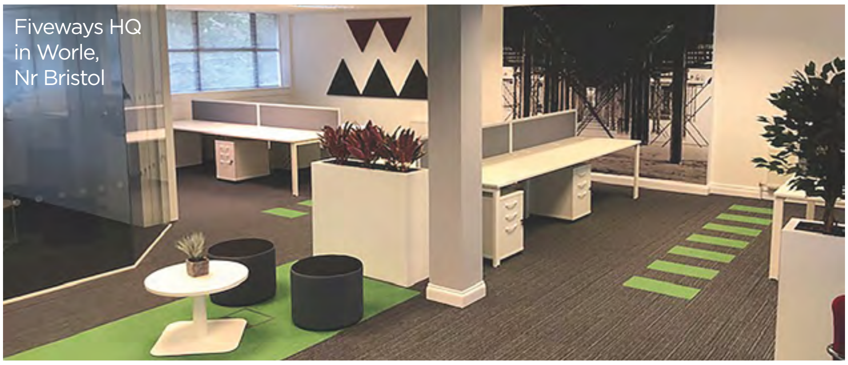
FIVEWAYS FINANCIAL PLANNING

Autumn 2020

FINANCEMINISTER

YOUR JOURNEY OUR GUIDANCE

Making our office safe for meetings



Fiveways HQ in Worle, Nr Bristol

We were preparing to reopen our office for client meetings just before the latest restrictions on social interactions were announced by the government. Though we have shelved those plans for the moment, we thought it would be useful if we spelt out just how we plan to make it as safe as possible to hold a meeting with your adviser in our office.

This is more important now, because while some of our advisers have held meetings with clients outside their homes over the summer, this will not be possible during the colder months ahead. Our policy has been to hold face-to-face meetings only when it is critical to the provision of advice or its urgent implementation, and this will for the time being apply to in-office meetings as well.

The single most important safety precaution is that we will only hold client meetings on our premises in the large meeting room upstairs. This accommodates up to 15 people in normal times, so there is plenty of room and staying 2 metres apart will be easy. It has plenty of windows that open (designers have discovered the disadvantages of offices with permanently closed windows!) so we can also ensure good ventilation.

You may already have come across the 'safe entry' routine being adopted by many businesses, and this is the model we will follow. We'll ask you to phone us when you arrive in your car and your adviser will come out to meet you. They will take your temperature with our 'temperature gun' and ask you complete the standard COVID-19 questionnaire. Your adviser will then escort you into the office, with hand sanitiser en route.

While we are concerned to keep you safe, we must also fulfil our duty of care to our staff. So we regret that we cannot allow you to use the toilet facilities. Nor will we provide you with tea, coffee or biscuits, just a fresh bottle of mineral water.

The table and chairs in the office will be cleaned after every meeting. The surfaces in the common areas, such as banisters in the stairwell, are cleaned several times each day. Any documents that pass between you and your adviser will be wiped down with sanitiser first.

It looks as if these elaborate measures will be needed for quite some time, at least until Spring 2021. While most clients have accepted the necessity of 'remote' meetings, we know that some of you would prefer the 'real life' version and we will do our best to provide this opportunity as soon as we can.

Is this a house price bubble?

At the start of 2020, many commentators predicted flat or slightly declining house prices over the year as we waited to see what kind of Brexit trade deal the government struck with the EU. When the pandemic struck and we entered lockdown, the consensus was that prices would fall. Yet as soon as the market opened up in July, when viewings and transactions were permitted again, prices started to rise and in some areas it seems they have risen quite strongly.

One factor is obviously pent-up demand from people who wanted to buy or sell but could do nothing during lockdown. Another is the Stamp Duty holiday announced the Chancellor in July: no Stamp Duty is payable on any purchase of a home for under £500,000, which represents a £15,000 saving at the £500,000 upper threshold.

