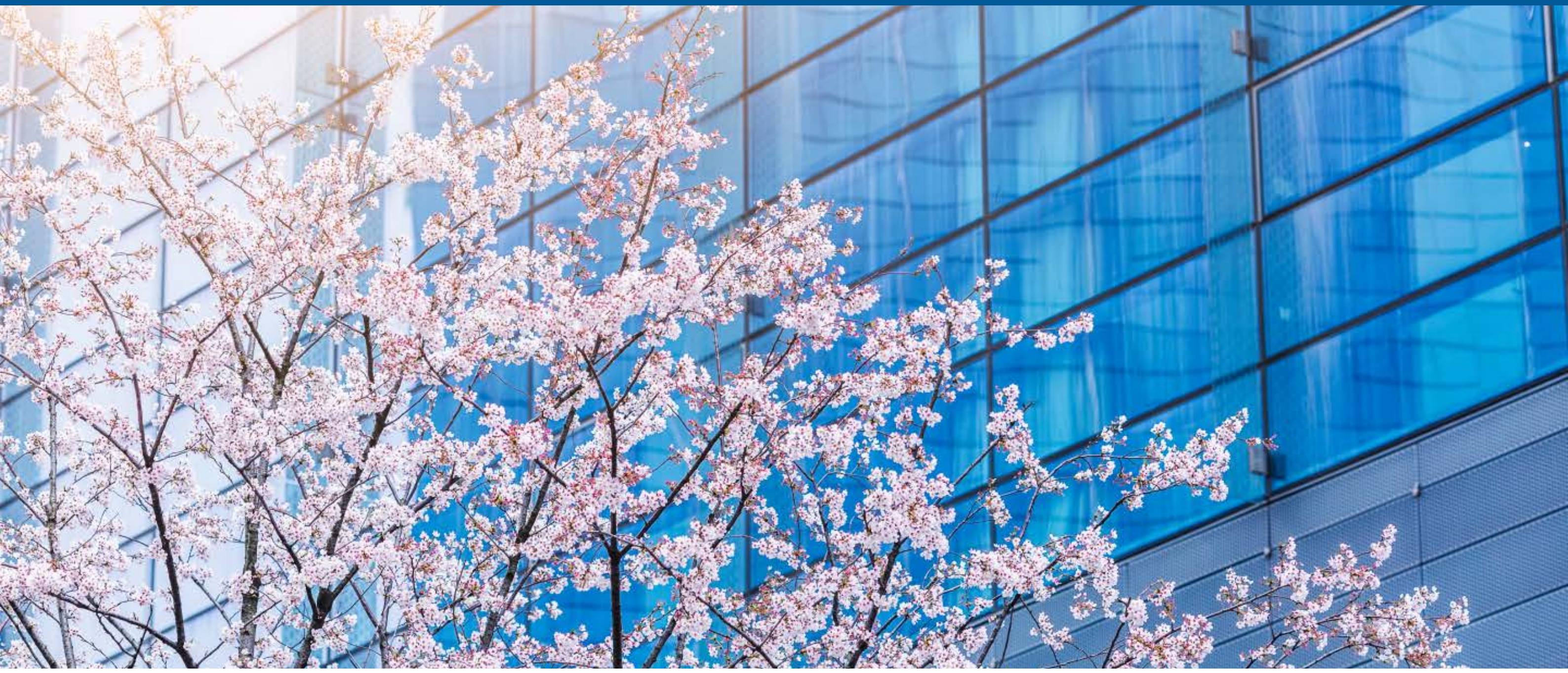
FINANCIAL ADVICE CENTRE NEWS
Your Spring Newsletter 2018



Welcome to your Spring 2018 quarterly newsletter. We have packed in a lot of information for you in this edition and hope it makes useful reading while we all wait for the weather to improve. In this issue you will find:

Two special features for 2018:

- Insights into recent market activity entitled **Markets Falter in 2018**.
- We've put our heads together and come up with some ideas of some nice surprises we may see in 2018 in **Financial Advice Centre looks ahead for 2018**.

Your regular articles:

- A detailed look at performance of **Markets and Investments** in the fourth quarter of 2017 and what is happening across different asset classes.
- **Your Adviser Discusses** their thoughts on making the most of valuable tax reliefs.

