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INSIGHT

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Looking after your finances this festive period

WEALTH MANAGEMENT

Not just for the 'wealthy'

MARKET COMMENTARY

The sparking of a global equity sell-off

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WELCOME

Welcome to the latest issue of *Insight* from Buckley Kiely Wealth Management. The term 'wealth management' is a little misleading. People may feel that it is a service for ultra-high-net-worth individuals only. On page 06, we look at why that is not the case, especially in a low interest rate world where people are effectively being compelled to invest in order to make a return, and where the pensions, tax and legal landscapes are constantly evolving.

Irish Finance Minister Paschal Donohoe has recently introduced to the parliament Ireland's 2019 budget as the first balanced one in a decade. The fact that the Government can deliver a balanced budget – the first of its kind since the 2007 financial crisis – is largely due to the improved Irish economy over the last few years, Donohoe said in his budget speech to the lower house of the parliament. Find out more on page 05.

Identity theft is frighteningly widespread. No one can prevent all identity theft, and cybercriminals are getting more sophisticated in their attempts to steal your identity. Identity theft occurs when someone steals your personal information and uses it to commit fraud or other crimes in your name, and we look into this further on page 08.

The full list of the articles featured in this issue appears opposite. We hope you enjoy reading this issue and find it informative. To discuss any of the articles featured, please contact us.

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MARKET COMMENTARY

The sparking of a global equity sell-off

While rising interest rates, the ending of 'cheap money' and a maturing economic cycle have been evident for some time, these factors – combined with growing uncertainty on US/China trade tariffs, the Brexit stalemate, slowing growth in China, Italy's budget deficit and deteriorating relations between Saudi Arabia and the West – sparked a global equity sell-off in October.

Regionally, the falls were relatively indiscriminate, which is typical during a 'risk-off' phase, and we saw the usual divergence with highly valued growth companies particularly hard hit. In the US, for example, the technology and biotech-biased Nasdaq 100 declined 9% whereas the more broadly based S&P 500 fell by 7% to 2,711. The Nikkei 225 also fell 9% to 21,920 although the FTSE 100 and FTSE Eurofirst 300 fared better with 5% falls to 7,128 and 1,422 respectively. This was the worst monthly performance for the FTSE 100 since May 2006. The upward trend in bond yields slowed marginally in the US with the ten-year Treasury ending the month unchanged at 3%. UK bond yields rose to a new year-on-year high of 1.7% before closing at 1.4%. After touching a near three-year high of $86 per barrel on fears that US sanctions would restrict Iranian supply, Brent crude dropped to $76.

Global growth estimates for 2018 are unchanged at 3.3%, while 2019 has been marginally downgraded to 3.2%. Some deceleration was anticipated, but the impact of trade tariffs remains very uncertain. Business investment has been a key element of global growth as tight labour markets force companies to restructure their operations, boosting demand for technological solutions. It is debatable how much is structural rather than cyclical, but the cycle has probably peaked, with the result that growth will be supported by consumption. Fortunately, this is continuing to increase at a relatively strong rate.

A POTENTIALLY RETROGRADE STEP

US GDP growth surprised on the upside over the summer but dropped to 3.5% in Q3. Excluding distortions from the pre-tariff rush to build up inventories and net export drag, consumer demand rose a healthy 3.1% and is expected to remain strong into the first half of 2019 when tax cuts will drop out of the equation and higher tariffs and energy prices will start to slow progress.

Unless corporate tax savings are reinvested in improved productive capacity, 'Making America Great Again' will have come at a significant price as the budget deficit heads towards an unsustainable 5% of GDP. The notable exception to the current benign picture is housing, where weakness is a combination of labour shortages and higher input and mortgage costs. Given the strength of the dollar, the drag from net exports could also increase. Meanwhile, the strong jobs market and the likelihood of a further acceleration in wage growth has prompted Federal Reserve governors to remind investors of the gap between guidance and the three interest rate rises that financial markets are currently discounting.

