360

from **AW Financial Management** — **April 2024**

Welcome to our Spring edition of 360. We celebrate with nature the rebirth of plants and trees springing into life which for us does remind us of the resurrection weekend just celebrated.

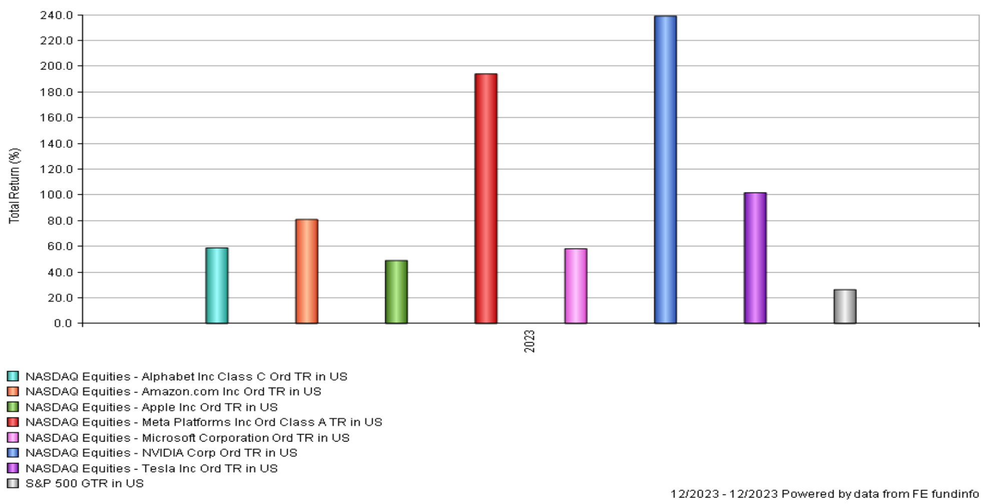
The end of the tax year this year has been one of the busiest we can recall. More on tax in the following pages of course following the Budget a few weeks ago.

In this issue

The Magnificent Seven

On this occasion not Yul Brynner, Steve McQueen, Charles Bronson et al, or even the far less popular remake in 2016 starring Denzel Washington amongst others, but this refers to the now most valuable companies all focussed around technology of one type or another.

The Magnificent Seven are Apple, Amazon, Meta (Facebook/WhatsApp/Instagram), Alphabet (Google etc), Nvidia (computer chips including for AI), Tesla and Microsoft. Aware that this chart may not read very well, the S&P 500 was up around 25% (very decent) whilst Nvidia in blue below was up 240%! Thankfully a common holding for many client portfolios.



Global Markets and Your Portfolio

This table reflects performance of the ten AWFM-managed investment strategies over the course of the last 3 and 12 months.

This is the first edition of the newsletter for quite some time where we are reporting positive returns across all of the portfolios over both periods.

