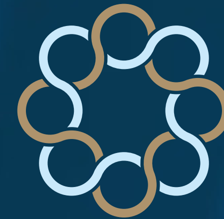

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Points of View

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September rounded off the worst quarter for global equity markets in around four years with most of the pain being felt from mid-August onwards. This month has been characterised by increased volatility with the VIX Index (a measure of the volatility of the S&P 500) some 40% higher, on average, than in July and August.

Equity markets fell between 1.58% (Asia Pacific) to 6.95% (Japan).The importance of holding a well-diversified portfolio is demonstrated during volatile markets with UK Gilts posting a mild gain of 1.31% for the month. Corporate bonds and Index Linked Gilts were virtually flat.

Last month we referenced a chart from Goldman Sachs which suggests that pullbacks of more than 5% have taken, on average, 28 days to bottom and then 30 days to recover. It is interesting to note that equity markets have not yet retested their August lows. Whether this means the pullback has bottomed or not is difficult to tell.

A note about Bonds

We have been warning for some time that volatility can be expected to rise as central banks in the US and UK approach the point of change in monetary policy. Whilst equity market moves have felt uncomfortable of late, the bond market deserves some attention.

TD Securities analysts Priya Misra and Gennadiy Goldberg write:

"Our findings show that daily changes in 10-year Treasury yields exceeded one standard deviation () 58% of the time so far in 2015—considerably higher than the 49% observed last year (Figure 2). The 58% measure is the highest reading going back to 1975, suggesting that recent volatility in Treasury markets is unprecedented."
Source: TD Securities & www.Bloomberg.com

Clearly, volatility is rising across traditional asset classes.

UK

Despite a relatively strong economy and consumer spending power being the highest for many years, the UK market continues to struggle somewhat, falling 2.73% over the month. The UK market derives over 70% of its earnings from overseas and has a high weighting to commodity linked sectors so is far from insulated from the troubles in the emerging world. Domestically orientated areas of the market have fared a little better.

US

All eyes were on the Fed in September and, once again, rates were held at close to zero. Markets sold off on the news but then rebounded slightly after Janet Yellen reiterated the FOMC's expectation to raise rates before the year is out.

These moves indicate a market which is concerned about global growth and looking for hints of sufficient confidence in the world's largest economy to withstand a rate rise. There is huge scope for policy error and one hopes that the Fed will not look foolish in the fullness of time.

Europe

Europe slipped back into deflation as a result of low energy prices and deflationary forces from the emerging world. This raises the question of whether the ECB will expand their, already massive, quantitative easing (QE) programme. Draghi has

hinted that the ECB will step in to provide further support to the economy if needed so more QE is a distinct possibility.

Japan

Again, Japan's economy has disappointed of late and inflation is now where near the central bank's target of 2.00%. Some commentators expect see yet more QE as early as November but whether this transpires or provides a boost to equity markets remains to be seen. Having said that, earnings growth is positive in Japan and the market is attractively valued relative to its own history and the rest of the developed world.

Emerging markets

The emerging and Asia Pacific markets were the "best" performers over the month, losing 1.58% and 1.87% respectively. Could this be an indication from the market that we have seen the worst of the bad news from China? As we have mentioned before, some areas of the emerging markets look cheap relative to the rest of the world but the region faces a multitude of headwinds which show no sign of abating for the time being.

First published 2nd October 2015 by Simon Brett of Parmenion Asset Management

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Should you seize the opportunity to top up your state pension?

The Government is offering more than seven million Britons* the chance to boost their state pension income. This could mean a maximum increase of £25 a week (or £1,300 a year) in state pension income, in return for a one-off payment made now.

The offer is open to existing pensioners and anyone who will reach state pension age (65 for men and 63 for women) before April 2016. How much it will cost to top up your state pension will depend on an individual's exact age: the younger the applicant, the more it will cost.

However the additional pension income can be bought in units of £1 per week allocations, so you can choose to buy £5, £10, £25 a week of additional income, depending how much you want to invest.

The top-up scheme, otherwise known as Class 3A contributions, will provide an income that rises in line with inflation. The other benefit is that spouses or civil partners are able to inherit at least half of the income when the pension holder dies.

So should you reach for your cheque book now?

The top up facility won't benefit everyone, so it is important that you seek financial advice before you make an additional payment into your state pension scheme. The Government do not consider an individual person's needs or situation when making this type of general offer.

