Cornwall Finance & Investment Services Ltd.
Independent Financial Advisers

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View From The Cliff

Dear One and All, We have the pleasure to present the latest edition of our newsletter, in this eddition we will:-

- Consider the at retirement rule changes coming into law in April 2015. The impacts and opportunities for investment and tax planning.
- Provide market analysis and our understanding of current economic situations, future opportunities and threats to investments and world markets..
- Give our thoughts on the mortgage world and the products currently available.
- In keeping with Halloween give analysis of the top things that give people the jitters and how Cornwall Finance & Investments can help.

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Pension Income The New Rules

Until now people in the UK have been the greatest purchasers of annuities in the World, indeed in 2013 90% of global annuity sales were in the UK. This reflects the extent of the UK pension market's reliance and bias towards this type of retirement income. The new pension rules abolish the requirement that income taken from a pension is linked to and based on the annuity rate in the month of retirement.

The maximum annual income from April 2015 will be 100% of the pension fund. Income; taxable income. The option to take some or all of your pension and blow it now exists, those considering this should be aware that only 25% of the fund will be tax free the rest will be taxed at the highest marginal rate of tax i.e. 45%.

We foresee that most people will want to be cautious with their hard earned savings and arrange their income to be sustainable. We do not predict the complete demise of Annuities and consider that they still represent value for certain clients, especially Enhanced Annuities, however we feel that the case for Temporary Annuities with guaranteed capital is strengthened.

The Chancellor continued to adjust UK pensions with his speech at the Conservative Party Conference. His speech focused on the position of pension savings on death:

	Previously	Now
Under 75	If no income had been taken: No tax on funds left as lump sums to spouse or child under 23. Other beneficiaries/ after income taxed at 55%	No tax on withdrawal of the fund by beneficiaries – including grandchildren and non-spouse.
Over 75	Income taxed at the beneficiaries' marginal rate. Funds left as lump sums to beneficiaries taxed at 55%	Income taxed at the beneficiaries' marginal rate. Lump sums will be taxed at 45% (in certain circumstances).

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ISA

Pension

VS

Under the current regime the rules effecting Pensions and ISAs make them chalk and cheese. However, under the new laws coming into force in April 2015, those over 55 with earned income have a great opportunity for investment and unprecedented choice over where they place their savings as the two look far more similar.

ISA		Pension	
Contributions:	Non-relievable against Income Tax: £15,000.00 payment = £15,000.00 investment	**Contributions:**	Relievable against Income Tax: £15,000.00 payment = £18,750.00 investment
Growth:	Wide choice of investments	**Growth:**	Wide choice of investments
Tax while invested:	Tax advantaged	**Tax while invested:**	Mostly free of tax
Access:	Full access at any time. Income or capital sum. No tax to pay on withdrawal.	**Access: [After age 55]**	Full access at any time. 25% free of tax 75% taxable at your highest marginal rate either as income or capital sum.

For us there is no universal clear winner here, indeed we feel that our clients should take full advantage of both.

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World Investment Review

The UK Thank God it still is the UK, the Scottish got us worried for a time. The UK has surprised everybody with its strength, the fastest growing G8 economy. Unemployment is low and falling and company investment is improving. The housing market is now stalled, we see this as positive and hope for a soft landing 20-25% lower than now. We believe that this sector is unlikely to prove any stimulus to near term growth through consumer spending. We feel that there has been a shift, and a more sustainable industrial led recovery seems likely. Monetary and government policy is likely to remain supportive, however all could change with the General Election in May 2015. Volatility is likely to continue as the market seeks best value amid concerns over the impacts of the wider world economic growth.

USA has made a hesitant recovery, house prices are off the bottom, USA Government borrowing is down. We remain positive on USA Stocks, however gains are likely to be at the cost of considerable short term volatility. The strength of the US dollar is likely to continue and may hamper company profits and stifle bond yields.

Asia China, the world's second largest economy and global manufacturer. The Chinese Premier Xi Jinping and his government are showing progress in rebalancing the economy, corruption is endemic although now being gripped. Hong Kong elections next year will be viewed with interest. Investment opportunities abound in the rest of Asia and we remain cautiously positive on the outlook for Japanese equities.

