The Mortgage Shop

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Viewpoint

A global approach to asset allocation

All about ISAs

Look beyond the price of your protection policy

A global approach to asset allocation

Asset allocation is one of the key tools in our investment proposition to help strike the right balance between risk and reward in your portfolio. It applies to asset classes, such as equities, bonds and cash, and different global regions.

The actively-managed Omnis Managed Portfolio Service (OMPS) and our Graphene model portfolios are all globally diversified. While the largest allocation is to domestic assets, as you might expect from a UK-based service, they also hold investments in developed and emerging markets (EMs).

The thesis supporting the investment in developed markets (DMs) like the US, Europe and Japan is reasonably clear. Their economies are robust, and their stock markets boast some of the biggest publicly-listed companies in the world.

The argument in favour of EMs is based on what we believe are attractive prospects for the region due to its demographics. As we pointed out in one of our newsletter articles in late 2018, most of the global growth in the middle class for the foreseeable future will take place in EMs . An expanding middle class consumes more and generates greater domestic demand, leading to a stronger economy.

A bumpy journey

One reason investors sometimes shy away from EMs is because they are traditionally not as stable as developed markets. These concerns are reflected in the volatility of the region's stock markets. The MSCI Emerging Market Index (the benchmark for the Omnis EM Equity Fund) rallied at the start of 2018 before a strong US dollar, rising US interest rates and idiosyncratic incidents in Turkey and Argentina weighed on performance for the rest of the year. However, the outlook has improved lately as the Federal Reserve has softened its tone and is expected to pause interest rates in 2019, while China has launched stimulus measures to boost its economy. Other EMs, including India, are undertaking structural reforms which should improve sentiment further.

Effective diversification

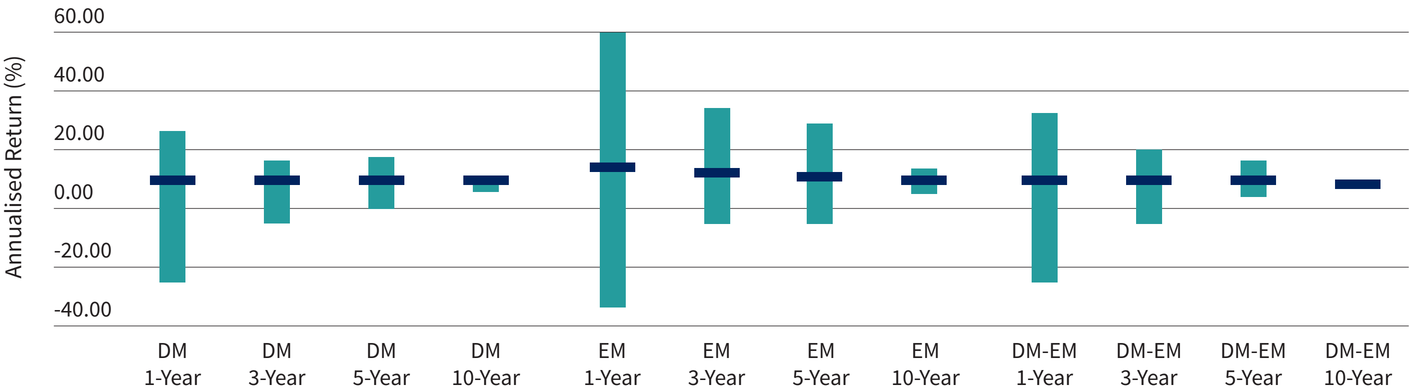
As you can see from the chart, long-term average returns from EMs tend to be higher than developed markets. That's why the allocation to the region in the Graphene and OMPS Adventurous and Balanced portfolios is relatively high compared to similar services available to UK investors (the OMPS Cautious portfolio occasionally adds a small overweight position).

We believe this will allow us to take advantage of what should turn out to be the region's superior growth rates. But as 2018 reminded us, you must be prepared to put up with short-term periods of volatility to secure those potentially attractive returns.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

Past performance is not a reliable indicator of future performance and should not be relied upon.