Two new introductions:

- We continue to go from strength to strength and are pleased to introduce our newest adviser, **Martin Febery**.
- Our newest recommended service provider is Mark Smith from **Smart Accountancy**.

We hope you find this information useful and as always, please let us know if you have any feedback by emailing us at: **office@face-uk.com**.

Piers Mepsted,
Managing Director

SPECIAL FEATURE

Markets falter in early February 2018

Recently we saw a bit of a shake-out in equity markets around the world. Whilst it may feel traumatic and certainly got a lot of headlines, it was not in many ways surprising:

- We expected volatility to pick up and this is part of our forecast for 2018. The reason was that central banks, who had been smoothing the path for investors with unnatural amounts of liquidity (such as quantitative easing) have been trying to quietly slow down this involvement.
- In our view, what we have seen already in 2018 is a healthy correction after a strong upward run based around rising bond yields from a very low base.
- Strong economic policies have helped to justify and support current market valuations and we expect active managers to use this market correction as an opportunity to put cash to work while markets have dipped.

Investing in stock markets should not be viewed in terms of short term results only. So, while very short term wins can be achieved, it is the long term returns that we predominantly focus on. In the longer term, the economic picture still looks satisfactory.

This approach bears itself out if we look at the impact of investing in different calendar years:

- The best time to invest in recent years was 2009, just after the financial crisis and giving a return of 110% by the start of 2017.
- But investing before the crisis in 2006 was not bad either; the road may have been rougher, but investors still doubled their money.

The adage goes it's time in the market not timing the market which creates wealth. We're here to review the opportunities and funds available to make it as comfortable as possible - but the market's gains are only there for those who can ride out a few bumps.

Financial Advice Centre looks ahead for 2018

Markets are very good at pricing in what we know. But in looking ahead we are struck by the number of forces currently in play that, from where we stand today, have unpredictable outcomes – all of which will result in market volatility.

In this article, we look at three possible nice surprises for 2018.

Nice surprise one: Brexit works out

There is a consensus that the uncertainties surrounding the Brexit negotiations are bad for UK assets and for sterling. However, in this surprise, imagine coming to the end of 2018 and finding that the UK and the EU have reached a mutually beneficial agreement on Brexit, that:

- Entails minimal disruption to UK trade
- Allows the UK to retain access to the single market, but with much reduced financial contributions to European projects
- Gives the UK freedom to negotiate trade deals with the rest of the world
- Rekindles industrial and consumer confidence
- Leads to a spurt in growth, so the UK once again tops the G7 economic growth tables.

The results? A surge in sterling, a rally in Gilts, falling inflation, better real earnings, and for the stock market, modest growth, only constrained by the amount of overseas earnings in the FTSE 100. International investors flock back to UK stocks and bonds and UK assets are the strongest performers among all developed markets.

Nice surprise two: nothing goes wrong in the world economy

The bull market from the depths of 2009 is long in the tooth; including dividends, the S&P 500 Index in the US was up 18% in 2017, after rises of 12% in 2016, 1% in 2015, 14% in 2014, 32% in 2013 and 16% in 2012. Since the end of 2011, US equities have risen by 135% on this basis. In the UK, government bonds have returned 25% over the same period, and UK corporate bonds 55%. Except for gold, everything has gone up. It can't last, can it?

In this surprise, that's exactly what happens. Currently expected earnings growth of 12% in the US for 2018 expands significantly further with the benefits of tax reform; company profits increase strongly in Europe; central banks act extremely cautiously in raising interest rates and/or reducing Quantitative Easing (QE); global economic growth remains robust and inflation very tame.

This translates not into the measured, cautious optimism with which investors view the world at the moment, but an environment yet again of strong, double-digit returns in equities, solid mid-single digit returns from bonds and a further expansion of valuations. This may cause uncertainty throughout the period – but by the end of 2018 sees us in a better position.

Nice surprise three: Trump gets stuff done!

The first year of Donald Trump's presidency has been a disappointment, even despite Congress finally approving his sweeping tax reforms at the end of 2017. Otherwise, his administration has been long on hot air and short of legislative action. Many now write off 'the Donald' as a loud-mouthed bragger, full of ill-considered and offensive bluster.

But in this surprise, things turn out very differently in 2018. The stock market may love the tax reform and the surge in investment, and rally strongly, even as interest rates rise, and average hourly earnings begin to climb more quickly as well. North Korea suspends its nuclear arms programme and becomes more integrated into the world economy. A resurgent Trump propels his party to shock success in the mid-terms and lays the foundation for a second term presidency.

