ASSET

THE NEWSLETTER OF MURDOCH ASSET MANAGEMENT

JUNE 2013

Out of the red and into the green?

At the end of 2012 investors were concentrating on the US and concerned with the 'fiscal cliff', but they have since shifted their focus back to Asia. China is half way through its twelfth 5-year plan, which among other things aims to re-balance its economy to incorporate greater domestic demand, increase the size of the service sector and promote greener technologies. With these changes, the government anticipated that GDP growth would slow and the latest official figures showed GDP growth in the first quarter of 2013 was 7.7%, down from 7.9% in the last quarter of 2012.

Modern windfarm, Xinjiang Province, China.

This number was lower than expectations and there was even a surprise trade deficit in March of $884 million; which was short lived. April's data showed exports had risen by 14.7% from a year earlier and imports rose by 16.8%, giving a surplus for the month of $18.2 billion.

Year to date, equity markets have performed more strongly than most analysts had expected, with Japan the most surprising, and the TOPIX Index returning 36.77%, compared to 12.84% for the MSCI World Index (Source: Financial Express Analytics, 1st January 2013 to 30th April 2013). This out-performance has been driven by increased confidence from Shinzo Abe's massive stimulus packages, including the Bank of Japan injecting an additional $1.040 trillion over two years through its government bond purchase scheme – also known as quantitative easing.

These policies have weakened the Yen, helping exports grow by 3.8% over the first quarter of 2013 and GDP growth came in at 3.5%. Export growth out-paced imports, also up 1.0% and consumer spending rose by 0.9% after decades of stagnation. Whilst these figures are encouraging, we remain negative on Japan due to its debt levels, population demographics and corporate culture. The fundamental weaknesses in the economy are yet to be addressed and we are sceptical about its sustainability after the stimulus ends.

IN THIS ISSUE

We look at the 2013 Budget and what it may mean for you. We also explain the rationale for changing funds and what difference this has made. There is an update on key fund manager changes and our independence when it comes to placing your funds. The company's recent award of Chartered Financial Planner status, our staff examination successes and our new address is also covered.

New limits at a glance

Tax free income
£9,440

Basic rate tax level
£32,010

Highest tax band
45%

Yearly ISA limit
£11,520

Yearly Cash ISA limit
£5,760

Yearly Junior ISA limit
£3,720

Yearly Pension contribution
£50,000*

Inheritance Tax nil rate band
£325,000

*Reduces to £40,000 next April

Budget 2013 – Give and Take

The amount of income you can receive before tax has risen to £9,440 this tax year and £10,000 for 2014/15, a saving of £267 per annum. Thereafter, the rise will be linked to the consumer prices index.

Higher rate taxpayers will fund it, as the basic rate limit was reduced to £32,010 in 2013/14, costing them roughly £410 extra in tax. The highest rate of income tax fell from 50% to 45%, giving someone earning £200,000 each year a bonus of £8,400. An unpopular choice with many, meaning the middle continues to get squeezed, because the poor 'can't pay' and the rich 'won't pay'.

An ISA can now receive £11,520, with the cash maximum set at £5,760 and Junior ISAs are capped at £3,720. Pension contributions are still at £50,000, but that comes down to £40,000 next April and the lifetime allowance also reduces to £1.25m.

The inheritance tax nil-rate band remains frozen at £325,000 until April 2018, three years longer than previously stated, to help fund the cap on care costs for older people.

Most importantly for us as taxpayers, a raft of 'anti-avoidance' initiatives have been introduced, targeting artificial schemes designed to unfairly avoid all forms of tax. Fortunately, none of our estate planning arrangements, either past or present have been affected by these changes. This adds further credence to our long held belief that you need to carefully plan your affairs to minimise wealth erosion, using tried and tested methods, without being too greedy.

Fund Manager News:

Since our last newsletter, we have made another bulk switch, moving out of the Neptune Income fund in favour of the Marlborough Multi Cap Income fund. Neptune Investment Management has struggled as a house over the past couple of years as their flagship funds, including the Income fund, have under-performed their peer groups.

The Marlborough fund employs a very different investment process to Neptune, as the manager prefers companies lower down the market capitalisation scale; making it a good fit with our existing UK Equity Income fund.

As global equity markets have risen strongly year to date, investors have allocated more of their portfolios to emerging market equities. This influx of monies has resulted in Aberdeen placing a 2% initial fee on all investments into their Emerging Markets fund and First State has closed their Global Emerging Markets Leaders fund to new investors. We still prefer the Aberdeen Emerging Markets fund despite this extra cost and have taken the decision to continue investing in it; the management team, headed by Devan Kaloo, is one of the best in the industry.

Being Decisive...

Across economic cycles, there will always be a variety of reasons and opinions, often contrasting, as to which theme, sector or geographical region will be best. Whilst picking correctly can prove fruitful, we have always found that choosing a great fund manager is far more beneficial in the long run. We seek to combine both aspects for clients, mindful of their tolerance for risk, but it is the latter that will prove the most important and most profitable over time.

