

# FINANCIAL AFFAIRS

A lot has been going on in the world of financial advice, here are some of the key updates we thought you might find of interest.

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## Warren Buffett Wins His Bet

In 2007, Warren Buffett bet a million dollars that an index fund would outperform a collection of hedge funds over the course of 10 years. This week he won that bet, but the big winner in the wager is a charity called Girls Inc.

When he placed the bet a decade ago Buffett said he would hand over any proceeds from the victory to charity. The Wall Street Journal reports that the charity he chose was his local Girls Inc. affiliate. The charity provides after-school care as well as summer programmes for girls aged 5 - 18.

Buffett officially “won” the wager on Friday, but said that throughout 2017 he was confident he would win. Over the course of the bet the S&P 500 index fund returned 7.1% compounded annually, significantly more than the basket of funds selected by an asset manager at Protégé Partners. That basket only returned an average of 2.2%.

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## Managed Funds Cannot Hack It

Unsurprisingly we find this kind of research very difficult to come by. The following table shows the percentage of managed funds which **underperformed** the index over a 5 year period.

% of Fund Managers Underperforming 1999 to 2013	
(Includes funds wound up)	
Sector	%
Global Equity	83.00%
UK Equity	65.00%
European Equity	78.00%
Eurozone Equity	82.00%
US Equity	80.00%
Emerging Markets Equity	75.00%
Global Bonds	82.00%
GBP Diversified Bonds	79.00%
GBP Government Bonds	92.00%
Euro Diversified Bonds	99.00%
USD Diversified Bonds	99.00%

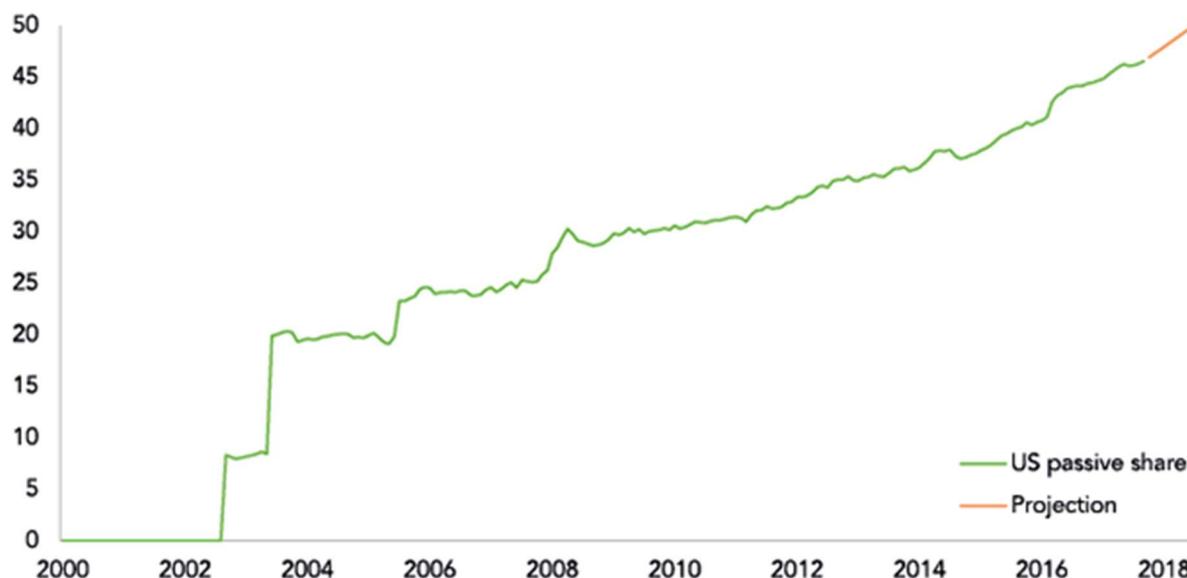
What is unusual about the statistics is that it includes active funds which are wound up. A very common “trick” from managers is to wind up underperforming funds, or merge them into better performing funds to avoid having to add bad performance to the statistics.

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## The Rise & Rise Of Passive Investing

There will soon be more passively managed assets than actively managed – what could this mean?

Share of US assets under management which are managed on a passive basis:



Source: EPFR Global, Bernstein

Soon, for the first time ever, there will be more money managed passively than actively in the US. The rest of the world is not far behind.

The question is, if we do indeed become a predominately passive based investment industry then how will the markets remain efficient? If the active traders maintain their efforts to create an efficient market might we lose that?

This is an interesting perspective, however, with 90% of investment returns being from asset allocation rather than stock picking we do not think it is a big issue at this time.

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## What Affects The Markets?

A recent investment conference listed the following:

### Cyclical Trends

I.e. the economic cycle, which is usually 7 years in duration.

### Monetary Policy

As we have seen since 2008 when the government has held back on expenditure at the expense of living standards or, indeed, the reverse being the profligate government spending beforehand.

### Structural and Demographic Changes

The digital revolution, the drop in the birth rate and immigration.

### Political Noise and Environment

I.e. Donald Trump's antics.

The point of this presentation was that most of the above was temporary, for those in the market for the long term they cause short term disruption to the longer term growth in world monetary assets.

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## Inheritance Tax To Be Overhauled?

The Chancellor has tasked the Office for Tax Simplification (OTS) to review inheritance tax (IHT) and how it can be made simpler and easier to understand. This is against the backdrop of IHT receipts increasing by 8% to £5.2bn in 2017/18, although this still only accounts for 0.77% of total tax receipts. Meanwhile, inheritance growth has been outstripping IHT receipts by more than four times and there may be more than simplification that the Chancellor has in mind when considering any reforms.