So if you have a health condition which means your life expectancy is short and you have no marital partner, it may not benefit you to make the top up payment. There are also alternative investments for your money which you may wish to consider.

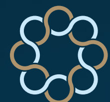
The benefits of the top up into the state pension may be significant for some. According to the Government's figures, if a person age 65 wants an extra £10 of pension income a week (rising with inflation each year) then they would have to pay a lump sum of £8,900 into the scheme. A 75 year old wanting the same rise of £10 a week of income would have a shorter life expectancy, therefore the cost to top up their pension would be a lower lump sum payment of £6,740.

So, for someone who plans to supplement their pension income from savings, but doesn't want to take any investment risk this may be something to consider. Here, the 'investment' you make is for a guaranteed return which will increase with inflation. The 'risk' is not that your investment returns will be worse than expected, but that you may not get value for money if you die at an earlier than anticipated age.

Others who may benefit are those who have not built up entitlement to a full state pension over the years due to not paying sufficient National Insurance (NI); people who took career breaks to study, stopped working for a number of years to rear children or those who are or have been self-employed and have not made voluntary NI contributions (Class 2 and Class 3 contributions can both be used to fill in gaps in NI to improve basic state pension and bereavement benefits).

Those wanting to apply for the class 3A top up pension have 18 months in which to submit their application.

If you are in receipt of a state pension, or if you are about to retire, then talk to



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your financial adviser about your retirement income options. Decisions you make regarding your pension may not be reversible, so it is important you seek financial advice before you make any sudden decisions.

Source http://www.bbc.co.uk/news/uk-34503089

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Did QE sow the seeds of Corbynomics?

Traditional monetary policy works by reducing the cost of investment so more projects become profitable, thus increasing economic activity and avoiding a slide into deflation. This is why interest rates were cut to 0.5%, where they languish still.

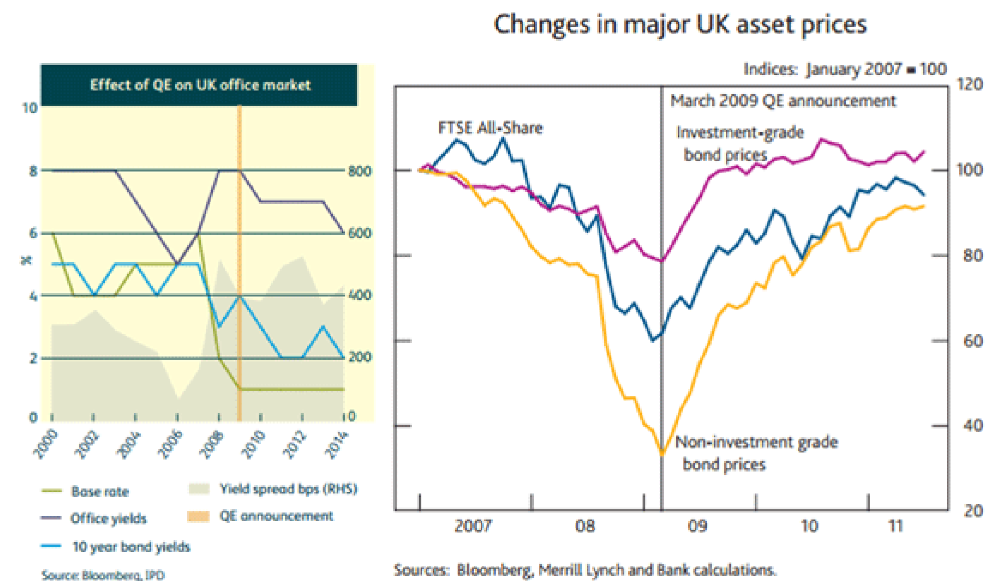
Quantitative Easing was supposed to turbocharge the effect by driving up the price of Gilts, thereby incentivising investors to buy riskier assets such as corporate debt. Thus Corporates would be able to raise money in the debt markets (which they did), that could profitably be employed in investment projects that would drive economic growth (which they didn't – mainly they bought back more expensive existing debt and shares). Instead of boosting employment and tax revenue, the net effect has largely been to boost asset prices.

So let's look at the winners and losers from this period of extraordinary monetary policy. I believe there are three main routes by which the Bank's policies have affected our lives.