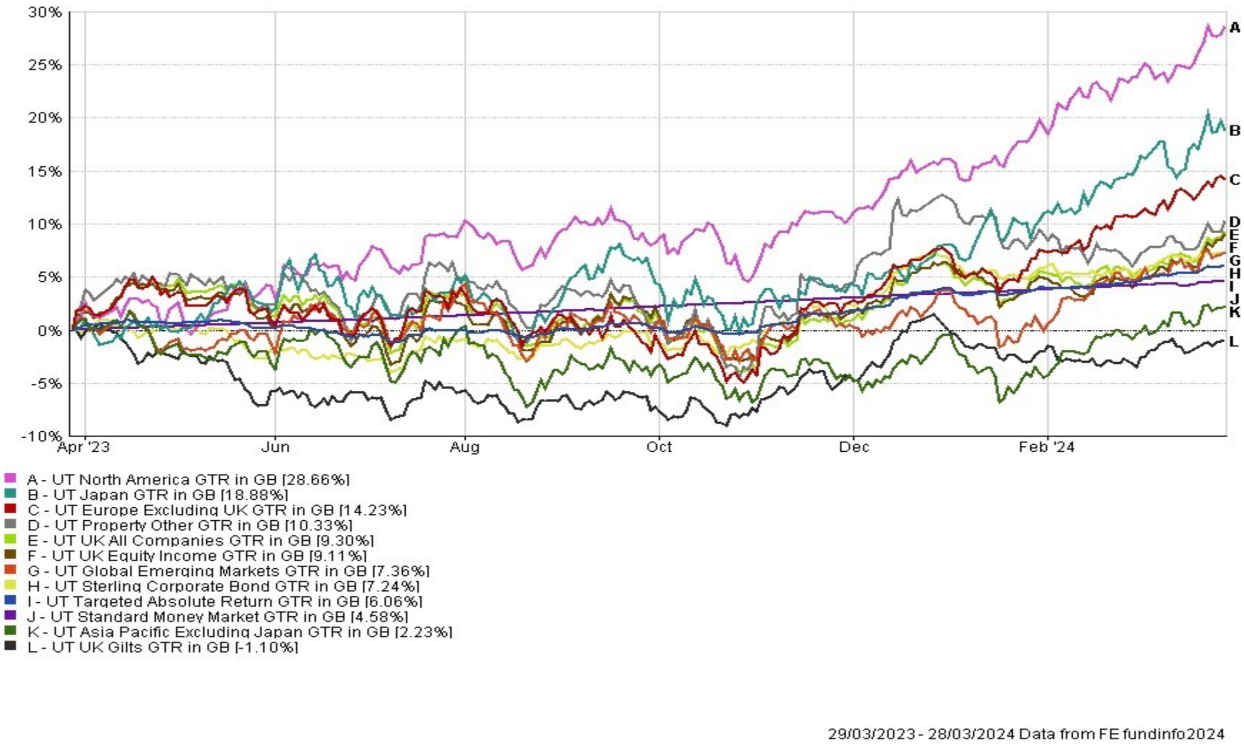
The bounce-back in returns has been hugely welcome for us and our clients as we had continued to recommend no changes to the underlying funds within the portfolios following a very poor 2022, but retained conviction for recovery in 2023.

All of the ethical portfolios have yet again outperformed their "unrestricted" counterparts, although it should be noted that the ethical portfolios do come with higher ongoing underlying funds charges (reflected in these performance figures).

Description	AWFM Risk Model	Ethical		Unrestricted	
		3m	1yr	3m	1yr
Low Risk	1	2.60%	10.47%	1.43%	7.25%
Low to Medium Risk	2	3.30%	11.85%	2.84%	10.18%
Medium Risk	3	5.05%	14.89%	4.35%	13.43%
Medium to High Risk	4	7.36%	17.52%	6.86%	18.68%
High Risk	5	8.69%	21.00%	5.12%	15.65%

"Then Jesus told him (Doubting Thomas), 'Because you have seen me, you have believed; blessed are those who have not seen and yet have believed" - John Chapter 20 verse 29.

Investment Returns & Outlook



Fund Manager Consensus Views		
POS	A POSITIVE outlook	US Equity, UK equity including Smaller Cos, Japanese equity, Pacific Basin (ex Japan) equity, Emerging Markets equity and UK Corporate & UK Government Bonds.
NEU	A NEUTRAL outlook	Property
NEG	A NEGATIVE outlook	US Smaller Cos and European Equity.

As per the comments on page 1 of this 360 update, North American Equities have been the winners over the last 12 months by quite come distance, in significant part due to the Magnificent 7.

The Japanese Yen has devalued significantly against the Euro, US Dollar and Sterling, hence their appearance at the top of the pack when the currency (in this chart) is converted back to Sterling.

The Fixed Interest sector has had a mixed 12 months, with the Corporate Bond sector having produced a return of 7%+ whilst the UK Gilt sector has been the only sector on the chart above which has produced a negative return.

We can see quite clearly from this chart therefore that investors have been rewarded for taking more risk, certainly over the last 12 months. At the time of writing the FTSE 100 and the S&P 500 are at all-time highs!

What's in our Inflation Basket?

We all know probably that inflation has come down dramatically from the highs last year, probably now around 3.4% but it's interesting to see what appears in the list of products and services that are included in the list by the Office for National Statistics (ONS) as well as the clearly quite huge regional variations.

