



2019 defies analysts' predictions

The world's share markets had a buoyant first six months.

Index	2019 H1 Change
FTSE 100	+10.4%
FTSE All-Share	+10.4%
Dow Jones Industrial	+14.0%
Standard & Poor's 500	+17.3%
Nikkei 225	+6.3%
Euro Stoxx 50 (€)	+15.7%
Shanghai Composite	+19.4%
MSCI Emerging Markets (£)	+9.3%

The final few months of 2018 were a dark time for the world's stock markets, with concerns about US trade policies and the backwash from the Brexit uncertainty leaving many markets posting an overall loss for the year. The prospects for 2019 did not look bright, with the specter of the US Federal Reserve continuing to raise interest rates after its fourth rate increase in December.

Six months on, and the doomsayers appear to have been on the wrong track. Reuters, not known for its investment hyperbole, ran a story suggesting that it was "The best first half for financial markets ever". As the table above shows, major markets all produced solid returns, despite the continued headwinds from the same sources that produced negative results in 2018.

It helps that the interest rate picture has now altered significantly around the globe. Current expectations are now that the Federal Reserve could *cut* interest rates as early as July and keep cutting thereafter. Yields on US government bonds dropped over the first half – and hence their prices rose – in anticipation of the reversal. The benchmark 10-year US Treasury bond, which began the year yielding nearly 2.75% accompanied by predictions that 3% would soon be breached, ended the first half at 1.99%. On this side of the Atlantic the yield on 10-year UK gilts dropped from 1.26% to just 0.79%.

These last six months have once again reinforced a lesson about investing in shares: timing investment is all too often a fool's game. There were few people shouting 'invest now' at the end of last year, even though it would have been a rewarding call.

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.

Implications from the over-75 TV license row

The BBC's decision to scrap universal free TV licenses for the over-75s is part of the larger debate about our growing ageing population.

Free TV licenses for the over-75s were introduced by Gordon Brown in his 2000 Budget. It was a classic rabbit-out-the-hat Budget measure, designed to please at a relatively modest initial cost.

Wind forward to 2015 and a government looking to ease spending cuts discovered a neat way to deal with the rising cost of free TV licenses: it passed the problem onto the BBC. In exchange for government agreement on a financing deal that provided an index-linked license fee and closed loopholes on catch-up TV, Auntie accepted the poisoned chalice of responsibility for the free license scheme from 2020.

While the BBC's recent announcement has been met with predictable political outcries, it always looked as if the broadcaster would be forced to drop the universality of the over 75 free licenses. As the corporation has pointed out, maintaining the status quo would cost £745m – a fifth of its total budget.

A look at population numbers casts an interesting light on the problem. National Statistics data and projections show:

- In 2000 the UK had 4.37m people aged 75 and over.
- By 2020 the corresponding figure is projected to be 5.84m – an increase of 1.47m or about one third.
- The overall population is projected to have grown by about a seventh over the same period – less than half the pace of the growth in over-75s.

Simply on the basis of the growth in the over-75 population and the increase in license fee, the cost in 2020 would be double that of 2000. So, the argument around free TV licenses is a microcosm of the much larger issue of an ageing population and intergenerational fairness. It is also a reminder of the dangers of relying on the government to fund a comfortable retirement. Private pension provision is a must...if only to fund later life TV viewing.

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When it comes to funds, the best advice is personal

The recent problems with the suspension of dealings in a heavily promoted UK equity income fund have exposed the blurred line between advice and guidance.

According to the Investment Association (IA), there are around 3,500 funds on sale in the UK. The IA sorts these into over 30 individual investment sectors, although about 10% are listed as being in the unclassified sector. Faced with such a large choice, understandably many private investors want some help in making their fund selections. The assistance they receive has come under the spotlight following the recent suspension of trading in the Woodford Equity Income Fund (WEIF).

