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.

"'No-flation' lowers the prospect of an early rate rise"

The Sunday Telegraph

Britain almost posted deflationary figures in July increasing the likelihood that an interest rate rise will be postponed by the Bank of England.

The consumer price index has remained static in the year to July and figures are set to mark the 5th month out of the last six that inflation has touched zero or below. This is far below the Bank of England's 2% target and as such points towards the delay of interest rate rises. The Governor, Mark Carney has commented that it "would not be surprising if we have another month or two of negative inflation, given the very substantial moves in oil prices and the changes to some of the utility prices as well". As an example, The Telegraph pointed to British Gas cutting tariffs by 5% in August, if this is followed by the rest of the big six suppliers, then the UK could enter deflation.

The Bank is therefore not expected to alter interest rates until mid-2016, which would be 7 years after it cut the base rate to a historic low of 0.5%

"Should you buy these 8% funds?"

The Sunday Telegraph

More and more investors are seeking an income given low interest rates, this has led to investment houses developing funds which can generate a higher level of income. "Maximiser" funds such as the ones offered by Schroders and Fidelity offer eye catching yields of between 6% and 8%, but how safe are they and how do they work?

Income Maximiser funds can be complex, whilst some are straightforward portfolios of blue chip, dividend paying shares, some use complex derivatives to maximise returns. Currently there are around 5 income maximiser funds with a track record of 5 years (these are detailed in the table below). Whilst they can provide income higher than the average UK equity fund, when looking at the returns from a capital return perspective they slip to the bottom of the performance tables. They occupy the bottom six places out of 70 when measured on a capital return basis. As a result, they have clearly prioritised income over capital growth, as such it is important to consider the objective of the fund and what you as an investor is looking to achieve. For example, if yield is not the sole objective, it could be better to select a straightforward income fund where total returns are higher – and to draw down on capital, when necessary, by selling units.

As a further example, the Schroder Income Maximiser has a yield of around 7% compared to the Schroder Income fund which pays around 3.5%. However, over 5 years the Income Maximiser has returned 55.07% compared to 65.60% for the Income fund.

Past performance is not a reliable indicator of future results. The value of an investment and the income from it could go down as well as up.

"Should you buy these 8% funds?" continued...

The Sunday Telegraph

This is also true of the Fidelity Enhanced Income fund with a yield of around 6.21% and a return over 5 years of 64.27% compared to the Fidelity Moneybuilder Dividend with a yield of 3.86% and a return of 81.85% over the same period (source: FE Analytics 17th August 2015)

The table shows the income payable by each fund over the past 5 years along with its capital growth. The figures are based on an investment of £10,000:

High-yielding funds income and capital returns on £10,000 over five years

Fund	Income paid out	Capital growth	Total return	Yield
Insight Equity Income Booster	£4,440 (2/70)	£140 (69/70)	£4,580	7.7pc
Schroder Income Maximiser	£4,280 (3/70)	£410 (68/70)	£4,690	6.9pc
Premier Optimum Income	£4,500 (1/70)	£1,460 (66/70)	£5,960	6.4pc
Fidelity Enhanced Income	£4,000 (4/70)	£1,610 (65/70)	£5,610	6.2pc
Santander Enhanced Income	£3,360 (7/70)	£850 (67/70)	£4,210	5.5pc
Average UK income fund	£2,770	£5,290	£8,060	4pc

Source: FE Trustnet. Five-year data to August 10 2015

"We should all worry if China trembles"

The Mail on Sunday

"Currency war – China's shock devaluation could set off wider economic conflict"

The Sunday Times

Last week China announced that it was devaluing its currency for the first time in 20 years. Minutes from the latest European Central Bank (ECB) in July showed that it was worried by falling Chinese share prices and the country's cut in interest rates.

China acted after its exports fell by more than 8% in July, whilst share prices have fallen by 30% in August. Slashing its currency sent shock waves around the world, stock, bond and commodity markets tumbled amid fears of a new currency war.

A weaker currency makes it easier for China to ship goods to Britain and makes Chinese products more affordable for consumers. However, devaluation will also affect companies selling goods to China, including plenty of British brands such as Burberry and other luxury goods firms. In Europe BMW shares fell as the car maker has seen sales in China grow to almost 20% of its global revenues. Shares in Apple, which makes the iPhone in China and sells more goods there than anywhere outside America also fell.

In the UK, trade with mainland China is growing quickly, the country accounts for just under 9% of our imports. Exports to China are just under 5% of all UK goods sold abroad. If Hong Kong is included, the import and export shares rise to 10.3% and 7% respectively (The Sunday Telegraph, 16th August 2015). As a result, a weakened currency will make the UKs imports from China cheaper, pushing down inflation in the UK.

The devaluation also threatens to strain relations between America and China. In Washington, politicians were outraged and accused the Chinese of manipulating their currency in an effort to destroy American jobs.

The Telegraph has pointed to such reductions in inflation potentially delaying interest rate rises by the Bank of England. Whilst this is good news to borrowers, if the Chinese economy continues to slowdown the effect on our economy and the global economy could be bad.

It used to be that "when America sneezes the world catches a cold, but nowadays all of us should worry when China starts to tremble" (Mail on Sunday)

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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