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INVESTMENT BULLETIN

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UK economic update

Signs of improvement in the UK's economic backdrop may have provided a welcome boost for investor sentiment but there is still a significant way to go before the country's fragile recovery is established. In particular, uncertainty over the future path of monetary policy remains considerable amid concerns over when – and how – policymakers will begin to scale back stimulus measures. Mark Carney – previously governor of the Bank of Canada – took over from Sir Mervyn King as governor of the Bank of England (BoE) on 1 July, triggering a surge in speculation over the future strategy of the UK's central bank. However, in one of his last public statements before standing down, Sir Mervyn King cautioned, "Monetary policy (alone) cannot provide the answer".

Revised calculations from the Office for National Statistics showed the UK did not in fact experience a 'double-dip' recession during the first quarter of 2012. GDP growth between the final quarter of 2011 and the first three months of 2012 was revised from a 0.1% drop to flat, meaning the UK did not suffer a recession (usually defined as two consecutive quarters of negative growth). Nevertheless, the recession of 2008/9 turned out to be more brutal than previously calculated – from peak to trough, the UK economy shrank 7.2%.

The UK's manufacturing sector grew at its fastest pace for 14 months during May, according to Markit and the Chartered Institute of Purchasing & Supply . Activity was boosted by factors including a rise in new orders and successful launches of new products. The consumer sector performed particularly well. New export orders have risen and companies have reported an increase in demand from North America, East Asia, Russia, Germany and France. Meanwhile, a quarterly survey from the British Chambers of Commerce (BCC) showed a continued improvement in business confidence in the UK. Export activity is strengthening, fuelling hopes the UK's economic recovery is gaining traction. The BCC increased its forecast for economic growth during the second quarter of 2013 to 0.6%.

Retail sales rebounded during May, boosted by higher food sales. However, some of the increase can be attributed to heavy discounting activity by retailers. Looking ahead, consumer spending has been tipped to rise by Ernst & Young's respected ITEM Club. Consumer confidence is expected to receive a boost from a recovering property market, increases in income tax personal allowances and a recovery in real incomes.

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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.

Comparing 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.

The painful reality for savers

Years of exceptionally low interest rates may have proved beneficial for many UK borrowers but savers continue to pay the price. Now it turns out the amount of money saved into individual savings accounts (ISAs) during the 2011/12 tax year registered its first annual drop since ISAs were first launched in 1999 .

Investors put aside a total of £53.5bn into ISAs during the 2011/12 tax year, compared with £53.7bn during the previous tax year, and the drop was largely attributable to a decline in the amount invested into cash ISAs. During the tax year in question, the amount of money invested into cash ISAs reached £37.7bn, compared with £38.2bn during the previous year, according to analysis from accountant UHY Hacker Young.

Meanwhile, personal finance website Moneyfacts.co.uk found the number of cash ISA deals – and the average rates available – has dropped dramatically. As of May 2013, 325 variable and fixed-rate cash ISA products were available, compared with 420 in April 2012. Moneyfacts also revealed the average long-term fixed-rate ISA offers 2.41%, compared with a rate of 3.58% in April 2012.

Against the weak economic backdrop of the past few years, the UK government has instigated various measures to encourage banks to lend – and to convince businesses and households to spend – in a bid to boost the economy. However, these measures have done little to encourage individuals to save.

The Bank of England's Quantitative Easing programme has led to a sustained reduction in the rates banks were prepared to offer savers, and this trend is likely to have been exacerbated by the more recent Funding for Lending Scheme. Caught up in an environment of miserly returns and persistent inflationary pressures, households have had little incentive to squirrel away their cash and many have focused instead on reducing their debts.

Nevertheless, it is important to remember the tax advantages of ISAs. All returns – whether income or capital – are free of tax, and the benefits can mount up over the long term. During the 2013/14 tax year, you can save up to £11,520 into an ISA , up to £5,760 of which can be saved into a cash ISA and the watchword is 'use it or lose it' – your annual ISA allowance is only available for a single tax year. In the current climate, however, it has never been more important to shop around for the best rates and to take expert advice.

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.

Introduction to wrap platforms

Effective administration is vital to every business; however, advisers are only too aware that effective administration can make all the difference to the success of their client relationships. With this in mind, it is worth taking a look at wrap platforms.

A wrap platform is an online administrative operation that helps to perform the administrative function carried out by the financial adviser. Instead of holding different investments with different fund management houses, investors can buy, sell and manage a range of investments and funds through a single centralised service. A fully comprehensive wrap platform can reap significant benefits for advisers as well as their clients, as it can help to control costs, reduce the amount of time spent on administration and allow advisers to manage their clients' portfolios more efficiently.

An element of controversy currently surrounds wrap platforms – in particular, the Financial Services Authority has highlighted what it believes to be a lack of clarity over what constitutes a true wrap platform. Moreover, the regulator believes that, in order to act in their clients' best interests, advisers are obliged to consider all product types, which might lead them to use another platform or to invest off-platform.

Of course, different customers require different products and services, so it is vital advisers choose the most appropriate wrap platform for their business.
Not suitable for clients with small amounts of AUM, low tolerance to risk, clients who don't want an ongoing relationship with their adviser or who are investing short-term.

Building a core investment

A core investment is a holding (or series of holdings) designed to offer some predictability at the centre of your portfolio. The theory is that this majority segment remains constant for the longer term, allowing you to follow medium-term or higher-risk strategies with the balance.
Depending on your specific attitude to risk, the core is invested in what you would consider mainstream funds and assets, offering diversification and stable, lower-risk returns. This is then supplemented by a satellite strategy, where a smaller percentage of your portfolio focuses on more specialised areas, perhaps sector funds, smaller companies, overseas or even emerging market stocks.

The most common mistakes

We are all human and we all make mistakes. But for investors those mistakes cost money. However, knowing the most common pitfalls can help you learn from the mistakes of others and avoid losing out. For example, following the herd can be a recipe for disaster – remember when people piled into dotcoms in the late 1990s? Also, don't panic on a downturn. Selling out without serious reason will crystallise a loss and you may miss out on a rebound. Finally, never chase a quick profit, thinking you can time the market – this is no different to gambling on horses. Investment is a long-term game and requires planning. Any other approach makes it a highly risky business.

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