Financial Viewpoint

Prosperity Financial Services Ltd

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Home improvement
Stick to the jobs that will help to add value to your home.

Why active investing is more effective in volatile markets
It's in volatile markets that active fund managers could add the greatest value.

How to prepare financially for long-term illness
It's not just the NHS that foots the bill when it comes to treating ill health.

How risk influences asset allocation
Diversification can help you strike the right balance between risk and reward.

Will solar panels affect your move?
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Are you sure you're saving enough for a comfortable retirement?

The difference between value and growth investing
Why it's important to invest in funds offering a blend of styles.

Home improvement

Whether you're renovating your home because it's too expensive to move, or you've only just bought the place and you're keen to make your mark, it's important to stick to jobs that will add value rather than risk reducing its future sale price.

Before you embark on improving your home, follow our tips to help make sure you focus on jobs that will add value if and when you come to sell:

Check your deeds

There may be restrictions on what you can do and you may need planning permission - especially if the changes affect a boundary or your property's external appearance.

Avoid removing bedrooms

You may want to knock down a wall and convert that box bedroom into a large ensuite, but a three-bedroom semi-detached is naturally going to sell for more than a two-bed.

Be commercially-minded

Consider the neighbourhood you live in and the types of buyers likely to want to live there. Spending money re-landscaping your garden and laying turf and borders may not appeal to a younger professional couple who just want low-maintenance outside space for entertaining.

Avoid personalisation

Unless you are prepared to redecorate when you come to sell, try and use neutral colours on walls and doors. You can always introduce bold, bright or dark colours in soft furnishings and ornaments to achieve the effect you want.

Check the paperwork

If you're looking at a bigger undertaking such as converting your loft into a bedroom, make sure you have the correct paperwork and certification, otherwise the money you spend may not be realised in the sale price.

Hire a professional

Avoid a DIY disaster by only taking on projects you are confident you can complete.

Check your policy

If you're going to make any major changes to your home you should contact your buildings and contents insurance provider first to avoid unintentionally invalidating your policy. And make sure your policy covers you for accidental damage caused during your DIY efforts.

Top 10 DIY nightmares:

1. Woodchip wallpaper
2. Mirrored ceilings
3. Carpeted bathrooms
4. Ugly blinds
5. Fake beams
6. Outside toilet
7. Artex ceilings
8. Internal stone cladding
9. Beaded curtains in doorways
10. External stone cladding

Top 10 DIY dreams:

1. Interior redecoration
2. Flooring replaced
3. New bathroom
4. Garden makeover
5. New kitchen
6. New boiler/ central heating system
7. Double glazing / new windows
8. New shed or garden building
9. Exterior redecoration
10. Better insulation

If you're looking to fund your home renovations please speak to us for advice.

If you'd like more details about the Omnis funds and fund managers, or for wealth management advice, please speak to us.

Why active investing is more effective in volatile markets

A glance at the performance of the major stock indices in 2018 shows that volatility was a common theme. US equities followed an upward - although somewhat choppy - trajectory from early March, but they had a turbulent start to the year. Meanwhile, UK, European and Japanese equity markets experienced fluctuations of various magnitudes as they drifted sideways or downwards over the same timeframe.

Geopolitical events drove most of this volatility. On a global scale, trade tensions rattled the markets. US President Donald Trump made some progress with his immediate neighbours but reaching an agreement with China proved more challenging. Closer to home, the protracted and confrontational nature of Brexit negotiations led to a high degree of economic uncertainty. Later in the year, the Italian coalition government's plans to increase fiscal spending in its first budget raised concerns that it would breach EU rules.

Navigating volatile markets is difficult, but it is under these conditions that active fund managers can add the greatest value. As the name suggests, they buy and sell investments in an effort to outperform a benchmark such as the FTSE 100 or S&P 500. This flexibility allows active managers to respond to what is happening in the markets, so they buy a share when they identify an opportunity, and sell one if they spot a threat.

