



Crystal Wealth Management

review

WINTER 2015

Stay calm in turbulent investment markets

Market volatility returned in August with more ups and downs expected if interest rates rise in the US and the UK. What should investors do? Here are some suggestions:

Look well ahead

It's easy to focus on the daily fluctuations of the stock market, rather than the long term. This is similar to driving at night along dark winding country lanes using only dipped headlights. To drive calmly and safely you need to be able to use 'full beam' as often as you can to see the road well ahead.

Investment giant Fidelity has looked back over the last 10 years to see how you would have fared by investing in the UK and international stock markets. If you had invested in the FTSE All Share Index for one year only, you would have lost money in 20% of instances in the 10 years up to June 2015. However, if you had invested for 10 years, you would have lost money in fewer than 2% of instances.

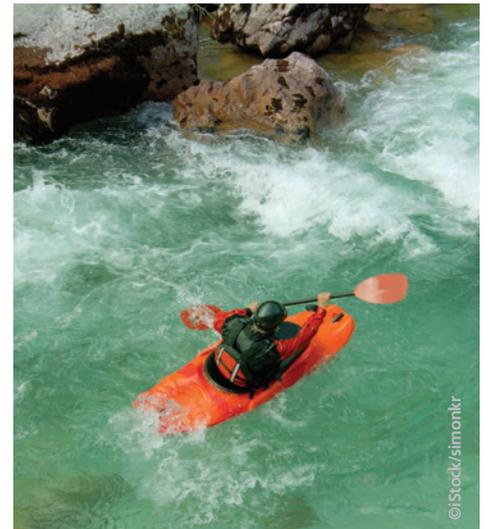
Don't try to out-think the market

It's really hard to get your investment timing right, especially in terms of market turbulence. Sharp falls in stock markets tend to be concentrated over short periods of time. Similarly, the biggest gains are often clustered together. It is also quite common for a large gain to follow a big fall (or vice versa). If you try to anticipate when the best time is to invest, you run a very high risk of missing the best gains. This can have a big impact on your long term return.

Invest regularly

Drip feeding money into the stock market can take away some of the worry of investing. If the stock market does continue to fall, you will have only invested some of your capital. In addition, your future investments will take advantage of the cheaper share prices then on offer. Using annual ISA and pension allowances may encourage a certain amount of regular investment. As always, we are here to advise you.

Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances. Past performance is not a reliable guide to future performance. The value of investments can go down as well as up and you may not get back the amount you invested.



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Financial planning: get ready for 2016

The coming year will be marked by many changes that could affect your personal finances.

The first year after a general election is often the time when major reforms take effect, especially those which create losers as well as winners. 2016 will be no exception.

State pensions 6 April will see the new single-tier state pension start. Its initial level will be £151.25 a week (in 2015/16 terms), but complex transitional measures mean that only 37% of those reaching State pension age in 2016/17 will receive the full single-tier pension. By 2035 the proportion will rise to 80%.

Support for mortgage interest (SMI)

SMI meets interest costs on mortgages of up to £200,000 if you claim certain benefits (e.g. income-related Employment Support Allowance during illness). At present SMI is payable following a 13-week waiting period after an appropriate benefit claim has started. From 1 April 2016 that period will revert to its pre-recession timescale of 39 weeks and two years later the basis of the system will change from a government payment to government loan.

Pension tax changes There are cuts to the two main pension tax allowances due on 6 April 2016, assuming that something more dramatic does not happen to the pension tax rules in the Autumn Statement on



25 November 2015. The lifetime allowance will be cut a third time, bringing it down to £1m. At current annuity rates that would buy a 65-year old an inflation-protected pension of no more than about £2,750 a month (before tax). The new rules for phasing down the annual allowance for high earners to a minimum of £10,000 will start at the same time.

It will be possible to claim transitional protection from the lifetime allowance cut, but the final details will not emerge until after the reduction has occurred.

Please contact us now for advice on how these changes – plus the reforms to the taxation of dividends and interest – could affect you and the actions you should be considering now.

