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bespoke financial & investment advice

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this issue...

If you have an idea for an article of something you would like us to investigate, please email the Holden & Partners Review team at:

review@holden-partners.co.uk

Since our last edition of H&P Review, not a day seems to have passed without energy companies making the news.

Recent media scrutiny has highlighted inflation busting price increases, dubious business practices and concerns that the "big six" operate as a cartel. The controversy surrounding the "big six" even led to a rare clerical intervention from The Archbishop of Canterbury, Justin Welby. Welby, a former oil executive himself, commented "energy companies should be conscious of their social obligations and be generous rather than seeking to maximise their opportunities at all costs".

This has reopened the debate on whether companies actually have any moral obligations beyond the practical considerations of obeying the law and making money for their shareholders. How far for example can companies be regarded as moral agents? Should companies have a "social licence" to operate? Should a distinction be drawn between companies (like the former utilities) which trade in an essential service (and operate in a restricted market) and those which trade goods in a totally free market with lots of competing suppliers? These are difficult questions to which the answers are not clear cut.

Free market proponents argue all companies need to operate in a market place which is as unrestricted as possible.

Any measures which place barriers to entry will have a negative impact on prosperity. Can companies however be totally absolved from their responsibility to do good? Philip Booth from the think tank The Institute of Economic Affairs has in the past pointed out that just because a company makes a profit, it doesn't mean that it isn't doing good. Companies, in his view, are social by their very nature as they provide goods and services which households and consumers depend on.

"making consumers and shareholders aware of the issues can only be a good thing."

Significantly, the last decade has seen large companies place huge emphasis on Corporate Social Responsibility (CSR). Whether this has actually made any difference to how companies act from a social perspective is open to question. Cynics see the whole area of CSR as a bogus marketing exercise. With some large companies now disliked and less trusted more than ever, it is easy to sympathise with this rather negative view. Enron for example ran one of the biggest Corporate Social Responsibility programs in the corporate world! RBS was and still is known for its commitment to CSR....

Supporters of CSR contend that it is much better for companies to make some effort in this area rather than none at all. Making consumers and shareholders aware of the

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issues can only be a good thing. However, if in reality companies only pay lip service to CSR and are really interested exclusively in profit, do they really have any moral or social incentives?

Perhaps the answer lies in looking to the long term. Those companies which are likely to be successful into the future will be aware of the long term risks to their business. Many will isolate the threats which may prevent them from developing into the future. Such companies are also likely to consider how their preferred future operating environment will look.

"Sustainable businesses anticipate the future and act to create stronger, richer markets for business to sell into. We know what doesn't work."

John Drummand who runs the consultancy "Corporate Culture" and was formerly communications director of United Utilities notes "Sustainable businesses anticipate the future and act to create stronger, richer markets for business to sell into. We know what doesn't work." As Samuel J Dipiazza, president of PricewaterhouseCoopers has said "the current financial crisis is the result of short term and unsustainable business models". Recent history has taught us that companies which focus purely on results without considering how they get those results run the biggest risks.

In our view, a portfolio which performs well over the long term will invest in companies which are both thinking long-term and also creating life enhancing product/services. Those companies leading the way in sustainable business are able to do this in a profitable way. Perhaps we should be encouraged that social success and commercial success are after all not mutually exclusive.

In this issue of H&P Review, we focus on the benefits of long term investing whilst our pensions expert, Andrew Johnson shines a light on the hidden pensions tax bomb which could be a nasty surprise for those with large pension pots. Mark Hoskin considers research that points to the environment now being the top ethical issue and Mark Dodd looks at the main areas of financial planning clients need to address prior to April 5th.

Finally, on a lighter note, we would like to wish all of our clients a happy Christmas and a prosperous 2014!

Steven Pyne
Partner

a fresh look for 2014 holden and partners

This year, Holden & Partners celebrated its 10th anniversary.

As always, the delivery of a highly personalised yet professional service to our clients remains the core objective of our firm.

Looking ahead

One thing that is changing albeit slightly, is our visual identity. We felt it was time to "freshen up" our logo and give it a slightly more modern look.

It was however important for us to keep the runes which we feel help make us unique.

