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NEWS LETTER

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Be wary of the crypto-craze

You might be thinking about whether to invest in crypto currencies. We explain why it may not be the right choice, and how to better approach your portfolio.

This year has been eventful for bitcoin, with the cryptocurrency reaching a record high and then almost halving in value all in the space of six weeks. The walk-back in May from Tesla's Elon Musk in his support of bitcoin underlined concerns around the idea of cryptocurrencies as a stable investment. Musk – previously an outspoken supporter – announced his company would not be accepting bitcoin as payment for its vehicles. What followed was a series of plunges in its value – not helped by the additional news of Chinese regulators signalling a crackdown on the use of digital currencies.

Bitcoin in brief

Bitcoin is a type of digital, decentralised currency, allowing the transfer of goods and services without the need for a trusted third party. The network is based on people around the world called 'miners' using computers to solve complex mathematical problems in order to verify a transaction and add it to the 'blockchain' – a massive and transparent ledger of each and every bitcoin transaction maintained by the miners. The first to verify is rewarded with bitcoin. There is a finite amount of bitcoin that can be produced and, as more are created, the mathematical computations required to create more become increasingly difficult.

Cryptocurrencies can be volatile

Bitcoin's high volatility (risk) makes it a poor substitute for money in a broad sense. The unsteady air around cryptocurrencies in May showed the speculative nature of this asset class. Bitcoin and cryptocurrencies in general have more in common with commodities and currencies – they are much harder to value than cashflow-producing equities and bonds.

Reasons to be crypto cautious

- Cryptocurrencies are a volatile choice and susceptible to stock market bubbles, which can affect investments negatively during a downturn.
- They're not a tangible form of investment, and are not regulated, which can be a red flag when it comes to your investments.
- Volatility means investors are likely to act on doubts and sell if they fear a fall in return.

Where to invest?

A sensible approach is to invest in high-quality companies that are well-established businesses. These are usually businesses with strong management teams, serviceable levels of debt and predictable cash flows. To avoid being hit by market volatility make sure your portfolio is invested in a wide range of assets, and less vulnerable to market shocks.

Staying invested when there is a downturn can help you get through any turbulent times and put you in a good position to benefit from any ensuing recovery.

Our financial advisers can help advise you on your 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.

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Capital gains tax and shares

If you sell shares, funds, or other financial products, you might need to pay capital gains tax on your profits. It's good to be aware of how your investments are taxed when it comes to selling them, and make sure you arrange your investments in the best way to avoid paying more tax than you need to.

Several assets are exempt from capital gains tax (CGT), such as your home and any personal belongings worth less than £6,000 (like a car for personal use). However, when selling investments

such as shares, funds, investment trusts or other financial products you will be charged CGT if you go over your annual CGT allowance depending on your tax band.

What is CGT?

CGT is a tax on the profits earned from selling an asset. You only have to pay CGT on your overall gains above your tax-free allowance – known as the annual exempt amount – and the amount depends on your tax band.

In the 2021/22 tax year you can make £12,300 in capital gains before you pay any tax. Couples can double this by pooling their allowances. The tax-free allowance for trusts is £6,150.

If you're a UK resident, you may be liable to CGT on disposals of assets located anywhere in the world, not just those based here.

Do I need to pay CGT on shares?

If you make a profit when selling shares, you may have to pay CGT. Any profit made on selling shares taxed at 10% if you're a basic rate taxpayer and 20% if you're a higher rate taxpayer. You don't usually have to pay CGT on shares if you give them as a gift to your husband, wife civil partner or a charity. You also won't have to pay CGT when you dispose of:

- shares you've put into an ISA or PEP
- shares in employer share incentive plans (SIPs)
- UK government gilts
- NS&I Premium Bonds
- qualifying corporate bonds
- employee shareholder shares (depending on when you got them)

How much CGT will you have to pay?

So, you've bought some shares and managed to sell them for a profit, but how much CGT will you have to pay? Imagine you've spent £5,000 on shares and sold them for £30,000, giving you a £25,000 profit.

You don't pay CGT on the first £12,300 of the gains made, which leaves a taxable amount of £12,700. The shares are charged a CGT at 10% or 20%, depending on your tax band. A basic rate taxpayer who has to pay CGT of 10% would pay £1,270. A higher rate taxpayer who pays 20% CGT would have to pay £2,540. If you make a loss on your shares, the amount can be off set/deducted from any gains you made in that tax year. If you have shares from your employer, it's worth checking on the rules around CGT and those shares, as they can be different.