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If you own property in another EU country, then you may want to review your will in the light of a change to EU regulations which took effect in August. These allow you to choose for your overseas property to be inherited under the laws applying in your country of 'habitual residence' or nationality, rather than where the property is located. This could be important if, for example, you own a property in France which has strict forced heirship rules. However, the new EU rules do not alter the tax rules which apply, so your executors will still have to deal with inheritance tax and its overseas equivalent.

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HMRC continues its winning streak

The taxman has clawed back £1,000,000,000 of tax from its latest crackdown.

Last year, HM Revenue & Customs (HMRC) gained new powers to demand that users of many tax avoidance schemes pay tax up front. This was a complete reversal of what previously happened, where scheme users would withhold any disputed tax payment until the protracted legal process had run its course.

In August 2014, HMRC started to issue notices to scheme users seeking "accelerated payment" of disputed tax. Thirteen months later HMRC

announced they had sent out over 25,000 notices and collected £1bn. By March 2020 HMRC is expecting to have issued 64,000 notices and brought forward £5.5bn of tax payments.

Not surprisingly there have been legal challenges. Two film scheme users went to the High Court seeking a Judicial Review, but their case was rejected in late July. As the end of the tax year nears, HMRC's success is a reminder that

when it comes to tax planning, there is much to be said for using tried-and-tested plans rather than the more 'exciting', aggressive schemes. Get in touch with us if you need guidance.

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How long does your pension have to last?

Pension flexibility means not having to buy an annuity, but how long will your pension fund have to last?

The Office for National Statistics (ONS) website has a calculator that estimates how long your pension will need to last (<http://visual.ons.gov.uk/how-long-will-my-pension-need-to-last/>). Enter your current age and gender and an estimate of your life expectancy will pop up. The results may surprise you, along with some other information as you scroll down the page.

For example, for someone who is 50 years-old today, life expectancy is 86 years for a man and 89 years for a woman, but there is a 1 in 4 chance of the man living until age 95, the woman to age 98, and 12.3% chance of the man living to 100, 18.9% for the woman.

That data for a 50 year-old man can be reinterpreted as saying there is a one in four chance that his pension fund will have to last for at least 28 years rather than his life expectancy-based 19 years – almost half as long again.

The danger of running out of pension fund before you run out of life has a flip side: the risk that too cautious an approach leaves you running out of



life before your pension fund expires. Given the favourable tax treatment of death benefits, this may seem a less important risk, but what it means is that you could have spent more in retirement and enjoyed a better standard of living rather than leaving a larger inheritance.

It is at this stage you may be wondering why nobody has invented a simple investment that is designed to last as long as you do, however long that is. In fact, the product does exist – an annuity. Perhaps that explains why at retirement some people are favouring a combination of fund

withdrawals and an annuity, to give an element of life long income security.

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Just how important is China?

China's stock market and economy have dominated investment headlines recently. Is China *that* significant among emerging markets and what are the options for investments in China and the Far East?

China is the second largest economy in the world with a gross domestic product (GDP) at least three times that of the United States. However, China is now faltering and is dragging down the countries that depend on it with potentially worrying effects for international activity in general.

Bailing the rest of us out

As one economist has put it, for some years now China has bailed the rest of us out. It has taken the position of global consumer of last resort and has propped up slower growing economies through its demand for goods and services.

However China has now itself slowed down and it's the emerging markets which will feel the brunt of this. Amongst the developed economies, Japan is most affected due to the nature of its close trade links to China, although as one of the world's leading exporters, Germany is not far behind.

Opportunities

These profound changes are presenting opportunities for investors. China is allowing greater foreign participation in its economy and becoming better integrated into the global financial system generally. This presents a wealth of opportunities for investors who are prepared to take a long-term time horizon.

A volatile market

At present, Chinese domestic retail investors dominate China's stock markets. This has created substantial volatility as they tend to react more strongly to market sentiment. China's heavy industry and state owned enterprises are a drag on Chinese and global activity, but to solely focus on them is to ignore the more dynamic service and property sectors which represent about two-thirds of activity.