Active vs passive

Compared to actively-managed funds, passive investments, such as exchange traded funds (ETFs) or index trackers, tend to underperform in volatile markets. They attempt to mirror the performance of a benchmark by buying and holding similar assets, and they only sell when a company drops off the index. As their asset allocation is static, passive investments cannot react to changing economic conditions, making them less effective in fluctuating markets.

The Omnis range consists of actively managed funds because the investment team believes they can identify fund managers who add enough value in both smooth and volatile markets to outperform in the long run.

Regardless of whether you invest in active or passive investments, the value of your investments and any income from them can fall as well as rise. You may get back less than you invest. This update reflects Omnis' view at the time of writing and is subject to change.

How to prepare financially for long-term illness

While British life expectancy continues to rise, the same might not be said for the quality of health we could expect to enjoy as we get older, according to a stark warning from The British Heart Foundation. Their analysis suggests the number of people suffering heart attacks and stroke because of a rise in diabetes diagnoses could rise by 29% over the next two decades.

While this could be blamed on worsening lifestyles and a growing obesity problem, demographic changes such as an ageing population mean the number of people with chronic or long-term conditions is also likely to increase. This puts extra strain on the NHS as it tries to keep pace with society while managing the cost pressures this inevitably puts on our health and care system.

And it's not just the NHS that has to foot the bill when it comes to treating ill health. Ask yourself, how would your family cope if they couldn't rely on your income for a long period of time? Could they sustain their hard-earned lifestyle if you were to die suddenly?

All the same, it won't happen to me...

Unfortunately, the reality of suffering a serious illness or dying suddenly suggests otherwise:

1 in 2 people in the UK will be diagnosed with cancer in their lifetime

Every five minutes someone suffers a stroke in the UK

Around 42,000 people under the age of 75 in the UK die from cardiovascular disease every year

Critical illness cover or life insurance may not sound like priorities for you, but the financial buffer they can provide at such a difficult time could be invaluable.

Appropriate protection, such as life or critical illness cover (written in trust) can help you, your business partners or your loved ones avoid financial difficulty at an already traumatic time.

There are three main types of cover that can be invaluable in this situation:

Income protection
or permanent health insurance, will give you a small salary if you cannot work, which will last until you return to work, retire, die or the policy ends.

Critical illness insurance
will pay you a tax-free lump sum on the diagnosis of a range of serious (but not fatal) conditions including heart attack or stroke.

Health insurance
also called private medical insurance, will pay out for the cost of medical treatment required for an illness or injury.

But insurers never pay out?

If you're put off buying protection because you don't think it will pay out when you need it, think again. According to the Association of British Insurers £5bn was paid out on protection claims in 2017, the equivalent of 98% of all protection claims received during the year.

For more information on how an insurance policy could help you and your family if you were hit with a long-term illness, please get in touch.

How risk influences asset allocation

To strike the right balance between risk and reward in your investment portfolio, it's important to carefully consider how you divide your capital among the various asset classes. In the investment industry, this process is known as asset allocation.

Some assets carry greater risk than others, so well-defined goals are crucial. Say you're saving for retirement and you plan to stop working over the next few years. That means you will need to start drawing an income from your investments within a relatively short timeframe. In this scenario, you would typically start rebalancing your portfolio into less volatile assets like bonds. Bonds - especially those issued by governments of developed countries like the UK and US - are considered among the least risky investments because the danger of a government defaulting on its debt is low.

If you are younger and retirement is twenty or thirty years in the future, you could afford to take greater risk with your capital. Your portfolio could be overweight in equities, which are more volatile than bonds but also potentially generate superior gains. As your investment horizon is longer, your portfolio has more time to recover from short-term market fluctuations. It's also worth bearing in mind that some equities are more volatile than others, for instance, emerging markets may offer better growth prospects due to demographic trends, but their economies tend to be less stable than developed countries.

Of course, cash is the safest asset class. It also generates the lowest returns, and your spending power falls if inflation exceeds the rate of interest your money is earning. Nevertheless, most investment portfolios hold a certain amount of cash.

