

The weekly insight into world stock markets

Happy New Year!

Just in case you're worried that I am suffering from calendar disorientation, today's title refers to the fact that this is the first working day of the new personal tax year. For some reason I'd never previously been sufficiently curious to find out why the UK's tax year starts on 6th April. As with plenty of the UK's past, it has much to do with yet another historic disagreement with our neighbours across the Channel. When the Gregorian calendar was adopted across most of Europe in 1582 in response to a papal bull issued by Pope Gregory XIII (because the use of the previous Julian calendar was pushing the celebration of Easter later into the Spring), England took exception to receiving orders from Rome and stuck with the old system. Sound familiar? By 1752 the (now) United Kingdom was 11 days behind continental Europe, and so the country played catch up by omitting eleven days from September. The financial year had previously started on "Lady Day", one of the quarter days on which rents and debts were settled, on March 25th (which had once been the start of the calendar year, just to confuse you further). However, the government didn't want to lose any of its annual revenue and so it shifted the date forward eleven days into April, with one further adjustment in 1800 settling the date on April 6th. (Thanks to an Independent article as a source of information)

One of the features of the turning of the tax year is the avalanche of advertisements encouraging people to undertake tax planning and, especially, to utilise fully the tax shelters that are available, notably pension schemes and ISAs. A recent article in the Financial Times cited data suggesting that if an investor had utilised all of their ISA (and formerly PEP) allowances since introduction in 1987 and performed in line with the FTSE All-Share Index, reinvesting all income along the way, they would now have almost exactly £1,000,000. The fact that no investment platform provider owns up to having more than a couple of hundred ISA millionaires (although there appears to be no official consolidated data available), suggests a few things. First, that not enough people who could have afforded to do so have taken full advantage of what is generally viewed as the single best mainstream tax-beneficial vehicle now available. Second, and perhaps more pertinent, that investors continue to struggle to keep up with indices. Third, that fees will have eaten away at returns. Anyway, I sincerely hope that at least a few of our readers are sitting on a seven-figure ISA portfolio today.

Turning an annual allowance that started at just £2,400 (now £20,000) into a "bar" (old City slang for a million) might seem unachievable to many. According to Bloomberg, the annual compounded total return for the All-Share Index from 6th April 1987 (the year when the scheme was introduced) to today is 6.9%. That may or may not be possible to achieve over the next thirty-two years, but certainly hammers home the advantages of compounding relatively sensible returns over a long period. Another point worth making is that the reinvestment of dividends is a key contributor to these returns. The total capital return is 308% - with dividends reinvested it's 757%! For comparison, I note that the US S&P 500 Index has returned 9.7% per annum over the same period (make that 10.5% in sterling terms adding in the benefit of a stronger dollar), highlighting the value of a broader international approach to equity investing. What's also instructive to see is the compounding effect of that extra 3.6% a year. The total return for the UK index is 757%; the total return for the S&P 500 is 2,327% - which means you'd be a multi-millionaire had you been able to invest in the US market (which was not initially allowed). Of course, these are all nominal figures, so to be a millionaire today is only worth £358,000 in 1987 money (adjusted for the Retail Price Index).

Tax shelters are a prime political football, and one of the risks we have highlighted in the past is that if a Labour government were to come into power they might be curtailed drastically. That's not to say that the Conservatives haven't already inflicted a lot of damage on the pension system, what with the shrinking Lifetime Allowance and the peculiar tapering of annual pension contribution allowances. This prevents people who can afford to make larger contributions from making them, but allows many who probably can't afford it to utilise the full £40,000 allowance. And let's not get started on the unintended consequences on the working hours of senior doctors!

With the Brexit negotiations still in an impasse, a general election is definitely on the cards, potentially to fulfil EU requirements for an extension to Article 50. Latest opinion polls (with all the usual caveats attached) suggest that the two main parties are pretty much neck and neck again, despite the Tories appearing to have as much as a ten point lead just a few weeks ago. Intriguingly, though, neither party leader is deemed to be Prime Minister material (even if one of them already has the job). And then there is the uncertainty of what competition other parties might offer. UKIP seems to be gathering steam again, and there is also the new Change UK/Independent Group party to contend with. No doubt our first-past-the-post electoral system continues to militate against smaller parties gaining seats, but the chances of anyone achieving a majority government look slim. In any event, the clear financial planning message is to continue to take advantage of tax-free wrappers while stocks last.

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FTSE 100 Weekly Winners

NMC Health	10.6%
Hargreaves Lansdown	10.4%
Smurfit Kappa Group	9.7%
Ashtead Group	9.7%
Prudential	9.3%
Standard Chartered	9.2%
Ferguson	7.6%

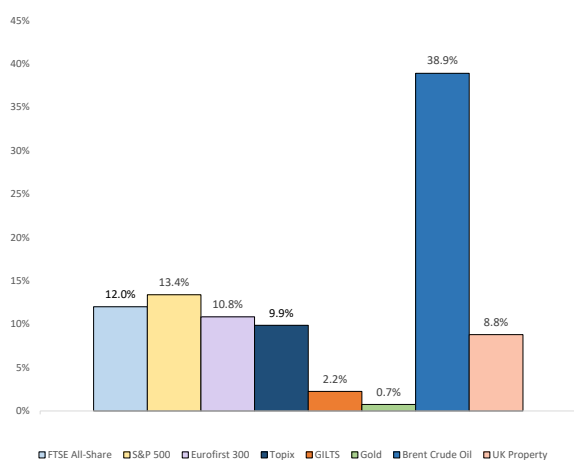
Source: FactSet

FTSE 100 Weekly Losers

easyJet	-5.2%
Direct Line Insurance	-3.6%
Centrica	-3.1%
SSE	-2.6%
British American Tobacco	-2.3%
Imperial Brands	-2.2%
Micro Focus International	-2.1%

Source: FactSet

Year to Date Market Performance



Source: FactSet

FTSE 100 Index, Past 12 Months



Source: FactSet

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