Unfortunately, the people in most need of help - first time buyers (FTBs) - benefit least, because no stamp duty was paid on purchases under £125,000 in any case. So FTB savings are quite modest - no more than £2,000. But they have also been hit by a tightening of credit conditions. Banks have withdrawn 95% Loan-To-Value mortgages and made their 90% LTV mortgages more expensive, or require a larger deposit, or both. A sharp rise in the proportion of purchases being made for cash shows it is people with one or more properties already who are benefiting from the tax holiday.

Already many leading agents are worrying that prices will drop sharply when the Stamp Duty holiday ends next March, and they and the housebuilders are lobbying the Chancellor hard for an extension of the tax break.

Historically, periods of sharply rising unemployment have often been followed by declining house prices, and a considerable degree of optimism seems to be required to bet against this happening in 2021.

Savers will be hammered by huge reductions in NS&I interest rates

National Savings & Investments announced huge cuts in interest rates on all its products effective from November 2020.

The COVID crisis saw stock markets lurch down in March, but interest rates paid on deposit accounts, including National Savings & Investments, remained unchanged. However, the Bank of England has made it clear that because of the economic slump caused by the virus, official interest rates will remain at near zero for the foreseeable future. And the Treasury, which controls NS&I, has told it to stop pulling in new money – so its interest rates have been slashed.

For many products, these interest rates will be the lowest ever paid by NS&I. And, after a period when NS&I rates were higher than those paid by most major banks, from November NS&I rates will be below the deposit rates paid by the likes of HSBC and Lloyds. Both Income Bonds and the Investment Account will now pay a mere 0.01% annual interest, which for most savers means no interest at all.

But the obvious answer - switching to a bank account – is unlikely to work. The rates paid by the banks probably won't stay above NS&I rates for long. The banks are likely to respond to NS&I's move shortly by cutting their own deposit rates. They don't need to pay investors to attract deposits when they can borrow at almost no cost in the money markets or from the Bank of England. We guess that once the banks' rate cuts happen, you may get at best 0.5% a year from a safe bank deposit account.

What can savers do to get any return on their money? The answer is that they will not be able to do so with safe and secure bank deposits.

We recommend that you discuss your options with one of our advisers. There are some lower-risk funds that could generate annual returns of around 3% over a period of 3-5 years, albeit without the instant access you get with deposits. But whatever you do, we urge you not to respond to adverts and promotions for high-interest products, which are all too likely to be highly risky or fraudulent.

How NS&I rates will fall

	Interest rate now	From 2020 November
Premium Bonds	1.40%	1%
Income Bonds	1.15%	0.01%
Direct ISA	0.9%	0.1%
Investment account	0.8%	0.01%

Don't click on that ad!

The internet has made fraudulent and risky investment promotion a lot easier. Advertisers can target their ads at older people with above average wealth - you can be selected on the basis of your postcode, age and value of house, as well as on the likelihood of your responding based on your behaviour with other advertisements. The latest plunge in interest rates (see the item on National Savings & Investments) will probably result in even more dodgy promotions.

There are two types of investment we think you should steer clear of: the mates-in-the-pub (or other social group) and the apparently worthy (green, environmental, etc).

As an example of the 'mates' promotion, we recently spoke to a friend of a client who had invested over £100,000 in a 'currency trading scheme' that promised returns of 8% a month on the recommendation of a friend. He invested an initial £10,000 and got his 8% for a few months. But soon after he invested a lot more, the payments stopped and it looks as if he will never get his capital back.

It is true that at FiveWays we have suspicious minds. That is because we have seen so many dodgy schemes promoted over the years. We have learnt that if it looks too good to be true, it almost invariably is too good to be true. After all, if interest rates are 0.5%, how can you get 8% a year without risk?

The first question we ask is: Is this investment properly regulated? In the case of the 'mini-bonds' promoted by London & Capital in 2012, the answer was No. The companies were regulated by the FCA, but the specific investment schemes they promoted, in which investors lost over £300 million, were not. A dismal failure of regulation, you may conclude, and we agree. But we have learnt that you simply have to study the small print, since as Bishop Fulton J Sheen observed: "The big print giveth, and the small print taketh away."