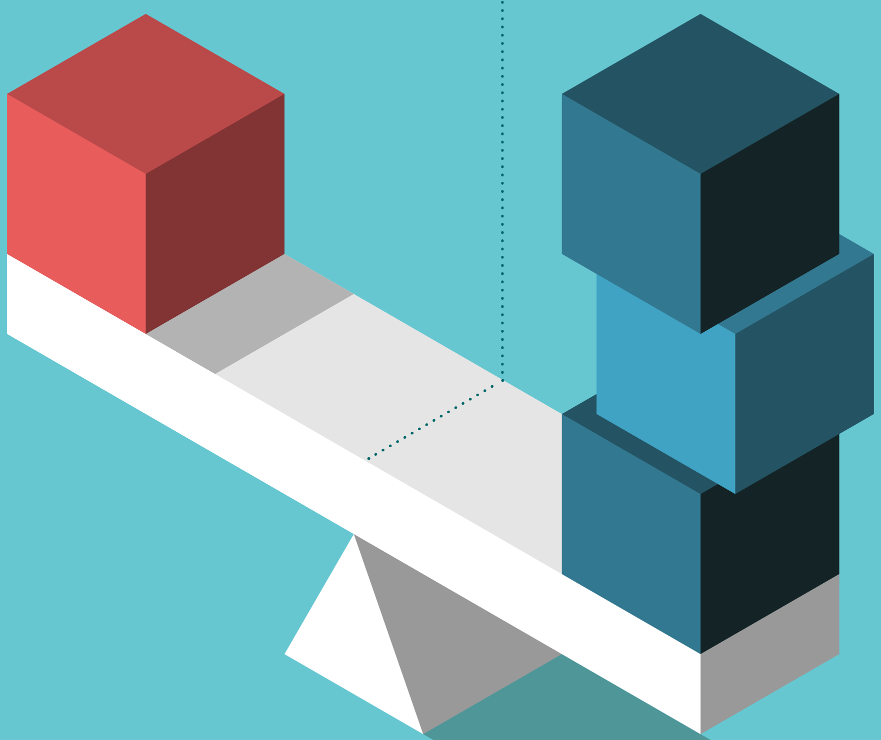
While this list is not exhaustive, it should help you understand the risk profile for each of the main asset classes. Working out the optimal mix of assets is difficult and time-consuming though. Fortunately, because we are part of Openwork, the Omnis investment team can take care of these decisions, and the ongoing oversight of your portfolio, on your behalf.

Asset allocation within the Omnis range

Through Omnis, you can either invest in the Graphene model portfolios or the Omnis Managed Portfolio Service (OMPS). Graphene portfolios automatically rebalance back to their original asset allocation every six months. OMPS, on the other hand, are actively managed by the investment team, and they adjust the allocation within a clearly-defined range in response to opportunities or risks they identify in the markets.

Both sets of portfolios offer a choice of risk profiles: Adventurous, Balanced and Cautious, the main difference being the asset allocation. The Adventurous portfolios invest mostly in the Omnis range of equity funds, while the Cautious portfolios hold a higher proportion of Omnis bond funds. The Balanced portfolios fall roughly in the middle.

If you have any questions about which portfolio your money is invested in, or you'd like to know more about the Omnis funds and range of model portfolios, please get in touch.



