

Technical Update No. 5 7th March 2018

Saver / Investor / Retired / Property Owner

House price growth – an unexpected dip

Not wanting to be second guessed, growth in UK house prices fell back in February - suggesting January's surprise spike was a short-term rise, rather than the beginning of a permanent recovery in growth. Prices rose 2.2 per cent in the year to February, down from a 3.2 per cent the month before, representing the first fall in six months. The figures echo research by the Centre for Economics and Business Research published last week, which suggested consumer confidence in house prices rising has fallen to the lowest levels since the Brexit referendum. How things play out for the rest of the year will evidently be determined in large part by developments in the wider economy and the path of interest rates, though Brexit developments will also be a key factor.

Saver / Investor

Bitcoin bully – Carney bites back

After a prolonged correction, Bitcoin is back. The so-called "people's currency" gained close to 7% this week, stabilising around the \$11,000 mark. Given the lack of any meaningful 'fundamentals' it's hard to judge whether this will be a sustained comeback but either way, not everyone is a fan. This week Bank of England Governor Mark Carney said Bitcoin has failed as a currency measured by standard benchmarks – it is neither a store of value, nor a useful way to buy things. Carney does, though retain interest in the currency's underlying technology, which he believes may still prove incredibly useful to verify financial transactions in a decentralised way.

Saver / Investor / retired / Estate Planer

Annuity firms to be forced into even greater transparency

New rules from the FCA will ensure, from this month, providers have to tell consumers when they could get a better rate elsewhere via an annuity comparator. The (to be applauded) aim is to make it easier for customers to shop around for the best annuity and avoid them rolling over into substandard annuities offered by their pension provider. Nothing to argue with there. The problems arise when we take into account that rates are entirely dependent on (often complex) permutations like postcode, size, weight, drinking, smoking and so on – adding up to 30%. Success of the initiative will be entirely down to the quality of information input. If, for example, a customer refuses to have their personal information used for the comparator – their illustration will be highly limited.

All

Back to black

George Osborne had hoped to reach the milestone two and a bit years earlier in 2015 but Britain is now officially in the black and running a budget surplus for the first full year since 2001. Officially tax revenues cover all day to day spending, though the surplus excludes capital investment by the Government. And there's possibly more to cheer later this month as the Office for Budget Responsibility is set to upgrade its growth forecasts, giving the Chancellor a windfall of extra tax revenues. Just to temper the optimism, though, latest forecasts estimate that should Theresa May yank Britain out of the EU with no deal in place GDP could plunge by more than a quarter of a trillion over 15 years. Fingers crossed.

Saver / Investor

Trade Wars

March begun disagreeably and uncompromisingly, taking a big bite out of stock market gains, and there are fears that it may be a sign of more to come as investors consider a more aggressive trade policy from the White House. Many strategists have been expecting the market to recover from February's lows without a retest, but last week's harsh sell-off has some rethinking the outlook. Stocks were already having a bad week before President Donald Trump announced new sweeping tariffs on steel and aluminium. The Dow lost 420 points to 24,608 on the first day of March and was on track for a 2.8 percent decline for the week as of late Thursday. The FTSE 100 fell 105.74 points, sending a warning that more technical damage could be ahead.

Saver / Investor / Parent / Business Owner

The trouble with peer to peer savings vehicles

With UK interest rates currently at record lows and the continuing uncertain backdrop for investors, the Innovative Finance ISA (IFISA) adds another string to the ISA portfolio bow. The IFISA allows access to alternative finance returns in the form of loans or debt instruments, facilitated directly between investors/lenders and borrowers by regulated platform providers. In short - better returns, sheltered from tax in return for a bit more risk. The trouble is that providers are struggling with limited supply outstripped by growing demand. As such, many new investors could miss out, though, with the spectre of rising interest rates pushing up default rates there are dangers for those exposed to the highest risk Peer to peer products.

All

Brexit – What May come

In her third big Brexit speech Theresa May sought to position a “unique and unprecedented” partnership with the EU, admitting that Britain would not get everything it wanted, and acknowledging there are hard facts to be faced on both sides of the negotiating table. The Prime Minister was also fairly pointed in her warning to the EU that refusing to include financial services in a trade deal after Brexit would be tantamount to economic self-harm. She was, though, candid that the UK would lose some trade access to its biggest market. The speech was largely cheered by Conservatives both side of the remain / leave fence (for a change) but criticised by EU leaders for its lack of detail.

Saver / Investor / Parent / Business Owner

Death happens – prepare for it

One in 29 children – a typical class size – lose a parent before they grow up. Life insurance is a crucial but often overlooked financial consideration. Martin Lewis addresses the need to override the emotion and examine it clinically. If the aim (and it is) is to have enough cash to cover the lack of income if you’re gone it’s important to consider fully the financial impact if you died. That means calculating a lump sum that’s enough to repay any outstanding debt (including a mortgage if you don’t have a separate policy), and provide for outgoings your dependants would have.

Saver / Investor / Retired

Generational battle lines harden over pensions

A Think tank, the Intergenerational Foundation, is warning that older workers are not bearing their share of the pension's burden. Baby boomers - born between 1946 and 1966 - are poised to receive a bumper 20 per cent or more in support than they will have contributed in taxes over the course of their lives, the study said. Perhaps worst of all is the huge bill in store for younger people in 30 or 40 years' time by virtue of the current calculations of future liabilities. Pension liabilities are top of the list and the report points to wealth taxes as the only way to avoid harsh future welfare cuts as the post-war generation prepares to drain the public finances.

Saver / Investor / Retired / Business Owner

Women investors buy Weinstein company

A group of mostly female investors reached an agreement to buy The Weinstein Company for around \$500 million. The group is led by Maria Contreras-Sweet, who worked in the Obama administration as the head of the U.S. Small Business Administration. She is expected to run the new board of directors, which will be composed of mostly women. Immediate plans are to launch a new company, save 150 jobs and create a victims' compensation fund.

Saver / Investor / Estate Planner / Retired

Pensions tax relief fears

After making pensions easier to use and giving greater flexibility over how benefits are drawn, policy has shifted towards limiting how benefits can be accrued. The standard lifetime allowance has been gradually reduced over recent years. It was £1.8 million in March 2012. It's now £1 million. Benefits in excess of this cap, when drawn, suffer additional tax charges. Equally the annual allowance limits the amount of tax relief on pension contributions to £40,000 per annum. But with the cost of retirement income saving incentives at £38bn most believe tax breaks on pensions contributions remain on Chancellor Hammond's radar and commentators are fearful that further cuts are possible after Brexit.

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If you have any questions related to this update or indeed anything else then please contact your adviser at Champain.

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