What the Papers Say

This is the latest in a regular series of summaries where we look to review some of the main articles written in the financial sections of the Sunday papers.

These articles often cover issues that are important to our personal financial well-being and we hope that the summaries will provide you with information and ideas that will be of interest to you.

If you would like to discuss any of the issues raised within these summaries or any other financial planning issue, please do contact our wealth management division on 01204 414243.

"See which way the wind blows but beware of fads"

The Sunday Telegraph

For the next four weeks The Sunday Times will be looking at thematic investing where the aim is to profit from long term global trends. Fidelity Worldwide Investment describes this as a two stage process including:

- "Broad macroeconomic, technological, environmental or social themes"
- "Suitable high quality shares that fit with the big picture"

However, with some theme based approaches it can simply result in following a trend which could result in a costly mistake. For example, technology investing in the late 1990s and as can be seen in the next article reviewed, potentially green energy.

Thematic investing is best for those with a long term horizon, Tom Stevenson of Fidelity Worldwide Investment points to four funds: Liontrust Macro Equity Income, Sarasin Food & Agriculture Opportunities, EdenTree Amity UK and Newton Global Income. These funds have a focus on various areas of the market including financial services, healthcare, agricultural resources such as food, ethical and socially responsible investing and global investment themes.

It is important to remember that portfolios need to be diversified and investments should be within your risk profile. Whilst the inclusion of specialist and focused funds can add value and diversity they should generally be viewed as satellite funds to a core investment strategy.

"Blow to investors in solar power"

The Sunday Telegraph

Following on from the previous article, one such "theme", solar power has come under attack with the subsidies for green energy being cut.

Savers were attracted to the sector through the generous incentives available to boost the use of green energy, such as solar panels. Investment experts have warned that investors in these types of areas are at the whim of politicians who can change the rules without warning. For example, renewables companies can no longer earn Climate Change Levy Exemption Certificates. Renewable investment trust companies have indicated that this change could see their assets fall between 0.5% and 4% as a result. As an example, the Telegraph point to the Bluefield Solar Income Fund, which have indicated that these certificates make up 3% of their revenue.

"Dining out on dividends"

The Sunday Times

We have previously covered the importance of dividends within investment portfolios. They can be used as a source of income for those seeking income from their investments or they can be re-invested for growth. In the Budget a new tax-free allowance of £5,000 will see investors benefitting from an increase in their personal allowance. This additional allowance will be available from 6th April 2016, however there are some pitfalls as well as the potential profits with this tax break.

“Dining out on dividends” continued...

The Sunday Times

In an environment of low interest rates, investors have been tempted by dividends to boost their savings income. Dividends can be cut or cancelled and a high yield can be viewed as higher risk. Share prices can fall without warning and you may get back less than you invest. Share prices can fall without warning and you may get back less than you invest.

Dividends paid by equities rarely get as much press as share prices, but the re-investment of dividends has boosted overall returns.

According to The Sunday Times, since 1899 approximately 3.5% of the average after-inflation return of 5.1% has come from dividends with only 1.6% from capital appreciation or share prices. Direct equities including Royal Dutch Shell and National Grid are currently yielding over 5%, however this will change on an ongoing basis, and the use of pooled investments such as investment trust and unit trusts spread the risk by the inclusion of several companies. For example, currently the Premier Multi-Asset Monthly Income Fund has a historic yield of 4.3% and pays income monthly.

“£17 billion – That’s the alarming cost of financial apathy but some easy steps can save you a fortune”

The Sunday Mail

The Sunday Mail has launched a campaign to get a better deal and in the coming weeks they are to look at how to shake up your finances and potentially save a fortune. Their “warnings” include:

- Households paying too much tax estimated to be £4.9bn.
- People are paying too much for their mortgages by not switching deals, the estimated cost being £4.0bn.
- Not switching savings accounts which are paying minimal interest, costing £0.9bn
- Automatic insurance renewals cost £3.5bn by not shopping around for a more competitive quote.
- Leaving monies in pensions which are not fit for purpose is costing £1.3bn

Undertaking a general review of your finances is important and should be undertaken regularly, the points listed above are just a few of the ways that you could review your position and potentially save monies.

For example, using your NISA allowance of £15,240, reclaiming any higher rate tax relief on your pension contributions or placing life assurance in trust are just a few ways of potentially saving tax.

Reviewing your pension provision particularly as you approach retirement is important. Many workplace pensions use default investment strategies which include lifestyling. Lifestyling involves reducing risk in the last 5-10 years before the normal retirement date, by regularly switching equities for bonds and cash. The ultimate aim is to reduce risk and volatility prior to purchasing an annuity, but with the new flexibilities it is not always the case that an annuity will be purchased. Hargreaves Landsdown have estimated that around 720,000 investors are affected and on average they have lost £1,790 through being in a lifestyle strategy in recent month.

As with all investments it is important to note that the value of investments and any income taken from them can fall as well as rise. You may not get back the full amount of your original investment.

Any questions?

If you have any questions on any of the articles covered in this publication or would like our help with any financial planning issue, please contact:

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