The world is seldom so absolute or predictable. There will be other areas we will be keeping an eye on that could also create market volatility. These include the effect of inflation and what happens in volatile political environments and in Italy, US, Russia, UK and North Korea.

We have had so long without a spike in volatility and a significant market downturn that the biggest surprise this year will be if we don't continue to see corrective activity - as February has already evidenced.

Investment Overview Q4 2017

- Stock markets produced strong returns and all major asset classes rose over the quarter on the back of positive economic data.
- With the exception of Europe, which was flat, equity markets returned 5.0% or more.
- Japan delivered the strongest performance – up 7.6% over the period – following prime minister Shinzo Abe's landslide victory in October's general election.
- In November the Bank of England raised interest rates for the first time since 2007.
- In December, the US Federal Reserve also raised interest rates, amid a general trend towards policy tightening.
- The MSCI UK IMI, against which the UK equities portion of the portfolios is benchmarked, rose by 5.0% over the quarter.
- The economic picture in emerging markets was mixed, although far from negative, and emerging markets equities were up 6.5% over the period.
- Alternative investments were up, with Other Alternatives increasing by 3.1%, while Property rose 5.3%.
- Gilts and corporate bonds were both up 2.0% over the quarter.

Performance Highlights Q4 2017

What worked and why?

- **Being overweight in North American equities**

US equities were supported by generally positive macroeconomic data and the Trump administration's success passing landmark tax reforms.

What didn't work and why?

- **Being underweight in Property**

All major asset classes rose over the quarter, including UK commercial property, as demand from both domestic and international investors continued to outstrip supply.

Investment Outlook

Outlook	Asset Class	Reasoning
↔	**UK equities**	The performance of the UK economy has held up reasonably well in sterling terms since the decision to leave the European Union. The success of smaller companies has largely been driven by a firming of the economic backdrop in the UK. The market offers broad global exposure and a dividend yield of around 3.5%, which is particularly attractive in the continuing environment of low interest rates.
↗	**US equities**	Following his election in 2016, President Trump initially disappointed markets with his inability to enact his many campaign promises. However, towards the end of 2017 the tax reform bill was passed, cutting corporate tax rates significantly. This provides further stimulus to an economy that is already performing strongly. Valuations in the US look comparatively rich, but we continue to favour the quality of earnings offered by US companies.
↔	**European equities**	The European market is typically fairly cyclically exposed to the improving global economic growth outlook meaning the backdrop for European equities remains fairly supportive. However, political risks, including Italian elections taking place in March and the recent independence uprising in Catalonia, remain a concern.
↗	**Japanese equities**	Prime Minister Shinzo Abe's gamble on an early election paid off in October when he was rewarded with a commanding majority, cementing the current easy monetary policy for the foreseeable future. Equity valuations look relatively attractive, and the structural reform agenda set out by Abe's government is finally leading to corporate reforms.
↗	**Asian equities**	Share valuations across Asia look relatively attractive and economic activity has remained resilient in spite of tighter financial conditions. The Chinese authorities, having used monetary and fiscal policy to stimulate the economy in 2016, reversed direction last year, raising key interest rates several times. Asian equities have been supported by the weakening dollar, however the outlook for the US dollar is now more finally balanced.
↔	**Emerging market equities**	Emerging Markets have been a volatile asset class, with risk appetite swinging as sentiment towards the dollar, China and commodities evolve. In all three cases, the outlook is not as threatening as periods endured in the recent past. However, concerns remain over how Donald Trump's trade policy will impact on emerging markets. The asset class is also susceptible to further tightening in China and a potential recovery in the dollar.
↗	**Absolute return**	With some valuation metrics suggesting both equities and bonds are towards the richer end of their historical range, a weighting to absolute return will provide some diversification to portfolios if the asset classes sell off together.
↔	**UK commercial property**	Commercial development appears to be relatively subdued and there still seems to be a lack of availability, however the deteriorating demand outlook is worrying. Property is a beneficiary of the low interest-rate environment, as future cashflows are discounted at a lower rate. However the illiquidity of the asset class means the investible universe is sub-optimal. This makes asset allocation to the asset class a challenge in the current environment.
↙	**UK gilts**	Gilts performed reasonably well in 2017, despite the general tightening of monetary policy. Inflation in the UK appears to have peaked, however the rhetoric from the Bank of England, and some other major central banks, has turned meaningfully more hawkish. As such, government bonds globally remain under pressure. However, we still feel that bonds have a role to play in portfolios where they provide a vital counterbalance for portfolios in a 'risk-off' environment.
↙	**UK Corporate bonds**	Corporate bonds look expensive on an absolute basis and may be vulnerable to rising interest rates. Credit spreads are trading towards the bottom of their long-term range, however still offer an enhanced yield over government bonds. Fundamentally the corporate sector is generally in good condition and default rates are expected to remain low. Liquidity risk remains a concern, we would therefore prefer to tilt our exposure towards larger and higher quality issuers.
↔	**Cash**	The return on cash is negligible. A position is required to provide portfolio liquidity and for opportunistic allocation if there is a market correction.

