ASSET

THE NEWSLETTER OF MURDOCH ASSET MANAGEMENT

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Investors seeking safety

2013 has been good for the UK economy, with GDP growing by 0.3% in the first quarter, a revised 0.7% in the last three months and a total of 1.4% for the year. The improvement was driven by the recovering construction, manufacturing and services sectors. The Office of National Statistics' adjustment of the historic data showed the UK avoided a double-dip recession at the start of 2012, but that the decline in 2008 was worse than previously calculated; declining by 4.25%. So, no change to where we are, just an argument over how we got here!

The construction industry has seen a recovery and is seen as a safer investment

The Chinese economy has slowed to just over five-times faster than the UK, with GDP up 7.5% for the year to June 2013. The Zhōnghuá is applying monetary tightening following fears of a housing bubble, rampant wage inflation and retail price hikes. The fall in the Chinese stock market value over the last three years now seems justified, but it has not been as bad as predicted, hence the 20% growth seen in Charlie Awdry's Henderson China Opportunities fund in the last year.

UK inflation continues unabated. At 2.7%, this is now well ahead of interest rates paid to savers; you will be lucky to get 2% before tax, putting further pressure on the purchasing power of your capital.

Emerging Markets have suffered with the Index –2.67% year to date compared to 16.09% for the MSCI World Index.*

As economic growth and company profits in developed markets have improved, investors have shunned emerging markets in favour of the more 'known' entity of traditional businesses.

Japan's Topix has been the surprising winner this year, stimulated by Shinzo Abe's new government stimuli. We remain negative on the region, as none of the measures are either new, or do anything to address the massive structural imbalance or malign corporate culture. (Continued on page 4)

IN THIS ISSUE

We look at the market over the last months and the move away from emerging markets; pension tax relief and how Premium Bonds can fare. There is a final (we hope) update on care costs and the importance of re-investing dividends. Also an update on fund manager news and a reminder of how to register for your online portfolio valuations.

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Making the most of the pension tax relief clampdown

Contributions

From 6th April 2014 the maximum annual contribution to a pension reduces from £50,000 to £40,000, although you will still be able to carry forward unused relief from the last three years, subject to your relevant earnings. In the 2013/14 tax year the maximum potential contribution under these rules would be £200,000, reducing to £190,000 in 2014/15.

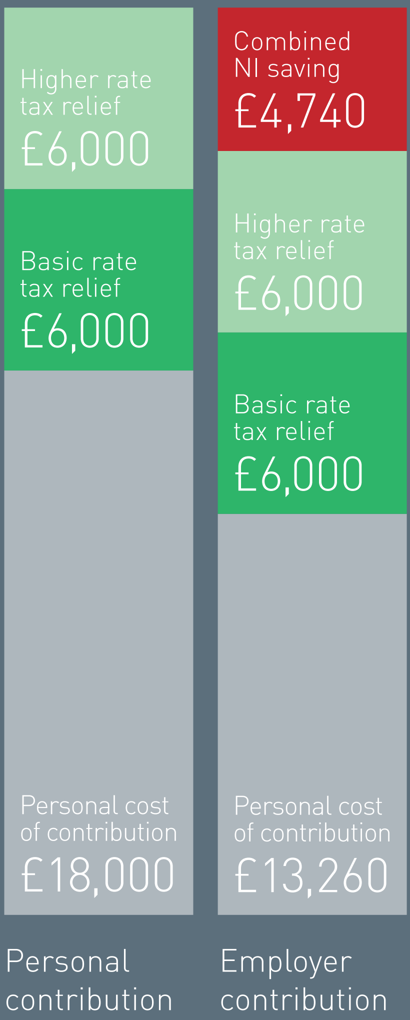
If you are a higher rate tax-payer with a large enough salary, a personal contribution to your pension of £30,000 could only cost you £18,000. You would need to pay £24,000 up front, the pension provider would claim basic rate tax directly from HMRC and you can reclaim the additional £6,000 relief via your tax return. Whilst pensions are quite restrictive when you come to draw from them, they are still highly advantageous where saving tax is concerned.