Europe France and Italy in are recession, Germany is now also half way to being in recession so the prospects for Europe seem bleak. Indeed, if Europe's leaders do not get a grip then there are concerns that Europe could slide into Japanese Stagflation for a decade. Europe could become a major brake to World economic expansion. However, Europe has world leading highly profitable companies that deserve inclusion in portfolios.

Emerging Economies We stick to the very positive view that for those investing for the mid to long-term, the developing world offers excellent growth potential in Africa, South America, Australasia. But Emerging European markets is another matter. Putin wishes to fully dominate his economy and those of his neighbours, unfortunately for his people 21st Century economies and dictators so not mix. His territorial expansion plans are also of grave concern and we are cautious about investing in Emerging European markets. Fortunately for us a strong united, democratic and free Germany is giving Mr Putin Pause.

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Our close associations with the best fund management companies in the UK help us to add value to the wealth of our clients. One highly respected company is Brewin Dolphin, we are most grateful to Jonathon Croggon, Fund Manager with Brewin Dolphin, for his support in preparing the article below.

Cracked China?

The broad market correction that has taken place over the last few weeks has sparked fears that we may have come to the end of the "bull" rally that has served investors so well over the last five years. A plethora of explanations have been put forward to explain the recent loss of confidence. Along with concern that the Eurozone is in a chronic state of decline, and that a weaker than previously thought Germany can no longer support it, there are also worries that the powerhouse Chinese economy cannot take up the slack that the developed world has left behind. Policymakers in China are employing the minimum amount of stimulus possible to meet the lower end of growth targets, in order to wean the economy off its addiction borrowing (credit) addiction. With so much seemingly riding upon whether or not China can in fact reach its growth targets - 7.5% gross domestic product (GDP) expansion in 2014 - it is worth delving a little deeper into what goes in to this figure, and whether or not so much should rest upon a notoriously difficult to measure data point. Measuring GDP is a famously imprecise science. There are various known issues with the Chinese GDP numbers, as indeed there are with all GDP figures – lest we forget that drug trafficking and prostitution have recently been added to our own GDP measure in order to comply with European regulations! We have always stressed that what matters about growth is the composition of it, and never more so than in China. The concern about Chinese growth is that too much of it relates to fixed asset investment and not enough relates to consumption. Too much investment makes global finished product prices low but drives basic material prices upwards. Chinese investment demand, therefore, relates closely to such measures as Australian iron ore exports which have been weak. This supports the thesis that China is rebalancing its economy away from investment. That's good news as the investment splurge has been being ratcheted up with each passing US recession, and that investment is funded by debt. Debt has been rising faster than GDP since 2008, underlining that much of this investment is uneconomic. The other impact of overinvestment is an excessively competitive export sector. The trade surplus bloats GDP numbers which will have to come down as the Chinese economy rebalances. We are looking for GDP to be below 7% next year, even as the composition of that growth improves in line with the Chinese authorities' own plans.

Behind this one figure, there are clearly a number of highly complicated factors that may distort the truth as to the underlying health and progress taking place in China. There are, of course, other measures which can give a good (if not better) indication of Chinese activity. Most obviously the Market PMI's (Purchasing Managers Indices) are helpful. We also monitor the total social financing numbers closely. Electricity consumption is useful, although it lacks detail on the composition of growth. On the trade front we are able to do a sort of global trade Sudoku looking at the reported bilateral trade numbers between major trading partners such as Australia and Germany to see whether the trade numbers look accurate. Largely they do with the well-flagged exception of excessive trade with Hong Kong which has been used as a means of making speculative currency trades that circumvent China's semi-closed capital account.

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Mortgage Market Update:

Lowest APR*	Lowest Rate*	Best 5 year Fix APR*
2.10%	2.05%	3.7%

View on the Housing Market:

- 200,000 house needs to be built every year to meet the demands of the growing UK population; this is not currently being achieved.
- House prices are stabilising and are likely to undergo a downwards correction in the next few months.
- Increasingly it is being predicted that the UK may move to a housing market with a greater proportion of rented property with estimates as high as 50% rental by 2032

View on Residential Lending - impact of the Mortgage Market Review:

Credit scoring has been tightened by lenders and is increasingly catching out both First-time Buyers and those seeking to remortgage.