GDP growth in China has also decelerated as the authorities attempt to tackle the complex shadow banking system. Typically, 'good quality' banks have been expanding borrowing off-balance sheet

by selling high return products to wealthy customers and recycling the monies to highly indebted corporates via a series of opaque structures. Without reducing the regulatory pressure on shadow banking, while also combating the threat of trade tariffs, the authorities have modestly loosened monetary policy. It is also expected that fiscal measures targeting infrastructure projects will be reintroduced – a potentially retrograde step in the context of the long-term transition plans for the economy. These measures should underpin GDP of 6.4%, but if US tariffs were to rise 25% across the board, growth could fall by as much as 1%.

POLITICAL PROBLEMS

Elsewhere, growth in the advanced economies is losing momentum, albeit from a lower starting point. In Europe, Spain and Ireland continue to lead the pack, and activity has picked up slightly in France. However, despite the strong domestic economy, Germany appears to be losing ground, reflecting its exposure to the slowing Chinese economy and global trade. Many EU countries are facing political problems – not only Germany and France but also Italy, where the recently announced 2019–21 fiscal plans do not comply with EU rules. Italy's budget deficit is mainly the result of structural spending rather than short-term, growth enhancing tax cuts. This means sovereign spreads have widened – raising the cost of servicing already high levels of government debt – and Moody's has downgraded its credit rating to one notch away from junk bond status. The balance sheets of Italian banks are likely to face a challenging period.

The UK economy continues to grow at a modest but slowing pace as the deadline for a Brexit agreement approaches. Business investment is significantly lower than in other global economies, and this is likely to impact competitiveness in the brave new world. Despite the Northern Ireland 'back-stop' problem, a 'no-deal' scenario still appears unlikely, but the transition phase is expected to last for years and could lead to a new government attempting to restart negotiations. Sterling continues to track Brexit news, and with inflation above target and low unemployment, the Bank of England remains on a tightening path. Improved government finances and revised forecasts gave the Chancellor some scope to engineer a small fiscal boost in the Budget.

MORE CHALLENGING OUTLOOK

History suggests that a 10% consolidation in equities is not only a frequent occurrence but also 'normal' over the course of an investment cycle. Similarities with previous cycles include GDP growth peaking as stimulus measures (the phasing out of quantitative easing, normalisation of interest rates and gradual absorption of US tax cuts) fade or are unwound, as well as a mild pick-up in inflation, more heavily geared corporate balance sheets and over-exuberance by some leveraged investors. However, many cyclical warning signs – highly leveraged mergers and acquisitions, high bank loan growth and geared investment bank trading – are absent at this stage. Higher costs as trade tariffs feed through the supply chain and lower sales are not a helpful combination, and companies will find it difficult to maintain profits growth at recent levels. Earnings estimates for 2019 already reflect the more challenging outlook and management guidance during the results season has not raised alarm bells. Valuations have de-rated significantly as investors adopt a cautiously optimistic approach. ■

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ESRI GROWTH FORECAST DOUBLED

Predictions based on assumption of Brexit deal

The Economic and Social Research Institute (ESRI) has doubled its growth forecast for the Irish economy for 2018 to almost 9%, with growth being propelled by the twin engines of stronger-than-expected consumer spending on the domestic front, and a more favourable trade balance due to a decline in imports on the multinational side.

This will position the State as the fastest-growing economy in the eurozone this year. However, despite the upgrade, the ESRI also cautioned against an inflationary budget, and warned that its forecasts are based on an assumption that a Brexit deal will be struck by March 2019.

In its latest quarterly economic commentary, the ESRI has forecast GDP growth of 8.9% for 2018, followed by growth of 4.5% for 2019. This compares with a GDP growth forecast of 4.7% for 2018 and 3.9% for 2019 given by the ESRI in June.

The ESRI has also said that unemployment will fall to 5.7% this year and to 5.1% in 2019, which are slightly higher figures than its June forecasts (5.6% and 5% respectively).

MAIN FACTORS

The influential think tank said it had upgraded its GDP forecasts due to two main factors. Firstly, consumer spending – on the back of falling unemployment and increasing disposable incomes – and modified investment, such as that in the construction space, have grown at a faster pace through the first half of 2018 than was previously expected. Secondly, a decline in imports of research and technology-related services from the multinational sector has led to a sizeable improvement in the trade balance.