Salary Sacrifice

Better still, if your employer is progressive, ask them to consider a 'salary sacrifice' employer's contribution, which will also save both the employer's and the employee's national insurance, meaning a potential tax saving of 56% for those with £30,000 higher rate income to use. The net personal cost of a gross contribution of £30,000 is illustrated left.

Salary Sacrifice
vs
Personal Pension Contribution

£30,000 Gross Contribution



Lifetime Allowance

Total pension funds are capped at £1.5m now, but this reduces to £1.25m in the next tax year. On vesting your pension, a punitive tax charge of up to 55% will be applied to the excess over this amount. If you have not taken the previous protections (primary & enhanced) there is action you can take now to minimise this charge.

If your pension fund is likely to exceed £1.25m in your lifetime and you will not be paying any more contributions, fixed protection is available and it sets the allowance at £1.5 million. **You must register for this by 5th April 2014.**

Individual protection is available for those with a pension fund that is already above £1.25 million on 5th April 2014 and entitles the saver to a lifetime allowance of the greater of their pension fund on 5th April 2014 (up to an overall maximum of £1.5 million) or the standard lifetime allowance. Unlike fixed protection, individual protection is not subject to restrictions on future contributions.

For some dynamic pension advice, please do not hesitate to contact your consultant at Murdoch Asset Management.

PREMIUM BONDS: a poor return, but you just never know...

The annual Premium Bonds prize fund rate fell to 1.30% this month, its lowest rate ever and you are less likely to win something. Your capital is 100% secure even if you do not win a prize, so it still has some appeal for investors, particularly as deposit and fixed rate bond returns have plummeted yet further. However, as the 'wealth' warning on the packet goes; inflation continues apace and the purchasing power of money held in Premium Bonds falls in real terms each year, unless you get really lucky.

The effect of changes to the Premium Bond prize fund rate

2013	July	August (estimate)
Total value of prizes	£57,099,325	£49,321,500
Total number of prizes	1,903,314	1,751,061
Prize fund rate	1.50%	1.30%
Odds of winning	24,000 to 1	26,000 to 1

Care costs cap – final update: 1 in 8 may benefit

Lifetime residential care costs will be capped at £72,000, starting from 2016, based on the total cost of eligible needs for care, including the local authority's contribution, but excluding daily living expenses such as accommodation, food and energy bills.* This means the cap will come into play much sooner than if it were calculated on your own outlay alone.

The assets threshold for state financial assistance will be set at £118,000, including your home, rather than the current £23,250. The family home will not be included if your partner or dependent still lives there, but the threshold comes down to £27,000.

Those who are too wealthy to get state assistance will be able to buy residential care at the same price as the local authority - typically £500 a week - cutting care bills by up to 20% or more.

You can join a 'not-for-profit' deferred payment scheme, where the local council pays your care fees in return for a charge on your estate, without forcing the sale of your house. It will be similar to a draw-down mortgage, where fees owed are added weekly, so as to accrue interest as slowly as possible.

*Care home residents will have to pay a £12,000 per annum 'hotel charge' for their daily living costs, if they are deemed able to afford it.

Equity markets, income and inflation

We have been managing our clients' investments for over 20 years, through two recessions, stock market crashes, Latin American money crises, technology bubbles and the now infamous credit crunch. Our consistent belief during this entire period has been investing with proven managers, whose processes focus on investing in good, well-managed companies, with strong balance sheets. These companies reward their long-term investors with a share of their profits, paid by way of a dividend and through share price growth, as the company appreciates in value.

Whilst growth can happen quickly, it is often illusive, ebbing and flowing with the vagaries of the market. Accordingly, it is important not to underestimate the significance of dividend income, even if you are looking for capital growth over the long-term. Although changes in share price make the headlines, dividend payments are a significant driver of total returns. Analysing the performance of the UK, US and German stock markets since 1970, more than 50% of the total return is represented by dividends. (Source: BlackRock 2013)

Looking at it another way, had you invested £10,000 into Neil Woodford's Invesco Perpetual High Income fund from inception, the capital value of those original units would be worth £82,865 today, an increase equivalent to 729%. If you had reinvested all your dividends, your investment would be worth £258,191; 2,482% or a compounded annual return of 13.7%*. The Retail Prices Index inflation rate over the same period was 141.72% or 3.51% per annum and cash deposits returned 308.34% (5.66%pa)**, thus demonstrating the value of equity investing over the longer term, for those who can hold their nerve when the chips are down.

