NEWS & VIEWS

Autumn 2013

REVIEW YOUR PORTFOLIO

Once a financial plan has been put in place, it is tempting to believe the paperwork can simply be tucked away in a drawer and forgotten. However, like a well-kept garden, a financial plan needs regular tending to help it thrive. What should a financial health-check comprise?

A financial review will first look at whether an individual's goals – to retire at 60, say, or to fund school fees – have changed, perhaps following the birth of another child or a change of job. It should consider any need to save more or to switch to different types of investments to achieve the set goals. A review will also look at an investor's progress towards their goals and examine whether their investments are performing in line with expectations. Fund managers, for example, will have good and bad periods but your financial adviser will be able to judge whether this is expected or a sign of a deeper problem.

A portfolio will also need to be tweaked according to the wider economic environment. The 2008 financial crisis changed the investment landscape – for example, the low interest rates that have followed mean income-seekers have had to work harder to achieve the same level of yield. While an event of this magnitude will hopefully not repeat itself in the short term, it highlights the importance of regular reviews and ensuring your financial plan continues to be appropriate.

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TAX EFFICIENT OPTIONS

With life expectancy increasing, financial planning is becoming increasingly important. If you are thinking of saving for retirement, you might consider a pension is the best way to achieve your goals but ISAs can also be a useful tool. Pensions and ISAs are taxed differently. Your pension payments will qualify for tax rebates upfront at your highest rate of income tax, but then the income you receive will be taxable. With an ISA, contributions are made out of taxed income but any withdrawals are tax-free. The question is often not whether an ISA or pension is better but how to structure a portfolio using both.

ECONOMIC DATA OFFERS ENCOURAGEMENT

Concerns over the intensifying crisis in Syria dampened investor sentiment during August. Share prices declined and, in particular, volatility in the price of oil affected demand for shares in the energy sector. During August, the FTSE 100 index fell 3.1% while the FTSE 250 index fell 1.7%. By comparison, demand for smaller companies held up relatively well and the FTSE SmallCap index rose 1% over the month.

The UK economy expanded at a stronger-than-expected rate of 0.7% during the second quarter of 2013, stoking hopes the recovery is gaining momentum. The British Chambers of Commerce raised its forecast for growth in the UK economy this year from 0.9% to 1.3%. The organisation also warned that the recovery is “not yet secure”, and pointed to external risks including the eurozone, China and the continuing crisis in the Middle East.

All five leading UK banks: Barclays, Lloyds, RBS, HSBC and Standard Chartered, registered a profit for the first six months of the year for the first time since 2010, according to a report produced by KPMG. However, almost 20% of profits have been absorbed by the ongoing obligation to set money aside against potential liabilities, such as PPI claims.

KPMG warned growth (not only in the banking sector, but also in the broader UK economy), is being hampered by the pace and scale of regulatory reform. The report raised questions about longer-term prospects for competition and choice within the sector and emphasised the need to achieve the right balance “between prudence and growth”.

Equities remained the best-selling asset class in July, with their highest sales since December 2010, according to data from the Investment Management Association. Global equity funds led the field, followed by the UK. UK equity funds achieved net retail sales of £392m during July, compared with a monthly average of -£9m over the previous 12 months.

Demand was primarily driven by investors’ appetite for funds in the UK Equity Income sector, which was the second most popular fund grouping during the month. Elsewhere, UK Smaller Companies was ranked 10th out of a total of 35 sectors. Meanwhile, having experienced a massive swell of demand during June, the mainstream UK All Companies sector dropped down the ranks, although overall net retail sales remained in positive territory.

2013/14 LIMITS FOR ISAS

For the 2013/14 tax year, investors are able to save up to £11,520 in an Isa, which represents a rise of 2.1% over the previous year. The maximum Isas contribution may be invested entirely in a stocks and shares Isa or up to half the amount – £5,760 – can be saved in a cash-only Isa. Investors who choose to put less than that amount in their cash Isa may put the balance of their allowance in a stocks and shares Isa. Do not forget one of the golden rules of Isa investing – if you do not use it, you lose it.