Beat the end of tax year rush

Making the most of valuable tax reliefs

In this guide your Adviser explains:

- Why you shouldn't leave tax planning until the end of the tax year.
- How acting now means you can maximise tax-planning opportunities – and minimise stress.
- The main tax-planning opportunities in the current tax year from pensions to property, inheritance tax to ISAs, dividends to capital gains tax.

As the end of the tax year gets closer there is a window of opportunity to make the most of valuable allowances, reliefs and exemptions that can help reduce your tax bill and make sure your finances stay tax efficient.

Some of these allowances will be lost if not used before the tax year end on April 5 - and the sooner you claim them the better. Every year, many people leave end of year tax planning until the last minute.

Leaving planning until the eleventh hour increases the risk that you will discover you have left it too late and missed out on the chance to improve your financial position. Acting well before the tax year end means you can be sure that you are maximising your opportunities and minimising your stress.

This guide aims to highlight the main tax-planning opportunities in the current 2017/18 tax year. However, while tax efficiency is an important part of financial planning, it is not the only part.

Your financial adviser can help you put the money you save in tax to work harder elsewhere.

The changing tax landscape

The UK's tax system is constantly changing, which means that unless you remain up to date there is always the chance that you could lose out. Sometimes reforms are for the better, as witnessed with the substantial recent increase in the ISA allowance. Others can be for the worse, such as the series of cuts that has been inflicted on pension allowances. The important thing is to remain informed.

Building a tax-efficient retirement portfolio

Maximise your annual pension allowance

The annual allowance is the limit on the amount of pension contributions that can be made each year and qualify for tax relief. In the 2017/18 tax year, the standard rule is that you can contribute the lower of your annual earned income or £40,000.*

The annual allowance has changed significantly since it was introduced in 2006 at £215,000 and in recent years has been cut sharply. However, the tax breaks on pension savings remain pretty impressive.

The government adds income tax relief to your investment. Any growth over subsequent years will be free of income and capital gains tax.

The annual allowance isn't necessarily lost at the end of the tax year, as you can 'carry forward' any unused allowance from the three previous years. However, as you can't get tax relief on more than you earn, for most people, putting money aside each year is likely to be the best way to benefit from the available tax breaks.

Minimising tax on your other investments

Make the most of your increased ISA allowance

In our low interest rate environment, making sure that your savings and investments are not needlessly depleted by tax is more important than ever. Individual savings accounts (ISAs) are at the core of most tax-efficient portfolios, and in April 2017 there was a substantial increase in the annual ISA allowance. If you don't use your annual ISA allowance before the end of the tax year you lose it forever.

In the current 2017/18 tax year, individuals can invest up to £20,000 (£40,000 for a couple) – a significant uplift on the £15,240 ISA allowance for 2016/17.

The tax benefits of ISAs remain the same. With a cash ISA, the interest is tax free. With stocks and shares and other ISAs (including the Lifetime ISA introduced in April 2017), there is no tax to pay on income or capital gains from your investments.

To encourage even wider use of ISAs, the government has introduced several changes in recent years that have potentially made the accounts even more attractive.

- You can transfer ISAs as often as you like, including previous years' ISA savings. Money held in a cash ISA can be transferred into a stocks and shares ISA and vice versa. Be aware, though, that some providers restrict transfers in.

