Overview of 2018 so far

The first quarter of 2018 saw volatility come back to the markets. In fact, for most fund houses and shares it was a very difficult time. During the quarter, there has been two significant sell offs'. Initially it was on the fears that the economy and markets were overheating and inflation starting to pick up quickly. This was largely a sentiment driven sell-off. The second was brought about by President Trump's rather vocal trade initiatives. It would appear Trump has been threatening everyone from Korea, to Russia, to China and even Amazon (the company rather than the jungle. Although this may be next!). When you consider some funds and shares have dropped close to 15% for quarter 1, most of our client portfolios are sat at around par from January 2018. We see this as a real positive as there are simply times when investment returns are near impossible to generate. During these times the balance and diversification of the assets within a portfolio really work to deliver the best possible outcome in the given conditions.

Markets remain volatile and there will be further instances of volatility and market dips throughout 2018. We certainly expect some rocky patches but also see potential in the markets. There are some interesting opportunities and funds to introduce to portfolios which myself, Dave & Tom will be chatting about in the coming months.

Throughout the remainder of 2018, we have interest rates to monitor, Brexit negotiation impact, US mid-term elections and escalating tensions with Russia. That said, economic data is looking far more positive than anyone predicted and with inflation slowing to 2.3% this month, the likelihood of interest rate rises in Q2 or Q3 have dropped. This makes a far easier market place from an investment perspective and the hope is the recent market rally of UK and European stocks continue.

The US is certainly more difficult than it has been in recent years. The post-election new President sentiment seems to have run out of steam and the mid-term elections should give a clear indication as to whether Trump is likely to win a second term. Whilst having a protectionist stance can help your economy, it can at the same time damage markets. I often wonder whether Trump actually understands the impact of what he says and tweets.

We see the main positive moving into quarter 2 and 3 of this year – slowing inflation. We are not convinced rate rises will either happen or if so, any real impact will be felt.

Negatives – rising US protectionism. Any spats with China are likely to cause market volatility.

Fund Corner – we are going to try and focus on some different funds / fund managers in coming months to give some insight in the work we do behind the scenes. Where better to start than one of the UK's leading fund manager – Neil Woodford.

Neil Woodford & Woodford Funds - https://woodfordfunds.com/

There was probably never a better time to focus on Neil Woodford and his fund house. I quite often get asked about Neil Woodford as he has been one of the standout fund managers of the last 25 years. He built up such a following that private investors would simply put their entire portfolio into his income fund range and just let his fund generate returns. In fairness for many years whilst heading up the Invesco Perpetual Equity Income portfolio's this pretty much worked. Neil left Invesco Perpetual in April 2014 and set up his own fund range called Woodford funds. Within a short period of time he had billions subscribed to his initial fund offerings. The expectation was that his continued focus on an active management strategy with a long-term approach would follow the same course as previously mapped out at Invesco Perpetual. I've listened to Neil Woodford on many occasions over the years and he is a very engaging and focused individual. His understanding of UK economics and the analysis process him and his team undertake as part of any investment process has always worked well.

He has always been famed for spotting early developing companies and not just investing in the company but buying a large chunk of the company and being involved in the high level management, strategy & decision making process. Over the years, there has been some real success stories.

Neil Woodford has always been a "stock picker" and the risk with this type of investment philosophy is that picks can go wrong. Since 2014, NW has really suffered as a fund manager and clients investing in his funds likewise. Just last year, his Woodford Equity Income Fund held over £10bn within the fund. This now sits at £6.6bn. Still a massive fund, but professional and private investors are now deserting NW for returns elsewhere. Over the last 3 years his funds have delivered a gross return of -0.3% and rank 246 out of 247 funds. The short-term performance doesn't make better reading. For those loyal investors that believe he will turn things around have not been rewarded for their loyalty. Since July 2017 the fund has dropped by 15%. I've attached the fund factsheet for those that want to read further. There is also some interesting information on his website.

No matter how challenging markets, investors take a risk by investing. But at the same time expect some performance when conditions are favourable. I think everyone understands that generating growth 100% of the time is impossible. The concern is that when markets and other funds are generating returns the expectation is yours will do the same. Unfortunately, this has not been the case for Woodford funds.

2018 will be a real test and without a significant turnaround, NW funds will continue to see money go out the door.

Unfortunately, 2018 hasn't started well for Woodford funds, with one of his core holdings "Prothena" taking a big hit last week. This is a medical research company and unfortunately one of their key trials failed last week. NW backed the company heavily in 2017.

This was the recent statement from NW - "We wanted to get in touch to provide some information and context about a disappointing clinical trial readout from Prothena, one of our late stage biotech companies.

It sometimes feels as though we are rarely out of the press and we believe today's news may get a disproportionate amount of coverage in the media relative to the impact on the company's prospects and the funds that have exposure. We are conscious that this may result in some of your own clients contacting you to discuss the news further. Therefore, we hope that the additional information we are providing you with, will provide the context and balance you need to respond to your clients' questions – particularly in relation to the income funds.

We have been investing in early stage drug discovery and development companies for over twenty years and our clinical trial successes have significantly outweighed our trial failures. We acknowledge that success is never guaranteed, and that drug development doesn't always progress according to plan. This is an inevitable risk of investing in this industry but the rewards for success are substantial and we continue to see some compelling investment opportunities in this area of the market.