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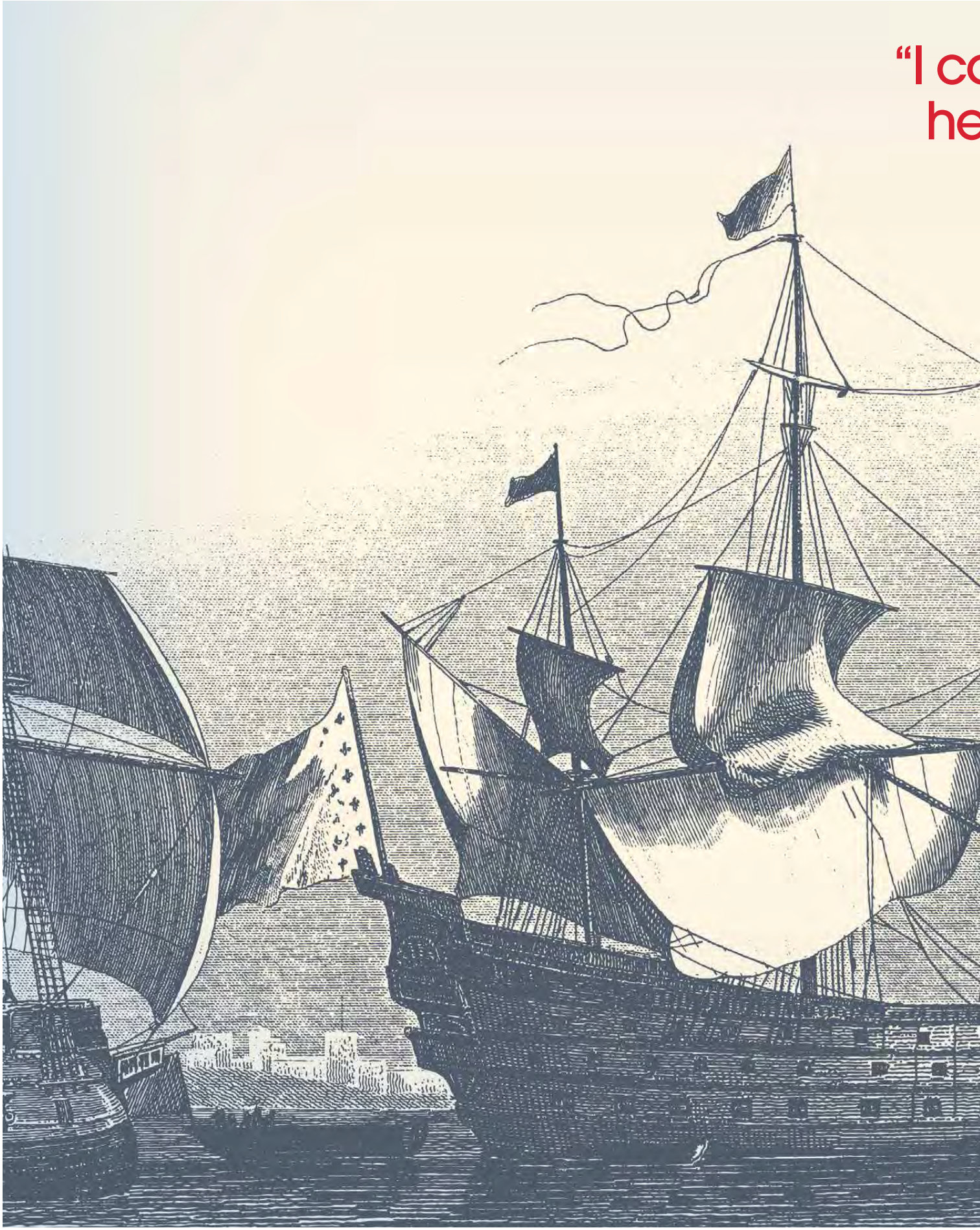