We direct our expertise and resources to selecting the best fund managers in each area, then monitoring their progress, to ensure they continue to meet our strict criteria. Our three analysts, led by Austen Robilliard, conduct over 100 manager meetings each year, with our recommended managers being interviewed at least every 6 months. It is this personal access to the managers, impossible for individual investors, that gives us invaluable insight when justifying our continued support of their funds. This, in combination with a legion of statistical information, helps Austen and the team report effectively to the Investment Committee, responsible for the ultimate investment decisions and fund switch recommendations.

A question we are not often asked after a switch is: "How did that other fund do?" This may be because of a lack of interest or availability of information, but it is important to reflect periodically on their efficacy. The table below provides examples of our last nine switches and you will see that in every instance, the decisions have been beneficial.

Switch date	From	To	Difference*
Dec 2010	Schroder Income	Invesco Perpetual High Income	+14.64%
Dec 2010	Schroder UK Mid 250	Old Mutual UK Select Mid Cap	+4.25%
Apr 2011	Jupiter Income	Invesco Perpetual High Income	+11.22%
May 2011	Newton Higher Income	Newton Global Higher Income	+6.40%
Feb 2012	Investec American	Threadneedle American	+11.57%
Aug 2012	Jupiter Corporate Bond	Invesco Perpetual Corporate Bond	+5.74%
Aug 2012	IN Argonaut European Income	Henderson European Sp. Situations	+6.74%
Jan 2013	SVM Global Opportunities	Fundsmith Equity	+17.41%
Mar 2013	Allianz RCM BRIC Stars	Aberdeen Emerging Markets	+1.50%

*Source: FE Analytics, Single Sum, Total Return, Bid to Bid, switch date to 06.05.2013

The rationale for switching varies; a fund manager leaving, a change to a previously successful investment process, a period of under-performance we are no longer willing to tolerate. Whatever the reason, it's vital to be constantly aware of the small details that could impact performance and to take decisive action when necessary.

Two questions we are frequently asked are: "What is going to happen to the market over the next six months?" or "Is now a good time to be investing?" Those claiming to know the answer to the first should be treated with caution, as should those saying they can successfully second guess market movements.

We are firm believers that 'time in' the stock market, can be more profitable than 'timing' the market and successful long-term investing requires constant attention and decisive action when called upon to do so. (For paper-free, fast switching please sign on to our Client Hub at www.m-a-m.co.uk or contact Mark Collard in the office.)

Murdoch's Senior Investment Analyst, Austen Robilliard

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IN-HOUSE

Examination update

We are pleased to confirm the following additional qualifications obtained by our team:

Christine Harris passed **CF4** (Certificate in Retirement Planning) at her first attempt. Lisa Flynn, our newest and now permanent member of staff, has also passed **CF4** (Certificate in Retirement Planning) and CF8 (Certificate in Long term Care Insurance), which is a great start to her career with Murdoch Asset Management.

Mark Collard has been hard at it again, being our third **CF4** (Certificate in Retirement Planning) success in 2013.

AF4 (Advanced Diploma in Investment Planning) was Philip Hunt's final examination to achieve **Chartered Financial Planner** status, which is an excellent professional milestone, putting him in the top 2% of UK financial advisers for qualifications.

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Chartered Financial Planners

The Chartered Insurance Institute (CII) has awarded the prestigious 'Chartered Financial Planners' title to Murdoch Asset Management.

Chartered status is only awarded to firms which meet rigorous professional and capability criteria. The award requires us to commit to the CII's Code of Ethics, reinforcing the highest standards of professional practice in our business dealings.

We are dedicated to providing specialist, high quality investment management to our clients' assets in whichever plan they hold, whether it is an ISA, pension, trust fund, investment bond or directly owned. This external recognition is further evidence of our commitment to that provision.

To date, fewer than 400 UK firms have achieved Chartered status, an exclusive award reserved for the leading firms within the financial advice market.

WE ARE MOVING – but not very far

On the 13th June Murdoch Asset Management will be moving to 6 Oriel Court, right next door to our current premises.

The office will be closed on Thursday 13th to move our computers and telephone lines; however, we will be open for business as usual on Friday 14th June.

If you need to email us on the day of the move, your message will be stored and we will get back to you on the Friday. We apologise for any inconvenience caused by the move and look forward to seeing you at our new office;

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Independence and Wrap Accounts

To access our preferred funds, all of our clients will hold their investments within a Fund Supermarket or Wrap Account administered by Cofunds, Transact, AVIVA, FundsNetwork, Skandia… the list goes on. Our independence allows us to recommend the most appropriate portfolio of investment funds to you from across the entire marketplace and then seek out the most cost effective access to those investments through your ISAs, pensions, bonds and trust funds.

It is not the case that one company will provide the answer for all of our clients, mainly because of their charging structures, investment choice, switch fees and product options. Part of our role is to assess each one to establish the most cost-effective, secure and flexible provider for your circumstances and review their continued suitability as the market evolves. For example, clients that have their investments held with Transact, will shortly receive an announcement with regard to a lowering of their annual charge.

If we believe it is in a client's best interests to move their investment from one Wrap account to another then we will recommend it. More often than not, this type of transaction can be done via a re-registration at no cost to the client at all. The more we can save you in charges, the more money you will have invested over the longer term. ★

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