



WINTER NEWSLETTER

GEM FS LTD

Please enjoy reading our newsletter. If you would like to discuss any of the articles further, please do not hesitate to contact us.

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Things to avoid when investing

To keep your investments from losing value or slowing the growth of your assets, avoid these common investing mistakes.

There are more risks and opportunities than ever for investors to navigate in today's rapidly evolving markets. Here are four approaches we believe every investor should follow.

1. Don't pile into cash – stay invested

The biggest advantage of cash is that it offers relative safety. Cash can help diversify a portfolio during times of volatility and is easy to access in an emergency. With cash you'll be paid interest on the money, which will be tax free where it's in an ISA.

You won't lose any money by putting your money in cash, but it tends to offer lower returns than other asset classes. It's also important to know about the impact of inflation on your savings and investments as it can make a huge difference to how much profit you make. Cash is seen as a short-term safe haven and should not be held over a substantial period of time to avoid the impact of inflation.

While it's good to have some cash savings for a rainy day, the spending value of your money can fall over time if inflation is higher than the interest rate you receive. With interest rates on cash investments at historically low levels, and well below the inflation rate, millions have seen the value of their savings eroded in recent years. To make money on your investment you'll need to find an account or investment that gives you a greater return than the current rate of inflation.

2. Don't go chasing fads – think about the long term

Short-term gains can seem appealing for investors, but if you don't want to lose your savings, it's best to not believe the hype about the latest investment craze. Choosing the wrong investment can be a costly mistake. Many investors are turning to social media platforms such as Facebook, Twitter, YouTube, TikTok and other unregulated sources for information about investing.

While it may seem tempting to get investment recommendations this way, it puts you at significant risk from volatile stocks or even fraud. It's easy to jump on the bandwagon, but momentum is typically falling by the time most people join.

3. Don't put all your eggs in one basket – diversify

One of the biggest mistakes when investing is putting all your eggs in one basket as it can leave you exposed to fluctuations in the market. If you've invested in one stock and something unexpected happens and it plummets, you could find your nest egg suddenly disappearing.

One way to lower risk is by spreading your wealth over a wider range of investments so it's not concentrated in one place (known as diversification). By diversifying your portfolio you can reduce the risk that all of your investments will experience the same negative impact at the same time.

Ideally, you should be looking to build a diverse portfolio with a mix of different investments in line with your attitude to risk. A balanced portfolio will contain a mixture of asset classes, such as stocks, bonds, and alternatives.

4. Sit tight when it's right

When markets wobble it can be tempting for investors to sell their shares to avoid any further losses. It's easy to react to short-term losses but the best thing you can do is most often precisely nothing.

Timing the market involves buying and selling investments when you think they will rise or fall at exactly the right moment. It's a difficult strategy that rarely works and there are too many unpredictable factors.

If you sell into a falling market you will lock in your losses and it could take you years to get back to where you were. While markets can fall sharply, given time they can rebound, so instead make sure you take the long view. Stock markets have a history of recovering from downturns. If you see your investment drop, don't worry. Just keep your cool and sit tight.

It pays to seek advice

A financial adviser can help you work out how to achieve your long-term financial goals, while taking inflation into account so it doesn't eat up your returns. Your adviser will speak to you about your attitude towards risk and the level you are comfortable with, helping you make the right investment choices.

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.



How to plan for inheritance tax

Following the news that thousands more people are expected to pay the standard 40% inheritance tax this year because of the effects of the pandemic, we explore some of the ways to navigate the complexities of inheritance tax.

The complex laws around inheritance tax (IHT) caught many people off guard during the Covid-19 pandemic.

Along with the often-sudden loss of a loved one came the issues arising from IHT on gifts passed down to children and grandchildren.

This tax year marks the latest in a series where the number of people being charged IHT on gifts has increased.

Since 2009, beneficiaries have paid 40% IHT on estates worth more than £325,000.

Inheritance tax facts

Following the Budget in March, it was announced that thresholds will remain the same for IHT until 2026:

For single people, the threshold is **£325,000**.

For those who are married or in a civil partnership, the threshold is **£650,000**.

Couples can also pass on their assets (like an owned home) worth up to **£1 million** in total if they leave it to children or grandchildren.

