Advice
for individual investors

information
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In this document we discuss investments within the context of having a balanced portfolio. The document provides an overview of the most common types of investment and hopefully affords a better understanding of what Independent Financial Advisors do for their clients.

In this brief...

1. Understanding the basics

What is an ISA (NISA)?

An Individual Savings Account (NISA) is a tax efficient wrapper that can hold either stock market based investments or traditional savings account. On 1st July 2014 ISAs became known as New ISAs (NISA).

There are 2 types of NISAs – Stocks & Shares or Cash. A Cash NISA - is similar to a cash savings account, where no tax is paid on the interest you earn.

For an NISA paying 3%

- a basic tax payer would need an interest account earning 3.75% to give the same return
- in the top tax bracket this is a healthier 5%

Or put another way

- basic tax payer a ¼ more interest
- high tax payer ⅔ more

Allowance: tax year 2016 / 2017 = £15,240 the same as 2015/16 moving to £20,000 from April 2017 - with a NISAs you can have any combination of stocks and shares and can choose to have your allowance all in cash or all in shares. You get a new allowance each year! So if you keep the money in, the benefit remains year after year.

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You can draw money out during the year if you have an easy access account but you can't return it. The advantages of Stocks and Share NISAs

1. You don't pay Capital Gains Tax, Dividends from shares in a NISA are tax free.
2. No tax on interest earned on investments for example Corporate or Government Bonds

Make NISAs an important part of your Savings Portfolio. Check you are using your full allowance.

NISAs and Capital Gains Tax

If you sell or exchange assets you pay CGT on any earnings above the £11,100 (2015/16) allowance, at the point of transaction. From April 2016 the CGT will be cut from 28% and 18% to 20% and 10% respectively.

In other words: if you make a profit when you sell or give away an asset (including shares) you might pay tax on the profit. This doesn't apply to personal belongings worth £6,000 or less, or your car or, in most cases, your main home. See: When do I pay CGT? CGT is normally payable on sales / exchanges of shares where the profit exceeds the set tax limit for the year - £11,100 for 2016/17

Rates for Capital Gains Tax

20 per cent and 10 per cent tax rates for individuals (the tax rate used depends on the total amount of your taxable income, so you need to work this out first).

For further information on how Capital Gains Tax is calculated: Capital Gains Tax Rate Examples

Why are NISAs advantageous? Because they don't attract Capital Gains Tax.

Let's assume 10% CGT 11,100 is the threshold before CGT comes in to play; And let's assume you make £20,000 profit...

£20,000 less £11,100

Gives you £8,900

The tax you save is 10% of £8,900 = £890

Bridge Tip: Make NISAs an important part of your Stocks & Shares Portfolio – you do not pay Capital Gains Tax.

NISAs and Corporate Bonds & Gilts

Bonds are issued as a way of raising money. They have nominal value (usually £100), which is the amount that will be returned to the investor on a stated future date (the redemption date). They also pay a stated interest rate each year - usually fixed. Bonds are bought and sold on the stock market and their price can go up or down.

In other words: A bond is a loan to a company, government or a local authority, and in return you get a regular income from the interest until the loan is repaid.

There are different types

- corporate bonds - issued by companies e.g. Tesco, John Lewis, National Grid
- gilts - bonds issued by the UK government

For up to date information on Gilt and Corporate Bond rates contact us.

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Gilts pay a fixed rate of interest twice a year and like corporate bonds they are bought and sold on the stock market, so the amount you initially invested (the capital) may not be returned to you in full.

So why are NISAs advantageous?

Well with a Corporate Bond or Gilt in an NISA you don't pay tax on the Interest Payments that you get.

Bridge Tip: If you are looking to invest in Bonds it pays to consider if you want to include NISA Bonds in your Portfolio of investments.

Note: Lifetime ISA accounts will be available from April 2017. For those saving up to £4000 each year, receive a government bonus of 25%. Restrictions apply due to the purpose of this ISA – see the HM Treasury Factsheet to understand how it helps with buying a first home or retirement.

Stocks and Shares

Stocks and Shares fall into 3 categories:

i. Individual Equities

ii. Unit Trusts or Open Ended Investment Companies

iii. Investment Trusts

i. Individual Equities

A company divides its capital into equal denominations (shares) and offers them for sales on the stock market. Investors purchase these because the company may well pay them a dividend or they may make money on trading the shares.