Range of Developed & Emerging Equity Returns Over Different Holding Periods



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All about ISAs

In the 2019/20 tax year, you can save up to £20,000 tax-free in an Individual Savings Account (ISA), and when it comes to your ISA investment, you have a number of options.

Investors comfortable with the slightly higher risk Peer to Peer lending can also now invest in an Innovative Finance ISA, and those aged 18 to 40 can open a Lifetime ISA.

Although you can't hold an ISA for anyone else, parents or guardians can open a Junior ISA and manage the account; but the money belongs to the child.

Put simply, an ISA is a tax wrapper for your money. There are two main types available depending on the level of risk you're prepared to take:

— Cash ISA
— Stocks and shares ISA

Withdrawing money

You can withdraw money from your ISA at any time without losing the tax benefits, but your ISA provider may have restrictions or ask you to pay a charge. It's worth contacting them to find out before you withdraw any money.

If you have a 'Flexible' ISA, you can withdraw cash and replace it in the same tax year without reducing your current year's allowance. For example

— The 2019/20 allowance is £20,000
— You pay in £10,000 and withdraw £5,000
— If your ISA is flexible, you'll have a remaining allowance of £15,000
— If your ISA is not flexible, you'll have a remaining allowance of £10,000

Transferring your ISA

All ISA providers allow you to transfer your money to a different provider (or to a different ISA with the same provider). By transferring, rather than selling or reinvesting, you keep future tax benefits.

Here are the rules:
— You can transfer from one provider to another
— You can transfer money from one type of ISA to another ie, from a cash ISA to a stocks and shares ISA
— Money you have invested in an ISA in the current tax year must be transferred in full
— Money you have invested in previous years can be transferred in part or in full

You may not be able to transfer your ISA back to the original source.

If your investments are moved to us as cash, you'll be out of the market while your money is being transferred. You could miss out on growth/income if the market rises during this time.

Additional permitted subscription allowance (APS)

If you're married or in a civil partnership with someone who died on or after 3 December 2014 you can apply for APS, which means the surviving spouse or civil partner will have an increased ISA allowance:

If a person dies with £50,000 in an ISA;
— The remaining spouse can apply for APS
— In the 2019/20 tax year they would have an allowance of £70,000 instead of £20,000.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen. An ISA is a medium to long term investment, which aims to increase the value of the money you invest for growth or income or both. The value of your investments and any income from them can fall as well as rise. You may not get back the amount you invested.

[Look beyond the price of your protection policy]

Most of us celebrate the start of life and pay tribute to the end of life, but are we placing enough importance on everything in between?

If we're lucky we'll enjoy certain life events like finding a lifelong partner, marriage / civil partnership, having children, enjoying a career and, ultimately, retiring. But how many of us take out financial protection in the event our plans go awry?

Clearly life isn't always plain sailing and we will face obstacles and challenges to overcome. When these challenges are more serious, for instance if accident, illness or death strike, protection insurance can help provide a safety net.

And when it comes to protection, we hold two firm beliefs:

1. It should form the foundation of most people's financial plan.
2. Cover should be reviewed regularly to make sure it continues to meet your needs.

The second principle is particularly important when you're at a particular 'life' stage. Whether that's buying a house, getting married, starting a family, setting up in business, or all the above, protection insurance will help to protect your loved ones and your financial responsibilities.

But it's important to look beyond the headlines when taking out protection as many providers will offer added-value benefits beyond an initial pay out, that can really help you adapt and cope to potentially life-changing circumstances.

These additional benefits could be anything from access to expert medical opinion, rehabilitation to get you back to work as quickly as possible, bereavement counselling, or even global treatment.

When using comparison sites and direct insurers, care should be taken to make sure their 'off-the-peg' solutions meet your specific needs. Using our expert product knowledge, we can help find the right solution with the right value-added benefits for you.

For more information or to discuss a protection shortfall, please get in touch.

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