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Leaders in Wealth Management

Chartered Financial Planners

Economics and Wealth Management Update

The sun is shining all over the UK today. Spring has sprung and we have begun to think of long hot Summer days. (Would be nice.)

We are in a new Tax Year and, of course, the politicians have their election in just over a fortnight. Unfortunately, the result will be little different to what we have had for a generation.

The primary policies and objectives are agreed by almost all the main parties, namely:

- Zero (in effect) interest rates
- Huge borrowings (from our children) and spending
- Quantitative Easing to support banks, paid for by our children
- High house prices supported by Help To Buy, guaranteed by our children
- Pro EU, big government
- No state funding for smaller parties (perish the thought there should be real competition)
- etc

Nothing major will change. The details will. The minutiae will. Not the big picture. And neither will the big picture change in the global economy

What is the big picture?

Disinflation AKA falling inflation and from a very low level. The UK now has the lowest rate of rises in living costs for 2 generations. As you may recall we have been talking about this for years. When inflation was 5% pa in 2009 we were wondering how sustainable that was. When inflation fell we suggested it would continue to fall. Practically everyone disagreed ... as the UK has 'never' had sustained low inflation. They forgot we were - and still are - in the fallout of the biggest debt bubble in history.
We'll explore this and the potential implications to asset prices - such as property, shares and bonds - in the first link, below. This is extremely important if your and your family's future financial security is predicated on high house prices and/or your investment portfolio.

The oil price - a major contributor to inflation statistics (business and living costs) - has of course crashed. Thus, this is one of the reasons for the lowest inflation in decades. Great for those of us who pay for our fuel etc. Not good for governments and banks, who positively hate the idea that we could be entering deflation AKA falling prices. Hence the Governments and Central Banks are doing whatever they can to have prices rising again. (Go figure.) Yet, with all their efforts - paid for by us of course - they have been singularly failing.

All that money wasted.
AND we don't have the lower business and living costs we would all love to experience.

However, the oil price has been rising for a few weeks. How might this affect portfolios? In late March we increased holdings of Emerging Markets' shares and Global Energy shares. A few days later Royal Dutch Shell bought British Gas. Interesting... Oil is now rising. **We'll look at this in the 2nd link, below.**

Pensions 'Freedom'

You may have heard that, since 6 April 2015, pensions are, in effect, totally flexible for the over 55s. You can do whatever you want with your money. You can do nothing (leave it invested, tax free), draw chunks out tax efficiently as you want income and lump sums, or even draw large lumps out and pay tax, accordingly.

We will explore the issues in the 3rd link, below, as well as a Checklist of **Four Things You Must Do Before Making Any Decision About YOUR Savings.**

There are over 55s who are seriously considering taking out all their pension money - which is currently invested and can grow tax free - to buy property to let out.
In so doing they will incur the following taxes:

- Tax on withdrawing large amounts - perhaps £26,000 tax on withdrawing the first £100,000*.
- Stamp Duty tax to buy the property.
- Value Added Tax on fees, maintenance and repairs.
- Income tax on rental profits.
- Capital Gains Tax on the eventual sale profit, if somehow there is a capital gain (how likely is that AFTER 30+ years of somewhat remarkable gains?).

So, tax free growth to taxes everywhere. Yet some will do this. Truly.

(* £25k tax free cash, 20% tax on £20k and 40% on the remainder, as example.)

Then, there's the simple bloated valuations on house prices, on top of the taxes that investors need to stump up. Yet people don't see the huge risks. Only the past performance. Hmmm...

Gross rents can appear high, especially with Housing Benefits, but the costs of upkeep, insurance, letting agents, never mind time, are all too often forgotten about by the new Buy-To-Letter (BTLer).

1. BTLers are not considering the potential consequences of another global economic shock a la 2008. To their financial peril in our view.
2. Labour and Conservative and Conservative-led Governments of the last 25 years have done everything they could to bring and then keep house prices up.

If this at all concerns you, you should read the 4th link, below, as we explore what is actually happening in the housing market and the fact that, outside Greater London, prices are back to where they were in 2004/05. You read right. Also, in London, prices have been falling for several months and this will soon feed through to annual indices.

The bubble is taking a looooong time to burst and governments/central banks are the sole reason for the delay due to their interventions. To us, it is a delay, not likely permanence.

Finally, we shall look at the Greek stock market in the 5th link. Why on Earth is that of interest? It's a basket-case isn't it? Exactly. Nobody wants to own it. This is why it's collapsed some 90-95% over the last 15 years. The potential is outstanding, given a little patience. And we have a lot of that for the right opportunities.

Our investment philosophy has essentially two strands which inform our recommendations, namely:

1. That the West is in an era of Disinflation (surely not disputable) and may be heading towards Deflation and
2. We continue to seek out quality assets at severely depressed prices, collapsed even. We have a natural aversion to assets which have already soared in price.

If you prefer to invest in assets which have soared (or be invested in these) then you may wish to reconsider your strategies of **preserving and growing** your wealth.

What should YOU do to secure your wealth? We urge you to speak to us.

Don’t put it off till it’s self-evidently too late.

Can you benefit potentially from our advice? We work for wealthy to very wealthy families (£300k to £25m of financial assets) and/or high earners and trusts. We work for clients all over the UK and indeed on three continents.

Our most important and most often repeated philosophy is (as seen widely on our website): “We advise you based on what we would do, were we in your shoes, given what we know”.

Call me personally to see how we can help.

I welcome your feedback and if you have any queries over any of the issues raised, do not hesitate to get in touch with me by clicking ***jdavis@jonathandaviswm.com***.

You can forward this newsletter to a friend ***here*** if there is any information you think would be beneficial to them.

Kind Regards

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Managing Director

Read more below

The effects of Disinflation on house prices and Pension/ISA etc investment portfolios

Forget the past when interest rates and inflation fell. Consider the future as interest rates and inflation are most unlikely to fall further.

read more

Oil and how we're making strong returns on Energy and related shares

The price of oil, on global markets, is up about a THIRD since just last month!

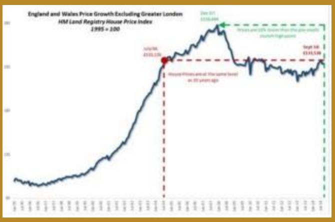
read more

Pensions Freedoms

What's it all about and what should I be thinking about?

read more

Housing market in focus



They can never slash interest rates again. Thus the next Recession will turn Depressionary.
What will happen to house prices in a 1930s style Depression?

There are 41,000 homes being built in London to be marketed at over £1m. However, in 2014 only 3,000 homes were sold for more than a million pounds.

read more

Greece

This market is down 90-95% since 2000.

Yet the economy is strengthening.

read more

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Please note that investments can fall as well as rise. And they do!