

December 2016

Dear Client

More than one client has recently mentioned the alleged ancient Chinese curse 'may you live in interesting times' during discussions about the political changes that have occurred this year. There is actually no historical record of it prior to a statement made by the then Prime Minister Joseph Chamberlain in 1898, probably relating to the Chinese phrase 'better to be a dog in peaceful times than a human in chaotic ones' (Feng Menglong 1627).

My last newsletter followed the Brexit vote in June. Since then, most client portfolios have seen increases in value as large UK companies and global stocks have benefitted from the fall in sterling. The longer term effects will not be known for some time, but we are already seeing inflation increase, particularly for food, while interest rates remain very low.

We now have the Trump effect to take into account. Stock markets have been remarkably resilient since the US election, but fixed income stocks have seen increases in yields as a result of capital values falling. The expectation is that the Federal Reserve will raise US interest rates in December and possibly 3 or 4 times next year, but we have been in this situation already this year and been disappointed.

We are still awaiting confirmation of some of President Elect Trump's new appointees and policies. We have, however, already seen a watering down of some of the more controversial pre election promises and expect the Republican Party to maintain some control about which others actually come into force. The Brexit negotiations will take more than two years to be completed, assuming that Parliament passes an act confirming that it will even go ahead.

The Autumn Statement delivered by Chancellor Hammond turned out to be more of a damp squib than a major policy statement. The reduction in the Money Purchase Annual Allowance to £4,000 from 6<sup>th</sup> April 2017 will affect those who have accessed their pensions by way of Flexi-Access Drawdown or Uncrystallised Funds Pension Lump Sum, but no other major changes directly affecting our client portfolios were included.

We now know that the Lifetime ISA (LISA) will come into force on 6<sup>th</sup> April 2017. This is available for individuals aged 18-40 at outset and allows a maximum contribution of £4,000 per annum up to age 50. Each contribution will also receive a 25% top up from the Government. The LISA can only be accessed to purchase a first property or provide retirement income, otherwise significant penalties are applied. Otherwise, the overall ISA allowance rises to £20,000 for the 2017/18 financial year, and the LISA allowance can form part of this for those who are eligible.

For Inheritance Tax (IHT), the Residential Nil Rate Band also comes into effect on 6<sup>th</sup> April 2017. This allows homeowners to offset the first £100,000 of their property value against inheritance tax, as long as their property is left to family members and their total estate is below £2 million, after which £2/£1 taper relief applies. Further increases are due to occur for the following three years until this allowance reaches £175,000 per person and the total amount that can be gifted free of IHT reaches £500,000. For couples, the allowance is doubled. Those that sell their houses to move into retirement properties or residential care are still able to include the value of their former home when calculating the allowance.

Global stock and fixed income markets are likely to be volatile in the short term, particularly with elections in France, Germany, Hungary and the Netherlands before the end of 2017. The Austrian Presidential Election over the weekend saw the far right candidate defeated, but the Italian Referendum 'No' vote resulted in the resignation of Prime Minister Renzi. The immediate impact is a reduction in the value of the Euro, while major European stock markets, including the FT-SE 100, have risen. The longer term effect is likely to be more uncertainty while the Eurozone adjusts again. I am also certain that the subject of Greek debt and how it will ever be repaid will resurface again over the next few months. The resignation of John Key as New Zealand's Prime Minister is likely to have less effect on your portfolio.

Our strategy of providing defensively positioned highly diversified portfolios becomes even more important during periods such as these. We continue to target returns in excess of cash and inflation for our clients' portfolios and know that they will not keep up with rapidly increasing stock markets. However, we also expect that clients will not be fully exposed to the downturn that will inevitably follow. Since the majority of our clients are in retirement, we are far more concerned about protecting what you already have than trying to achieve market beating returns with the inherent risk that strategy involves. We continue to hold higher cash balances than usual, as has been the case since the spring of 2015, so have the capacity to invest in low charging tracker funds should markets fall significantly, thereby benefitting from any future recovery.

Finally, some important news about Altorfer and our strategy for the next ten years. As many of you know, Roger Taylor stepped down from his role as Managing Director in the summer of 2015 and has since been a non-executive director of the company, still owning all of the shares. However, back in 2007, Roger put in place a scheme whereby ownership of the majority of his shares would pass to the staff and this scheme matures early next year. This means that almost all of the staff will have a share in the company, thereby further aligning our interests with those of you, our clients. It should also result in even lower staff turnover than we have seen over the past ten years.

Last but not least, I would like to take this opportunity to wish you and your families a very Merry Christmas and a Happy New Year. I am sure that 2017 will throw up some interesting times; has there ever been a year that hasn't?

Kind regards

A handwritten signature in black ink, appearing to read 'Daniel Wackett', with a stylized flourish at the end.

Daniel Wackett  
Managing Director  
Altorfer Financial Management Ltd