Consequently, the GDP forecast has increased significantly. However, with the scope of the UK's departure from the European Union still unclear – as a Brexit deal has yet to be finalised – it does add a sizeable caveat.

SUBSTANTIAL RISK

According to the ESRI, the forecasts for 2019 are subject to the technical assumption that an agreement along the lines of the European Economic Area will exist between the UK and the EU after March 2019, adding that the economy faces a 'substantial risk' from the possible outcome of the Brexit negotiations. While the ESRI said that the upcoming summit of EU leaders may provide some clarity, it is prudent to assume that a no-deal outcome is a real possibility.

With a debt to gross national income ratio in excess of 100%, the ESRI also warned that the Irish economy is still quite vulnerable to any significant changes in the financing costs of sovereign debt.

The ESRI also published new research by the Department of Finance which shows that eight in ten Irish SMEs invested in fixed or other assets in 2016. Using new survey data compiled to address knowledge gaps around the investment activity of small Irish companies, the research shows that while more than half of Irish SMEs have invested in fixed assets such as buildings or machinery, only 7% of SMEs reported investing in intangible assets, such as R&D and patents. ■

BUDGET 2019

Finance minister introduces balanced budget

Irish Finance Minister Paschal Donohoe has recently introduced to the parliament Ireland's 2019 budget as the first balanced one in a decade.

The fact that the Government can deliver a balanced budget – the first of its kind since the 2007 financial crisis – is largely due to the improved Irish economy over the last few years, Donohoe said in his budget speech to the lower house of the parliament.

He said the 2018 forecast for Ireland's economic growth is revised up from 5.6% to 7.5%, compared to last year's 7.2%, while predicting a 4.2% growth for 2019.

FUTURE SURPLUS

If the economy continues to perform well beyond next year, Donohoe said the public budget is likely to achieve a surplus in future.

He added that a balanced budget will help reduce the high public debt, which was 111% of its gross national income in 2017. The debt stands at €42,000 per capita, the highest level in the developed world.

IMMINENT CHALLENGE

According to Donohoe, adopting a balanced budget will help bring the public debt down to 105% of the gross national income in 2018 and 101% in 2019.

In the meantime, this measure will help the Government to cope with the situation after Britain's exit from the European Union in March 2019, which is the largest and imminent challenge faced by Ireland, he said.

These measures, including the establishment of a €20 billion Rainy Day Fund, increased spending on employment of customs personnel and equipment at airports, sea ports and border crossings with Britain's Northern Ireland.

WEALTH MANAGEMENT

Not just for the 'wealthy'

The term 'wealth management' is a little misleading. People may feel that it is a service for ultra-high-net-worth individuals only. That is not the case, especially in a low interest rate world where people are effectively being compelled to invest in order to make a return, and where the pensions, tax and legal landscapes are constantly evolving.

Michael Koreto defines 'wealth management' as 'taking care of the needs of affluent clients, their families and their businesses as part of the long term, consultative relationship...best conceptualised as a platform where a number of different sets of services and products are provided. It's a full-service model that can offer advice on investment management, estate planning, retirement, tax, asset protection, cash flow, and debt management.' It is a helpful definition, except perhaps for the use of the term 'affluent' which adds an unnecessary air of exclusivity to a service that so many Irish families require.

The purpose of this article is to set out one of the main scenarios where we can help families to preserve their wealth; the very essence of wealth management.

PENSIONS – A FAMILY WEALTH PLANNING STRATEGY

Pensions have been misclassified for many years. Investment strategies may have been suboptimal, and, in many cases, charges may have been too high. However, when executed correctly with a quality wealth manager, a pension is not merely a retirement planning tool – it can be the cornerstone of a family's wealth planning strategy.

We all know that the current tax environment for Irish investors can be penal: fund exit tax rates have more than doubled to 41%, the Capital Gains Tax rate has increased by 65% to 33%, and most investors' marginal rate of tax on income is greater than 50%. Yet pension structures remain underutilised by most investors. This makes no sense at all.

Consider the pension structure in its simplest terms: if you are willing to put €60 aside, the State will effectively lend you €40 on an interest-free basis and then allow you to invest that €100 total for a prolonged period of time in an environment where, essentially, there is no tax on any income or gains. The power of compounding in such circumstances can be astonishing. Yes, the 'loan' may be repayable in the form of taxation when the fund is drawn-down, but on favourable terms when one considers the tax treatment of retirement lump sums and the PRSI exempt status of most retirees.

