eNews
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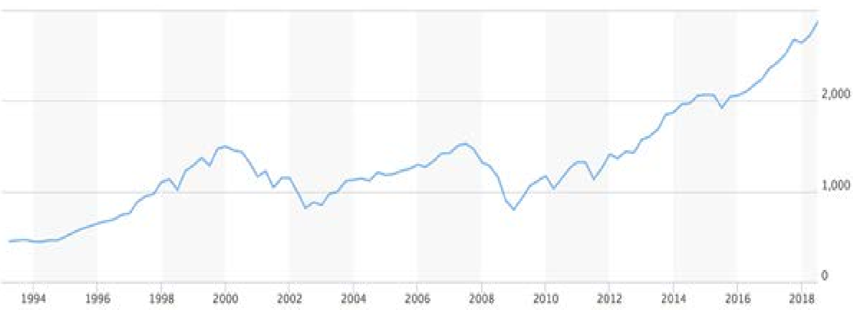
INVESTMENTS

# The record S&P 500 bull run

*The US stock market set a new record for the longest-ever bull market in August.*




*S&P 500 Index Performance*

Wednesday 22 August 2018 saw the S&P 500 drop – by less than 0.1% – after 3,453 days, making it the longest-ever bull run (a period of rising share prices) for the index, which is used by professional investors' as a yardstick for the US stock market.

The previous record was set between 1990 and 2000, a period that saw the dot-com boom, followed shortly after the start of the new millennium by the tech bust.

The current rally has been helped by a strong performance from technology stocks, notably the 'FAANGs' (Facebook, Apple, Amazon, Netflix and Google (now called Alphabet)). It has also been aided by a period of ultra-low interest – the US Federal Reserve's main rate was set to a historic low in December 2008 and did not rise above 1% until June 2017. In the last year US companies have also benefitted from Donald Trump's corporate tax cuts, which have boosted earnings figures.

Despite the record performance, this bull market has been labelled as "the most hated of all time". Throughout, sceptics have viewed the market as trading on borrowed time and reliant on the easy-money policy of the US central bank. How much longer the rally can last remains a hot topic.

While interest rates are now rising the US economy is growing strongly, and that is working its way through to the bottom line of the now more lightly-taxed US companies. Similarly, while the S&P 500 index is regularly reaching new peaks, other measures of valuation show US shares much less highly valued compared to previous market peaks.

Whatever the future holds, the past near nine and a half years have provided a reminder of the wisdom of international diversification of investments.

*The value of your investment can go down as well as up and you may not get back the full amount you invested.*

*Past performance is not a reliable indicator of future performance.*

*Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.*

PENSIONS

# Auto enrolment six years on

*Pension savings have grown after six years of automatic enrolment, but more progress is required to provide most people with adequate funds for retirement.*

Automatic enrolment has sharply reversed the downward trend in workplace pension membership, which hit a low of 55% in 2012. Membership was at 84% in 2017 according to the Department for Work and Pensions.

In April 2018 the overall minimum contribution rate – normally made up of employer and employee contributions – rose from 2% to 5% of band earnings (£6,032 – £46,350 in 2018/19), with another increase to 8% due in April 2019.

The impact of automatic enrolment is welcome, but it is no guarantee of adequate retirement provision. For some, the state pension (up to £164.35 a week in 2018/19) and their auto-enrolled pension may be enough once work stops. But for many others, such as those with patchy employment records or who are already close to retirement, it won't.

If you are worried about your retirement, ask us to project what your current pension arrangements may produce.

*Occupational pension schemes are regulated by The Pensions Regulator.*

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TAX

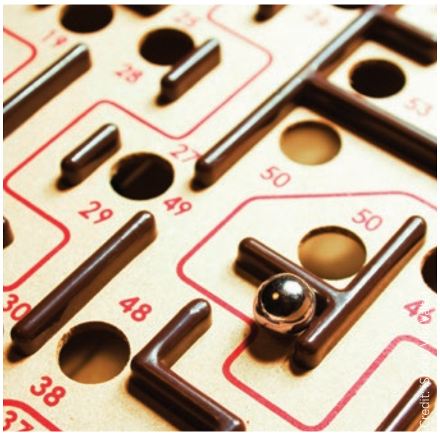
# Caught by the pension tax trap?