Bridge Tip: If you are going to have stocks and shares it is prudent to spread the risk by investing in a diverse set of companies rather than limiting your choices. The job of a financial advisor is to assess your attitude to risk and make recommendations on the type of companies you should hold shares in.

ii. Unit Trusts or Open Ended Investment Company (OEIC)

An OEIC is a trust set up to invest in other companies. It is able to constantly adjust its fund size by investing and disposing of shares. Funds can reflect a diversified portfolio of investments including for example small cap and large cap companies. See the balanced portfolio information later in this document for more information on diversification practices. Unit Trust and OEICs operate in a similar fashion. Over the last few years many companies have been converting their unit trusts into OEICs, mainly for technical and administrative reasons.

iii. Investment Trusts

Investment Trusts act in a similar way to OEICs but they are stock market-quoted companies in their own right and as a consequence have a fixed number of shares in issue. The price of an investment trust share depends on the value of the shares in other companies which it holds and also depends on the demand for the trust shares themselves.

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Investment Bonds

Investment bonds are life insurance policies in which you can invest a lump sum, this will go into a variety of funds. They are not the same as corporate bonds, premium bonds or fixed-rate bonds.

For more information on what an Investment Bond is visit the "Which" website also take a look at the Tax implications of such an investment.

Annuities

If you have a money purchase pension scheme, you can use the cash you have saved to buy an annuity. This effectively "unlocks" the money that you have saved in your pension fund to provide an income in retirement. An annuity is a contract with an insurance company, which guarantees to provide you with an income (usually for life) in return for the payment of a lump sum. It cannot normally be changed once set up, so it is very important to make the right choices when purchasing your annuity and to discuss with your financial advisor other options, such as Income Drawdown or Phased Retirement.

Dividend Tax Credit

From April 2016 the Dividend Tax Credit will be replaced by a new tax-free Dividend Allowance. This Allowance means that you won't have to pay tax on the first £5,000 of your dividend income, no matter what non-dividend income you have. This is favourable to investors with a modest dividend income.

The allowance is available to anyone who has dividend income.

The rates of dividend tax are also changing:

You'll pay tax on any dividends you receive over £5,000 at the following rates:

- 7.5% on dividend income within the basic rate band
- 32.5% on dividend income within the higher rate band
- 38.1% on dividend income within the additional rate band

2. Our tips on best practice

What is a balanced portfolio?

The next step is to understand your long term financial goals and your attitude to risk. It is also very important to understand any immediate income requirements from your investments and how long you plan to invest for. This will help your advisor determine the most appropriate Asset Allocation.

Bridge Investment Advisors work closely with you to create a bespoke portfolio tailored to your needs.

i. Asset Allocation

Asset Allocation	Example Investment	More Detail
Equities: • Stocks & Shares • Unit Trusts • Investment Trusts	North American Equity, Asia Equity, UK Equity – Large Cap, UK Equity – Mid Cap, Emerging Markets Equity	Equities are shares: Equity Splits can be Geographical or Capital Based (based on company asset / size) or a combination of the two. In general you will have more equities in your portfolio if you are less adverse to risk – but everyone is different and other factors such as income and time affect this.
Bonds	UK Gilts, UK Corporate Bonds, UK Inflation-Indexed Bonds, Global ex Fixed Income	Bonds can be geographical, company or Government specific and offer various levels of return based on the investment criteria – e.g. Fixed Rate, High Yield (with greater risk of default).
Property	UK Property	Property investment funds can include commercial, industrial, retail and residential property. They can be actual properties or shares in property companies, or a combination of both.
Commodities	Oil, Gas, Metals	You may remember from the Movies Trading Places - Pork Bellies were invested in. Bridge Investments will however stick to a more traditional portfolio if this is more suitable for you.
Cash	Cash NISA, Fixed Income Investment	Again your risk profile and requirements for cash will determine how big a part this plays in your Asset Allocation.

ii. Diversity

A good advisor, once they know your financial needs and attitude to risk, will choose from as diverse a selection of investments as possible, which will match your asset allocation profile.

Bridge Investments pride themselves on taking the time to research investments that are more suitable for their Clients and to offer a spread of investments by category that, although in no way guarantees, can potentially cushion the adverse effects of market fluctuations.

3. How Bridge Investment can help

What Bridge Investments do

We offer an extremely personalised service to clients that has the ultimate goal of making our clients more relaxed about what is happening to their money.

- Help our clients with their long-term financial goals by listening to their personal goals and understanding their specific financial needs.
- Determine the most suitable Asset Allocation and Portfolio Diversification based on those needs.
- Help clients understand their finances better.
- Monitor and advise on client’s portfolios in regular reviews.

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