Gift your way to less inheritance tax

There are ways to avoid passing on a large IHT bill to your family, whether it's through gifting or charitable donations:

- You can give away assets or cash worth up to £3,000 a year (known as the annual exemption) with no IHT to pay regardless of the total value of your estate when you die.
- You can give as many gifts of up to £250 to as many people as you want each year – although not to anyone who has already received a gift of your whole £3,000 annual exemption. To make use of this exemption, it's important to keep accurate records.
- If you are married or in a civil partnership, you can pass on your entire estate to your surviving spouse, tax free, when you pass away. Things could become more complicated, however, if your spouse was born in a different country.
- If you give a gift – of any amount – and live for a further seven years after the gift has been given, the beneficiaries will not have to pay any IHT if you pass away after that seven-year period.
- Leaving money to a charity means it's free of IHT and could cut the tax rate on the remaining amount in your estate.

Transferring to a trust or pension

Setting up a trust to transfer some of your estate into for the benefit of your grandchildren is another way to reduce the IHT liability on your assets. However, the trustees could still encounter some income or capital gains tax.

While it may not be the most obvious choice, setting up a pension for your children or grandchildren could be a tax-efficient option. The fund will transfer to them when they turn 18 but they won't be able to access the money until they're much older.

As with anything tax-related, the rules are especially complex when it comes to where your inheritance goes and how much your beneficiaries will end up receiving. That's why it's so important to speak with your financial adviser to review all your options and find the most efficient ways to pass on your wealth.

To learn more about how to make the most of your money this tax year and for more information about inheritance tax and your tax-free allowances, speak to your financial adviser.

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



Protect your possessions with accidental damage cover

Insurance claims for accidental damage increased over the past year as more people worked from home, so it's a good time to check your own coverage.

Figures from some of the country's biggest insurance providers have shown a sharp rise in claims of accidental damage during the lockdown.

With many millions now working from home, the chances of accidents and damage to property have inevitably gone up. Halifax Home Insurance reported a rise of 35% for claims between July and September 2020 compared with the same period in 2019.

Types of accidents included damage to computers and other electrical items, broken windows and water leaks. With holidays cancelled, children home schooling and everyone staying in, appliances were used a lot more than normal, along with central heating systems.

Millions paid out in home insurance claims

One Insurance provider paid out £33 million in home insurance claims in 2020, with 15% going towards accidental damage claims. General claims not related to accidents accounted for 25% and were mostly related to appliance and pipework damage.

The biggest rise in claims related to damage to computers and electrical equipment because of spillages. As working from home turned many of us into amateur office managers, the usual health and safety measures within a normal office environment were not easy to replicate – especially with children and pets in the picture.

Admiral reported its accidental damage claims increased by 28% since the lockdown started in March 2020, compared to the previous year. Damaged laptop claims increased by 31% and claims around damage caused by home renovation also rose.

Check your accidental damage coverage

It's a good time to see what your home insurance policy includes when it comes to covering accidental damage to your property.

1. Check that you have the accidental damage cover in place, because it's often offered as an optional extra to your home insurance.
2. Check the limits and exclusions on your accidental damage cover, making sure there is enough to cover any new gadgets or equipment you bought during lockdown.
3. If you have made renovations and upgrades to your home during lockdown, try to calculate the extra value they bring to your home to ensure your home policy covers it.

How to avoid accidental damage in your home

Sometimes, accidents just happen. But there are ways to reduce the likelihood of an accident, like keeping drinks in a closed cup, away from computers, or tidying cables to avoid tripping.

With many homeowners installing wooden flooring, it's worth keeping rugs secure with non-slip backing, and encouraging children to be aware of risks in the home when they are playing.

And it's always a good idea to have your insurers' telephone number and the policy details handy for when you need them.

Along with helping you check the small print in your accidental damage policy, your financial adviser is here to help you find insurance plans that work best for you and your family, to make sure you're best protected.

Time to consolidate your pensions?

Employer pensions can accumulate as we change jobs, and it's easy to lose track of how much each one contains. We explore what you need to know if you're thinking about consolidating your pensions.

When you leave a job, it's easy to forget about the workplace pension you might have had there. With the average person having several jobs during their lives, along with the 2012 introduction of auto-enrolment for employer-based pensions, it's not surprising that many of us have more than one pension to our name.

Whatever the situation with your workplace pensions, the first thing to do if you're thinking about consolidation is to speak to a financial adviser. We can help you figure out the best solution for your individual needs.



Tracking down your old pensions

All pension providers are obliged to send members of their schemes annual statements to keep them updated on how much their pension contains.

The Association of British Insurers (ABI) estimates 1.6 million pension pots worth billions of pounds are forgotten about due to people just moving home. So it's vital to write to your old pension providers to let them know if your address changes.

The government is in the process of launching a dashboard where all pension providers will be able to input member details, giving customers the ability to see their pensions in one place. But the process will take some years for all providers to supply their data.

Consolidating your pensions

As to whether you should consolidate your pensions into one pot, the first step should be to check the small print. If you have an older pension (around 20 years or older), you could lose some of its benefits if you transfer and be left with steep exit fees taken out of your pension amount.