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*Source: FE Analytics, Price vs. Gross Return, Bid to Bid, Invesco Perpetual High Income Inc, £10,000 invested, GBP£, 8/02/1988 to 19/08/2013

**Source: FE Analytics, Bank of England base rate, GBP£, 8/02/1988 to 19/08/2013

Company update

New staff member: We would like to welcome Sarah Thomas, our newest Financial Planning Administrator, who joins us after two years with Grant Thornton UK LLP, where she worked for the South West Financial Planning Team.

Sarah holds four of the five requisite exams for the Certificate in Financial Planning, as well as **R05** (Financial Protection) and passed each one first time.

Examination update: Mark Collard and Lisa Flynn have also recently passed **R05**, with Marie and Christine successfully completing their **CF8** (Long Term Care) exams at the first attempt. Marie also aced **FA2** (Pensions Administration). Phil Hunt, Head of Financial Planning, has added **R04** (Pensions & Retirement Planning), taking him one step closer to Fellowship of the Chartered Insurance Institute, the ultimate financial planning accolade.

(Investors seeking safety continued) British Government Gilts fell –4.42% and the Sterling Corporate Bond Index was flat at 0.02% year to date.** Emerging market debt has also under-performed developed markets, with the confluence of economic sentiment and the strengthening of hard currencies (i.e. US Dollar, Euro, Sterling and Yen). Over the long-term, local currencies have the potential to deliver excess returns, but they are susceptible to short-term losses.

*Source: Financial Express Analytics, 01/01/2013 to 20/08/2013

**Source: Financial Express Analytics, GBP£, 01/01/2013 to 20/08/2013

Fund manager news:

Jeremy Hall

We have switched all clients out of the Neptune Russia & Greater Russia fund, in favour of other emerging market funds. The decision was based on our selection criteria; Person, Process & Performance, rather than asset allocation away from Russia itself. We met Neptune's fund management team and had concerns about Robin Geffen's leadership and the short-term performance. We could not find a suitable Russia-focused alternative, so allocated money elsewhere, according to each client's attitude to risk.

Cartesian Capital Partners left Ignis Asset Management to stand on its own two feet and the funds are now independently administered by Thesis Asset Management. All assets have transferred to the new funds and have been re-branded as TM Cartesian. Jeremy Hall attended our office for a full review of his performance since taking over from David Stevenson two years ago. We value his consistency of approach and dedication to stock selection, using the criteria we like.

Paperless portfolio management

To view your portfolio valuation, authorise switches quickly and without any paper, we have just the solution for you. The Client Hub allows you to monitor your investments, authorise fund switches and send secure messages to your adviser, all in the comfort of your own home.

To register, please visit the Murdoch Asset Management home page and click

Client log-in
Click here to access your portfolio valuation

on the bottom right.

Then click register or contact Mark in the office on 01420 83517.

Signing up to the Client Hub will mean less paper; you will be notified of important messages by an email to your personal email inbox, so you can authorise switches the same day they are sent out. Your valuation is updated daily, with historic weekly valuations stored indefinitely for you to follow your progress.

Some email providers may block email messages from the Client Hub, so please check your junk/spam mail and add us to your 'safe sender' list. If you have forgotten your password or PIN, you may request new login details by using the '**forgotten password**' feature on the Client Login screen.

MURDOCH
ASSET MANAGEMENT

6 Oriel Court, Omega Park, Alton,
Hampshire GU34 2YT
T: 01420 83517 F: 01420 86180
E: info@murdochasset.co.uk
W: www.murdochasset.co.uk

FINANCIAL PLANNERS CII CHARTERED