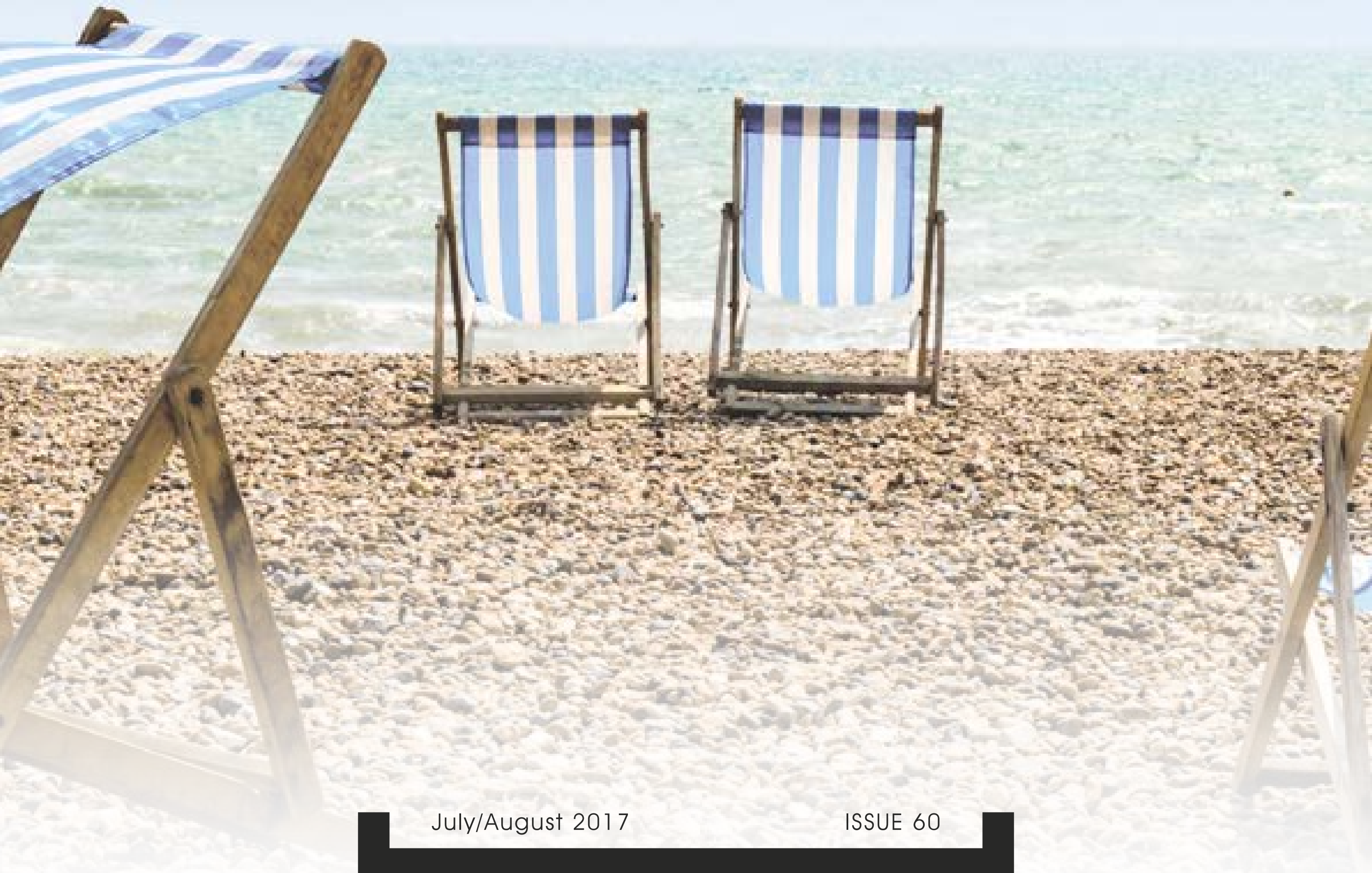
IFA magazine

For today's discerning financial and investment professional

The View from Europe

BUT IS BRUSSELS BLUFFING?