*Those looking to cash in part, or all, of their personal pension need to check they don't pay too much tax.*

Pension freedom rules allow anyone aged 55 or over to access their personal pension funds, but there are complex rules on how withdrawals are taxed. Problems can occur if you take a one-off lump sum – an 'uncrystallised fund pension lump sum withdrawal' (UFPLS) – perhaps to re-invest or to pay off debts. This differs from using a personal pension to provide a regular income, through a drawdown plan or annuity.

Your pension provider will apply an emergency tax code, which assumes you are withdrawing the UFPLS on a monthly basis, unless it has an up-to-date tax code for you.

For example, if you take a UFPLS of £10,000 at the start of the tax year, HMRC may assume you will take an income of £120,000 across the year from your pension and tax you accordingly.



If it is a one-off withdrawal, you are likely to pay too much tax.

### Avoiding the charge

As emergency tax codes are generally only applied the first time people access their pension funds, one option is to make your first withdrawal a nominal amount, say £100.

The emergency tax code is still applied, but this triggers HMRC to adjust your tax code and send an updated version to your pension provider. Once the new code has been issued, any further, larger withdrawals are taxed correctly.

You may be able to claim a rebate, either through your tax return at the end of the tax year, or by submitting the appropriate form to HMRC if you need the rebate more quickly.

If you are planning to withdraw a lump sum from your pension, or are concerned about a recent withdrawal, please get in touch.

*The Financial Conduct Authority does not regulate tax advice.*

*Levels and bases of taxation and tax reliefs are subject to change and their value depends on individual circumstances.*

*Tax laws can change.*

INVESTMENT

# Illuminating fund fees

*When comparing fund costs, there are a range of different figures investors need to look out for.*

Investor factsheets can contain a mix of acronyms, but the most important figure is the OCF – the Ongoing Charges Figure.

The OCF covers the annual management charges on the fund (also known as AMCs), as well as a variety of other operating and administration costs. All regulated funds now must display their OCF. This charge is applied to the total value of your fund, not just your contributions, which makes it a useful way to compare charges between funds.

The OCF supplanted the Total Expense Ratio (TER) in 2012. The TER was broadly similar, but the OCF includes additional research charges. However, neither of these terms include the costs of buying and selling assets within the fund, such as stockbrokers' commissions, dealing charges and stamp duty.

Transaction costs can vary significantly from fund to fund, partly depending on how frequently the manager buys and sells shares. Since January 2018 fund managers have been obliged to include information on their transactional costs alongside the OCF.

Transactional costs are projected based on previous actual dealing charges and can be a useful way for investors to understand what the additional costs might be. These fund charges won't include any platform costs, nor initial charges.

If you would like to discuss your investment choices further, please get in touch.

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INVESTMENT

# Interest rates creeping up after nine years

*The Bank of England increased the base interest rate in August to 0.75% – the second increase in 12 months.*

The Bank's decision to raise the rate to its highest level in nearly nine and a half years was no great surprise to the investment community. Of more interest to the experts were the comments the Bank offered on the long-term trend of base rates relative to inflation. The Bank gave a theoretical estimate of the base rate needed to maintain inflation and economic growth in a fully functioning economy, rather than another forecast of where rates might be in a year's time.

The Bank said an interest rate of 0%–1% above the rate of inflation, with a 'modal rate' of 0.25%, would achieve this equilibrium. In today's economic environment, with an inflation target of 2%, this would mean a base rate of around 2.25%. That implies:

The equilibrium rate will be a long time coming – several 0.25% increases would be required and the Bank has repeatedly said any changes will be gradual. Returns on savings accounts will continue to be poor and often below the rate of inflation, even before the impact of taxes are allowed for.

Persistently low interest rates mean that holding too much money on deposit could damage your long-term financial health. Whilst we all need to put aside reserves for the proverbial rainy day, the UK has moved on from an era when base rates were expected to be a useful margin above inflation.

For an assessment of how much your ready cash reserve should be, and the options for investing any excess, please talk to us.

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