Acton Financial Services
Wealth management and mortgage brokers

FINANCIAL VIEWPOINT

ACTON FINANCIAL SERVICES

Please enjoy reading our newsletter. If you would like to discuss any of the articles further, please do not hesitate to contact us.

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Why it usually pays to diversify

There are several places you can choose to allocate your assets and it can be confusing. Here's what you need to know about building a diversified portfolio.

You've probably heard about the benefits of asset allocation when investing. The idea is that a portfolio blending different types of investments tends to deliver better (and smoother) returns over the long term. That's because at any one time, assets will behave differently with potentially some rising in value to offset others that are falling in price.

Asset classes

Different asset classes are often heading in different directions at any one time too. For example, when equity markets are rising, government bonds are often falling in value. Yet that's not always the case, which is why it can help to add exposure to uncorrelated asset classes, such as alternatives.

A diversified strategy tends to be less risky than one that invests in a single asset class. In the past it's an approach that delivers a smoother investment journey with less volatile swings up and down. Diversifying your investment portfolio is important to minimise your exposure to risk, as is spreading your investments within asset classes.

A diversified portfolio

Building diversified portfolios is complicated. It requires lots of tools and is best left to a professional team of investors. There are lots of ways to invest in a multi-asset portfolio. Here are some of the options available to you:

Managed fund. The most straightforward way is through a fund, for example the Omnis Managed Funds. Working with your financial adviser, you can consider your appetite for risk and other factors like your time horizon, to pick a fund that's right for you and can meet your objectives.

Diversified portfolio. Another way of investing in a diversified portfolio is by combining funds investing in different classes. At Omnis, we offer funds that cover many different asset classes and regional exposures. The Openwork Graphene Portfolios are a series of six advised portfolios with varying degrees of risk.

We also provide Graphene portfolios through 2plan wealth management advisers. Your financial adviser will work with you to assess the best portfolio for you and the portfolios are designed to automatically rebalance to the original mix of asset classes every six months so that the portfolio always meets your risk profile.

Flexible portfolio. You can also access a well-diversified portfolio by investing in the Omnis Managed Portfolio Service (OMPS). The OMPS is a discretionary portfolio investing in a wide variety of asset classes through the Omnis funds, in a similar way to the Graphene portfolios. Within the OMPS, the investment team can increase or decrease the allocations to certain asset classes in line with market conditions, but always staying true to your risk profile. This helps optimise the portfolios with the aim of delivering better returns and / or reduced volatility in periods of market uncertainty.

Diversification protects your interests

Diversification can help mitigate risk and volatility by investing across different parts of the stock market, reducing the impact of any one share or asset class performing badly. For example, if one investment performs poorly over a given period, other investments may perform better over the same period, helping to reduce any potential losses.

A diversified approach is better placed to handle regional fluctuations that could affect the value of your investments and helps to navigate the effects of inflation or interest rates on stocks in a stronger position, too, through the nature of it being a regionally based way of handling different asset classes, supported by local experts.

Ultimately, a diversified approach allows you to minimise any downsides during periods of volatility, and benefit from the rewards that come from stronger market performance.

Speak to your financial adviser to find a range of investment opportunities that are right for you.

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

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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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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10 ways to reduce your tax bill

Being tax smart means knowing the basics about how tax affects your life and money. Here are 10 ways to reduce your tax bill, which could make your money go further for you and your loved ones.

1. Personal savings allowance

You're entitled to receive some interest on your savings tax-free every year, depending on your income tax band. For non-taxpayers or basic rate taxpayers you're allowed up to £1,000 per year; for higher rate taxpayers you get £500. If you have savings with a spouse or partner, you can each use your allowances against your joint savings.

2. Marriage allowance

If you are married, you might be able to take advantage of the marriage tax allowance. It allows one half of a couple who earns less than the income tax threshold (£12,570) to transfer up to £1,260 to their higher-earning spouse (who must be a basic rate taxpayer).

3. ISA allowances

An ISA account allows you to save or invest up to £20,000 tax free annually, whether it's in a cash ISA or stocks and shares ISA – which also comes with the benefit of being exempt from dividend tax and capital gains tax on all growth.

4. Dividend allowance

You are allowed to receive up to £2,000 a year in dividends, tax-free. This allowance can be particularly useful if you own shares or you're a company owner or director.

5. Capital gains allowances

Profits (or 'gains') you make on the sale or disposal of an asset (like a property where it's not the main home, investments and shares not in an ISA or even personal possessions worth more than £6,000 (apart from your car) are exempt from tax up to the annual allowance of £12,300. For married couples or those in civil partnerships who own joint assets, the allowance is doubled – to £24,600.

6. Pension allowance

Your pension allowance annually is £40,000, although it can be lower for higher earners and where pension savings have been flexibly accessed. Any contributions you (or your employer) make receive tax relief from the government (based on your income tax band) of 20% or more – and the money in your pension pot will grow tax free.

7. Pension carry forward

If you don't use up your annual pension allowance, you can 'carry forward' the previous three years' worth of unused allowances providing you are still registered with the pension and have earned in the current tax year the amount you (or your employer) would like to contribute.

8. Charitable donations

You can donate to charity tax free and claim back the tax on your donation through gift aid. If you are a higher or additional income taxpayer, you can also claim back the difference to the basic rate on your gift aid donations. Just remember to keep hold of all records of your donations to claim tax relief when the time comes to submit your tax return.

9. Gift giving exemptions

Gifting comes with the benefit of being exempt from inheritance tax, for an annual gift amount of £3,000. Other tax-exempt gifts include money towards a wedding or grandchild's education. No inheritance tax is due if you live for seven years after making the gift to someone who is not your spouse (for example, gifting your children a property).

10. Knowing your tax code

This one is important because your tax code tells HMRC how much of your salary they will collect. It's a good idea to check your tax code each time you change jobs or at the start of the tax year. Being on the wrong code could mean you've overpaid tax and are due a refund.

These are just some of the ways you can ensure you're making the most of your money and not paying more tax than is necessary. Speak to your adviser to learn more about your money, estate, and taxes. Please not that Openwork advisers are not able to provide specific tax advice.

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

For specific tax advice please speak to an accountant or tax specialist.

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