How are dividends taxed?

A dividend is a share of a company's profits distributed to its shareholders, usually paid out quarterly. If you receive a dividend payment you may have to pay tax on that income. The good news is that it's possible to receive some dividend payments each year without having to pay any tax.

All taxpayers get an annual tax-free dividend allowance of £2,000, which is the amount you can earn each year without having to pay any tax. Anything above this level is taxed according to your income.

Basic rate taxpayers are taxed at 7.5%, while higher rate taxpayers are taxed at 32.5%, and additional rate taxpayers at 38.1%. These rates will increase by 1.25 from April 2022 to help support the NHS and social care reforms.

Benefits of pensions and ISAs

If you want to avoid paying CGT or tax on dividend earnings unnecessarily you could consider investing your shares in a tax-free wrapper like an ISA or a pension. Shares held in an ISA account can grow free from tax, meaning you don't pay tax on capital gains, dividends or income made on any gains from your investments. A self-invested personal pension (SIPP) is a wrapper that allows you to control the specific investments you make, and just like ISAs, with a SIPP your investments can grow free from capital gains, dividend, and income tax.

While working out how much tax you're going to pay when you make a profit on an asset might seem complicated, it doesn't have to be. Our financial advisers can help you arrange your investments in the best way to make the most of their potential, including when you sell them.

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

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 shortterm 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..

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OW3653 Exp. 15/10/22

Specialist mortgages and your holiday let

If you're in the market for a holiday let and need a specialist mortgage, what should you be aware of?

When might you need a specialist mortgage? The clue is in the name – if your situation is different from the normal criteria of a traditional mortgage, then a specialist product could be the answer. This especially applies to people in the market for a holiday let.

When do you need a specialist mortgage?

A specialist mortgage could apply if you're buying a high value home or already have a home and want a second charge mortgage in order to carry out renovations. They could also suit those who are self-employed, looking for a holiday or buy-to-let (BTL) property or people who do not meet the standard criteria for a mortgage. Whatever the reason, seek financial advice from an expert in the specialist mortgage field to find the best deal for your situation.

Holiday lets

When it comes to a mortgage for a property you intend to use as a holiday let, your regular income is considered in terms of the loan value, regardless of the amount you estimate might come in from the eventual rental. This is to ensure you can afford the mortgage payments during times when rents ar not coming in, or when you are using the property. Although staying there yourself is one of the advantages of a holiday let, you can't live there on a permanent basis as it would affect the terms of the mortgage.

Some specialist mortgage products for holiday lets offer a maximum loan-to-value (LTV) of a certain amount for the mortgage. So, if your holiday let costs £200,000, and the LTV from the specialist product is 70%, then you will be able to get a loan of £140,000 from your lender and your deposit would need to be £60,000.

Lenders have their own criteria, which could include the following:

- Applicants need to be over the age of 21 and in stable employment.
- Your main income should not come from another rental or investment.
- Borrowers will need to prove their income exceeds a certain amount annually.
- A minimum deposit (usually around 25% of the property value).
- Rental projection from a holiday letting agent may be required, covering off-peak seasonal periods and high-demand times of year.
- The rental property itself must meet certain criteria (for example, being located within the UK and functioning as a single-family dwelling).

Holiday let vs buy-to-let

You might think that there is little difference between a holiday let mortgage and a buy-to-let mortgage (BTL), but there are a few. A BTL mortgage will contain different conditions and requirements, such as the need for an assured shorthold tenancy being in place (AST).

Using a BTL property as a holiday letting – without informing your lender – is a breach of the agreement and could undermine your mortgage contract and credit rating. The main difference between the two types of mortgages is how the loan size is calculated, and the estimates of rent the properties will receive. A holiday let will tend to bring in less rental income due to its seasonal nature.

Furnished holiday lets come with tax advantages that BTL properties do not.1 They are treated as a business, which means you can claim capital gains tax relief on any profits. Owners can also claim capital allowances to cover the cost of furnishings and furniture, and equipment such as refrigerators and washing machines.

There are more allowable expenses for a holiday let, compared to a BTL, including:

- letting agents' fees
- accountants' fees and certain legal fees
- mortgage interest
- building and contents insurance
- maintenance and repairs to the property
- utility bills, council tax, ground rents and service charges.

Speak to a financial adviser to work out what's best for your situation if you are looking for a specialist mortgage.

Some specialist mortgages are not regulated by the Financial Conduct Authority.

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

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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.

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