July/August 2017 ISSUE 60

NEWS REVIEWS COMMENT ANALYSIS

Make It Your Business

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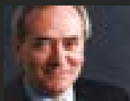

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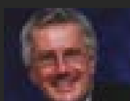

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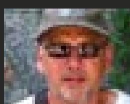

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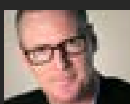

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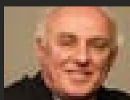

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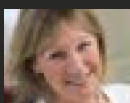

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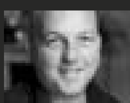

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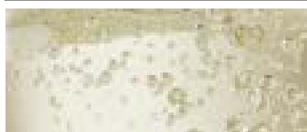

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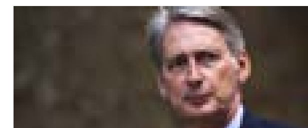

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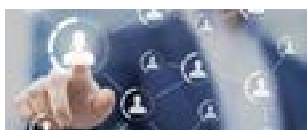

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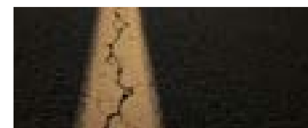

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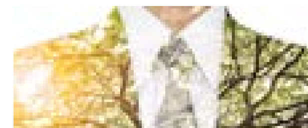

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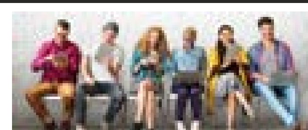

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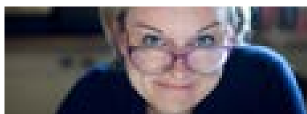

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A Perfect Contrast

"The thing is," said my old mate Dave as he helped himself to another glass of Prosecco, "this election result has been absolutely perfect. Couldn't have been better."

I nearly bit the top off my glass, I was so surprised. You see, Dave and his wife were staunch Remainers who had spent the last seven weeks campaigning vigorously for a Labour Party victory which nobody had ever expected them to win. (And which they duly didn't.) All those house-to-house canvassing visits and all that surging hope and emotion they'd met on the doorsteps had culminated in – well, yet another boring old Conservative government.

No, as far as Dave and his wife were concerned, even though we were still head-on for Brexit, boo hiss, the election had sent all the right messages to Theresa May about the country's preference for a softer and more accommodative approach. And that, they thought, had put a welcome red shot of tincture into the Prime Minister's Tory blue agenda.

The next day I got the other side of the argument, from Sam and Jane, who had voted for Brexit in 2016 and who still saw it as meaning hard Brexit - and no substitutes, please. The election result, they said, had been just about the worst possible outcome for the national cause. And although they agreed that "presidential" Mrs May had brought her disgrace entirely upon herself, it had fatally undermined her authority and her ability to deliver freedom from the tyrannical rule of Brussels.

The one-eyed leading the one-eyed

So the losers thought the result was great, while the winners were close to tears with disappointment. It should, according to my own view, have meant simply that democracy had spoken and that we'd moved away from the kind of ghastly tribal polemicism that still divides America. But passion is passion, and it would perhaps have been naïve to expect either of them to agree?

Which got me thinking. If there's one thing a hard-left academic and a fairly traditional Tory have in common, it's that they both spend a lot of time in the so-called 'echo chamber'. That's what you get from having your news filtered to your tastes by your choice of newspaper and also – increasingly – by your social media circle. In an age when younger people get 85% of their news from Facebook and the like – and when most of this news is coming from your circle of "friends" and contacts, rather than from a (nominally) impartial press, you are only ever likely going to hear from those who think the same way as you. Everything else will be filtered out.

The 'fake news' phenomenon in America couldn't have taken hold anywhere else but inside the echo chamber. In the open world of free discussion we could quickly have dispensed with the idea that Barack Obama was a Muslim, or that he wasn't born in the USA; but within the echo chamber it rang, and rang, and still rings.

And so, finally, to economics

What a good job, then, that we enlightened people don't live in echo chambers. Do we? I'm not so sure.

There are some weird self-affirming echoes going on among those of us who believe in a low bank rate or alternatively a high bank rate; or in a cautiously balanced state budget versus a free-spending growth budget (and to hell with the debt); or in a proud strong national currency versus a weak one that boosts exports and brings in capital investment.

Or in the merits of keeping unemployment levels just high enough (boo) to keep wage costs down (hooray). Or whether rising bond yields are a blessing or a curse?

We all do it, all the time. The Centre for Policy Studies will never see eye to eye with the Institute for Public Policy Research, and neither will agree with the Adam Smith Institute. Forget about the *Daily Mail* versus the *Guardian*, the echo chambers are bigger than that. And they call themselves think tanks. And we are committed to their tribalism. Whether we notice it or not.

Michael Wilson
Editor-in-Chief
IFA Magazine

Hammond survives

Chancellor Philip Hammond appeared to have survived his narrow brush with demotion under Theresa May's reformed administration, following the disastrous June general election in which Mrs May's hopes for a bigger majority were U-turned into no majority of all.