Firstly there is a direct impact on the price of the Gilts purchased. This has a knock-on effect on all other financial assets, including corporate bonds, commercial property and equities.

As the charts below show, by pushing down the yield on Gilts, other asset prices were driven up (and their yields down) as investors substituted between different assets in the search for income.

It is very difficult to estimate how these prices would have changed in the absence of QE but it seems reasonable that there would have been more corporate defaults, which would have dragged down non-investment grade bond prices still further and the negative impact on confidence could have delayed the recovery in equity prices.



Secondly there is the impact on savings rates – these are priced off base rates so have been driven down to near zero for current accounts and even term deposits now yield less than half their 2007 level. Anyone reliant on savings has had a very tough time these last six years.

Thirdly there is the impact on interest paid on debt – consumer credit interest payments were barely touched but mortgages fell for those lucky enough to own a house. House prices were pushed up partly by lower interest costs and partly by "Buy to Let" investors seeking alternative sources of income.

Only a small majority of households have any financial assets at all – the median household in a 2011 survey had just £1,500 worth, in all probability a savings account. The next quarter of households have less than £10,000 each, again suggesting that their exposure to financial assets via an ISA or pension will be modest at most. Therefore for at least two and probably three out of four households, the rise in financial asset values has not been enough to offset other negatives.

Only the wealthiest 25% have significant exposure to financial assets and even within this group there is a skewed distribution with the top 5% owning more than half of all these assets. Therefore the benefits of the increase in Equity and Bond prices were reserved for the richest quarter of the population.

The Bank of England when challenged about the effects of QE was unabashed about the skewed distributional effects it was likely to have had*. Perhaps rightly, it argued that the recession would have been deeper and more destructive in terms of bankruptcies and job losses had QE not been tried.

We can only speculate as to how the distributional impact of such counterfactuals would have played out. QE in its existing form has been a regressive fiscal policy, redistributing wealth to those with assets. This has political ramifications: it has produced a constituency of people whose aspirations have been trampled who want to rip up the economic rule book that has worked against them and may yet rally behind the idea of "People's QE".

*"The Distributional Effects of Asset Purchases", Bank of England, 12 July 2012, op cit.

First published on 5th October 2015 by Emily Booth of Parmenion Asset Management

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Pension Freedoms: What do they mean for you?

Alongside the usual intricacies associated with financial planning for the long and short term, 2015 saw the introduction of some new, important changes relating specifically to the field of retirement saving.

The most significant of these changes was that, from April 2015, you can take as much cash as you like from a 'defined contribution' (DC) pension, with no obligation to buy an annuity. You can also get that cash back under much more relaxed and tax-efficient terms, with the first 25% of any money you withdraw being tax-free.

The reforms were ntroduced on the back of research that suggested some 12 million people aren't saving enough for their retirement. Furthermore, with four out of five aging workers underestimating their lifespan, many Britons could be looking at up to 30 years in retirement, a statistic that could place increasing pressure on pension pots to stretch much further than previously anticipated.

Whilst the government's auto-enrolment programme signalled a step forward in encouraging a culture of long-term saving by those in employment, those of us investing into private pension schemes will need to be ever more vigilant when it comes to the handling and planning of our retirement savings. The situation has been further squeezed by the Chancellor's decision to reduce the lifetime pension allowance to £1m, a measure which has been hailed as 'counter-productive' and a 'disincentive to save as much as possible for retirement'.

That said, the new freedoms enabling us to access and spend more of our hard-earned money as we see fit can only be described as a positive thing; nevertheless, concerns have been raised over the risk of people 'rushing in' to access their savings and making poor decisions that could cost them dearly later in life, either through paying more tax than is necessary or running out of money entirely.
The new system offers both benefits and risks. With a plethora of information being pushed out via various media channels, here is a brief overview to highlight some of the key implications that the new pension reforms may have on your retirement plans.

Following the new freedoms, you can manage your pension funds in a number of new ways:

- Access your money like a bank account, dipping in and out as often as required and taking 25% of it tax-free.
- Keep the money invested and drawdown an income from it as and when you need.
- Pursue the annuity route, converting some or all of your money into a guaranteed income for life.
- Cash in the whole lot and invest it somewhere else, such as in property, the stock market or cash savings.