However, the broadening of the availability of Approved Retirement Funds (ARFs) in Finance Act 2011 has made the procurement of quality wealth management and retirement planning advice vital for so many more individuals. Previously, employees were generally compelled to buy an annuity (i.e. a guaranteed pension for life) at retirement. The employee's pension did not sit directly on his or her family's balance sheet, and when he or she passed away, the pension income typically ceased. Now the employee has the option of retaining his or her pension fund as a family asset. This has obvious attractions, but also obvious risks in the absence of quality investment and financial planning advice.

CONSTANT STEWARDSHIP

With a view to dispelling people's negative perception of the term 'wealth management', it is worth highlighting that an individual with an annual salary of circa €50k and whose pension fund is being seeded with a typical level of employee and employer contributions could conceivably end up with an ARF of more than €500k. Such an individual definitively requires the services of a quality wealth manager.

Where previously the employee was in receipt of a pension which effectively died with him or her (or his or her spouse), the post-retirement ARF represents a family asset which can be passed to the next generation. However, the ARF requires constant stewardship from an investment perspective, and the individual requires quality advice regarding the tax-efficient transfer of the ARF. The wealth manager's role is crucial in this context.

The definition of wealth management that was quoted at the outset refers to 'taking care of the needs' of clients. I do not propose that you approach us in order to procure dog-walking services (notwithstanding the fact that some firms in the UK do in fact provide such a service!). But with regard to 'financial needs', and the related pension/tax/legal issues, please feel free to contact us. ■

Our job, in simple terms, is to make your life easier and your family's balance sheet stronger through the delivery of robust and high quality investment and financial planning solutions.

FINANCIAL CHRISTMAS RULES

Looking after your finances this festive period

When it comes to finance, hearing one-liners that encapsulate a strategy or a philosophy to support your own financial dreams and aspirations can be motivational – inspirational even – especially at Christmas time.

In this article, we take a look at our top five financial rules to live by this Christmas.

1. YOU NEED A BUDGET, AND YOU NEED TO BUDGET

You should generally start the new year with a budget plan, so you can work out how much it costs you to run you and your family for a month – every month.

Any surplus can then go into a saving plan to coincide with your goals and longer-term plans. If you have no plan, then even to plan for the season ahead will be a start – in this case, Christmas.

Bundle all your presents costs, the extras (tree, decorations, cards, etc.), plus your food and drink – and not forgetting entertainment. The total is the amount of money you are going to spend – where are you getting this from?

If you are borrowing, how are you going to repay? It's important to know how much you need and where you are getting it from if you haven't saved it. Christmas comes around every year, so why not start a new plan in January with a new budget incorporating next Christmas?

2. NEVER SPEND ON IMPULSE

You have an empty shopping trolley and you are wandering around the supermarket aimlessly instead of sticking to a list...of course, you are going to be tempted. That's why you should never shop on impulse.

If you have a list, you might be able to gauge what the total cost will be and just bring that amount of cash with you, and do not exceed that amount on your debit or credit card. This certainly takes some discipline!

3. YOUR FINANCIAL LIFE RESTS ON THE GAP BETWEEN YOUR INCOME AND EXPENSES

Income is your number one asset, and it has to cover everything both now and in the future. That gap between your expenses and what you earn is crucial, especially if it is a surplus. It is with this surplus amount of money you can plan.

Planning for your holidays, that attic conversion, not to mention that home deposit... the list goes on.

All those items of expenditure are paid from the gap between your income and your current living costs, so start saving.

4. EVERY EURO SHOULD HAVE A PURPOSE

If you don't have that purpose for your money, then it's up for grabs, and who knows where you could end up spending it.

It is important therefore to check that list – not just your grocery list – and ensure your money is going to the right place.