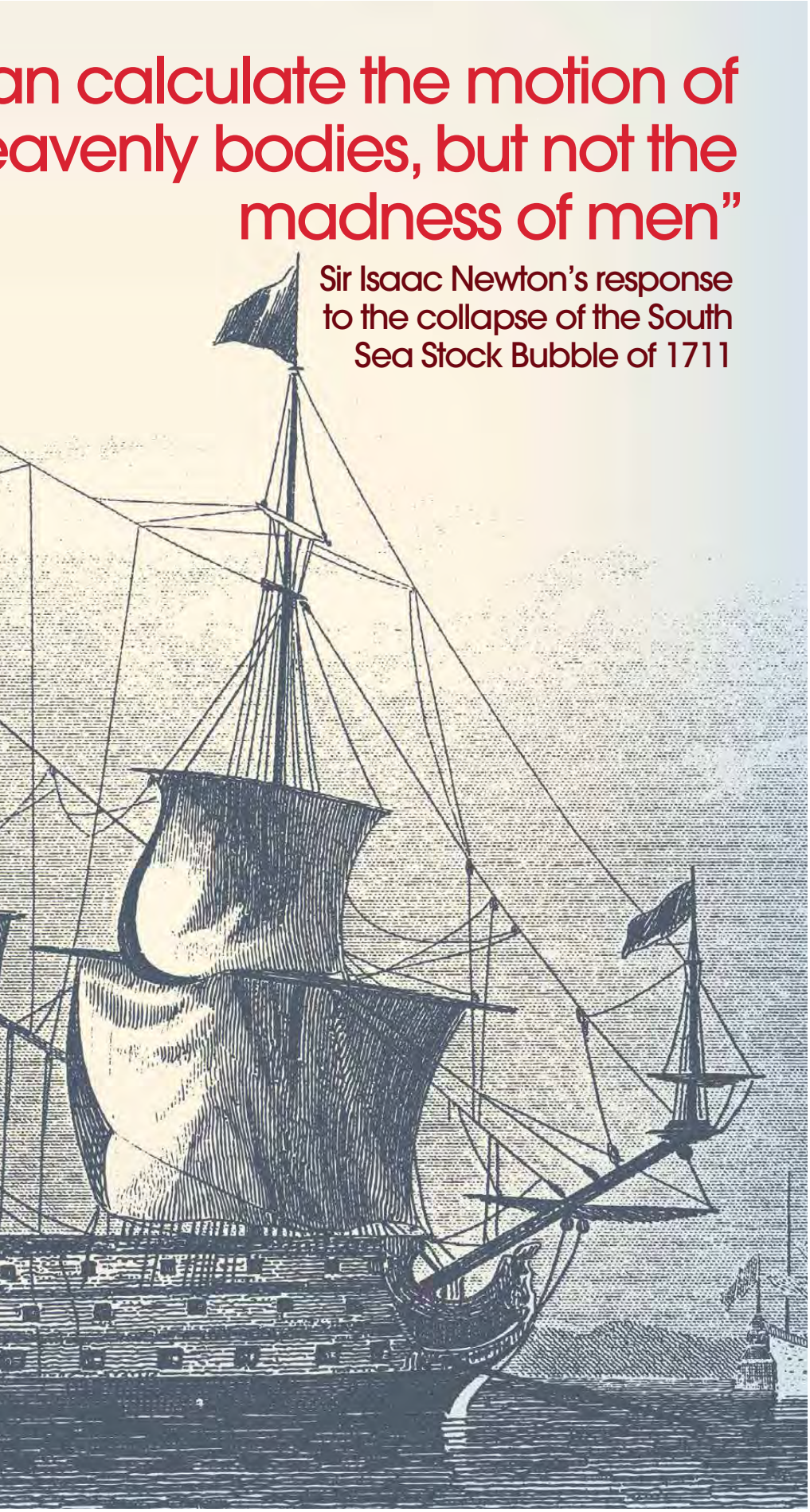

investment discipline

Investors often ask "when is the right time to enter the market?" For the long-term investor, the answer is, "today."

Investing in the market can reward those who maintain a long-term outlook. Market turmoil, so effectively demonstrated during recent years, is enough to test anyone's nerve in staying put and riding out the storm. This is easier said than done. As humans, we base our decision making on our past experiences and own behavioral biases. Unfortunately relying on these instincts can lead to poor decision making and ultimately a poor investment experience.

We are naturally adverse to the idea of long term investing, too often running to conceived safe investments at precisely the wrong time. Perhaps we pay too much consideration to the decisions and opinions of others at a time when we should cancel out the noise and stick to the plan.

by Tim Wood
Paraplanner

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The fear of financial loss

This is understandable, emotion often defeats reason. Research tells us that financial losses are processed in the area of the brain that responds to mortal danger. This serves us well when we are looking to avoid a dangerous physical situation, however when we are making financial decisions we tend to react after the pain has occurred.

The financial crash of 2008 and subsequent run on perceived safe havens, such as gold and fixed interest investments may have seemed prudent, but selling equities at this time was very much a case of 'shutting the stable door after the horse has bolted'.

In March 2009 UK markets started to recover and within 12 months gains had totalled over 50%. The MSCI World index, after its high in October 2007, bettered this to the tune of 8% by early 2010[i].