- If your ISA is flexible, you can take cash out then put it back in during the same tax year without reducing your annual ISA allowance. Not all ISA providers offer this flexibility, and strict rules must be followed. However, if you are interested in this facility your financial adviser will be able to help you establish if it is possible.

- April 2017 saw the introduction of the Lifetime ISA (LISA), which is aimed at helping younger adults to save for retirement or build up funds towards the purchase of a first home.

A LISA can be opened by anyone between the ages of 18 and 40 and while you can only put in £4,000 a year (which comes out of your full ISA allowance), the government boosts it by 25%, so that for every £4 saved the government adds £1. This means a maximum bonus of £1,000 on the annual £4,000 limit. Growth is tax free and you can access the money whenever you want. However, to keep the bonus you need to put the money towards buying a first home worth up to £450,000 or wait until you reach the age of 60, after which you can use the money for any reason.

Personal savings allowance

The personal savings allowance means that basic-rate taxpayers can earn up to £1,000 of interest on savings without having to pay any income tax. Higher-rate taxpayers can earn up to £500 interest tax free.

Introducing Martin Febery

Martin joins us as an independent financial adviser from an experienced financial directorship and accountancy background.

Martin's accountancy background and experience planning, structuring and managing company taxation issues means he is ideally placed to advice on detailed tax planning for our clients.

Martin said "Using my experience to help individuals navigate complicated tax regimes and plan effectively for the future is hugely rewarding. The team at Financial Advice Centre have a huge bank of expertise and long history of advising their clients extremely successfully despite ever changing legislation and economic factors. I am very pleased to be part of such an innovative and experienced team."

Recommended Service Providers

In addition to the mortgage advice and Will writing service discussed in our last issue, we'd like to introduce Mark Smith, owner of **Smart Accountancy** a company we work closely with providing accountancy, book keeping services and self-assessment tax return support to our clients.

Smart Accountancy is a Worcester based organisation working with individuals to owner managers of large Limited Companies. We have found their strength in providing accurate, professional and cost-effective advice on a timely basis extremely helpful to our clients.

Mark Smith
Smart Accountancy

"I started work in a large independent accountancy practice in Droitwich before setting up on my own in 2010 to form Smart Accountancy Solutions Ltd which now operates from Worcester city centre offering year end accounts, Corporation Tax, personal Tax and other bespoke accountancy advice. During this time I was also Financial Controller and latterly to March 2017 Finance Director for a UK subsidiary of a Spanish owned top three global market leader. With this corporate background and insight into business I wanted to further develop Smart Accountancy and the decision was made to acquire TBK in order to strengthen our service offering to all clients. Change, growth, challenges, innovation and efficiency motivate me as an individual. I am therefore looking to take this opportunity, together with my team, to make a significant difference for you, the client."

Free Initial Business Consultations are available to Financial Advice Centre clients. If you would like more information on how they can help you and your business then please contact Mark Smith on 01905 754950 or visit their website www.smart-accountancy.co.uk quoting FAC.

Worcester Wills - Email Clare Burden or call her on: 01905 670 513

Sterling Rock - Email George Roberts or call him on: 01905 723 058

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As part of our service proposition for clients we have developed professional arrangements in respect of Mortgage Advice, Will Writing and Accountancy. These companies operate independently from Financial Advice Centre Ltd and therefore we are not responsible for the advice provided in these areas.

About Financial Advice Centre Limited

Since inception in 1999, Financial Advice Centre Limited has grown to become a leading firm providing progressive thinking and independent financial advice.

Our team of Independent Financial Advisers have deep technical expertise across a range of areas including wealth management, inheritance tax planning, bespoke investment strategies and public sector pensions. We offer financial advice of the highest standard as seen through our proven pedigree of successfully managed pension and investment funds.

We are active Advisers with a unique charging structure and holistic perspective that focusses on building long term relationships and consistently adding value to our clients investment propositions. Our aim is to provide a service that is both forward-thinking and objective to help clients achieve their financial objectives.

Our clients choose to work with us because we demystify the increasingly complicated financial environment and consistently deliver results in a way that's easy to understand.

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The value of investments can go down in value as well as up, so you could get back less than you invest. It is therefore important that you understand the risks and commitments. This communication is designed to give you information only and does not constitute personal advice based on your circumstances. Please contact us should you wish to seek personal advice from one of our Financial Advisers.

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independent face to face advice

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