Unlike older pension schemes, the newer 'defined contribution' pensions are more common and less likely to be affected by exit penalties if you want to transfer them into one place. The funds are invested, which makes consolidation an attractive option.

It's worth noting that if you're still paying into a defined contribution scheme and want to withdraw from it, the amount you can pay in and claim tax relief on could reduce.

On average, management fees for workplace pensions are around 1%. Newer pensions could benefit from tax benefits that older ones don't come with, so it's always worth checking each policy individually and get some advice from a financial adviser.

Leaving older pensions where they are

Along with exit fees and tax privileges, pre-2006 pensions (that were not affected by tax changes established in 2006) could have benefits like guaranteed annuity rates (promising a guaranteed income after retirement), which could be lost if transferred to another pension pot.

Final salary scheme pensions are probably best where they are, too, due to the nature of their payouts when you retire (based on what you earn at retirement.)

Some people opt to create a self-invested personal pension (SIPP), which lets them choose where their pension money is invested. This is beneficial to those who want to put their money into sustainable funds and make ethical investment choices.

What is income protection?

Income protection insurance pays out a percentage of your monthly income if you are unable to work.

Your income is important and keeps your family secure. So, if you are in a situation where you'd like to protect it if anything happened, you might want some income protection.

How does income protection work?

Income protection is an insurance policy, so you pay a monthly or annual premium for it like any other type of insurance. If you can't work because of sickness, disability, or other reasons (depending on your policy criteria), you will receive a regular income until you either return to paid work, retire, pass away or the policy term comes to an end.






The amount that is paid could be anything from 60% to 65% of your pre-tax income, and payments (which are tax free) will start after a pre-agreed waiting period, which could be weeks or months. You'll pay more in premiums if the waiting period is shorter, and the percentage of your income is larger.

Income protection is different to life insurance or critical illness cover, both of which do not pay regular amounts but instead give you one-off lump sums in the event of your death or the diagnosis of a critical illness. That's why it's important to seek financial advice if you are thinking about getting coverage.

Who could benefit from income protection?

If you work in a high-risk profession or have high-risk hobbies, you might want income protection in case you're unable to work because of an accident. If you've suffered an illness and feel you're at risk of being unable to work because of it, income protection could provide peace of mind, too.

Some things to consider if you are thinking about getting income protection include:

-  if you have a good level of statutory sick pay from your employer, you may not need more cover.
-  is it the best option for you and your situation? For example, do you (or your partner or spouse) have sufficient savings to help provide an income if you were unable to work?
-  can you keep up with the premiums?
-  will you find any exclusions in your policy difficult to manage?
-  are you close enough to retirement to not need income protection?

How are premiums calculated?

As with any insurance policy to do with your life and health, factors like your age, health condition, if you smoke, your occupation and others (like how much of your income you would like to receive, and how soon you would like payments to start) will be considered when your premium is calculated.

Our Protection Advisers will be able to give you advice and guide you through what type of policy works best for you, helping you find value for money as well as some peace of mind knowing your income is protected.

Our advisers can help you find an income protection policy to suit your needs and keep your family secure.



Jargon and lingo – talking about mortgages

From agreement in principle and loan-to-value to freehold and leasehold, we've compiled a list of terms you're likely to come across when buying a property and what they actually mean.

Buying a property can be a complicated process, and even more confusing when you're confronted with various terms you've not come across before. To help you make sense of it all, we've listed some key definitions you'll need to know.

This list should give you a good head start when it comes to understanding the jargon around mortgages. To help you take the stress out of buying a property, speak to a financial adviser about how they can help you find the most suitable mortgage and guide you through the process.

