theADVISER

Brought to you by AGL Wealth Management

Welcome to the latest edition of our newsletter, our update on developments in the world of financial services. In this issue we take a look at the European Union (EU), Markets, ISAs and Stocks & Shares.

Sterling's slide

Mounting speculation over the UK's future within the European Union (EU) has resulted in a steady decline in the value of the pound since the last few months of 2015. However, the recent announcement of a referendum on the UK's EU membership - scheduled for Thursday 23 June - provided fresh impetus for sterling's slide, sending down the value of the pound against the US dollar to levels last seen in 2009.

The strength or weakness of sterling will affect different areas of the UK economy in different ways. On the one hand, UK exporters generally benefit from a weak sterling, as it reduces the cost of British goods to overseas buyers. It also tends to prove positive for UK companies that derive a significant proportion of their earnings overseas. Moreover, a weak pound is likely to attract foreign tourists who want to make the most of their increased purchasing power.

On the other hand, a sustained period of weakness in sterling could undermine sentiment among consumers and companies and discourage them from spending or investing. A so-called 'Brexit' could prove particularly damaging for smaller UK businesses that are typically more reliant on the domestic market as a weak pound pushes up import prices, which could adversely affect households and businesses.

In turn, higher prices provide a boost for inflationary pressures and, looking further ahead, Bank of England policymakers could find themselves faced with an unappealing conundrum of rising prices and declining economic growth. Expectations of any increase in UK base rate in the short-to medium term have dwindled, further reducing sterling's appeal. Since a Brexit would be an unprecedented situation, there is no accurate way to forecast its impact - either on the UK or on the rest of the EU. Various studies have calculated the net cost/benefit of Britain's EU membership at anything between -5% and +6% of GDP.

Credit ratings agency Moody's believes a Brexit would be "credit negative for the UK economy" and could trigger a change in its outlook for the UK's credit standing to "negative". Moody's warned "the economic costs of a decision to leave the EU would outweigh the economic benefits" and could jeopardise the UK's credit rating. In the meantime, the possibility of a Brexit looks likely to dominate the direction of investor sentiment - and exert downward pressure on the pound - until the crucial referendum in June.

In This Issue:

P1	Sterling's slide
P2	Uncharted territory
P2	Footsie hits three-year low
P3	Investing in stocks & shares
P3	Weathering market storms
P4	Get in early with your ISA
P4	Tax-efficient options

Need Advice? Get in touch today

AGL Wealth Management
69 Buchanan Street
Glasgow
G1 3HL

T. 0141 348 7710
E. info@aglwealth.com

Uncharted territory

Speculation over Britain's future within the European Union (EU) gained fresh momentum following the announcement of a referendum that will take place on Thursday 23 June 2016. The UK-wide referendum will ask voters whether Britain should remain in the EU or opt for a 'Brexit'.

The EU's single market is intended to facilitate free movement of people, goods, services and capital throughout all member states. Although the EU remains the most important single export market for the UK, its importance has declined over the last decade as exports to other areas of the world have risen. According to think-tank Open Europe, about 60% of the UK's trade is conducted through its EU membership.

At this stage, the economic effect of a Brexit is difficult to calculate because the impact would hinge on any trade pacts the UK manages to agree - both with the EU and the rest of the world. More than one-third of UK-exported goods to the EU are concentrated in industries on which the EU imposes high tariffs. At the same time, a Brexit could well affect the UK's labour market and its productivity levels.

2016 is shaping up to be a challenging year for investors. Sentiment has already been undermined by high levels of instability in financial markets, caused by concerns over China, falling commodity prices, interest rate policy and wider geopolitical anxieties. The build-up to the Brexit referendum is likely to provide fresh fuel for continued share and bond market volatility.

Footsie hits three-year low

Although UK equity markets generally performed better than many of their overseas counterparts during January, UK investors still suffered a torrid month with high levels of short-term volatility. Less than a year after hitting a new all-time high, the FTSE 100 index reached its lowest level for more than three years during January, pulled down by concerns about the impact of plunging commodity prices and fears over China's slowing economy.

Even so - and despite significant short-term swings in the energy and mining sectors - larger UK companies generally performed better than their smaller and medium-sized counterparts during January. The FTSE 100 fell 2.5% over the month; in comparison, the FTSE 250 index dropped 5.4% and the FTSE SmallCap index fell 5.8%.