You will still receive tax relief from the government on the money you pay in at your current rate of income tax however.....

- If you withdraw cash too quickly you could be pushed into a higher tax bracket and, with 75% of savings being liable to tax, you could end up.
- It may not always been the best option to withdraw your savings, even if you keep within the 25% tax-free bracket, as invested finds still represent great tax efficiency.
- Any drawdown will be classed as income for that tax year and will likely have an impact on your current tax code. Be sure to contact HMRC and ask for a document confirming your tax code to avoid having to reclaim overpaid tax further down the line.

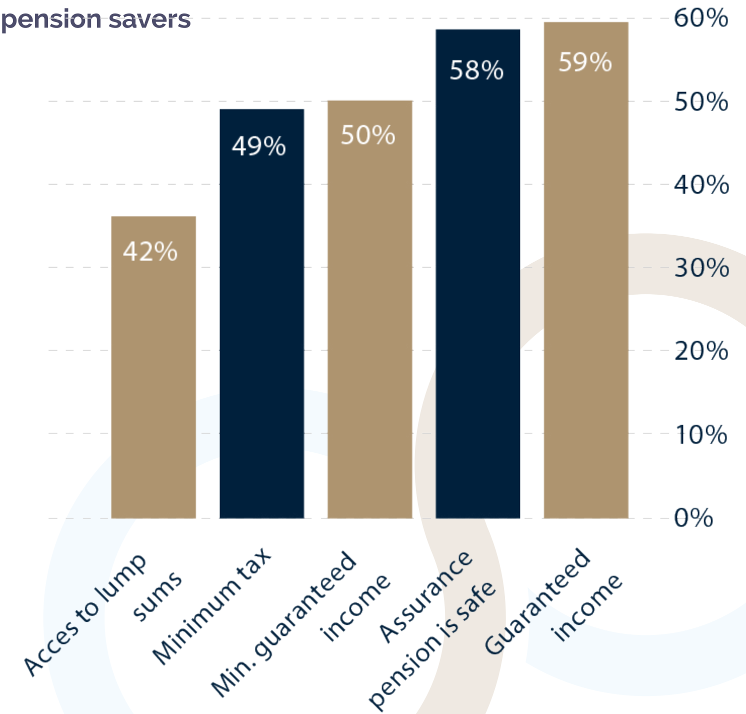
What did savers say they would do with all their freedom ?

In a survey conducted by Ipsos MORI on behalf of Hargreaves Lansdown, respondents that had a DC pension that planned on taking a lump sum from their pension in April, the majority plan to use the funds to pay living expenses (16%) or put it into savings (16%). However a significant number of those planned to invest their funds into property (12%)

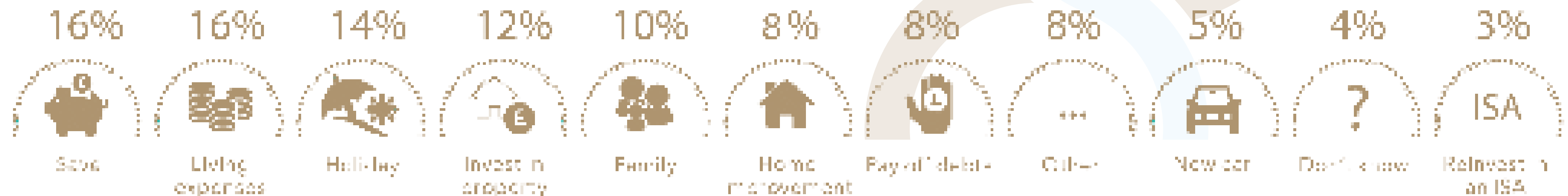
In another survey by YouGov, analysed by Deloitte, pension savers have 5 main goals when it comes to their pensions. Guaranteed income was the one of the top priorities for the majority of respondents (59%), so we may see many people still opting to buy an annuity.

As with any area of financial planning, it is always recommended to seek professional advice. At Finura Partners, we will always endeavour to uncover new retirement products coming onto the market and implement fresh ways to make your money go further to ensure you get the most out of your savings, whether you have plans to spend it or keep it invested. If you would like to discuss the wider implications of the pension changes and how they affect your long-term plans, please get in touch with your adviser.

Top 5 goals for pension savers



Source: Deloitte 2015



Source: Ipsos Mori 2014

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