- Lenders are unwilling to lend over 90% in practice irrespective of the government guarantee.
- As fewer mortgages are being written there is likely to be a fight between lenders for market share and therefore some good deals for those borrowers who meet the increased requirements for earning and credit history.

View on Buy-to-Let:

- The Bank of England has indicated that it would like a minimum 40% deposit for Buy-to-Let mortgages.
- There are an increasing number of products available to Buy-to-Let Landlords, partially due to the current comparative lack of regulation with residential mortgages.
- EU and Bank of England rumblings suggest that regulation of the Buy-to-Let market may be brought in at some point.

Importance of financial advice in current climate:

Non-High-Street Lenders are more prepared to lend in non-standard cases; most will only lend through a Financial Adviser.

- Potential Buy-to-Let Landlords should consider their wider investments and their attitude to investment risk. Good financial advice is essential prior to this type of single asset, non-guaranteed investment.
- As interest rates will rise in the near future getting the most appropriate mortgage is particularly important, as is ensuring that the right protection is in place to ensure that the largest asset most people own is secure.

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Don't get spooked!

Top Fears of UK households

46% **Fear Health Problems— For themselves or their Family**

We don't do miracle cures but we can help you to ensure that if you are unwell all you have to worry about is getting better—talk to us about PHI and Health Insurance

16% **Fear the impact of a friend or family member having financial difficulties**

We can put financial protection in place in case of Accident, sickness or un-employment. If there is someone you are worried about put them in touch with us.

26% **Fear a rise in inflation or the cost of living**

We work to deliver investments which outperform inflation, so your long term wealth is not eroded. We can provide income solutions which feature increases to protect against rises in cost of living.

15% **Fear debt**

With good financial planning debt shouldn't be a worry, but if it is we can assist with alleviating the situation and prioritising your finances.

21% **Fear the impact of government spending cuts**

Having good retirement savings and adequate income protection mean that however diminished the state provision you will not suffer financial hardship.

15% **Not being able to loose weight**

We offer a life assurance policy that rewards an active lifestyle with discounted pre-miums, if you need an incentive.

27% **Fear Not being able to make ends meet**

We can conduct cash-flow analysis at our review meetings and help to identify areas of potential savings.

26% **Fear a fall in their standard of living**

We are optimistic about the UK economy and believe that our clients, with good financial protection and making regular savings, should not be overly concerned.

23% **Fear a terrorist attack**

A properly diversified portfolio helps to protect your assets from terror attacks; this is why our investment approach generally features a large spread of investments.

18% **Fear bad weather**

Good home and contents insurance and adequate protection for our self-employed clients in case they cannot work means our clients are safe from the weather—although you might still need a good raincoat!

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Cornwall Finance & Investment Services: Our Service Standards:-

Prime Service

Designed for our clients, with large assets or complex financial planning needs The minimum annual fee for this service is £1,000.00

Executive Service

Designed for our clients, whose assets or financial planning needs require a comprehensive but less intensive service but still built around them. The minimum annual fee for this service is £587.00.

Advanced Choice

Designed for our clients, whose assets or financial planning needs require a standardized level of service. The minimum annual fee for this service is £378.00.

Entry Level

Aimed at those clients whose financial planning objectives initially only require a "one-off" service. Single reports are available maximum fee £587.00 for investment and £387.00 for mortgage reports. These are usually rebated on implementation of your financial plan. Our implementation fees are based on the complexity of your case and or the capital you have to invest. Contact us for full details and an individual quotation.

We hope you found this newsletter of interest and look forward to speaking with you all soon. Your views matter to us, so if there is anything you would like to see in our Spring edition please let us know.

If you would prefer to receive this newsletter by email or should you have any questions please contact me on:

01637 839098, Mobile 07710 868377 or by email at mark@cfislive.co.uk

Have a great end to 2014

Mark Ridgment & The Cornwall Finance & Investment Services Team