Take "Car Hand Wash or Automatic" for the first example, there are 117 prices included from various outlets, the cheapest of which is £2, whilst the most expensive is £24.95. The average is £7.79—might be too much cash involved?!

Possibly a slightly more standard category is "Draught Beer (Per Pint)". The lowest price is £1.79 though we can't see where this might be served, the highest is £7.85 although the joint authors of this newsletter fear that the team from the ONS have not frequented some of the pubs in the City of London whilst conducting their research!

Then of course there's the classic "Pint of Milk", although in the case of the team at the ONS , they have had to make do with "4 Pint/2 Litre" in this more modern age. The cheapest is £1.45 and the most expensive is £2.40.

Home Care Assistants Hourly Rates are included at an average of £24.32 (highest at £37.50) whilst Residential Care Home features an average price of £1,134 per week, but a top price of £2,050 per week. And without wishing to be a prophet of doom, the average Funeral (Cremation) costs £3,353 with the cheapest at £1,750 and the most expensive at £4,975.

The Budget Statement

It's been a few weeks now since Jeremy Hunt took to the Despatch Box to deliver his Spring Budget. Probably the most notable reduction in tax only affects those under State Pension age who are still working, that being the further cut in National Insurance. He took this measure in preference to a cut in Income Tax per se, although for those still paying National Insurance, it is an effective cut in tax.

For Employees: the NI rate on earnings between £12,570 and £50,270 will fall from 10% to **8%** having already been cut from 12% to 10% in January.

For the Self-Employed: the NI rate on their annual profit between £12,570 and £50,270 falls from 9% to just 6%. The Self-Employed also benefit from no longer having to pay the Class 2 NI which was a flat-rated £3.45 per week.

There was also an increase in the amount that can be earned before the Child Benefit is lost, only now impacting earnings between £60,000 and £80,000.

Interesting from an Investment and Tax Planning perspective was the announcement of a new "UK ISA" with a separate additional annual subscription allowance of £5,000 (on top of the existing £20,000 main ISA subscription allowance) with the aim of encouraging more investment into UK companies. Further consultation is required on how this will be implemented with a significant challenge no doubt from IT systems of the investment houses that would offer such a product and ensure that it stays segregated.

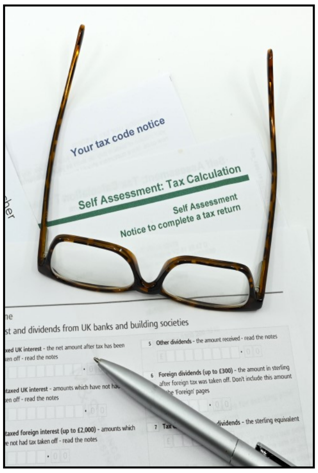
The British Savings Bond from NS&I is going to be easier to implement and issue this month—a 3 year fixed rate Bond for either Growth or Income with a minimum of £500 and a maximum of £1m—no rates available at time of going to print.

And interestingly, in the early part of the budget statement, the Chancellor told us that the Office for Budget Responsibility (OBR) forecasts that inflation will fall to its 2% target in Quarter 2 2024 (that's now)!

Tax Tables

Income Tax		
Main personal allowances and reliefs	**24/25**	**23/24**
Personal allowance* *(set to be frozen until 2028)*	£12,570	£12,570
Marriage/civil partner's transferable allowance	£1,260	£1,260
Married couple's/civil partner's allowance at 10%[1]:		
(if at least one born before 6/4/35) – maximum	£11,080	£10,375
- minimum	£4,280	£4,010
Blind person's allowance	£3,070	£2,870
Rent-a-room relief	£7,500	£7,500
Property allowance and trading allowance (each)	£1,000	£1,000

*Personal allowance reduced by £1 for every £2 of adjusted net income over £100,000. [1]Married couple's/civil partner's allowance reduced by £1 for every £2 of adjusted net income over £31,400 until minimum reached.



