SPRING 2015

Waving or Drowning?!

Equities tread water, as Government Bonds buoyed by floods of cash

Characterised by significant volatility, 2014 proved a lacklustre year for the UK stockmarket, which saw the benchmark FTSE 100 index fall by around 3%. As we have commented on previously, the strong increase in share prices witnessed during 2013 had left equity valuations looking stretched, in the face of lacklustre earnings growth potential in many areas of the market. Whilst we did see some further recovery in the domestic economy last year and pockets of growth in UK business sectors, this was not sufficient to prompt a further rerating of share price valuations.

During the second half of the year the somewhat unforeseen and rapid decline of commodity prices, particularly crude oil (which collapsed by more than 50% in the just six months), served to act as a further drag on the UK equity market; this has a significant weighting to commodity and natural resources companies, with a number of global industry 'heavyweights' listed in London. Without the declines witnessed in the commodities sector, it is highly likely that the FTSE 100 Index might comfortably have breached the 7,000 level for the first time during recent months.

The surprise bright spot in the UK last year was the government stock (or 'Gilts') market. This continued to benefit from both the ultra-low interest rate backdrop that still prevails and money flowing out of the Eurozone, seeking a perceived 'safe haven'. Whilst UK equities fell back during 2014, the UK Government Securities index rose by more than 10%. Although sub-2% yields on 10 year Gilts may seem attractive to some (particularly when German Bunds offer just 0.5% and many Eurozone banks actually charge for holding cash!), we remain wary of buying such assets, the prices of which still remain so directly distorted by the central bank's QE operations.

Over the coming months politics will return to the forefront of investors' minds, with the recent change of government in Greece and general election here in the UK likely to have some repercussions in the financial markets. The recent terrorist attacks in Paris, combined with the ongoing tensions in the Middle East and the Ukraine also serve to highlight the fragility of the social and geo-political backdrop.

Stockmarkets have, over recent months, proven remarkably resilient given the spate of bad news that has hit at fairly regular intervals. There appears to be a worrying belief that any 'bumps in the road' can be smoothed by a further injection of cheap liquidity from the central banks, but there must be very real concerns that this 'addiction' is storing up serious problems for the future.

There are an increasing number of respected market commentators who believe that the world's central bankers, encouraged by politicians, have already effectively gone 'all in' (to use gambling terminology) and have very little further fire-power, or tools at their disposal, should economic and financial market conditions take a turn for the worse.

No-one can be certain how the current situation will play out, or which asset classes will be the biggest winners and losers. It is therefore more important than ever that portfolios are broadly diversified and relatively defensively positioned, given the current stretched valuations in both equity and fixed-interest markets.

With the end of the tax year fast approaching and a possible change of government looming, now may be an opportune time to review your portfolio to ensure that it remains 'fit for purpose'. In this issue of the Investment Review we look at some of the issues that come into focus ahead of the tax year end and focus on potential winners and losers from the forthcoming UK General Election. We hope you enjoy reading this issue and invite you to get in touch with your usual Cave & Sons contact should you wish to discuss matters further.

General Election 2015 – Potential Winners and Losers

An increasingly-used phrase in financial markets gives reference to Donald Rumsfeld's "known unknowns", i.e. things that we know we don't know. Perhaps one of the biggest known unknowns for UK shares this year is the UK general election due to take place on 7th May 2015, which looks set to be one of the most closely fought elections in recent memory.

Recent polls show Labour and the Conservatives pretty much neck-and-neck, with both showing ratings in the low thirties. This means that the probability of one party gaining an outright majority looks low, with another coalition government or even a minority government looking the more likely outcomes. Whilst there are many different possible permutations, what we can be fairly certain of is that either Labour or the Conservatives will have a leading role in governing the country. Under the latter, one would assume that it will be pretty much business as usual and therefore it is worth looking at the sectors that may be affected by a change to a Labour-led government.

LOSERS

Energy - The sector has already come under pressure following Labour leader Ed Miliband's pledge to cap energy prices for 20 months if they win the election. ***Centrica***, the owner of the British Gas, is still the dominant provider to retail customers and looks most at risk from a Labour win, whilst ***SSE*** is also likely to suffer.

Tobacco - Labour would commit an extra £2.5bn a year to the NHS above the current government's planned budget. This will be partially funded by a new tax on tobacco companies to raise £150m on an annual basis, with the levy for individual firms based on their share of the market. ***British American Tobacco*** and ***Imperial Tobacco*** could both be affected by this new tax.

Betting - Although the coalition government has already increased the duty on fixed-odds betting terminals, from 20% to 25%, Labour are considering plans to introduce a levy on all sports betting. Currently only gambling on horseracing is subject to levy, but Labour have proposed the extension of this to all sports, with the money used to increase support for problem gambling as well as being ploughed back into grassroots sports. ***Ladbrokes*** and ***William Hill***, amongst others, would be hit by this levy.