The OTS made a call for evidence early in 2018 and the consultation period closed at the end of June. A report will be published soon that provides an initial evaluation of aspects of the current IHT regime and what this means for taxpayers, HMRC and the Exchequer. It will identify opportunities for simplification of IHT and will include specific simplification recommendations for the Chancellor to consider. The Autumn Budget could well include some of these recommendations. Areas under the microscope include gifts out of normal expenditure, business and agricultural property relief, trust taxation and the relatively new residential nil rate band.

Alongside this review the Resolution Foundation has also published some more extreme recommendations. It believes that the social change arising from the increase in inheritance means the current system of inheritance tax “is not fit to deal with this societal shift. It currently manages the uniquely bad twin feat of being both wildly unpopular and raising very little revenue.” It is recommending scrapping IHT altogether and replacing it with a lifetime gifting allowance of £125,000 per individual, above which tax of 20% would be payable up to £500,000 and 30% above this limit, thereby reducing the marginal rate of tax on wealth transfers significantly while still raising up to £11bn in 2020-21 (compared to the £6bn that the current system is projected to raise).

It is worth noting that the OTS has a good ‘strike rate’ when it comes to having recommendations adopted (more than 50% to date), so we await the Chancellor’s Autumn Budget with interest and a little unease.

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## Civil Partnerships For All

Recently the Supreme Court unanimously ruled in favour of Rebecca Steinfeld, 37, and Charles Keidan, 41, from London. The Court said the Civil Partnership Act 2004 - which only applies to same sex couples - was incompatible with the European Convention on Human Rights.

The Supreme Court found that the inequality amounts to discrimination and a breach of the right to a family life. Whilst this judgement does not mean the government have to change the law, it does make it more likely that the government will now act. Where there is a civil partnership, it means that the couple are entitled to the same legal treatment in terms of inheritance, tax, pensions and next-of-kin arrangements as marriage.

Civil partnerships came into existence in 2004 and the legislation defines them as a 'relationship between two people of the same sex'. When the Marriage (Same Sex Couples) Act 2013 legalised same sex marriage, same sex couples had two options as to how to formalise their relationship in law - marriage or civil partnership, whereas heterosexual couples could only marry.

Since March 2014, same sex couples have been able to choose whether to enter a civil partnership or to marry. This has not been possible for mixed sex couples, which led Ms Steinfeld and Mr Keidan to argue that the law was discriminatory.

How does a civil partnership compare to marriage?

- There are no religious links as there are with marriage.
- A civil partnership carries the same legal and financial protection as marriage.
- Marriage can be associated with patriarchy.

More than 130,000 people have signed an online petition in support of civil partnerships for everyone.

There are around 63,000 couples in civil partnerships in the UK and some 3.3 million co-habiting couples. Whilst a change in the law to enable civil partnership to heterosexual couples may well have been placed firmly on the government's agenda, for the 3.3 million co-habiting couples their legal position remains dicey unless they are able to enter into a civil partnership.

Currently, the law surrounding co-habiting couples is a complicated mess and whilst the government have historically said they will address this, they have failed to do so.

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## How Much Should You Save Towards Later Life?

I came across a really useful (if terrifying) rule of thumb for saving for retirement which is to save half your age. So if you are 20 and save 10% of your income you should have sufficient for a long and happy retirement. By the time you are 30 it is 15%, 40 20% and so on. The problem is with the UK savings rate now at 1.7% nearly everyone will have to work until they drop...

## Provide For Your Loved Ones & Save Tax As Well

STEP is a terrific organisation which is why we always recommend STEP lawyers to assist clients with their estate planning and Will making. At a recent update meeting I attended S11 of the Inheritance Tax Act 1984 was reviewed.

In a nutshell S11 provides for relief from inheritance tax for cash set aside for the maintenance of a dependant. A dependant can include:

- A spouse
- A former spouse (on divorce)
- Child maintenance to age 18 (where not looked after by a parent)
- Maintenance of illegitimate children
- Parents
- Parents-in-law

So if you want to set aside a lump sum in anticipation of your mother-in-law's care home fees, if properly documented this should fall outside your estate for IHT purposes. Speak to your STEP qualified legal adviser or give us a call and we can discuss the principles of the relief and recommend a suitably qualified legal adviser if needed.

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## The Property Alert Register

We came across this recently, although it has been available for some time. The Land Registry are becoming increasingly worried about fraudulent sales of UK property. At its simplest, someone rents a property then pretends to own same, sells it and disappears with the proceeds.

Property Alert is an award winning free property monitoring service aimed at anyone who feels a registered property could be at risk from fraud.

Once you have signed up to the service you will receive email alerts when certain activity occurs on your monitored properties, allowing you to take action if necessary. You do not have to own the property and you can monitor up to 10 homes.

You can sign up here:

<https://propertyalert.landregistry.gov.uk/propertyalert/accountcreation/>

## Transact Goes Mobile

For those tech savvy clients who are always on the move, Transact (the administration system we use for the majority of clients) has launched a mobile website.

Go to: <https://user.transact-online.co.uk/> and follow the mobile website link.

The information and statistics provided in this bulletin have been taken from a number of sources and are available upon request. The figures are approximations and conjecture and should not be relied upon. You should not take action on any comments made herein without a personal consultation and discussion with your financial adviser. Figures given today will change tomorrow. ADLS 03/10/2018.

Investments are subject to market risk, including the possible loss of the money you invest. Bond funds are subject to the risk that an issuer will fail to make payments on time, and that bond prices will decline because of rising interest rates or negative perceptions of an issuer's ability to make payments. Diversification does not ensure a profit or protect against a loss in a declining market. Performance data shown represent past performance, which is not a guarantee of future results. Note that hypothetical illustrations are not exact representations of any particular investment, as you cannot invest directly in an index or fund-group average.

**E.&.O.E**