UK taxpayers (excluding Scottish taxpayers') non-dividend, non-savings income	**24/25**	**23/24**
20% basic rate on first slice of taxable income up to	£37,700	£37,700
40% higher rate on next slice of taxable income over	£37,700	£37,700
45% additional rate on taxable income over	£125,140	£125,140
Dividend and savings income		
Starting rate at 0% on band of savings income up to**	£5,000	£5,000
Personal savings allowance at 0%: Basic rate	£1,000	£1,000
Higher rate	£500	£500
Additional rate	£0	£0
Dividend allowance at 0% (*to reduce again in 2024—to £500)*	£500	£1,000
Tax rates on dividend income:		
Basic rate	8.75%	8.75%
Higher rate	33.75%	33.75%
Additional rate	39.35%	39.35%
Capital Gains		
Annual Exempt Amount (*to reduce again in 2024—to £3,000)*	£3,000	£6,000
Main Rate (Basic / Higher Rates)	10%/20%	10%/20%
Residential Property	18%/28%	18%/28%

Tax on Savings Interest

One of the phenomena associated with historically low interest rates for so many years is that most people forgot that if they do receive interest on savings or loans over a certain level, that interest is taxable.

For most tax payers, they can earn either £1,000 or £500 of interest in each tax year without having to pay any tax, depending on whether they are a basic rate tax payer or a higher rate tax payer. As an aside, the order in which element of the tax computation are calculated is important here. The order is:

1. Non-saving income (Earnings, Pension, Rent etc) earnings
2. Savings income (Interest)
3. Dividend income (From shares etc)
4. Other

Referring to the tax table overleaf therefore, if someone has earned income of say £50,280 and savings interest of say £1,000 they would have to pay tax on £500 of their savings interest because their savings interest allowance will only be £500 due to their total income creeping into the 40% income tax bracket. If the same person only earned £50,260, they would get the full £1,000 savings interest allowance and so would pay no tax on their interest received.

We do continue to recommend that our clients aim to keep a *minimum* of 6 months' worth of income in readily available cash savings to act as an emergency fund. In actual fact, across all of our clients, we have established that the average held in cash savings is in the region of £200,000. At that level and assuming a current interest rate of say 4%, this would generate average interest per client or couple of about £8,000 per annum.

The use of ISAs for cash reserves has conflicted very often with our desire to use up a client's ISA subscription allowance for their personal investment portfolio, largely because of the double tax benefit of escaping Capital Gains Tax as well as Dividend/Interest tax on income. This is to some extent why we have favoured recommending Premium Bonds within a cash savings portfolio, as the winnings are entirely tax free, and the funds are fairly quickly available.

If you do find yourself in the situation where you do owe tax either on savings interest or dividend income for that matter you probably need to get in contact with HMRC initially. With banks and building societies feeding data into HMRC, it is likely that HMRC will know how much interest you have received. There are 3 ways in which you can pay tax on savings interest:

1. Complete a Self Assessment return.
2. Adjust your tax code.
3. Via Simple Assessment.

It is difficult for us to say which is best, except that if you already complete a Self Assessment return, it is no real problem to add savings interest to the form and is therefore probably the most straightforward option in our opinion.

If you haven't yet been tempted to try your hand at Premium Bonds, a quick reminder that the current annual prize fund rate is 4.40% but you are not guaranteed this rate. It is a random monthly draw where your capital (up to £50k each) is never at risk. You may win £1m or you may win nothing (both quite unlikely!). The draw is made on or around the 3rd of each month and we've found the most exciting way to know whether you've won or not is to download then App to reveal your prizes!

It's a year already—or 26 for some!

Our newest recruits Laura, Harry & Lisa joined us around this time last year and have all settled in extremely well. Laura has now completed her 1st year, Harry's 1 year anniversary is on the 11th April and Lisa's is the 3rd May. Thank you to all for making them most welcome with us. They have all contributed massively to the office and in communications with our clients.

Meanwhile Harin our office manager will have completed 5 years with us in July, Kiki has just roared through her 5 year anniversary whilst Nicola and Martin have worked together for over 22 years—she deserves a medal!

But it is terrific to look back at the early beginnings of the business and to be grateful for all that we have achieved with the support of both our clients and our amazing team here at AWFM. The first piece of business was conducted in October 1997 so the roots of the business go back over 26 years now.

Thank you so much for your support and your trust in us whether you are relatively new as a client of the firm or have been with us for many years.

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