Banks - The banks remain a target for Labour, with a recently published reform paper promising a one-off tax on bankers' bonuses, an extended clawback of bank bonuses for inappropriate behaviour and the creation of a "proper" British Investment Bank to provide funding to small and medium-sized business.

WINNERS

Infrastructure - Labour have recently shown their commitment to infrastructure spending, with the announcement that they would set up an independent National Infrastructure Commission to identify the country's long-term infrastructure needs. ***Balfour Beatty*** and ***Carillion*** will likely remain two of the larger beneficiaries, whilst ***Kier Group*** and ***Interserve*** also offer exposure.

Housebuilders - A labour government have pledged to get 200,000 homes a year built by 2020, an increase of almost 70% over the number built in 2014, to allay the UK's growing housing crisis. Although there would likely be an emphasis on affordable housing, which offers lower margins, the push for more homes should benefit companies in the sector such as ***Barratt Developments***, ***Persimmon*** and ***Taylor Wimpey***, as well as smaller builders like ***Bovis Homes*** and ***Redrow***.

Aside from the sectors above, it seems likely that we will see some volatility in the wider market ahead of the election and even afterwards given that we are unlikely to see one party gain a majority vote.

The End is Nigh (well, of the tax year at least!)

As the end of the tax year fast approaches, there are a raft of tax related allowances available which will effectively be 'lost' if not used by the end of the fiscal year (5th April).

In addition, this year sees the impending introduction of new 'Pension Freedoms' (with effect from 6th April) - the biggest change to pension legislation in a generation. This brings with it more flexibility over how you manage your pension assets, more choice over how you may access these and, inevitably, more confusion as to what it all means for you.

Such matters cover a very wide area but, broadly speaking, these are some of the key points you might want to consider:

- Are you up to speed with the options available under the new pension freedoms?
- Are your pensions structured to take advantage of these new freedoms?
- Do you have an unused pension allowance you could utilise?
- Have you maximised the income tax relief available on pension contributions?
- Could you re-instate 'lost' child benefit?
- Have you locked in tax free gains on your investments?
- Have you maximised the use of your ISA and protected savings from tax?
- Could your income be restructured to make it more tax efficient?
- Does your spouse have any unused personal allowances which could be utilised?

Our specialist, chartered financial advisers would be happy to discuss any of these matters with you, or to provide you with more general investment advice, both in the run up to the end of this tax year and moving forward to future years.

No 'interest' in cash?

With interest rates on cash accounts currently at historically low levels (and showing no signs of improving in the foreseeable future), you may wish to consider some other places for an element of your cash savings.

65+ Guaranteed Growth Bonds ('Pensioner Bonds')

These are available in two versions; firstly a one year bond paying interest of 2.8% p.a. gross, with a three year bond also available and with an interest rate of 4% p.a. gross. Basic rate tax would be deducted at source, with any further tax to payable at your marginal rate. You are able to place up to £10,000 into each bond (i.e. £20,000 per person or £40,000 per couple).

The Government has recently announced that both bonds will be available through until the May 15th.

Structured Deposits

There arrangements are designed to provide a return in excess of that currently available from conventional cash deposit accounts, but also give you full protection on your original capital. At the same time, these can be held within the wrapper of an Isa, meaning that any such return would be free of tax.

Such an arrangement currently available has a potential return of 4% per annum.

The plans are available in tranches with a 'window' open during which they will accept investments and then start thereafter. They typically work over a fixed period of time, and should therefore be viewed in the same light as a fixed rate deposit account or bond.

Other types of arrangement are available that, whilst not offering quite the same level of protection, are still designed with capital security in mind and which are currently offering a potential return of 7.75% p.a.

Should you wish to discuss such arrangements if further detail and how these could be used to improve your overall position, please speak with your usual Caves contact or call us on **01604 621421** for more details.

What can we do for our clients?

Having built up nearly 110 years of experience and trust, it is perhaps not surprising that many of our clients seek our advice on a range of different financial matters. With a team of highly qualified financial advisers, as well as a team of investment managers and stockbrokers, we have a very diverse range of expertise, and can advise on a much broader range of investment matters than many other firms.

Our independence is of great importance to us, particularly in a time when more firms are tying themselves to only being able to recommend products from one provider. It means there is no bias in the advice we give and there are no external influences brought to bear on any decision we make.