The result has been seen as particularly significant because Mr Hammond had been notable for his support for a soft Brexit formula - whereas the Prime Minister had consistently dismissed his intimations that Britain might pitch for a continued membership of the Single European Market, or at least the Customs Union. In particular, Hammond's suggestion that Britain might effectively 'buy' access to the European Banking Passport had drawn scorn from the PM, even though it was squarely in line with what both the employers' federations and the various financial service industry surveys were demanding.

Mrs May's renewed insistence that the UK would not remain a member of the Single Market clashed stridently with Mr Hammond's post-election statement to the press about the country's forthcoming attendance at the Brexit talks: "I can confirm that as we enter negotiations, we will do so in a spirit of sincere co-operation, taking a pragmatic approach to trying to find a solution that works both for the UK and for the European Union 27."

It might all have ended differently for Mr Hammond if the PM's election call had given her the whopping mandate that she craved. Now, though, "Spreadsheet Phil" is being tipped as a possible candidate for the Tory party leadership. How times change.

SEEING POTENTIAL WHERE OTHERS DON'T CAN GIVE PORTFOLIOS A BOOST.

LET'S TALK HOW.

Top quartile over 1, 3 and 5 years

CUMULATIVE PERFORMANCE (%)

	1 Year	3 Years	Tenure
Fidelity Special Situations Fund	22.8	36.7	35.9
FTSE All Share	20.1	21.8	23.6
IA UK All Companies	19.1	23.7	24.2

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Supergran to the Rescue

Britain stands on the cusp of a huge transfer of wealth from the over-55s to their younger family members, says a new report from St James's Place – and the generosity of the oldies seems likely to produce a threefold benefit for the UK economy as a whole.

The 55-plus age group currently holds around £6.6 trillion of wealth, says the report commissioned by SJP in collaboration with Capital Economics – and it plans to gift about 32% of that non-property wealth over the next three decades. That's around £920 billion - of which the recipients are expected to save perhaps 25% while spending another 40% on property and the rest on other goods and services.

But, as SJP points out, that's not the end of the matter. For every £1 transferred, it says, an additional £1.65 will be effectively added to the UK economy as a whole through new growth. The eventual result will be to add the equivalent of 1.2% of UK GDP every single year – enough, it says, to fund the purchase of around 3.4 million homes for first time buyers, or provide 21.2 million house deposits, or pay for 24 million students' tuition fees.

- The report says that 31% of people aged 55 to 85 with £50,000 or more in assets have already transferred money to their children (28%), grandchildren (9%) or both – transferring an average of £40,000.
- Looking ahead to the future, 61% of over 55s say they will make a transfer during their lifetime – with 53% making gifts to their children and 29% to their grandchildren.
- Only 36%, in fact, say they won't transfer any money at all during their lifetime. But of these, only 13% say that this is because they don't have enough. Instead, there's a sizeable body of people who simply intend to spend their cash on their well-deserved retirement.

"The economic contribution made by older people in the UK transferring wealth to the younger generations is huge," says Iain Rayner, joint chief operating officer at St. James's Place. Certainly, we'd add that the report comes as a welcome antidote to the recent chorus of pre-election grumbling from younger voters about greedy boomers monopolising the nation's wealth.