The benefit of hindsight

Of course hindsight is a wonderful thing, but as some investors were selling and stock prices were dropping, some people were buying. These people had the discipline to stay the course, rebalance the portfolio and maintain its planned asset allocation, more often than not helped by the guiding hand of a trusted adviser.

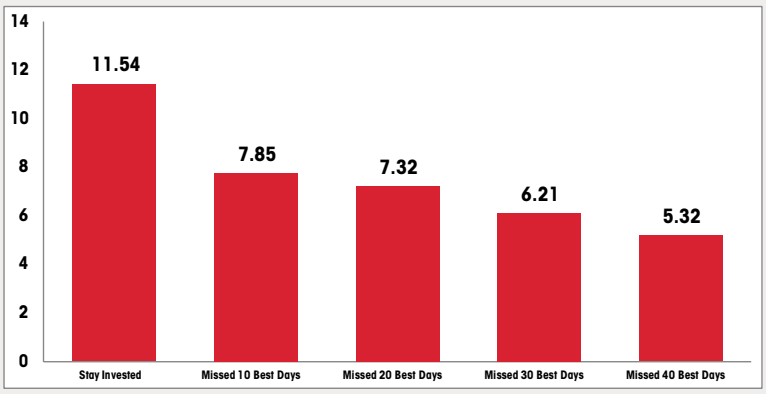
Large gains may come in quick, unpredictable surges. Trying to predict when to be invested can result in an investor missing out on these periods of intense gains. Missing only a small percentage of these phases can have a significant impact on returns.

The below example shows how, over a twenty-four-year period (1988-2011), missing just the best 30 trading days would have cut the S&P 500 Index annual average return from 11.54% to 6.12%.

Of course missing the worst days can also add value to your investments but trying to forecast which days or weeks will yield good or bad returns is a guessing game that can prove costly.

At Holden and Partners we see our role as offering clients the opportunity to benefit from a well-structured investment plan whilst providing the confidence and support to stick to it.

Crucially, we help remove emotion from decision making along the way.



Missing the Best Days in the S&P 500: 1988 - 2011[ii]

i. MSCI UK Index (Gross Dividends), MSCI World index (Gross Dividends) MSCI data copyright MSCI 2013. All rights reserved. Performance data represents past performance. Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown.

ii. The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Blue & Green today

The environment is the top ethical issue.

Environmental issues remain the key driver for investors who want to invest their money ethically or sustainably, according to an on-going survey by Blue & Green Investor (formerly Worldwise Investor).

After asking respondents to pick which of the 29 ethical, social, environmental or animal welfare issues most concerned them in relation to their investments, the top five were all environment related.

The clearing of tropical rainforests, the use of high volumes of timber without complying with internationally recognised standards and the manufacture of chemicals without managing the risk of adverse environmental effects made up the top three.

"91% of respondents said they wanted to do good with their money"

The survey, which is on-going, was conducted directly with investors in collaboration with financial advisers through the Blue & Green Investor website.

Ninety-one per cent of the 121 respondents said they wanted to do good with their money – as well as getting a financial return. Meanwhile, nearly three-quarters (74%) said they would consider setting aside a small amount of money for environmental or social impact investments.

Concern about the environment

Climate change and the financial crisis have had an impact on investors. Investors today may be more concerned about the environment and irresponsible marketing rather than simple Quaker principles and exclusions.

There is a very strong investment case for all investors to allocate at least 10% of their portfolio to sustainable investment funds, or themes. When considering an investment one should not look at past performance but at what the future holds.

Ethical issues on the wane

The Blue & Green Investor survey also showed that ethical issues including pornography, alcohol, gambling, tobacco and animal testing, which were historically some of the most popular negative screens, were now of least concern to respondents.

Instead, areas such as renewable energy, energy efficiency, clean water, air quality and positive impact on people and communities were heralded as the top issues for positive change.

Blue & Green Investor publisher Simon Leadbetter said,

"The investor survey provides compelling insight on the emerging trends of 21st century investment. With the average age of a first time investor being 42, it is only now that those who have spent their entire lives learning about climate change are starting to invest."