The arrival of many socially responsible and 'green' investments is another matter. Most of these are legitimate; many of the offers are for fixed term loans to finance renewable energy schemes. The problem with these is that they are not protected under the Investor Compensation Scheme. If for whatever reason the scheme fails, you may get nothing back. It is like lending money to any small new enterprise: it is risky, which is why these loans come with high interest rates of up to 7%. But unless you are skilled in reading company prospectuses and accounts, you will find it hard to work out the true level of risk.

If you are considering what seem to be attractive offers, please do ask us for our view before parting with any money.

National Poetry Day on October 1st saw Santander team up with poets including the redoubtable Pam Ayres to make people more aware of financial scams. Here is Pam's ditty:

Have you got some money? Are you getting on, like me?
Are you heading for retirement? Being wild and free?
Are you looking for investments? Somewhere canny for your cash?
Be careful. There are fraudsters who will steal it in a flash.
They are thieving people's savings, taking everything they've got.
Especially the older folk who've got a pension pot.
They do not stalk the foolish, no, that isn't what they do,
They target able, well-researched investors. Just like you.

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No Budget amid ongoing crisis

Earlier this year, rumours started to circulate about the possible tax increases that would be needed to pay back the huge sums the government was spending to prevent COVID-19 crashing the economy. But the recent upturn in the number of infections and hospitalisations has again forced the Chancellor's hand. He cancelled the Budget and instead announced a third set of measures to support the economy.

The Autumn Budget is when the Chancellor normally gives details of plans for government revenues and spending. Instead on September 24th Mr Sunak announced a further package of measures to prevent the sharp rise in unemployment that was widely predicted to follow the end of the Furlough scheme in October.

The new Job Support package enables employers to keep on employees on a part-time basis. Provided they work at least a third of their normal hours - for which the employer must pay them – then the Treasury and the employer will pay a third each of the remaining former earnings. The result is that the employee will get 77% of their previous pay, not far short of the rate under the Furlough scheme. But because the new scheme gives a government subsidy of just 22% of the employee's earnings, it will still result in widespread redundancies for people whose employers have no work for them and cannot afford to pay anything. The employer is, after all, committed to paying 55% of the wage for a third of the normal hours worked.

Large redundancies are expected for many businesses in the hospitality sector. Overall, the expected cost of the scheme - between £500 million and £1 billion per month, less than a quarter of the cost of the previous Furlough scheme - suggests that relatively few employers will use it on a big scale, and very large businesses are excluded from it in any case.

The self-employed will get a similar package, again with only a 20% government subsidy. And small businesses that have taken bounce-back loans will be able to extend the repayments from six up to ten years, while businesses that had deferred VAT payments until next January will be able to spread the payments over the 11 months starting next March. The cut in VAT from 15% to 5% for the hospitality sector, originally due to expire in January, will continue until the end of March 2021.

Altogether the latest package of measures carries a cost of around £10 billion, so it is small potatoes in the context of the overall cost of the pandemic to the UK so far - £210 billion and rising. And the relatively small size of the package has led some analysts to conclude that Mr Sunak is keeping some powder dry so that he can return with further measures if there is a bigger wave of redundances and unemployment than the Treasury currently expects. This might have to fill a large gap in the schemes announced so far: the low level of state benefits and absence of support for 'back-to-work' schemes. In any case, Mr Sunak can defer until next Spring the thorny issue of the tax increases required to balance the government's books.

Costs keep rising...

The National Audit Office is keeping track of the government's COVID-related spending. Before the announcement on September 24th, it reckoned the cost for the first 6 months of 2020 was £210 billion, of which the Furlough scheme was the biggest component and accounted for £47bn.

The NAO identified 190 separate measures and the latest announcements added a dozen more. Government borrowing, originally forecast at under £50bn this year, is set to top £320bn to leave national debt at its highest-ever peacetime level.