Agreement in principle	A document from a mortgage lender with an estimate of how much money you may be able to borrow. You can use this to prove to a seller that you can afford to buy their property.
Annual percentage rate (APR)	The overall cost of a mortgage, including the interest and fees. It assumes you have the mortgage for the whole term.
Arrangement fee	A set-up fee for your mortgage.
Base rate	The interest rate the Bank of England charges other banks and lenders when they borrow money.
Buildings insurance	Covers you for damage to the structure of your home – you'll need to have a policy in place when you take out a mortgage.
Capital	The amount of money you borrow to buy a property.
Conveyancing	The legal process you go through when you buy or sell a property done by a licensed conveyancer or solicitor.
Deposit	The amount you need to put down in cash towards the cost of a property.
Equity	The amount of the property that you own outright – your deposit as well as the capital you've paid off on your mortgage.
Fixed-rate mortgage	The interest rate on the mortgage stays the same for the initial period of the deal. Your rate won't change with the Bank of England base rate during this time.
Flexible mortgage	Allows you to underpay, overpay or take a payment holiday from your mortgage – they are usually more expensive than conventional mortgages.
Freehold	You own the building and the land it stands on.
Gazumping	When an offer has been accepted on a property but a different buyer makes a higher offer, which the seller accepts.
Guarantor	A third party who agrees to meet the monthly mortgage repayments if you can't.
Help-to-Buy	The government has introduced various Help to Buy schemes to make buying a home easier, including equity loans, mortgage guarantees, ISAs and specific schemes for Scotland and Wales.
Interest-only mortgage	You only pay the interest on your mortgage each month without repaying the capital.
Joint mortgage	A mortgage taken out by two or more people.
Land Registry	The official body responsible for maintaining details of property ownership.
Leasehold	You own the building but not the land it stands on, and only for a set period.
Loan-to-value	The size of your mortgage as a percentage of the property value.
Porting	Allows you to transfer your borrowing from one property to another if you move, without paying arrangement fees.
Repayment mortgage	You pay off interest and part of your capital each month.
Stamp duty	You'll need to pay stamp duty land tax when you buy a property over a certain price.
Standard variable rate (SVR)	The default interest rate your lender will charge after your initial mortgage period ends.
Tracker mortgage	The interest rate on your mortgage tracks the Bank of England base rate at a set margin above or below it.
Valuation survey	Lenders will carry one of these out to check whether the property is worth around the amount you're paying for it.

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

2021 Outlook

The healing process

Following a particularly challenging year for investing, we've identified five themes we'll be watching closely throughout 2021.

The coronavirus pandemic made conditions particularly challenging for investors throughout 2020. After a year when everything seemed to change, what's likely to drive the global economy and financial markets in 2021?

These are the five themes we believe will influence our investment decisions the most as we navigate the evolving environment.

1. The world economy is in recovery mode.

We believe the pandemic will recede this year and the global economy will heal gradually. To help understand how industry sectors are likely to perform, we can divide them into three segments that:

- benefited from the lockdowns;
- suffered and are vaccine dependent; or
- were only partially impacted but sensitive to the policy response.

From a geographical perspective, some regions have contained the spread of the virus more effectively than others and are bouncing back more rapidly. Many Asian countries have avoided prolonged lockdowns. With the recovery heading in the right direction, we're confident about the outlook for company profits and stock market returns.

2. Inflation is absent but there are risks.

We expect inflation to pick up in 2020 but not dramatically. The pandemic has forced unemployment higher and created spare capacity in the economy. Those who have saved most during the pandemic are more likely to reduce debt or top up their pensions than spend.

We do not expect the tide to meaningfully turn for the assets that have benefited from low inflation – notably government bonds and growth companies. With yields already at record lows, new buyers of bonds receive only a small income and the potential for capital gains appears slim. Similarly, in equity markets, we believe better investment opportunities lie outside growth companies.

3. Globalisation has become more regional.

Although the health crisis has challenged globalisation, there have been some developments in regional integration. For example, Australia, New Zealand and 13 Asian countries, including China, signed the Regional Comprehensive Economic Partnership in 2020. In the US, Joe Biden's economic team has indicated it wants to engage with the rest of the world in a more cooperative way.

From an investment perspective, we believe Asian emerging markets are best positioned to prosper in this environment. Many are increasingly self-reliant, moving away from exporting goods to developed markets. They offer a rich source of successful businesses across a range of sectors, from luxury goods to innovative technology and financial services companies.

4. Tech firms face regulatory challenges.

The companies whose fortunes have been most obviously lifted by the pandemic conduct their business over the internet. While they have the potential to keep growing their earnings by entering new markets and launching innovative products and services, policy and regulation can have a significant impact on their business models.

Another issue for the large firms is market saturation and whether they have enough room to continue growing in order to justify their valuations and the potential for further share price gains. However, we continue to believe the technology sector provides opportunities to invest in companies with disruptive business models that are revolutionising their industries, and addressing changing consumer needs.

5. Building back better

The pandemic has put environmental concerns and social inequalities in the spotlight, and policymakers have responded by declaring the recovery can improve the world by "building back better". For example, the EU has earmarked around a third of its €750 billion recovery fund to fighting climate change. Other regions have made similar commitments.

There are lots of ways we can gain exposure to companies that have the potential to benefit from government spending packages and policies designed to support a sustainable recovery. Although we don't select the investment managers in our portfolios based on their ESG credentials, we do expect that they will integrate these risks and rewards into their processes.

If you have any question about what these themes might mean for you please get in touch.

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