5. BET BIG WHEN THE ODDS ARE IN YOUR FAVOUR

That's what they say in betting circles. There are certain factors to take on board when it comes to betting big, especially on the stock market:

- The stock market is easily the best return of any asset class over any period of time.
- We are in the 26th Bull market (rising) – there are 25 Bear markets so the next one is a Bear
- The current Bull is the second longest of all time and in its ninth year (since March 2009 – the longest was 1987 to 2000 – 13 years halted by the dot-com bubble burst)
- To become a Bear market (falling), the Bull has to fall by over 20%.
- With interest rates so low and no immediate likelihood of a rise in the next 15 months, it could be assumed the stock market will continue to rise and, at worst, stay where it is
- If you do want to preserve and grow your wealth, remember Warren Buffet's wise words: 'The stock market is a mechanism for transferring wealth from the impatient to the patient'

PROTECTING YOUR IDENTITY

Common ways fraudsters can steal your personal information

Identity theft is frighteningly widespread. No one can prevent all identity theft, and cybercriminals are getting more sophisticated in their attempts to steal your identity. Identity theft occurs when someone steals your personal information and uses it to commit fraud or other crimes in your name.

As individuals, throughout our lifetime we exchange personal information with a vast number of institutions including banks, credit cards suppliers, utility companies, supermarkets, government organisations and retailers. This may be to receive important services, but also to allow us to do the fun things like shopping, eating out or going on holiday.

Fraudulent or stolen identities being used to make false applications for credit cards or loans, to obtain goods and services, or even to access money or other assets is naturally something that concerns us all. Worryingly, it is not untypical for a victim to first become aware of this when they receive a letter of demand for payment.

Of course, there are a number of basic things we can all do as individuals to protect ourselves against identity crime and reduce the risk of our personal information falling into the wrong hands. If you discover your identity has been stolen, act immediately. Following these steps will help to minimise the impact and prevent additional issues from arising.

1. CHECK YOUR CREDIT REPORTS

At a small cost, you can check your credit file with a credit reference agency such as Call Credit, Equifax or Experian to help identify any activity that you are not aware of.

2. MONITOR YOUR MAIL

Make sure you receive all post that you are expecting. If you think post is missing, contact the Royal Mail. Also, arrange for the Royal Mail to re-direct post to your new address if you have moved house, and inform companies that you deal with regularly that you have moved.

3. REVIEW BILLS AND BANK STATEMENTS

Check bank, credit card and other financial statements frequently, and look out for transactions that you do not recognise. Check for fraudulent charges or suspicious activity. Report issues immediately. Consider receiving statements and bills electronically, setting up direct deposits, and using online bill pay.

4. IDENTITY THEFT PROTECTION

Identity theft protection providers monitor your credit reports, as well as online debit and credit card number(s). If suspicious activity is detected, you will be notified and will receive identity recovery assistance.

5. SHRED DOCUMENTS

Carefully dispose of documentation that contains personal details rather than just throwing them away. Use a cross-cut shredder to destroy envelopes and documents.

6. SECURE YOUR COMPUTER(S) AND MOBILE DEVICES

Whether a desktop, laptop, netbook, tablet or smartphone, your computer contains critical personal information.

To help protect your electronic devices, you should also:

- Password-protect your device
- Install and update operating system, antivirus and anti-spyware software. For smartphones, also install a 'wiping' program to erase all data remotely if it is lost or stolen
- Use a personal firewall
- When using a wireless network, activate WPA encryption and any other security features available. Change your router's default password and SSID
- Beware of 'smishing' – text messages containing links capable of downloading malware to your smartphone
- Do not leave your device unattended or your screen visible to others
- Close your browser when you're finished with a secure session
- Log off when you leave or step away

USE CAUTION ONLINE

- Only access personal and financial information from a computer you 'trust'
- Only do business with financial institutions and online merchants you know and trust Watch out for copycat sites, and confirm the email address is correct
- When accessing financial information or ordering online, be sure the site is secure. Look for a URL that begins with 'https://' and the 'closed padlock' symbol
- Never reply to an email or pop-up message that requests you provide or update your personal information

On social media sites, it's always a good idea to:

- Review the privacy policy
- Choose a challenging password
- Don't reveal your physical address, date of birth, school names or phone numbers
- Use privacy settings

NEED HELP? HAVE QUESTIONS?

If you're looking for further information or want to discuss any areas of concern, we're here to help.

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