"Predicting the future is easy, getting it correct is the difficult part"

NEWSLETTER

RMC FINANCIAL SERVICES

Year ending Dec 2016

Year gone by: 2016

At the time of writing this newsletter last year in early January 2016, global markets had dropped approximately 6% after falling by 5% in December 2015, so you may appreciate how investors and advisors alike may have been concerned for the year ahead. However in what was an extremely volatile year in equity markets, global markets are up 5%, in the year to December 2016. The opening quote in that newsletter was quite appropriate, "No ones ever achieved financial fitness with a January resolution that's abandoned by February". If you had sold out at end of February you would have missed out on strong returns in 2nd half of 2016.

Market predictions on outcome re Brexit and Trump for US president were certainly incorrect, but from global equity market point of view what was even more surprising was, after Brexit it took three days for markets to shake it off, with Trump it took three hours and with Italian referendum it took three minutes. However, we may have not yet witnessed the potential impact Brexit, Trump's victory, China's debt and currency woes and Opec deal could have on markets in future.

12 Month Equity Performance 2016

Stock Indices	Dec 2015	Dec 2016	% Change Year	% change Euro terms
ISEQ (Irish)	6792	6517	-4.0%	-4.0%
FTSE 100 (UK)	6242	7142	+14.8%	-1.2%
Eurostoxx50 (Europe)	3268	3290	+0.7%	0.7%
S&P 500 (USA)	2044	2239	+9.5%	+13.1%
Nikkei (Japan)	19033	19114	+0.4%	+6.7%
Hang Seng (Hong Kong)	21914	22000	+0.4%	+4.3%
MSCI World	1663	1751	+5.3%	+9.4%

Past performance is not a reliable guide to future performance.

What for the year ahead?

As the heading on this newsletter implies – predicting the year ahead for financial markets with accuracy in my own opinion is futile as no one can know what lies ahead. However, the bulk of our business is the investment /pension sector and our objective is to guide you through the ups and downs of financial markets to obtain a long term real growth rate on your investments/pension.

Considerations for 2017

Will Trump be able to accomplish promises on fiscal stimulus, less onerous regulations for businesses, lower corporate tax rates, and how long it will take if this can be achieved.

How will Europe handle the Brexit. France, Holland, Italy and Germany hold elections in 2017, anti-euro movements could cause concern in financial markets.

Oil: will OPEC output cut agreement be adhered to as Oil prices could slump if agreement not followed through.

Global banks may be investable once more: expectation of higher interest rates on stronger economic growth as policy switches from monetary to fiscal measures in the coming year. Rising long term bond yields help banks by boosting their net lending margin. Despite the recent and expected future increases in US interest rate, it is unlikely the ECB will raise rates over the next couple of years with intention to increase growth capacity.

Overall, asset allocation will be key in investment return over longer term, perhaps a higher allocation to US equities in start of year based on above could prove beneficial, but caution required re USD vs Euro, and currency hedging should form part of portfolios. Equity returns have been very strong for December 2016 and also first week in January and we expect that volatility will be big factor in year ahead.

Inheritance Tax Planning – Not something that only the very wealthy need to be concerned about

The economic recovery has led to rising property values , pension and investment funds increasing in value. Coupled with the lower level of revenue thresholds (down 40% since 2008 for inheritances received from parents) and a tax rate of 33%, a tax bill following the death of a loved one is something many people could face and not necessarily only the wealthy.

After putting some planning into this potential inheritance tax bill for your family one of the options that may be suitable to you is a Whole of Life insurance policy to help offset this inheritance tax liability. You do this by setting up by what is known as a Section 72 Life Policy. This is a special insurance policy approved by the Revenue Commissioners under Section 72 of the Capital Acquisitions Tax to help pay inheritance tax. The money paid out, when it is used to pay inheritance tax, is then not liable to tax.

With enough cover in place you can protect your loved ones from an inheritance tax bill. **Otherwise they may have to sell the family home or take out a loan to pay the tax.**

Currency Exchange Rate

Stg dropped significantly in value vs Euro in 2016 and wiped out any return for Euro investors in the UK equity market alone, see chart above. However it did not have a major impact on fund investors as typically the % allocated to UK is quite small. The USD/EUR exchange rate has and will continue to have a much bigger impact on investment fund returns. The Euro/USD had again this year a positive impact on fund investors.

FX Rates	Dec 2014	Dec 2015	% Change
EUR/USD	1.0862	1.0517	-3.2%
EUR/GBP	0.7370	0.8535	+15.8%
EUR/JPY	130.64	122.97	-5.9%

Over 3 years the USD$ has increased 24% against the Euro.

Commodities

Commodity	Dec 2015	Dec 2016	% Change
Oil (Brent)	37.28	56.82	+52.4%
Gold	1061	1152	+8.6%
CRB Commodity Index	374.7	423.08	+12.9%

Oil was the commodity to be invested in for 2016, increasing by 20% in month December 2016. The price of oil could slump again if OPEC agreement does not follow through.