Profit warnings issued by firms listed on the London Stock Exchange during the final three months of 2015 reached their highest quarterly level since the first three months of 2009, according to a survey undertaken by consultant EY. Of the 100 listed companies that issued warnings during 2015's fourth quarter, firms in the support services sector led the field, followed by the electronic & electrical equipment, general retailers, media and travel & leisure sectors. Over last year as a whole, half of all companies in the oil equipment, services & distribution sector issued profit warnings as they came under pressure from plummeting oil prices. Meanwhile, during January itself, several high-profile companies - including Pearson, Home Retail Group, The Restaurant Group, JD Wetherspoon and Royal Dutch Shell - issued profit warnings.

Companies in the energy and mining sectors remained under severe pressure from concerns over falling oil and commodity prices. Notably, mining company BHP Billiton announced a $7.2bn (£4.98bn) write-down of its US shale assets - again as a result of plunging oil prices. Nevertheless, while the company acknowledged the short-to-medium-term pressures on the price of oil, its longer-term price assumptions "continue to reflect the market's attractive supply and demand fundamentals".

On a brighter note, some of the UK's leading retailers revealed better-than-expected trading over the important Christmas period. Tesco announced a "strong" Christmas performance, boosted by lower prices and increased staffing levels, and is trading "in line" with full-year profit forecasts. Morrisons also revealed a better-than-expected festive trading performance. Elsewhere, department store Debenhams reported strong Christmas sales. In contrast, however, Next announced pre-Christmas sales had been "disappointing", blaming unseasonably warm weather in November and December.

The value of the investment can go down as well as up and you may not get back as much as you put in. Changes in rates of exchange may have an adverse effect on the value, price or income of investments.

Investing in stocks & shares

Your entire Individual Savings Account (ISA) allowance of £15,240 can be invested into cash, stocks and shares, or any combination of the two during the 2015/16 tax year. Savers who wish to invest some or all of their allowance in stocks and shares can choose from a vast array of investment options, ranging across global equity and bond markets.

If you are an investor who knows what they want, Self-Select ISAs offer a flexible approach, allowing you to choose your own shares or collective investment funds. These cover a range of asset classes and markets, so you can create a portfolio or use your ISA allowance to target one specific investment to complement your wider portfolio. However, choosing your own shares can be risky and, unless it forms part of a wider share portfolio, this approach can concentrate your investment around the fortunes of just a few companies. Many investors choose to put their ISA allowance into something more diversified, such as a collective fund, which reduces risk by accessing a wide selection of shares within one investment.

There are many funds available – some prioritise income, while others focus on capital growth. Funds are grouped into categories to give you an indication of their aims – for example, the 'Mixed Investment 20-60% shares' category will have no more than 60% in shares , while more aggressive funds can be found in, for example, the UK Smaller Companies or Global Emerging Markets sectors. Historically, funds with a relatively high equity content have tended to offer better long-term returns than equivalent investments in cash, bonds or commercial property. However, the value of equities can go down as well as up and they can be volatile.

If you want your ISA to generate an income stream, you might consider a fund that delivers regular dividend or rental income or interest payments. The three principal income-generating asset classes are equity income, commercial property and bonds. There are numerous funds that combine these asset classes to generate income from a diversified portfolio.

Ultimately, your ISA choices should not only reflect your aims, but also sit comfortably within your wider portfolio. If you want to make sure you have covered all the options available, you should seek professional advice. Please also remember past performance is not a reliable indicator of future results.

The value of the investment can go down as well as up and you may not get back as much as you put in. Changes in rates of exchange may have an adverse effect on the value, price or income of investments.

Weathering market storms

Less than a year after hitting a new all-time high, the FTSE 100 index has fallen into 'bear market' territory - putting it in the company of other major markets, including Japan's Nikkei 225, Germany's Dax and France's CAC 40 indices. Share prices have fallen by more than 20% from their recent peaks, driven down by concerns over China's economy, a disintegrating oil price and geopolitical concerns.

While it is easy to understand why many investors are unsettled, it is also worth taking a step back and looking at the whole picture. Although the UK has technically dipped into bear market territory, the UK economy is one of only three 'advanced' economies - along with the US and Spain - the International Monetary Fund (IMF) expects to grow by more than 2% this year. The IMF has also predicted global economic growth of 3.4% in 2016 and 3.6% in 2017. Meanwhile, the eurozone's economy continues to take tentative steps towards recovery and the US appears relatively robust.

History shows us that, although they can certainly be risky in the short run, equities remain the best-performing asset class over the long term. While periods of market instability can be hard to tolerate, they can therefore also represent an opportunity. During periods of general market decline, the share prices of high-quality businesses tend to fall alongside those of companies that are experiencing genuine problems, providing astute investors with an opportunity to pick up bargains. Moreover, as we head towards the end of the tax year, the recent market declines represent a real opportunity for investors who want to make the most of their ISA allowance.