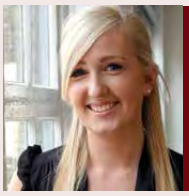
by Mark Hoskin
Partner

Meet our new staff

We have been expanding steadily over the last couple of years and as a consequence have been invested more in our back office resource. We are therefore happy to introduce the following new members of the Holden and Partners team:

Stefani Rogers
Paraplanner

Tim Wood
Paraplanner



Hannah Smith
Paraplanner

Tina Smart
Adviser Support
Group Benefits

Catherine Dichiera
Adviser Support

Amelia Sexton
Investment Assistant

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ou have pension assets
at least £500,000 a review
ould be undertaken as
on as possible to ensure
opportunities are missed
fore the deadline is
ssed.

pensions time bomb

Risk of tax on your pension fund heightens from 2014

The maximum pension fund you can accumulate before suffering a tax charge is being reduced again from 6 April 2014. Anyone with a pension fund totalling £500,000 or more will need to fully consider all options, such as whether to apply for protection and cease contributions to a pension, now to ensure the appropriate decision can be made.

Andrew Johnston
Partner

continued over

We are now seven years on from 'A' day (5 April 2006), when pension rules were meant to be simplified, and we are now faced with further changes to those rules.

Originally individuals had to make a decision whether to protect their pre 5 April 2006 pension benefits from the Lifetime Allowance ("LTA") of £1.5m, by either applying for Enhanced Protection or Primary Protection.

In April 2012, the LTA of £1.8m was reduced to £1.5 million. However, Fixed Protection was available to maintain the LTA at £1.8m as long as certain conditions were met. The LTA will be reduced further to £1.25m on 6 April 2014 and HMRC are introducing two forms of protection, which we will now consider.

It should be noted that avoiding breaching the LTA in the future is not always in someone's best interest. It is important to consider the net position at retirement, not just the one off impact of a LTA Charge.

Crystallisation

Where pension benefits are taken at the first opportunity (known as 'crystallisation') the value of those pension benefits are tested against the LTA at that time (this may be the Standard LTA or protected LTA). Where benefits exceed the LTA there will be a tax charge and this is dependent on how the excess is drawn:

1. If drawn as income, there is an immediate 25% tax charge on the excess paid to HMRC (it should be remembered the income payments will also be taxed at the individual's marginal tax rate).
2. If drawn as a lump sum, there will be an immediate 55% tax charge.

Fixed Protection 2014

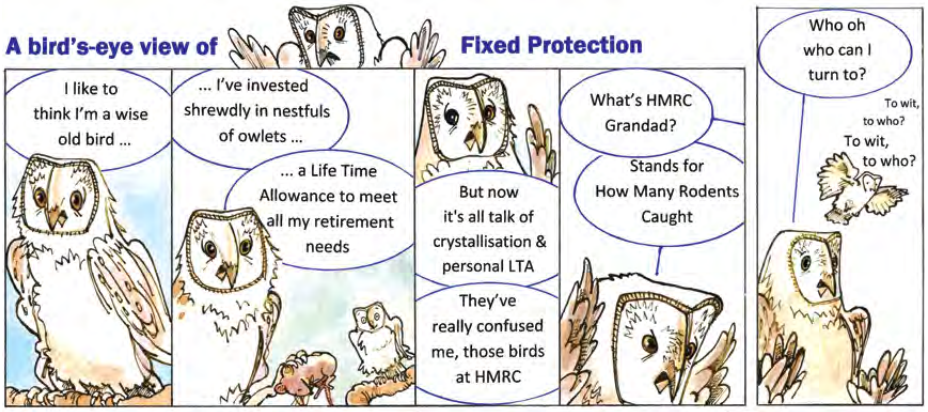
A member who registers for fixed protection will maintain the LTA of £1.5m after 6 April 2014.

To be able to maintain fixed protection a member has to stop being an active member of all registered pension scheme by 5 April 2014.

Fixed Protection will be lost when:

- Starting a new pension arrangement other than to accept a transfer of existing pension rights.
- Making further contributions to a money purchase pension.
- Having further benefit accrual (above certain limits) in a defined benefit pension.
- Breaking the transfer restrictions.
- Being auto-enrolled in an employer's scheme.

- Where contributions are received from an employer, will that employer redirect those payments to an alternative arrangement such as enhanced salary? If there is not agreement, would the net pension be higher after an LTA excess charge or not? This is of particular importance for those who are still an active member of a defined benefit pension.
- In most cases personal contributions should be stopped as the maximum income tax relief will be lower than the excess tax charge.



Individual Protection 2014

HMRC are also proposing to introduce individual protection 2014 (still in consultation) where an individual can register for a personal LTA based on the value of their pension savings on 5 April 2014.