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Disruptive Tech

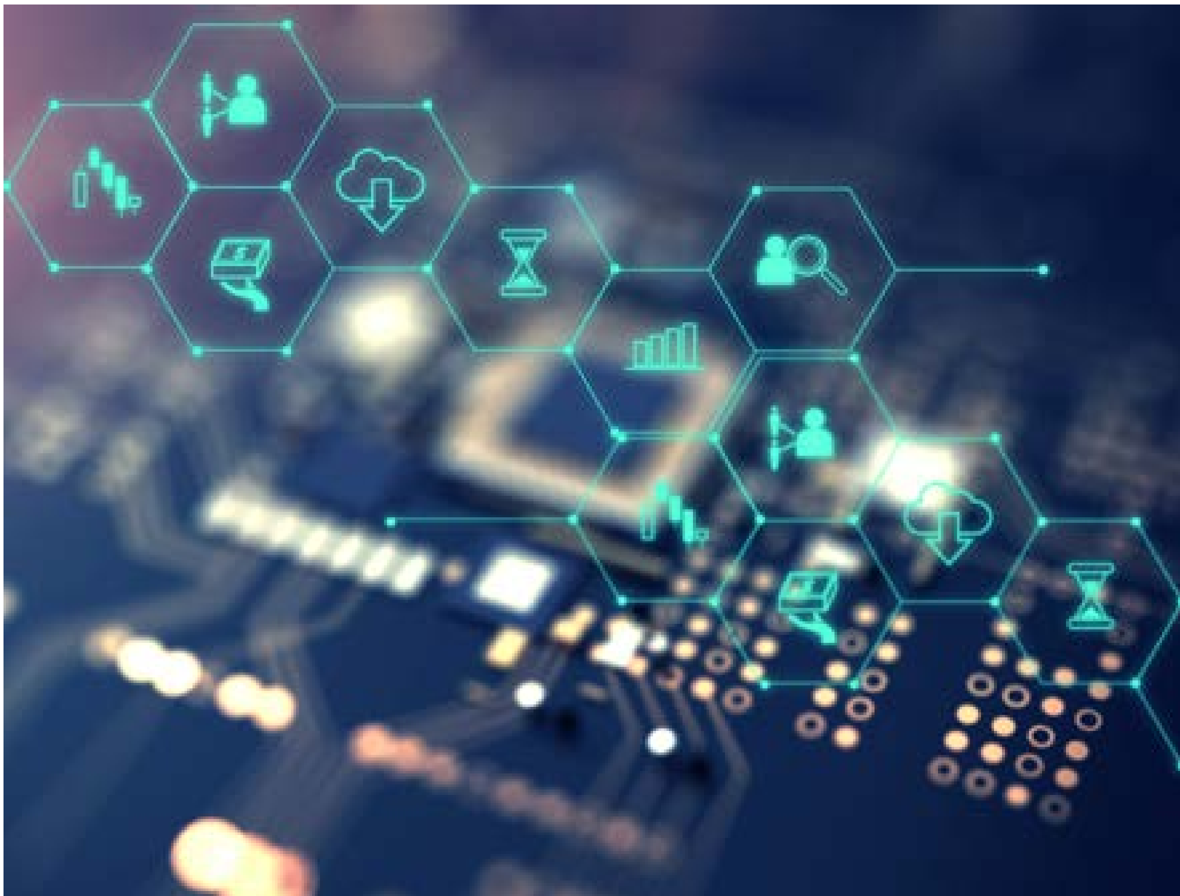
UK financial service providers are more vulnerable than their foreign fellows to competition from stand-alone FinTech companies, a recent report from PwC declares. A survey of over 1,300 financial services industry leaders worldwide found that fully 61% of the interviewees believed they could lose as much as 40% of their revenue to standalone FinTech firms, compared to 51% globally

But, says PwC, the British institutions are not planning to take the challenge lying down. Fully 47% of the UK interviewees said that they were planning FinTech acquisitions of their own in the next 3-5 years., and 81% said that they planned to initiate strategic partnerships with FinTechs during that period. Meanwhile, 39% said that they were planning to invest in cyber security.

PwC confirms the feeling that startups, large technology companies and social media/ internet platforms will prove to be the top FinTech disruptors in the UK financial services sector during the next five years - with consumer banking, funds transfer and payments the most likely sectors be impacted. The key challenges from FinTechs, it says, will come from increased price competition, loss of market share and threats to information security and privacy.

The survey finds the UK lagging behind its competitors in terms of their commitment to FinTech and IT projects – with financial services firms allocating only 9% of their annual turnover to FinTech, against a global average of 15%. But, it adds, UK firms are more realistic in their expectations of return on investment: its UK respondents said that they expect an annual ROI of 13%, against an average 20% projection from the global average.

Elsewhere, it's a mixed picture, with only 22% of UK banks, insurers and asset managers saying that they currently interact with their customers using mobile applications, against 28% globally. However, PwC says, 89% of UK firms expect mobile channels to grow significantly over the next five years; and half of the respondents plan to invest in mobile technology during the coming year.



CISI and PFS Financial Planning awards now open to entries

The Chartered Institute for Securities & Investment (CISI) and Personal Finance Society (PFS) financial planning awards are all now all open to entries. You'll need to be quick if you want to enter though, as the closing date for the PFS awards in 28 July. For CISI it's 31 July.

CISI have three individual awards plus two recognising the successes of financial planning firms.

The five CISI awards are:

- **CFPTM Professional of the Year** – Entries to this are limited to CFPTM professionals who are currently practising within a UK-based financial planning firm.
- **Paraplanner of the Year** – Entrants can be employed as paraplanners as well as those working in a freelance or outsourced role, as long as they are currently practicing in the UK.
- **The Tony Sellon Memorial Prize 'Good Egg' Award** – Individuals are nominated by CISI members and the winner is decided by the CISI.
- **Accredited Financial Planning Firm™ of the Year** – As the name suggests, this award is only open to CISI Accredited Financial Planning Firms.
- **David Norton Award** – The award is carried out in the name of the late David Norton, who was passionate about mentoring others to become great financial planners. It is open to all UK-based financial planning firms.