Indeed, we believe significant value remains in Prothena via its technology platform and a world leading specialism in misfolding proteins which are implicated in a number of poorly treated neurological disorders. This was recently demonstrated by a $2.2bn collaboration deal with Celgene. As fund managers we must remain disciplined in assessing valuation opportunities especially when there is a delay or a disappointment. More broadly we are seeing increasing evidence of a very different market backdrop to the one that has prevailed for much of the last two years, with positive implications for the funds' performance."

Overall, its been a tough time and we continue to monitor this fund house (like many) very diligently to understand the likely performance and risks of holding within a portfolio.

Interest Rates / inflation

The big news in this area over the quarter was the decrease in inflation. Since reaching a high towards the end of 2017 at 2.8% the rate has fallen back to 2.5% in Feb 2018 and now 2.3% in March. The next release will be the 23rd May 2018. Interestingly, from an interest rate perspective, this puts far less pressure on Mark Carney and the BoE to increase interest rates. The view has been that Carney has been very mindful and even reluctant to increase rates when running the risk of slowing the economy. The next 11 months before the end of the 2 year Brexit period is going to be really interesting. I fully expect the treasury and the BoE pulling every monetary and fiscal lever to keep things on a positive curve.

In short – whilst interest rates remain lower than 3% and on a downward curve we don't expect any changes to interest rates.

Bitcoin

I think the expression for anyone that invests in Bitcoin or Etherum (2 main cryptocurrencies) is "what a ride". During the middle of 2017, well established platforms started to offer exposure to these assets via a Bitcoin or Etherum tracker. This way, you can get exposure to these assets without the risk of holding direct via overseas exchanges.

One certainty with any cryptocurrencies (CC) is that you need nerves of steel and the last 3 months would have tested the mettle of most with CC's falling between 50-75% since Jan 2018. The expectations with regards to CC's is that there is "no expectations". In my opinion, it's impossible to predict, back test or base future performance against other assets, sectors or economic data. At this moment in time, it's a unique "investment". I wouldn't call it a currency and I use the work "investment" very lightly as it's more a means of speculation. It's definitely a type of asset class but there is nothing out there at present with more risk attached.

There are certain features of CC's that could lead to technology advances and in particular, Blockchain could have a prominent future. On the CC front, the next 12 months will be very interesting in terms of the technology development, the security and risks, usability as a currency or asset class and finally acceptance and regulation within individual countries.

It's going to be a fun journey with CC's and we will keep everyone fully briefed throughout 2018.

State Pensions Top

We have been doing some work with a number of clients in recent months around State Pensions.

In short, there is the old system and the new system. Those under the old system can still top up their State Pension. If not in receipt of your full State Pension, you can check to see if any gaps in the years and how many weeks are missing to accrue a "full year". This can be checked online - https://www.gov.uk/voluntary-national-insurance-contributions

Any missing weeks to top up a full year can be completed online, and it costs a maximum of £14.10 per week (this purchases £3.98 per week of State Pension). In theory, to purchase a full year it would cost £733.20. This top up purchases additional pension of £206.79 per year. As you can see it wouldn't take long to get this outlay back. If you only need a few weeks to top up a year, this is even more beneficial. In short, I can't see why anyone under the new system wouldn't want to try and top up. Anyone wanting to do this needs to have made the top ups by 2023 and it can be completed online. We are here to help on this.

Married Persons Allowance (TAX BACK)

Again, this is something that everyone should do if eligible.

This lets you transfer £1,190 or your personal allowance to your husband, wife or civil partner. This can reduce their tax bill by £238 per year.

Providing your income is less than £11,850 and your partners income is between £11,851 and £46,350 you are potentially eligible. You can also backdate to the 5th April 2015.
It's very easy to apply and can be done online - https://www.gov.uk/apply-marriage-allowance
It could be nearly a £1,000 tax saving if backdating so definitely worth doing.

PDB Update

It's been a busy quarter within PDB as the markets have been challenging. We have spoken to lots of fund managers and investment houses and spoken to a lot of clients either in person or on email. In truth, it's been great fun.

We had Meghan join us in January 2018 in a junior capacity and we are just bringing on board Alison Mitchell as a Senior Advisor Support. This is to further enhance the work we do with all our clients. Alison has worked in financial services for over 25 years and has a huge amount of experience dealing with the investment companies we tend to use. I have no doubt Alison will be in touch in the coming months on both email and the phone. We have a great team to support your every need and are on hand any time to help.

Tom has now qualified as a financial advisor. He has been going through training and the qualifications over the last 3 ½ years and is now able to advise clients. This is another great benefit as Tom will be able to help on the advice side with his own clients and if myself and Dave are not around. I know many of you will have spoken to Tom on the phone or received emails. A great addition to the advice we can provide to everyone.

We are also making some changes on our compliance and regulatory side that is outlined in a separate attachment, which we hope is all positive stuff.

If you need to chat at any point, we are all on hand to help.

Let’s all hope for a real kick start to the Summer both in terms of the markets and the nice weather!

Best wishes

Paul & the team at PDB

Please note: The information contained in this update does not constitute as advice. All advice is given at an individual level and should you have any questions you should contact your adviser for further clarification or help.