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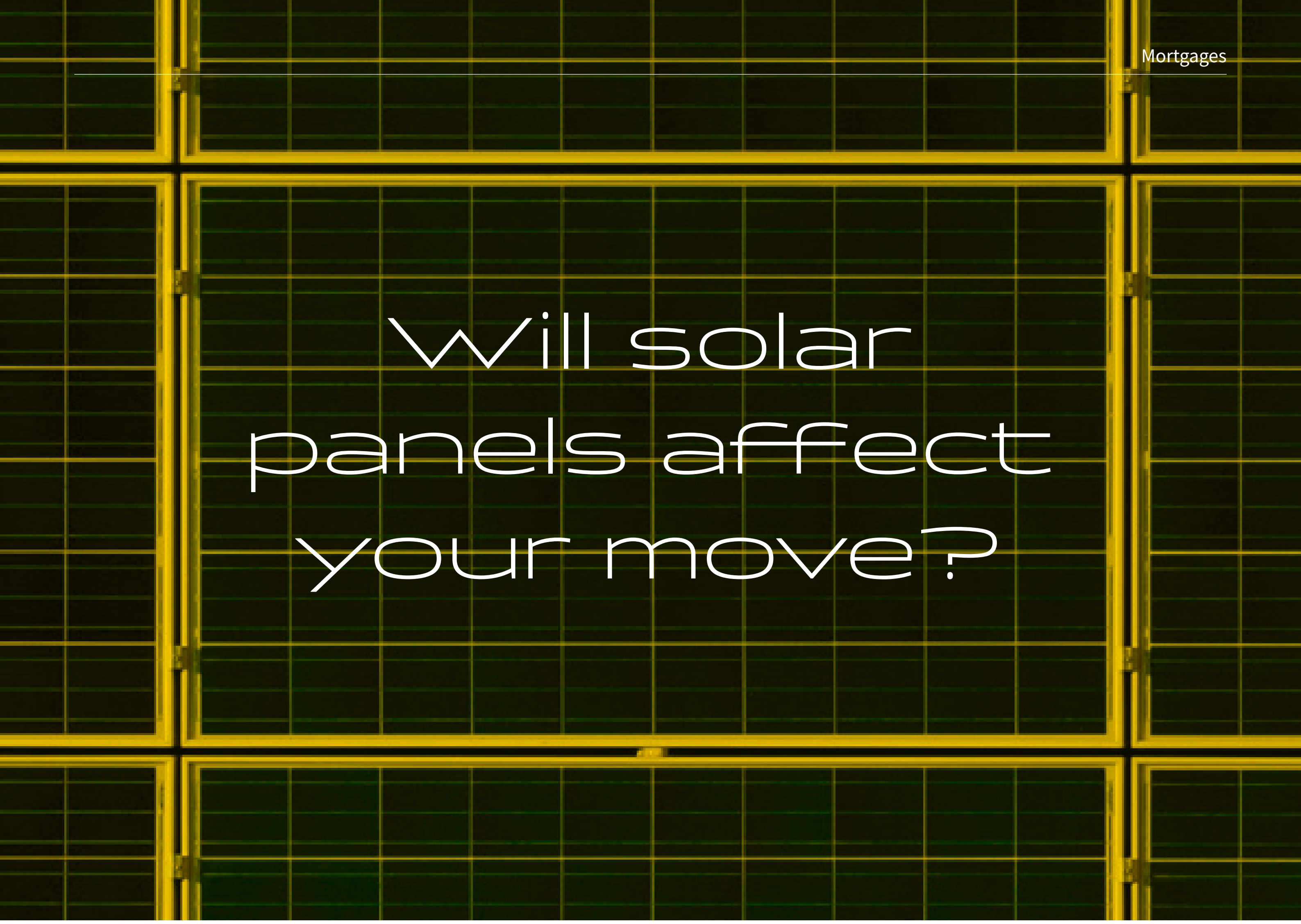


Will solar panels affect your move?

2010 was a good year for homeowners wanting to go “off grid”, as the government launched its Feed-in Tariffs (FIT) scheme, which guaranteed an income to those producing their own electricity. Since then, there’ve been over 780,000 domestic installations – mostly of solar photovoltaic panels which capture the sun’s energy and convert it to electricity.

The scheme also had the effect of attracting numerous companies keen to offer to install the panels in return for the FIT payments. This ‘free’ installation seemed a good offer for the homeowner given the expense of the panels, but it effectively means they are leasing them, rather than owning them outright, and this could impact the ability to buy, sell or remortgage the property.

What are the options?

If the solar panels are owned outright by the property owner this won't affect a lending decision if you’re looking to sell, although it might impact the property valuation (positively or negatively). It's where the panels are leased (ie. by transferring the FIT payments to the installer) where things might get more onerous. In this scenario the panels remain the property of the panel provider and the terms of the lease would continue to apply to a new buyer.