Even the most experienced investment professionals cannot 'time' the market consistently. It is all but impossible to assess whether prices have peaked or troughed, so do not be flustered into selling investments for the wrong reasons. Instead, during periods of market instability, take the time to assess your own particular situation.

Ask yourself two key questions - 'Does my investment portfolio reflect my investment goals, personal circumstances and tolerance for risk?' and 'Is my portfolio adequately diversified across different asset classes and geographical areas?' If you cannot answer 'yes' to these, it is probably time to review your portfolio. You should ensure you are positioned to achieve your long-term aims, while weathering shorter-term storms and, if in doubt, talk to your adviser.

The value of the investment can go down as well as up and you may not get back as much as you put in. Changes in rates of exchange may have an adverse effect on the value, price or income of investments.

Get in early with your ISA

You only receive one Individual Savings Account (ISA) allowance each tax year. Since it cannot be carried over into the next tax year, if you do not use it, you will lose it forever. The annual ISA allowance for 2015/16 has risen from £15,000 to £15,240.

Plenty of investors wait until the very last minute to use their ISA allowance but there is no reason to delay. In fact, investing early allows you to gain maximum benefit from the associated tax breaks – for example, the earlier you put your money into a deposit account, the more interest you will earn. When investing in stocks and shares for your ISA, it may seem seductive to try to 'time' your investment by buying when share prices appear cheaper. However, even experts rarely manage to 'time' the market successfully on a consistent basis, so non-experts are unlikely to fare any better.

If you are concerned about market volatility, regularly 'drip-feeding' money into the market can reduce the risk of buying when prices have peaked, whilst ensuring you invest at a range of different price levels. This system can offer long-term benefits, particularly for nervous or first-time investors or during periods of significant market volatility. Ultimately – and regardless of how you invest your money – you only receive one ISA allowance for each tax year, and therefore it is best to begin your research early and speak to your adviser about all your options.

Information is based on our current understanding of taxation legislation and regulations. Levels and bases of, and reliefs from, taxation can change. Tax advice which contains no investment element is not regulated by the Financial Conduct Authority.

Tax-efficient options

As life expectancy in the UK continues to rise, financial planning is becoming increasingly important. If you are thinking of saving for retirement, then you might consider a pension to be the best way to ensure you have enough to live on when you are older. However, this is not the only way to achieve your retirement goals, and Individual Savings Accounts (ISAs) can form a useful component of your long-term financial plans.

Pensions and ISAs are taxed differently. Your pension payments will qualify for tax rebates up-front at your highest rate of income tax (subject to certain limits) after which, once you have taken out your tax-free lump sum, the income you receive will be taxable. In comparison, ISA contributions come from taxed income, although any withdrawals are tax-free. Also, it is important to remember your pension income counts towards your personal tax-free allowance whereas your ISA withdrawals do not.

As such, the choice between pensions or ISAs could seem to boil down to the relatively straightforward question of rates. If someone receives higher-rate tax relief on their pension contributions, but only pays lower-rate tax on their income at retirement, pensions appear to make the most sense. Meanwhile, for those whose income may be greater in retirement, the opposite appears true.

The reality, however, can be less clear-cut. The tax rebates on pension contributions are important as they add value up-front, and investor welcome the effect of compounding on their portfolios, which helps to influence the size of pension 'pot' that can be accumulated. Equally, if you eventually decide to buy a pension annuity – and the pension rules have changed to allow greater flexibility for savers – those payments can be guaranteed for life, whereas withdrawing the equivalent sum from an ISA can be less predictable.

Pensions offer additional attractions: employers can pay into a company or stakeholder pension scheme, and annual contribution limits for pensions are much higher than for ISAs. Nevertheless, an ISA offers flexibility – you usually have to wait until you are 55 to make withdrawals from a pension, whereas an ISA can typically be accessed at any time. Ultimately, it is not necessarily a question of whether an ISA or pension is better; rather, it is a question of planning your finances to make the most of both. Your financial adviser can offer further help here.

Content courtesy of Adviser Hub UK Ltd.

The contents of this newsletter do not constitute advice and should not be taken as a recommendation to purchase or invest in any of the products mentioned. Before taking any decisions, we suggest you seek advice from a professional financial adviser.

AGL Wealth Management Ltd is authorised and regulated by the Financial Conduct Authority.

Registered in England No. 06911689 Registered Office: 1st Floor, 2 Woodberry Grove, North Finchley, London N12 0DR.

The value of your investments can go down as well as up and you may not get back the original amount invested.

The information contained within this newsletter is subject to the UK regulatory regime and is therefore primarily targeted at customers in the UK.

T: 0141 348 7710 F: 0141 555 5960 E: info@aglwealth.com www.aglwealth.com