The options for investment

Whilst there is a case for long-term investors to

consider moving money to those regions at this time, it must be done carefully and possibly the best approach is to do so in stages.

International research group Morningstar currently prefers funds from Fidelity, First State and Schroders in their portfolio selections for this region and Fidelity, JPMorgan and M&G for emerging markets generally.

Those using portfolios or multi-manager funds may already have some exposure to these regions depending on the risk-rating being applied.

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New year cover review time

Do any changes to your circumstances in 2015 mean that your life and health cover needs adjusting? The first thing is to establish your stage of life.

Young, single with no children – life insurance may not be a high priority at this stage. Your biggest need may be to protect your income in the event that you suffer a disability. The premium rates are low and well worth investigating.

Young with partner and no children – life insurance is necessary to cover your mortgage and other debts plus a sum to give your spouse or partner time to readjust in the event of your death. It is easy to overestimate the cost of life insurance. Income protection and critical illness are also necessary. If you and your partner have chosen not to marry, do not assume that the proceeds of any life insurance will go to your partner by default. You will need to arrange third party cover or put a life insurance policy in trust.

Young with partner and children – your priority is likely to be provision of sufficient life insurance cover to replace your income until

your children are no longer dependent. There are special life insurance plans which pay a monthly income rather than a single lump sum which are ideal for this.

With partner and older children – apart from the types and levels of protection already mentioned you should not overlook the fact that your spouse or partner will need to meet the cost of university education or perhaps even private school costs for your children. If you are self-employed please make sure that you have sufficient additional life insurance to cover for business debts and expenses.

Divorced or widowed – you should review any life insurance arranged earlier to make sure that it is still appropriate.

Post family/pre-retirement – you may have elderly parents and at the same time your children



may not yet be financially independent. Life and health insurance cover is more expensive but is just as necessary because of those who depend on you.

Retirement – the need for life insurance and health insurance (with the exception of private medical insurance) is diminishing at this stage of life. If you are concerned about inheritance tax then you should investigate taking out a whole of life policy in trust. Many people in this age group will also be looking at funeral expenses. If you are concerned about your cover provision, you should seek advice.



Tax-free childcare should have already been in place, but development was delayed pending a legal challenge claiming the use of outsourced services breached EU procurement law. Existing employer-supported childcare voucher schemes can accept new entrants until the tax-free childcare is launched, and employers will be able to continue with existing schemes as long as they wish. With the new scheme, both parents must be working and, unlike employer-supported childcare, the scheme will be open to self-employed parents. Parents with more than one child and high childcare costs will benefit under the new scheme.

Capital for kids

Tax rules changes are making it easier for parents to invest on behalf of their children.

If you make an investment for your own minor child, the tax rules say that if the income generated in a tax year is more than £100, it is all treated as if it were yours. Although every child has a personal allowance (£10,600 in 2015/16 and £11,000 next tax year), more than £100 of income (if capital is given by one parent and £200 if given by two parents) from parental capital could attract tax at up to 45%. Gifts from anyone else are not caught by the same treatment.

Three pieces of tax reform – one already in being – are resulting in the £100 tax trap becoming less of a problem:

- The £5,000 0% starting rate for savings income, introduced this tax year, can mean that if a child's interest income is assessed

against a parent whose earnings and savings income are less than £15,500 a year, there is no tax to pay.

- In 2016/17 the new personal savings allowance will let every basic rate taxpayer receive up to £1,000 of interest, tax-free and every higher rate taxpayer, £500 of tax-free interest (additional rate taxpayers receive no allowance). So once again, interest income assessed against a parent may still result in 0% tax.
- Next tax year the £5,000 dividend savings allowance will be introduced for all taxpayers. This will mean that if you invest in share-based funds for your children and the dividends exceed £100, then tax

will be nil until your dividend allowance is exhausted. Any dividends in the parents' own right will also be taken into account.

With the new tax year coming up, now could be a good time to think about a present that could have lasting value for your child.

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