In a bid to help the solar panel market, mortgage lenders and homeowners finding themselves in this situation, the Council of Mortgage Lenders (CML) and Building Societies Association (BSA) published joint guidance. Providing the installation conforms to these requirements it is possible to get a mortgage on a property with leased solar panels, albeit different lenders might have different terms. There may also be a buyout option with the solar panel provider, but the bill could run into tens of thousands of pounds and therefore may not be worth the investment if you’re planning on moving anytime soon.

Looking to add solar panels?

The government has announced that the FIT Scheme could end in March 2019 so if you are considering taking advantage you need to do so now and make sure you take the following considerations into account:

— find an installer certified with the Microgeneration Certification Scheme

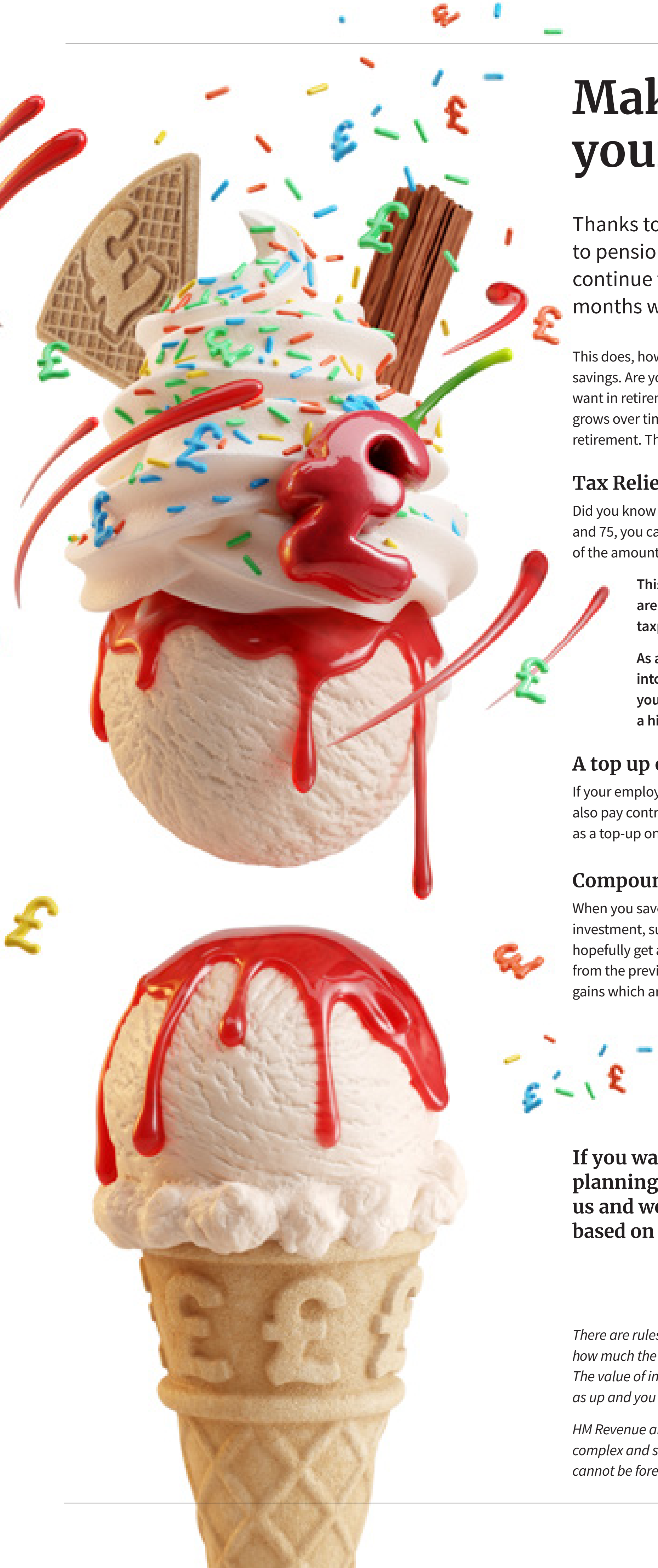
— check the installer warranty to see what it covers

— check with your home insurer to find out whether any panel damage is covered and if you need to increase the sum insured for your property

— think long and hard about any potential pitfalls to your future mortgage plans.

