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Grant Thornton
Financial Counselling

An Teampall Geal

Issue 1 · Financial planning newsletter

Welcome to the first edition of our quarterly update on matters relating to financial advice and tax efficient financial planning. In this issue we discuss the recent volatility in the stock market and its impact on longer term investors, the difficulty of seeking a 'safe' return with negative interest rates and in our technical corner we explain how policies that pay inheritance tax liabilities work.

1 Stock markets

Without a doubt the past couple of months have been the most volatile for at least a couple of years. Much has been noted globally about the fear of inflation resting heavily on investor's minds and this, coupled with valuations much higher than historical norms, has led to frenzied selling and opportunistic purchasing across all major indexes. Whilst the commentary has been broadly negative, the major markets have all remained within a small few percentage points of the December 2017 figures despite the volatility.

So what difference does this make to our advice to clients? Our advice, to the vast majority of clients, is predicated on those clients being longer term investors, who are comfortable with the level of risk that their portfolio is taking. All will be abundantly aware that stock markets rise and fall and that these periods of volatility are to be expected. The reason that the markets adjustments are receiving so much coverage at present is due to the fact that markets have not been volatile for over two years. Our advice would be to remain to "*stick with the process*" as what is occurring at present is part of any investment process.

Investment returns*

Index	29 December 2017	26 March 2018	% change
ISEQ	7,038.28	6,446.45	-8.4%
DAX	12,917.64	11,787.26	-8.75%
Eurostoxx50	3,503.96	3,278.72	-6.43%
Stoxx600 (Euope)	389.18	363.18	-6.68%
Nasdaq (100)	6,369.42	6,753.83	-5.59%
Dow Jones	24,719.22	24,202.60	-2.09%
S&P500	2,673.61	2,658.55	-0.56%
Nikkei	22,764.94	20,766.10	-8.78%
Hang Seng	29,919.15	30,548.77	-2.10%
China (Shanghai Composite)	3,307.17	3,133.72	-5.24%
India	34,056.83	33,066.41	-2.91%
MSCI World Index	2,103.45	2,069.13	-1.63%
MSCI BRIC Index	335.58	347.62	3.59%

*Figures provided by Cantor Fitzgerald

2 Seeking return from deposit funds?

In recent years there have been a large number of long term deposits maturing in Ireland, following the generous rates on offer from financial institutions during 2010 and 2011. Many investors saw gross returns of up to 25% over five years. Now investors are facing an environment of extremely low or negative, deposit rates and must look to investing in alternative options and take on more investment risk, in search of a return.

Before taking this step, it is important to assess your current financial position and how this has changed since investing in long term deposits. Questions include:

- Can I afford to take risk with my money?
- Do I have an appetite for investment risk?
- Do I need a return and if so how much?
- How long can I invest for without needing access to my funds?
- What do I need this money for in the future?

While it may seem obvious that all investors 'need' a positive return on their capital it is not always in line with their risk appetite and no return will compensate them for the nervousness they encounter while their funds are invested. By answering the above questions you will at least know what type of investment product suits you for your next investment (if any at all). You will then be prepared to question the merits of the various products that advisors will put in front of you.

While we commend the virtues of longer term financial planning, which the questions noted above link in with, we are hesitant when it comes to recommending 'capital guaranteed' products as investment choices for clients. We are seeing quite a proportion of people who have come off deposit funds invest in such products recently. The reason for the cautionary view is that products which 'guarantee' the return of the capital at the end of a fixed term, are typically structured in such a way as to have a limited amount invested in the markets that underlie the investment. Therefore, for the individual investor, it can often make more sense to reduce their overall investment and make a smaller investment in the markets themselves while retaining surplus funds on deposit.

In order to make an informed decision and identify investment solutions which will aim to satisfy your financial objectives, it is extremely important to seek independent financial advice. One of the most important steps of the investment process is regularly reviewing your investments, not necessarily to review performance against benchmarks and other funds, but to ensure your investments are suitable to your needs on an ongoing basis.

3 Technical corner

Question

I have a lot of assets which I want to pass to my children but am worried about how they will fund the large Capital Acquisitions Tax (CAT) liability that will arise. Is there anything I can do?

Solution

You can take out a policy, written under Section 72 of the Taxes Consolidation Act 1997, which you pay until your demise, the proceeds of which can be used to pay a CAT liability for beneficiaries. These policies are typically set up on a joint life second death basis given that, in a marital situation, there is no tax liability arising between spouses.

Technical

Such policies typically have to be established before the policy owner is 75 years of age. Medical examinations will most likely be required (which will be paid for by the underwriter).

Expense

The perception is that these policies are very expensive to purchase. While this may be the case, each case should be taken on its own merits and the potential saving / value to each individual outlined. In our recent experience there is very good value to be had implementing such policies relative to the overall tax liability due.

Value

These policies do not build up any value during the course of the policy period, therefore, if you stop paying the premiums you lose the benefit of the policy and all the payments made are lost.

Advice

Naturally, we would recommend that anyone considering taking out such a policy take professional advice that covers both tax planning and financial planning. The reason for this is that there may be alternative solutions which might work in conjunction with the above mentioned policy to address the impending CAT liabilities due.

Contact

If you require further information on any topics discussed please contact a member of our team below or your usual GTFC contact.

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