Helpful reminders re Tax credits/refunds

- **Medical expenses:** Relief available on qualifying medical expenses at 20% (Nursing home costs relief at top rate) . Ensure to claim within the 4 year time restriction.
- **Home Renovation Incentive (HRI):** The HRI scheme enables homeowners or landlords to claim tax relief on repairs, renovations or improvement work that is carried out on their main home or rental property by tax-compliant contractors and that is subject to 13.5% VAT. Scheme being extended to 31st December 2018.
- **PRSAs / Income Protection / Pension Term Life assurance:** Ensure to claim your tax credits for the above payments, you must inform revenue to avail of tax relief.

Previous Employment Pension entitlements

Ensure to request "leaving service option form" from any previous employment pension schemes you may have. More and more defined benefit pension scheme are closing down due to the high costs for employers to continue to fund those pensions and risk of being unable to meet pension obligations. This is mainly due to the bond yields have falling significantly over recent years.

Performance of Selection Funds for 2016:

Assuming €100,000 invested 1st Jan 2016 in each of the funds below, gross value before fund charges and tax. Please note funds have different volatility factors/risk profile. Charges would reduce positive annual return by approximately one to one and half percent.

€100,000 Invested 1/1/2016	31/Dec 2016 €	Return Gross
Equity Funds: Medium to High Risk		
Irish Life MAPs 4	106,960	+6.9%
New Ireland I Funds 4	105,400	+5.4%
Standard Life Myfolio Active IV	101,170	+1.2%
Zurich Life Pathway 4	108,880	+8.9%
Aviva High Yield Fund	105,200	+5.2%
Equity Funds : Low to Medium Risk		
Irish Life Multi Asset 3	105,630	+5.6%
Standard Life Myfolio Market II	105,310	+5.3%
Other Funds : Low to Medium Risk		
Aviva Target return fund	99,800	-0.2%
Aviva Multi Asset Cautious Fund	101,500	+1.5%
Friends First Magnet Cautious	105,780	+5.8%
New Ireland BNY Real Return Fund	101,500	+1.5%
Standard Life GARS Fund	96,300	-3.7%
Commercial Property Funds		
Aviva (Irish)	107,300	+7.3%
Friends First (Irish)	111,160	+11.2%
Irish Life (Irish)	109,270	+9.3%
New Ireland (Ire, UK, Europe)	103,700	+3.7%
UK Property Fund		
Standard Life UK Property Fund	92,130	-7.9%

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.

Business Insurance – The most important asset

"When you mind YOUR Business, Life is way less stressful"

The death or serious illness of key employees and business owners in itself is a very traumatic experience. The consequences to the continuation of the business can also have serious consequences. The potential threats to a business can include financial loss as a result of:

- Loss of key knowledge leading to business interruption and profits and costs in recruiting and retraining
- Demand for repayment of Company loans
- Family disputes with regarding to shareholding
- Personal family financial consequences from death of business owner

Statistics show that 72% of business cease trading with 5 years of the death of the founder (source BDO Simpson Xavier).

Once the level of potential loss has been identified, the business can affect a life insurance policy on the life of the key person/director in order to protect the business against the potentially damaging financial losses as mentioned above.

In the event of a director dying, a limited company may decide that it would prefer the financial security to purchase back the shareholding from the family of a deceased shareholder. In many circumstances, the family of a deceased shareholder may not have an interest in continuing in the company so having an adequate plan in place pre-empts this scenario and will hopefully allow the business to continue.

Company directors can affect a life assurance policy on each other in order to ensure a satisfactory agreement for the buy back of those shares from the personal representatives and the financial security of the business.

Alternative to current/deposits accounts for Company Cash

With deposit rates close to zero and unlikely to increase in near future, you may want to consider making your company funds work for you and not for your bank.

- Invest in appropriate risk fund, (see performance chart) for selection, Gross roll up fund, with ongoing access.
- 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.
- Avoid company surcharge through company savings/investment plan.
- A reduced tax of 25% versus 41% .
- 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.

EII Investment: Tax relief obtainable against Rental and ARF income

The EII Scheme is a tax relief incentive scheme, which enables investors to deduct the cost of their qualifying investment from their total income for income tax purposes. It is one of the few sources of total income relief, including for example rental and deposit income.

Closing Statement

We strongly advise all clients to review your finances at least once a year. Returns have been strong over past few years, it is more important to keep review on values when they are positive, as majority of us by human nature are most likely to keep check when values are falling.

Thank you most sincerely for your continued support and I wish each and every client and your families a healthy and successful year for 2017.

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

Whilst every care has been taken to ensure that the information in this newsletter is accurate, Rosemary Collins Ltd t/a RMC Financial Services does not accept responsibility for any errors that may be contained in this document.

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