ASSET

THE NEWSLETTER OF MURDOCH ASSET MANAGEMENT

JUNE 2014

Oil prices remain steady...

The UK economy continued its recovery by growing 1.4% during the first quarter of 2014, with output at just 0.17% below its pre-recession peak. GDP is expected to surpass the 2008 level this year and continue at speed. Good corporate earnings and high-end takeovers in the offing have all contributed to equity markets continuing apace: The FTSE 100 Index is up 3.18% since January; European equities fared even better at 7.34%; and America's S&P 500 rose 4.70%. Even emerging markets have started to turn around, growing by 2.13%, however China remains in the doldrums returning –1.20%.

Gold confounds logic yet again, rising to $1,380 an ounce in March, before falling back to $1,245 by early June. By comparison, oil has been reasonably steady with prices ranging from $104 to $112 a barrel over the past few months – great news for businesses as they can plan their outgoings better.

Previous reductions in Quantitative Easing have scared investors but when the Federal Reserve announced that it would trim a further $10 billion from its plans, the markets shrugged it off, assured by the good economic data that allowed it. Monthly QE now stands at $45 billion, down from a peak of $85 billion.

(Source: Financial Express Analytics, Total Return, Bid to Bid, 1st January 2014 to 30th May 2014)

IN THIS ISSUE

In this issue we look at the East-West performance divide and the slide in gold and commodities. We also round up fund manager news, including on the highly rated Neil Woodford. Topics in the spotlight are the impact of the Government's pensions changes; funding care in later life without impacting on next generations; and reducing Inheritance Tax liability.

Manager news

Neil Woodford formally left Invesco Perpetual on the 29th of April. He announced the establishment of Woodford Investment Management (WIM) shortly afterwards, with the CF Woodford Equity Income Fund launching on 2nd of June.

We rate Neil highly as a manager and he has achieved huge profits for our clients over the last fifteen years. We met his team this week and need to see, however, that the infrastructure he has in place allows him to perform as he has done in the past so we are not ready to recommend his new fund yet. At Invesco Perpetual he had over 20 analysts working for him and there will be only four at WIM, and with no peer group to share ideas and purchasing power, there is sufficient uncertainty to make us hold back for the time being.

There is still a fair amount of due diligence to complete, particularly on Neil's remit under the fund. St. James's Place has already assigned over £3 billion to him but we don't rely on second-hand research and can see no advantage in being first in to the new fund, especially given the strong returns our clients are experiencing under Mark Barnett, Neil's successor in Windsor.

Cormac Weldon, our preferred US equity manager, left Threadneedle Investments and took Stephen Moore and five analysts to Artemis Fund Managers, where he will be launching five funds in September/October. We met with his Threadneedle successors, Diane Sobin and Nadia Grant, and were sufficiently impressed to recommend staying put. Sobin worked with Weldon for a number of years and has taken over as head of the US team, with Grant joining last year.

Inheritance tax: hope or mitigation?

Given the state of finances in the UK, it is now widely accepted that the Conservatives' promise to raise the inheritance tax threshold to £1 million per person has been consigned to history. David Cameron reignited the debate recently, saying it is something he would like to do but he got his figures wrong – perhaps suggesting that it was policy made up on the hoof. Either way, those who believed him last time have lost seven valuable years and may not fall for it again.

The spectre of a large inheritance tax bill having to be met after death is therefore still upon us but with careful and decisive planning you can do a lot to mitigate this liability. The five main options are:

- Give money to your children
- Establish a trust
- Purchase assets that qualify for business property relief
- Insure against the liability
- Do nothing

The first two aim to mitigate your inheritance tax liability after seven years, with any profit on the funds immediately free of inheritance tax. The second allows access to some of the money under certain circumstances – which the first can't offer – and could be particularly useful if you need to pay for personal care in future.

The third has the advantage of just two years to inheritance tax freedom but for that level of tax break there has to be a downside: The eligible assets are by nature of a much higher degree of risk than the majority of our clients are prepared to tolerate and losses can be substantial.

The fourth is a viable guaranteed method to ensure that the liability is met but you need to fund the cost for the rest of your life and be young and healthy enough at the outset to qualify for the insurance.

The fifth method is the simplest and requires no action whatsoever on your part. By doing nothing, the only chance to avoid inheritance tax is hope or poverty: Hope that the nation's structural deficit reduces sufficiently so that the wealthiest people can be relieved of their tax burden; or by getting poorer in your later years, with all of your assets used up to pay for your care leaving nothing available to tax.

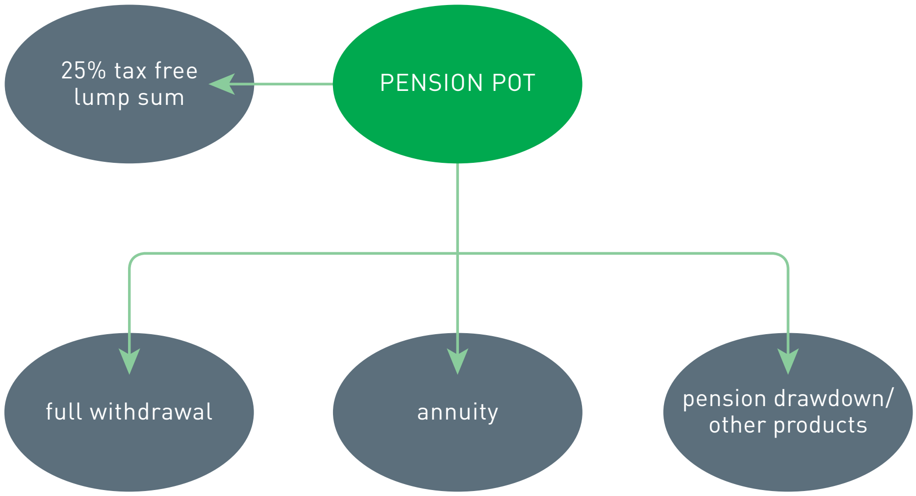
HMRC's inheritance tax receipts were estimated at £3.5bn in 2013/14 and are likely to be £5.8bn in 2018/19