It will allow individuals whose pension rights are valued over £1.25m to protect those rights subject to an overall maximum of £1.5m. A crucial difference is that individuals can continue to remain an active member of a pension. It will be possible to apply for both forms of protection

What action should be taken?

As mentioned above, electing for Fixed or Individual Protection is not necessarily the best route to take.

When looking at what actions should be taken, additional factors may need to be considered such as:

- Reviewing the investment strategy and if appropriate holding lower return assets in the pension.
- Consider drawing benefits earlier.

"The key area to consider is to compare the net position of each 'route' to determine next actions."

The above is just a summary of the main issues around the reduction in the Lifetime Allowance. There are a number of other planning issues that could be considered to reduce the impact of a reduced Lifetime Allowance. As always if you have pension assets of at least £500,000 a review should be undertaken as soon as possible to ensure no opportunities are missed before the deadline is passed.

dates for your diary

With the year-end approaching, there are a number of financial dates that may need to be in your diary.

With the deadline for paper submissions of your self-assessment now passed, if you are still to complete your 2012/13 tax return, time is running out. You will need to do so online, with a final deadline of **31 January** for submission and payment of any tax due and any on account payments for 2013/14.

Where tax due is less than £3,000, if you are employed, rather than self-employed, this can normally be collected through your 2014/15 PAYE code, though to do this, submission needs to be by **30 December.**

With HMRC levying an immediate £100 fine for late or incorrect payment, care is needed, with fines rising from this point for continued late payment. Wherever possible, we will help you with the information needed to complete your submission (based on the information we hold on your pension and investments).

Avoiding 60% tax

Of concern to some is the notional tax rate of 60%. This is through the loss of the personal allowance where total income exceeds £100,000. Rather than earning less, the solution is to make a personal contribution to pension or alternatively sacrifice part of your income – you need to do this before it has been received – to reduce your taxable income below £100,000 (and by default, the tax you pay).

With personal contributions to pension, basic rate income tax is granted at source, though you should also claim any marginal rate relief through your self-assessment return.

Salary or bonus sacrifice has the effect of reducing both your income and national insurance contributions at source, so you receive immediate benefit without the need to claim back any tax relief. Employers are increasingly assisting employees who wish to do this, which has the effect of increasing the employee's net income. For the employer, the contribution can be treated as a trading expense, as well as reducing employer NI costs.

"basic rate income tax is granted at source, though you should also claim any marginal rate liability through your self-assessment return."

Despite much negative press, pension contributions remain an attractive means of tax efficient long term saving. Current rules allow you to contribute 100% of earned income up to a limit of £50,000 per annum, however up to £200,000 can be paid into a pension through the use of carry forward of unused relief for up to three years if you have not already used this allowance in previous years.

Reduced annual allowance

The annual allowance reduces in April to £40,000, so care needs to be taken with on-going contributions, in particular where you are a member of a defined benefit scheme such as that offered by the NHS, where the annual "input amount" – the notional value of each year's pension increase - can exceed the annual allowance and lead to an additional tax charge.

"capital gains tax exemption (is) currently £10,900."

If you are fortunate enough, or projected to have a pension worth more that £1.5 million and have not already considered the potential Lifetime Allowance tax charge, you have a short period of time to apply for Fixed Protection, to ring-fence your pension from a recovery tax charge, though there are restrictions that you need to consider, including potentially ceasing any further accrual, which makes the advice and decisions in this area complex.

Enterprise Investment Schemes

For those who perhaps do not want to or are unable to consider contributing to a pension, we are now entering the season for new Enterprise Investment Scheme (EIS) and Venture Capital Trust (VCT) offerings, so where you have also already maximised your ISAs by contributing £11,520 before April, the ability to receive 30% relief on your investment may be attractive.

"for those looking for longer tax free income, the VCT route may be more attractive."

For those with a desire to reduce inheritance tax, then EIS investments will help after just 2 years, whilst for those looking for longer tax free income, the VCT route may be more attractive.

Finally don't forget your annual capital gains tax exemption, currently £10,900. Where you have assets that are not held in a tax privileged environment, for example directly held shares or unit trusts, realised gains of more than £10,900 in any one tax year are subject to CGT at either 18% or 28% and so a process of controlled use off the allowance to rebase your investments would improve the tax position longer term..

Mark Dodd
Partner

we would like to wish all of our clients a
happy Christmas and a prosperous 2014!

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