Below is a summary of some of the services we are able to provide:

Financial Advice

Our Chartered Financial Planners are able to advise on a range of matters, including:

- **Pensions and Retirement Funding** - workplace and private. SIPPs, SASSs & Stakeholder
- **Protection Policies** – Life Insurance, Key Man insurance, Term insurance
- **Inheritance Tax Planning** – trusts, protection policies, long term strategy
- **Personal Tax Planning** – ISAs, VCTs, EIS
- **Lifestyle Planning/Personal Investment Strategies** – Setting long term goals and establishing a suitable investment strategy

Discretionary Portfolio Management

Our team of Chartered Investment Managers have considerable experience managing investments for a broad range of clients. With our added financial planning expertise, we are able to ensure any portfolio we manage is structured in the most tax efficient manner.

- **Personal Portfolios**
- **Trust Portfolios**
- **Charity Portfolios**
- **Pension Portfolios**

Stockbroking

If you simply wish to buy or sell shares, corporate bonds or government gilts, or to trade in investment trusts, OEICS or Unit Trusts then we provide a highly efficient, friendly service.

Custody Services

A large number and variety of clients ask us to look after their investments (including ISA investments) on our platform. Not only does it mean that it is easier (and cheaper!) to buy and sell investments on their behalf, but also that the paperwork is significantly reduced. Dividends are collected by us and paid out as instructed and there are no valuable certificates left at home at risk of loss or theft. Regular paper valuations and on-line access mean that our clients are kept fully up to date with the value of their investments. Many clients use this service to simplify their affairs and consolidate their investments within one, easy to administer account.

Like us on Facebook

Search Cave & Sons

LinkedIn

www.linkedin.com/company/cave-&-sons

twitter

@CaveandSons

Best Savings Rates

Easy Access

Bank	Account Name	Rate	Notes
SAGA	Telephone Saver Issue 16 (Age 50+)	1.35%	Min £1000, rate includes fixed bonus of 0.85% for 12 months
Skipton Building Society	Limited Edition eSaver	1.25%	Rate does not include a bonus
State Bank Of India	Online Instant Access Savings Issue 4	1.25%	Min £500, rate does not include a bonus
AA	AA Internet Extra (Issue 17)	1.25%	Min £1000, rate includes fixed bonus of 0.75% for 12 months

Notice Accounts

Bank	Account Name	Rate	Notes
Paragon	120 Day Notice Account Issue 3	1.60%	Min £500, rate does not include a bonus, 120 days notice
GE Capital Direct	GE 100 Day Notice Issue 4	1.55%	Min £500, rate does not include a bonus, 100 days notice
Paragon Bank	40 Day Notice Account	1.40%	Rate does not include a bonus, 40 days notice
Aldermore	30 Day Notice Issue 5	1.25%	Min £1000, rate does not include a bonus, 30 days notice

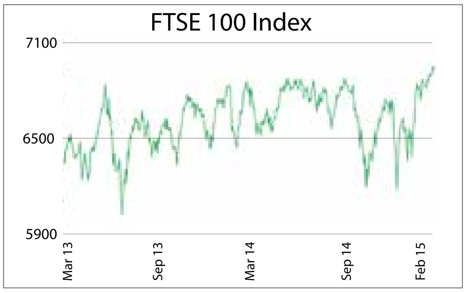
Cash ISA's

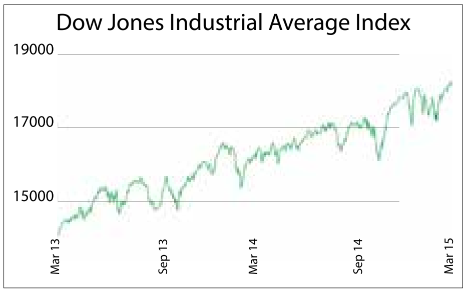
Bank	Account Name	Rate	Notes
Nationwide	Instant ISA Saver Issue 2	1.25%	Rate does not include a bonus
BM Savings	ISA Extra (Issue 14)	1.20%	Includes Fixed bonus of 0.70% for 12 months
Halifax	ISA Saver Online	1.05%	Includes Fixed bonus of 0.80% for 12 months
Halifax	ISA Saver Variable	1.00%	Includes Fixed bonus of 0.50% for 12 months

Source: moneysupermarket.com. All rates are gross, include any bonus unless otherwise stated and are correct as at 02/03/2015. Rate advised corresponds to £1 invested, except where advised different. Details of all accounts and interest rates are for information only and do not constitute a recommendation from Cave & Sons.

Indicators

Inflation: Consumer Price Index	0.3%
Inflation: Retail Price Index	1.1%
Bank Base Rate	0.50%





Source: Yahoo Finance

Cave&Sons

Stockbroking & Investments Since 1906

Northampton Office

Lockgates House
Rushmills
Bedford Road
Northampton
NN4 7YB

T 01604 621421
F 01604 234335
E info@caves.co.uk
W www.caves.co.uk

Market Harborough Office

13A Church Street
Market Harborough
Leicester
LE16 7AA

T 01858 288189
E info@caves.co.uk
W www.caves.co.uk