

## Riding Market Volatility

There were widespread predictions before the recent stock market decline that the economic problems in the US and the Euro zone would impact share and bond prices.

So should private investors have been switching their investments into cash ?

In most cases the answer will be “probably not”, for a number of reasons:

1. No one can accurately and consistently predict the movement of markets. As the renowned 1930s economist John Maynard Keynes commented, *“Markets can remain irrational longer than you can remain solvent”*.
2. Investment, as opposed to saving, should be for the long term. Time in the market is always preferable to timing the market. It was striking that many fund managers used the market setback as an opportunity to buy at lower prices.
3. Switching investments generally involves costs, which impact returns.
4. Cash (savings) returns are in any event notably unattractive and will not compensate for inflation.

So the best advice is Corporal Jones’ exhortation *“Don’t Panic Mr Mainwaring, don’t panic”*. A well diversified portfolio should be sufficiently robust to come through with positive results in the longer term, adjusted as appropriate from time to time to take account of market trends and changes in personal circumstances or attitude to investment risk.

There is however a dimension to the issue of diversification which is proving to be of increasing importance, namely diversification between asset classes – a prime example being the recent dramatic surge in the price of gold as investors sought a safe haven from market storms.

Unsurprisingly, this has been reflected in the increased interest which has been shown in multi-asset funds, which enable investors to delegate the macro-economic calls to specialist fund managers. Such funds could make a good core portfolio holding in uncertain times.

## Inheritance Tax On Pensions

The value of pension funds from which benefits have not yet been drawn can normally be passed to nominated beneficiaries free of tax.

However, if the value of the fund is paid to a spouse, this will increase the taxable value of their estate to the detriment of the children.

This result can be avoided by means of a trust which permits the funds to by-pass the estate of the surviving spouse – an arrangement not dissimilar to the back-to-back wills which are frequently recommended as a means of permitting the value of the nil-rate band of inheritance tax to be retained for the benefit of the estate of both spouses.

The arrangement is known as a Spousal By-Pass Trust and it involves the pension scheme member setting up a trust and requesting the pension fund trustees in their discretion to pay the proceeds of the pension into the trust rather than to the surviving spouse.

Both the surviving spouse and the children can benefit from the trust, but the funds do not form part of the estate of the surviving spouse and therefore avoid tax on his or her subsequent death.

This arrangement can be further improved by ensuring that any withdrawals made for the benefit of the surviving spouse are documented as ‘interest free’ or ‘indexed’ loans repayable on their death, thus creating a debt against their estate and further reducing IHT.

## Junior ISAs

Junior ISAs, the Government’s replacement for the scrapped Child Trust Fund scheme, will become available in November and will provide exemption from income tax and capital gains tax on the underlying investment/s.

The initial maximum annual contribution will be £3,600, which will be increased in line with the consumer prices index as from April 2013; with no minimum limit.

However, unlike CTFs, there will be no Government contribution. Furthermore, it will not be possible to transfer CTFs into Junior ISAs, or vice versa.



Children will be able to hold up to one cash and one stocks and shares Junior ISA at a time and if both a cash and stocks and shares ISA are held, the £3,600 limit will operate across both accounts.

Any cash put into Junior ISAs will be locked-in until the child reaches the age of 18, at which time the Junior ISA will then become an adult ISA.

## Pensions And Charity

Among the changes to the rules affecting pension taxation, which came into force on 6 April 2011, is one which benefits charitable gifts.

Previously, if a SIPP investor died after starting to draw income from the SIPP investments, tax would have been levied at 35% on the capital value of the fund. After 6 April, the operative tax rate is 55%, but death benefits can be paid tax-free to charity regardless of age.

The 55% payable on the pension fund compares with the 40% tax rate payable on other assets passing on death, so if the intention is to maximise the value available to dependants other than the surviving spouse, then it makes sense to pay the charitable gift from the SIPP rather than from the estate.

This could be arranged simply by submitting an “expression of wish” form to the SIPP provider, specifying the charities to be benefited and the proportion of the fund to which they would become entitled. It might also be necessary to review the terms of the investor’s Will.

With regard to lifetime donations to Charity, these continue to be boosted by a 25% tax rebate and such donations can be carried back against a previous year’s tax bill.

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No responsibility can be accepted for the accuracy of the information in this newsletter and no action should be taken in reliance on it without advice. Please remember that past performance is not necessarily a guide to future returns.

The value of units and the income from them may fall, as well as rise. Investors may not get back the amount originally invested

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