NEWSLETTER

Dec 2014

12 Month Equity Market Performance

A varied, mainly positive equity return performance for 2014, across different indices. The euro currency weakness has been a major feature in 2014 contributing in an increased performance returns to euro based investors, hiding some poorer local currency returns. Equities continue to be supported by the expectation of reasonably strong corporate earnings' growth and low interest rates. Equities appear to remain better value, relative to other asset classes despite the rise in price earnings ratios.

Stock Indices	Dec 2013	Dec 2014	% Change Year	% Change Euro Terms
ISEQ	4539	5224	+15%	+15%
FTSE 100	6749	6566	-2.7%	+4%
Eurostoxx50	3109	3146	+1.2%	+1.2%
S&P 500	1848	2059	+11.4%	+26.9%
Nikkei	16345	17450	+6.7%	+7%
Hang Seng	23306	23605	+1.2%	+15%
MSCI World	1656	1710	+2.93%	+17.3%

WARNING: Past performance is not a reliable guide to future performance.

Government Bonds 10 Year Yields

Eurozone bond prices overall are up 19.9% for the year, led by Spain up +25.8%. German bond yields are at an all-time low. Prices have been supported by ongoing deflationary concerns and speculation that the ECB may introduce some form of QE.

Issuer	Dec 2013	Dec 2014	Change Year
Ireland	3.455	1.25	-2.205
Germany	1.93	0.541	-1.389
UK	3.033	1.756	-1.277
US	2.9703	2.171	0.7993

Interest/Deposit Rates:

1 year term deposit returns are currently between 1% to 1.8%. Demand deposits with main banks earn 0.01% to 0.05% at present.

Currency Exchange Rate

The euro currency dropped significantly against USD and STG during 2014. This exchange rate fluctuation has had a positive impact on funds where there was exposure to US and UK assets. Overall the strategists predict the euro to remain at current levels or decrease slightly further in the coming year.

FX Rates	Dec 2013	Dec 2014	% Change Year
EUR/USD	1.3783	1.2098	-12.2
EUR/GBP	0.8331	0.77652	-6.79
EUR/JPY	144.52	144.85	+0.2

Commodities

The failure of OPEC members to reduce production levels at its November 27th meeting further added to the downward momentum in world energy prices. The expectation is for continued volatility in oil prices but overall prediction is a rise on current prices for the year ahead.

Commodity	Dec 2013	Dec 2014	% Change Year
Oil (Brent)	111.21	57.33	-48%
Gold	1196.5	1184.86	-0.9%
CRB Commodity Index	455.72	437.75	-3.9%

Company Deposits:

In Ireland alone there is €30 billion of corporate monies on deposit. In recent years this may have been a prudent home, as interest rates were generally quite healthy. However rates have now fallen to historical lows and you may now wish to review this strategy and explore options available to make your monies work harder.

To add to this most companies in Ireland are "close" companies (i.e. a company which is controlled by 5 or fewer participants). These companies are subject to a 20% surcharge tax each year on any investment or deposit income which remains undistributed. Also services companies are liable to a **15%** surcharge on 50% of their after tax profits.

IS THERE A SOLUTION? Yes! A very efficient way of sheltering any reserves in your company from this surcharge is to place monies in an Insurance Company Savings/ Investment plan. Not only does the use of this vehicle avoid the surcharge, but companies also benefit from a reduced tax of **25%** versus 41% that you pay on personal monies.

Your funds grow in a tax free environment for up to 8 years before the exit tax is payable. Therefore by gradually moving your monies on deposit to such a plan you will avoid the surcharge, and also avail of the 25% exit rate.

Annual gift exemption

As tax rates are rising and exemption limits have reduced over the past few years, you may be missing out on an opportunity to reduce this potential tax liability for your family in the future. Each year you can gift a child, grandchild, friend etc without any capital gains or potential inheritance tax liability. The annual limit is €3,000 and therefore a couple can gift up to €6,000 each year to a child /grandchild. If the threshold amount is not used it cannot be carried forward each year.

Performance of Selection Funds for 2014: Low to High Risk

Assuming €100,000 invested 1st Jan 2014 in each of the funds below, gross value after charges but before tax. Please note funds have different volatility factors/ risk profile. As mentioned above, the euro weakness for 2014 has had a **positive** impact on many of the funds summarised below.

100,000 Invested 1/1/2014	31 Dec 2014 €	Return After Charges
Equity Funds: Medium to High Risk		
New Ireland Balanced Fund	113,800	13.8%
Zurich Life Balanced Fund	115,780	15.78%
Standard Life Managed	115,050	15.05%
Irish Life Active Managed	116,850	16.85%
Davy High Yield Fund	116,740	16.74%
Aviva High Yield Fund	119,000	19.0%
Equity Funds : Low to Medium Risk		
Standard Life My Portfolio II	108,860	8.6%
Irish Life Multi Asset 3	108,040	8.04%
Other Funds : Low to Medium Risk		
Aviva Multi Asset Cautious Fund	106,300	6.3%
New Ireland BNY Real Return Fund	106,100	6.1%
Friends First Magnet Cautious	109,300	9.3%
Standard Life GARS Fund	104,950	4.95%
Irish Commercial Property Funds		
New Ireland	130,300	30.3%
Aviva	129,600	29.6%
Irish Life	129,180	29.18%
Friends First	129,290	29.29%
UK Property Fund		
Standard Life UK Property Fund	113,630	13.63%

WARNING: Past performance is not a reliable guide to future performance. The value of your investment may go down as well as up. Returns on investments may increase or decrease as a result of currency fluctuations.

Outlook

"Commercial property investments should offer a good diversification in an equity portfolio for the year ahead, with expectation of a modest return"

I am glad to say the above line mentioned in my newsletter last year 'Dec 2013', did unfold but perhaps I was a bit too conservative with using the word 'modest'! (see Property Fund performance above).

However, that is now in the past and with strong equity returns for the past 6 years, diversification is more important than ever. Commercial property should continue to form a part of a well- diversified portfolio in the year ahead.

The start of 2015 has been a nervous start for equities , down on average 3-4% as this goes to print, and this type of volatility may continue throughout 2015, but will also allow some buying opportunities for the long term investor. Both the BOE and FED are in line to tighten interest rates, while the ECB is widely expected to further loosen monetary policy with a view to reduce risk of deflation. Corporate earnings growth will have the greatest potential positive impact on equity prices in year ahead.

Overall as an investment advisor our aim is to seek investment portfolios which will balance risk with overall capital/income appreciation requirement.

We strongly advise all clients to review your investment/ pension portfolio at least once a year.

My closing statement remains the same "Whatever the outcome of markets for 2015, I wish each and every client and your families a healthy year ahead and hopefully financially healthier by the end of it also!"

Services

The following services are provided by RMC Financial Services, with over 20 years experience in the Accountancy & Financial Advisory business

- Financial Planning
- Investment/Pension Fund Reviews and Advice
- Savings and Deposits
- Retirement Advisory Services
- Post Retirement Investment Services
- Life Insurance: Personal and Business Protection
- Illness Insurance
- Mortgage Protection Insurance
- Income Protection Insurance

Contact details

Rosemary Collins ACA, QFA, Managing Director

RMC Financial Services O'Connell House, Glenrock Business Centre, Ballybane, Galway

Phone 091 763716 Mobile 087 1331851

Email rosie@rmcfs.ie Website www.rmcfs.ie

RMC FINANCIAL SERVICES