 each year into the Lifetime ISA and these will become available from 6 April 2017. To retain the bonus, you must use the ISA for either a first time purchase of a residential property in the UK worth less than £450,000 or use it in retirement after the age of 60. If you use it to buy a property then the value will be paid directly to the conveyancer so you don’t actually see any of it. At retirement it is all yours and you do not have to pay any tax on it! The relative simplicity of the LISA is attractive and you can open a Cash or a Stocks and Shares version.

All in all there are a lot of planning opportunities and no doubt the names will change again in the future, however Shepherd and Wedderburn Financial is here to help and guide you through the maze of legislation and financial products.

Robbie Thompson

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Team Talk

The past few weeks saw the Tory family move home. Electing to uproot, pack and unpack our entire worldly goods seemed like a good idea when being swooned by floorplans and a south facing garden. My twenty something self would be horrified that I might now make a decision on a home based on which way the garden faced, rather than proximity to pubs and a decent place to eat breakfast.

The move itself went with the ubiquitous things that go wrong and as they are inclined to do, mine came in three. I did find myself uttering, "well at least that's the third one" when it did eventually happen. One of my "three" was a husband in plaster due to a broken knee cap which some have supposed he might well have done on purpose, given a move with three young children and a cat. He did a stellar job of directing men with boxes and it's been invaluable having him home to accept the many parcels/tradesmen that come with a big move so I mustn't complain too much.

Now all the upheaval has calmed, our boys have enjoyed Halloween and Bonfire Night in our new home, Daddy's knee is on the mend and I am pleased to say the unpacking is finished. I can now enjoy the next few weeks and the peace and quiet with an absence of boxes and lists, that is until Operation Christmas starts up!

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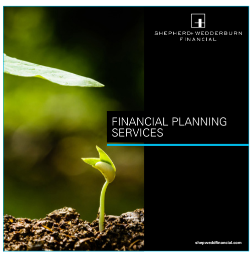

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