Saving tax in retirement

The latest addition to our online videos is one explaining how managing assets in retirement can result in saving tens of thousands of pounds in tax. Starting from the principle that tax is always more complicated than you think, Chris Gilchrist and Charlie Lane explain how managing the sequence of withdrawals of income and capital from ordinary savings, ISAs and pensions can lower tax bills and increase the net returns you earn on your capital.
You can find the video on the news section of the FiveWays website: www.fivewaysfp.co.uk.

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Nervous but hopeful

The stock market sell-off in March 2020 was one of the strangest ever. The slump, the most rapid ever witnessed since 1929, seemed to be saying there was economic ruin ahead because of the pandemic - yet within a month the major stock market indices roared back up to close to where they were in January. Only the UK stock market index remains depressed, partly because of our worse-than-average pandemic experience but also partly in anticipation of a worse-than-expected Brexit trade deal.

To most people's surprise, companies' earnings have so far fallen by less than analysts expected. Probably this is partly due to the support measures governments have introduced, which have meant that companies have not yet incurred big redundancy bills. That could still happen, and looks very likely to in sectors like hospitality, travel and tourism.

The US market in particular has benefited from having giant businesses like Apple, Alphabet (Google), Microsoft and Amazon which have actually benefited from the pandemic. Meanwhile the Chinese stock market has soared as its control of the pandemic has resulted in a much more rapid economic recovery than anyone anticipated.

Against this background, most client portfolios have done creditably. We illustrate one, the Balanced portfolio run by Parmenion, which fell by less in the crisis but has recovered better after it than the UK market index.

Balanced portfolio

A = Parmenion New Balanced 22/07/2020 TR in GB
B = FTSE All Share TR in GB

Important Information

None of the comments in this newsletter are recommendations for any specific investment. We will only make investment recommendations based on the personal circumstances of clients. The prices of investments may fall and you may not get back the amounts invested. Past performance is no guide to the future. The levels of taxation may change and the value of reliefs and allowances depend on the personal circumstances.

Fiveways Financial Planning, 504 Park Way, Worle, Weston Super Mare, North Somerset BS22 6WA
Tel: 01934 511511 Email: info@fivewaysfp.co.uk
www.fivewaysfp.co.uk

A market of winners and losers

But 2020 has also seen an almost unprecedented divergence between winners and losers: the winners being online retailers and tech stocks, the losers being businesses involved in travel and leisure. At the start of 2020, we guarantee that not a single person would have predicted that Rolls-Royce shares would be down by over 60% within six months.

Stock or fund	Sector	Share price Gain/loss*
Tesco	Supermarkets	-3.3%
Marstons	Pubs	-41.9%
Carnival	Cruise ships	-56.5%
Cineworld	Cinemas	-56.7%
Rolls-Royce	Aircraft engines	-66.4%
National Express	Coaches and buses	-71.3%
Winners		
Hermes Global Emerging Markets	Fund	+9.3%
AXA Framlington Health	Fund	+16.9%
Games Workshop	Fantasy games	+45.1%
BlackRock Gold & General	Fund	+50.4%
Amazon	Online retail	+79.2%
Apple	Mobile phones	+80.1%

- 2 March 2020 to 1 September 2020
- Source: Financial Express

A year of extremes

Rolls Royce Vs Gold

A = Black Rock - Gold & General D Accin GB
B = LSE Equities - Rolls Royce Holdings PLC

From the beginning of March to the end of September 2020, Roll-Royce shares fell by over 60%, while the unit price of the BlackRock Gold & General fund rose by over 40%. RR's 'rental' model – its profits come not from the sale of engines but from servicing them – left it defenceless against a collapse in air travel. Gold has seen a steady increase in buying by investors fearful of the unknown consequences of the pandemic.

We believe that in this kind of market it makes even more sense to use actively managed funds, where managers do not just 'buy the market' but try to avoid losers and pick winners. The discretionary investment managers we use hold mainly actively managed funds run by managers with years of experience. We think they will prove their worth in what looks likely to be a tricky year ahead.