

Financial Viewpoint



The importance of diversification

Who should you listen to when it comes to choosing how you invest?

Auto-enrolment update

We look at the minimum contribution levels employers must pay into their pension schemes.

The path ahead for the global economy

We look at the political and economic events that could impact your investments.

The importance of diversification



With ISA season comes the usual fanfare in the money pages about which investments will deliver the best returns – peppered with the usual important caveats about investment performance and the potential for loss of course.



If you'd like advice on your investment planning, please get in touch.

Every commentator will have a different idea about which areas and which funds are the best bet; and these varying opinions can cause confusion for anyone relying on their expertise.

It's also important to note that none of these talking heads will be privy to your specific financial circumstances and goals – no matter how impressive their CVs. That's why it is so important to seek advice from professionals – like us – who will take the time to find out more about you, what makes you tick and what you'd like to do with your money. This ensures a robust process which results in an appropriate plan and appropriate investments that match your specific risk profile and financial goals.

Diversification matters

Any investment professional worth their salt will tell you about the importance of diversification across your investments, particularly if you plan to save money in your ISA over the longer term (ie. more than five years).

If you invest in individual funds, and we can recommend funds from some of the leading fund managers, the trick is to blend exposure to different asset classes. These asset classes include equities, often referred to as 'stocks' or 'shares', which represent a stake in the ownership of a company.

There are also bonds – sometimes referred to as 'fixed income' securities – which could be described in similar terms as a loan to a company or government which pays interest. Compared to equities, bonds can be less risky should you require a more stable investment environment.

Other, so-called 'alternative' investments could include property, or commodities like gold, natural gases or agriculture, which are all accessed via specialist funds.

Active, daily management

We can recommend a spread of funds through a range of risk-rated portfolios. These are the auto-rebalancing **Openwork Graphene Model portfolios** and the actively managed **Omnis Managed Portfolio Service**.

The latter is managed on a daily basis by experts whose aim is to deliver consistent returns while managing risk through investing in a wide variety of Omnis funds.

Whichever way you invest, it's important that you take up your maximum ISA allowance if you can afford to. This is £20,000 for the 2017/18 tax year.

The tax efficiency of ISAs is based on current rules. The current tax situation may not be maintained. The benefit of the tax treatment depends on the individual circumstances.

The value of your stocks and shares ISA and any income from it may fall as well as rise. You may not get back the amount you originally invested.



Auto-enrolment update

It's reasonable to suggest that auto enrolment has been a major success story. In fact, more than 1 million employers and 9 million employees have made pension saving a part of everyday life since its introduction in 2012.

6 April 2018 saw the second phase in the development of auto-enrolment; when employer and employee minimum contributions rates for defined contribution qualifying schemes will increase (and do so again on 6 April 2019).

Are you ready?

If you're an employer, you should have received a letter from The Pensions Regulator advising you of your duty

to increase contributions. However, this isn't necessarily a simple exercise as the minimum level of contribution depends on the rules of the scheme and the definition of pay used to calculate the contributions.

The table below illustrates the different definitions of pensionable pay and the respective minimum levels of contributions:



If you'd like help understanding your auto-enrolment duties or you'd like to consider outsourcing your responsibilities to a specialist, please get in touch.

| | Date effective | To 5 April 2018 | 6 April 2018 to 5 April 2019 | From 6 April 2019 |
|--|----------------|-----------------|------------------------------|-------------------|
| Qualifying Band Earnings or Own definition (at least to basic pay and 85% total pay, please see below) | Employer | 1% | 2% | 3% |
| | Employee | 1% | 3% | 5% |
| | Total minimum | 2% | 5% | 8% |
| Basic pay (Does not include bonuses, overtime shift pay or relocation allowances) | Employer | 2% | 3% | 4% |
| | Employee | 1% | 3% | 5% |
| | Total minimum | 3% | 6% | 9% |
| Total pay (Includes all elements of pay and earnings) | Employer | 1% | 2% | 3% |
| | Employee | 1% | 3% | 4% |
| | Total minimum | 2% | 5% | 7% |

The path ahead for the global economy

Much has happened to keep us busy in 2018 so far, but there's plenty to come in the second half of the year in terms of the political and economic events that could shape the future direction of markets, and your investments.



UK

The second-half of 2018 in the UK should be all about Brexit in the run up to our scheduled departure from the EU on 29 March 2019. Having reached an agreement on the so-called 'divorce bill' at the end of last year, the next stage of negotiations is about the UK's relationship with our European neighbours going forward. With so much still in the air – including future trade and rules around EU citizens living in the UK – decisions made could have an impact on investment markets, especially trading in the pound.



US

The big event at the end of the 2017 was the passing of Donald Trump's tax reforms, including big tax cuts for companies and a drop in income tax which will benefit many American families. However, most won't feel the affect until they file their taxes in April 2019.

A measure of Trump's popularity will be the US midterm elections in November, which historically haven't always gone well for the incumbent president's party. The whole House of Representatives, a third of the Senate, and most governorships will be at stake, along with hundreds of state legislative seats and local offices around the country.



Latin America

Donald Trump has upset many Mexicans with his plans for a wall separating the country from the US. Relations between the two neighbours are likely to figure prominently in the Mexican presidential election on 1 July. The favourite to win is the former mayor of Mexico City, Andres Manuel Lopez Obrador, who is leader of the left-wing National Regeneration Movement (MORENA). He has been very vocal about Trump's policy toward Mexico.

Brazil has had a tough few years. President Dilma Rousseff was impeached in 2016 after allegations of manipulating the government's budget, while former president Luiz Inacio Lula da Silva was convicted of money laundering last year. However, Lula, as he is more commonly known, is among those fighting for re-election in this October's vote.



Europe

After a tough ride for Angela Merkel in the German election, and the fallout from Catalonia's bid for independence from Spain, 2018 appears to be a more serene year for politics within the eurozone. However, with such cultural and economic diversity within the bloc, its future sustainability must not be taken for granted. On the economic front, the eurozone as a whole continues to impress in terms of growth, though the European Central Bank (ECB) remains behind the curve in terms of monetary policy – namely it has kept interest rates at 0% while other major economies are beginning to 'hike', or raise, theirs.

With the eurozone economic crisis of a few years back still fresh in our memories, an important milestone could be the results of stress tests of Greece's four largest banks, due to be published by the ECB in May. This will hopefully allow time for any shortfall to be filled before Greece is due to leave its bailout programme in August.



Asia

After China's grand leadership reshuffle late last year, other South East Asian countries are set for a political refresh in 2018. National elections are due in Malaysia, Thailand and Cambodia in the second half of this year, while Indonesia's politicians are already on the campaign trail for elections there in 2019. The US withdrawal from the Trans-Pacific Partnership – a trade agreement between 12 countries, representing some 40% of the world economy – was a big headline last year. However, while it means less reliance on the US, it could ultimately lead to even greater influence from China, now challenging to become the world's largest economy.

Past performance is not a guide to future performance. The value of your investments and any income from them can fall as well as rise and you may not get back the original amount invested.



If you're concerned about how global events could impact your investment portfolio, please get in touch.

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