WEIF's manager, Neil Woodford, established a strong track record with Invesco Perpetual before leaving the group in 2014 to set up his own fund management business. Unsurprisingly, a large amount of money followed him to his new company. He was helped by a common feature of today's fund marketplace: favoured fund lists. These typically consist of 50 –100 funds, spread across those 30+ IA sectors, chosen by firms whose main business is marketing funds to the public. The criteria for selection are not always specified, but there is often a heavy reliance on past performance. However, there is one aspect that is clear: if you pick a fund from the list, then it is you who are making the choice.

Favoured fund lists do not constitute personal financial advice, even if many investors think that is what they are receiving. At best they are a form of general guidance, attempting to sort some of the wheat from a large volume of chaff. A select list only supplies the selector's opinion at the time. It does not offer you a recommendation based on your personal circumstances, including consideration of the other investments you hold, whether held directly or indirectly, e.g. via pensions. Nor does the provider of the list offer any ongoing support, an important factor in current market conditions.

There is a role for recommended fund lists, but there is no substitute for personal, regularly reviewed advice on your investments.

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Could we see the back of inheritance tax?

A paper presented to the Labour Party has suggested the abolition of inheritance tax (IHT).

Labour Party proposals to kill off inheritance tax (IHT) and replace it with a gifts tax were reported across several newspapers last month. The coverage was somewhat creative, as the idea was plucked from a paper prepared for the Labour Party primarily focused on reforming the taxation of land. The gifts tax section covered just half a page and did little more than regurgitate a structure proposed over a year ago by the Institute for Public Policy Research (IPPR).

These proposals are not yet Labour Party policy –they will only be considered when the party prepares its manifesto for the next election, which could be as far away as 2022. However, it's worth considering how IHT might be transformed into a gifts tax.

The major change proposed is that liability would shift to the recipient of a gift or legacy, not the person making the gift or bequest. This approach is common in other countries which levy estate taxes. The IPPR framework would make gifts and bequests totalling £125,000 (indexed to inflation) over a lifetime free of tax. Beyond that threshold, any amount received would be treated as income and taxed accordingly. The new tax would apparently raise almost three times as much as IHT. The paper on land tax reform added one tweak to the IPPR proposals: a new tax on equity release which it described as a “key means of avoiding inheritance tax”.

IHT is generally regarded as the UK's most hated tax, despite the relatively few estates that end up paying it. However, IHT is much easier to sidestep than a lifetime gifts tax would be. Under IHT, the general principle is that outright gifts only enter the IHT calculation if they are made within seven years of death.

If the impact of IHT on what your family or other beneficiaries will receive concerns you, now could be a good time to discuss with us the ways in which you can take advantage of the generous treatment of lifetime gifts...while it lasts.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.

Student fees may be coming down

A government-commissioned report has proposed significant changes to the funding of university students in England.

Students resident in England (different rules apply in other parts of the UK) pay a maximum university tuition fee of £9,250 per year, financed by a student loan. Further loans to cover maintenance plus interest at RPI+3% mean that at the end of a three-year course graduates can start working life with £50,000 of debt. That debt is currently written off after 30 years, but until then repayments must be made at the rate of 9% of income above a threshold presently set at £25,725.

At the time of the last General Election, the Labour Party's manifesto proposed scrapping future tuition fees at an estimated cost of £11.2bn a year – the party's most expensive single measure. The idea was predictably popular in many university towns and may have been enough to swing the vote in some of them. After the election the government responded by setting up an independent review of 18+ education in England.

That review, headed by Philip Augar, published its report in June. There was a long list of recommendations, including:

- Reducing the maximum tuition fee to £7,250;
- Cutting the earnings threshold for repayments by £2,000;
- Introducing means-tested maintenance grants of up to £3,000;
- Reducing the interest rate to match inflation during the period of study;
- Capping total loan repayments at 120% of the loans drawn, revalued in line with inflation; and
- Extending the loan repayment period to 40 years.

The proposals have one consequence which has raised a few eyebrows: they would reduce the total outlay for the highest earning graduates while increasing it significantly for middle earners.

Whether or not these ideas are adopted, they are a reminder of the eye-watering expense of higher education, both for students and the government. If you have children or grandchildren heading to university, the sooner you start planning for that cost, the better. *The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.*