Entries for all these awards should be submitted to FPawards@cisi.org by the submission deadline. As always, to find the terms and conditions and details of prizes, visit **www.cisi.org**.

The financial planning awards organised by The Personal Finance Society (PFS), are open to PFS members, who have until 28 July, 2017, to submit their stage one entries. The following categories are available:

The PFS Personal Finance Awards - member awards are:

- **Chartered Financial Planner of the Year**
- **Chartered Financial Planning Firm of the Year**
- **Paraplanner of the Year**
- **Retirement and Later-life Advice Specialist of the Year**
- **Investment Advice Specialist of the Year**
- **Mortgage & Protection Advice Specialist of the Year**
- **MoneyPlanner of the Year**

Win or lose, here at IFA Magazine, we firmly believe that just by entering prestigious awards like these, it's is a great way of challenging yourself and measuring how you compare against your peers. It's also likely you'll learn something along the way – and also gain some CPD too. Of course, if you are successful then the accolade of gaining any of these titles is significant and will enhance your career – and reputation with clients – very significantly. Good luck to you all.

To outsource or not to outsource the investment management process?

A recent **IFA Magazine** survey, carried out in conjunction with **R.C. Brown Investment Management**, asks advisers for their experiences and finds that it's about a whole lot more than performance

There is no doubt that this is now a key strategic decision for adviser firms to get right. In principle, outsourcing your investment process has many benefits, but running portfolio management in house can also be a successful strategy. Outsourcing allows you to focus on what you do best – building and maintaining long-term relationships with clients as part of the financial planning service. But in practice, when it comes to using expert involvement with the investment decisions, does it really help or hinder? From the recent survey* carried out by IFA Magazine in conjunction with R.C. Brown, it seems that outsourcing really does help. The survey was designed to provide insight into adviser thinking and experience on this important matter.

Both IFA Magazine and R.C. Brown would like to thank each of the 169 advisers who took the time to respond to the survey. Of those, roughly two thirds were outsourcing their investment management business. Of those, a massive 98% of respondents told us that they were satisfied with the service they get from their DFM or DIM.

> A massive 98% of respondents told us that they were satisfied with the service they get from their DFM or DIM

When asked why they had taken the decision to outsource, 47% told us that it was to improve risk/ portfolio management. For 28% of respondents, having access to a broader range of investment solutions was key, while 17% said it was because it allows them to focus on running the business.

We asked advisers what were their main considerations when selecting a discretionary fund manager (DFM) or investment manager (DIM) to work with. The top five in order of importance were: Value of service, transparency of charges, investment process/ philosophy, performance, and cultural fit/ relationship management/client service.

The survey also revealed that 47% work with two or three DFMs with 25% using just one. On average, it appears most firms (59%) will review their arrangements with DFMs annually, with 20% undertaking six monthly reviews.

Finally, when it comes to performance-related fees, almost two thirds of advisers who responded are in favour of this. Alignment of interests is clearly the direction of travel.

Glenn Meyer of R.C. Brown comments: "We were delighted by the quality and number of responses to our survey, which unequivocally showed that IFAs and their clients benefit from outsourcing the specialist job of managing money. There were some well-informed comments which recognised that delegating portfolio management to a specialist DFM

**Source – IFA Magazine/R.C Brown Survey Spring 2017 – 169 Respondents*

allows an IFA to have more time to build, all important, client relationships. We are equally prepared to spend as much time as is needed for advisers to understand the way we manage money and we are always happy to meet clients with their IFA.

"We understand that some advisers want to keep as much as possible in house. But the resources needed to be a fund manager are considerable and many now recognise that they can't do everything to the high standards that their clients rightly demand. So, it is good to see that respondents are overwhelmingly open-minded to the possibility of using outsourced investment management."

When it comes to performance-related fees, almost two thirds of advisers who responded are in favour of this

And the lucky winner is...

The IFA Magazine team wish to add our congratulations to Carl Mountain of Generation Financial Services, who was the lucky winner of our prize draw. He won £250 worth of John Lewis vouchers and is pictured here receiving his prize from Wayne Sawyers of R.C. Brown.

Carl Mountain of Generation Financial Services being presented with his vouchers from Wayne Sawyers, Sales Director of RCBIM