If you are looking to buy, sell or remortgage your home, please get in contact to discuss your mortgage needs.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE



Making the most of your pension savings

Thanks to there being no major changes announced to pensions in the October 2018 Budget you can continue to pay into your pension over the next 12 months without any surprises to knock you off track.

This does, however, present a great time for you to review your pension savings. Are you confident you're saving enough to support the lifestyle you want in retirement? Put simply, a pension is a long-term savings plan which grows over time and provides you with an income to see you through your retirement. There are many benefits to paying into a pension plan:

Tax Relief

Did you know that if you're saving towards a pension between the ages of 18 and 75, you can receive significant contributions from the government on top of the amount you save?

This is because you receive tax relief on the contributions you are paying in: 20% for basic-rate taxpayers, 40% for higher-rate taxpayers and 45% for additional-rate taxpayers.

As an example, for a basic-rate taxpayer, for every £100 you pay into your pension, the government will top it up by £25 giving you a total contribution of £125. You can get even more if you're a higher-rate or additional-rate taxpayer.

A top up on your salary

If your employer has a pension plan set up as an employee benefit, they will also pay contributions to your pension plan (up to a certain level). Think of it as a top-up on your salary.

Compound interest

When you save money into your pension you'll hopefully make a return on the investment, subject to performance of course. The following year you'll hopefully get a return, not only on your initial investment but also on the return from the previous year, and so on. You're effectively earning money on previous gains which are all added into your pension pot.

If you want to discuss your pension planning in more detail then speak to us and we'll make a recommendation based on your individual circumstances.

There are rules regarding how much you can contribute to a pension and how much the government will add to your contributions through tax relief. The value of investments and any income from them can go down as well as up and you may not get back the original amount invested.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

The difference between value and growth investing

Warren Buffet, sometimes known as the sage of Omaha, once claimed he preferred to “to buy a wonderful company at a fair price”. What he meant by this is when it comes to picking investments, he looks for quality businesses that, for some reason or another, are undervalued by the rest of the market.

Buffet learnt his trade as a student and later an employee of Benjamin Graham, widely considered the godfather of this style of ‘value investing’ and author of one of the most authoritative books on security analysis.

Value investors take a bottom-up approach to evaluating an investment opportunity. They look at a company’s fundamentals, such as its revenue streams or balance sheet, and use metrics like the price-earnings (PE) ratio or price-to-book (PB) ratio to figure out if its shares are available at a discount. Once value investors identify a company that appears undervalued, they buy and hold, hoping the rest of the market will take notice and the share price will rise.

Buffet has successfully applied this approach throughout his 60-year career and the share price of Berkshire Hathaway, the publicly-listed vehicle through which he invests, has grown steadily but surely since he took control in 1965.

Going for growth

Some investors prefer to target companies that are growing fast and therefore offer the prospect of considerable returns. These types of companies tend to have developed new and innovative products and services which catch the imagination of consumers.

The tech sector has traditionally provided these ‘growth investors’ with a steady stream of opportunities. Jeff Bezos only launched Amazon in 1994, but its valuation surpassed one trillion dollars at the start of September 2018. Apple was the first company to reach a trillion-dollar valuation earlier in 2018, although it was founded 18 years before Amazon. More recently, the share prices of Facebook, Alphabet (parent of Google) and Netflix have raced ahead since listing on the stock exchange.

Of course, not all growth shares shoot the lights out. Just ask investors in social media platforms Twitter and Snapchat.

A blend of styles

Some fund managers identify as either value or growth investors. Within the Omnis range of funds, Cédric de Fonclare of Jupiter Asset Management, who runs the Omnis European Equity Fund, leans slightly in favour of growth. Similarly, Andrew Rose and Masaki Taketsume of Schroders, co-managers of our recently launched Omnis Japanese Equity Fund, have a minor bias towards value.

Each of the Omnis fund managers has developed their own approach to researching investment opportunities and building portfolios based on years of experience.

By offering a range of funds with a blend of styles, we believe that we can provide you with great potential for returns across all market conditions. Please get in touch to find out more.

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