According to a recent estimate, if all of us were to die today, the UK's total inheritance tax liability would be £275,000,000,000 (£275bn). With that amount of money in the offing, it would be a very unwise Chancellor who decides to cede this revenue without a clear strategy for replacing it.

With more than two decades of inheritance tax planning under our belts, many millions of pounds managed in trust funds and dozens of successful death claims, we can advise you not only on the establishment of your trust now but also manage it carefully and continuously into the future.

Sweeping changes to pensions

George Osborne's announcement of sweeping pension changes caught many by surprise. Under the new regulations, from April 2015 you will be able to take up to 100% of your pension – one quarter tax-free and the remainder subject to income tax at your highest marginal rate. The changes won't apply, however, if you have already bought an annuity or have a final salary pension scheme.



Whilst good news on the surface, greater financial freedom brings with it responsibility for ensuring that money doesn't run out before we die, which means making complex decisions that you won't want to get wrong. The following outlines the options and issues.

Annuities are the only way to provide security through a guaranteed income for life, and they will continue to be the cornerstone of many people's retirement income, particularly considering the low interest rates on cash deposits – 1.5% per annum if you are lucky.

Pension drawdown allows you to draw income directly from your pension and offers increased flexibility, the potential for higher income, tax planning opportunities and better death benefits. It is suitable for those who are able to tolerate fluctuation in capital values and income levels or have other sources of income.

For example, in a year where you have no other income, you could take £13,333 from your pension fund free of tax. Regulations allow 25% to be taken (£3,333) tax free, and the remaining £10,000, although subject to income tax, would be within your personal allowance of £10,000 and therefore no tax is payable. The balance of the pension would remain untouched and growing in a highly tax-efficient environment, potentially bolstering future tax-free lump sums and preserving the death benefits (at least until age 75).

Most people want to leave their unused pension benefits to their husband or wife when they die but this can add to an already large inheritance tax burden. A 'spousal by-pass trust' can be set up to receive the money instead, allowing your spouse access to it as a beneficiary and without it ever forming part of their estate.

We are extremely effective in helping our clients make these difficult retirement decisions and nurturing all their assets as time goes by. Please get in touch if you would like our expert help.

> From April 2015 you will be able to withdraw up to 100% of your pension...

Care fees and inheritance – ensuring enough for both

A recent survey found that over a third of people aged over 65 are put off inheritance tax planning because they are concerned that ring-fencing money for next generations will leave them short of funds to pay for their long-term care.*

The Government's announcement on capping lifetime care costs at £72,000 from 2016 has done little to quell fears of running out of money as it applies to care costs only and excludes accommodation and living expenses. With nursing homes charging anything from £40,000 a year, total costs could run to £200,000 over five and a half years before the cap had any impact.

It isn't all bad news though as care fees can be funded using a range of options, putting inheritance tax planning back on the table:

- Investments can be geared towards a higher income, with a 4.5% per annum return possible through a combination of dividends, ground rents and fixed interest. Coupled with a capital drawdown of 5%, a £100,000 investment, for example, could yield sufficient to meet a shortfall in care fees of £9,500 per year for thirteen years and a shortfall of £15,000 per year for seven years.

> With nursing homes charging anything from £40,000 a year, total costs could run to £200,000 over five and a half years...

- If you are no longer living in your home, it could be let for around 3.5% of its value after fees, tax and rental voids are allowed for, or it could be sold and invested as above.
- Immediate care annuities offer a very high guaranteed tax-free income for life provided the money is paid directly to the care home. You pay a lump sum on day one, with some of it returned if you insure against dying prematurely. The insurance company medically underwrites the annuities and the rates you get are highly personalised. As an example, an 83-year old lady recovering from a stroke was recently granted £31,000 a year in exchange for £150,000 – equivalent to 20% per annum – from the best insurance company. She needs to live five years for her estate to break even but she will never have to be concerned about ending up in the hands of the local authority.
- Our preferred trust solution – the income and capital trust – allows you to gift capital away to reduce your inheritance tax liability whilst retaining access to up to 10% of the value of the trust each year should you need it, further easing the worry of end of life poverty.

As Chartered Financial Planners we hold the necessary qualifications for providing expert independent advice on both estate planning and care fees funding. Please call us if you would like advice.

*Consumer Intelligence research, 2231 adults, November 2013

A conference fit for a king...

We would like to invite you all to our client conference to be held at Farnham Castle. There are two dates available, 9th and 22nd July, both of which will be identical in format. The event starts at 10.15am, with coffee and biscuits available from 9.45am onwards. A light lunch will be served at 12.30pm and there will be plenty of time to chat to all our staff. Our invitation is extended to your friends or colleagues who may be interested in our services. Please return the enclosed slip if you would like to attend, book online or contact Margaret in the office with any questions: 01420 83517 or info@murdochasset.co.uk.

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