KENNEDY BLACK
WEALTH MANAGEMENT

QUARTERLY PRIVATE CLIENT NEWSLETTER
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Welcome to the latest edition of Kennedy Black Wealth Management's Private Client Newsletter.

We start with some good news: we found out the week before Christmas that we have won two prestigious awards.

April heralds a number of significant changes to tax and pension rules, so we have attempted to highlight some changes to the way we construct client investments that could shave £1,000 a year in tax bills. We will be contacting clients shortly to discuss its implementation. We also discuss the recent stock market volatility.

Boutique Wealth Management Firm of the Year 2015

We are absolutely delighted to inform you that Kennedy Black Wealth Management has won not one, but two, prestigious awards. Whoop whoop!

- "Boutique Wealth Management Firm of the Year (UK)" 2015, and;
- "Best Financial Planning Product" 2015 for the INTELLIGENT WEALTH MAP™

Both come courtesy of Wealth & Finance International's Finance Awards.

We even have a nice, shiny new trophy that has pride of place in our office.

An extra £250,000 ISA allowance?

April heralds a number of major changes to tax and pension rules (as outlined in previous editions of this newsletter).

One, that has so far avoided most of the headlines, is the change to the taxation of dividends and the introduction of a new dividend allowance. From April, everyone will be able to receive £5,000 of dividends without incurring any extra income tax.

In the right circumstances, and with careful portfolio construction, it could be possible to shelter up to about £250,000 immediately without paying any tax at all (income tax or capital gains tax). This portfolio would effectively be as tax-efficient as an ISA from day one.

The challenge is to ensure that the correct investments are sheltered in the correct tax wrappers. We are in the process of developing the tools to be able to deliver this seamlessly to our clients, something we hope to roll out in the next few months. We are calling this *"Tax Optimisation 2.0"*.

We have calculated that, if done correctly, this could save our clients more than £1,000 a year in unnecessary tax.

If you would like to discuss how, please get in touch. We will be contacting existing clients over the next few months to discuss how this strategy might be implemented.

"If you can keep your head while all around are losing theirs"

2016 has started in spectacularly poor fashion, eerily reminiscent of 2008 – a story that didn't end well.

In the furore of doom-and-gloom headlines, we prefer to ask a slightly more unorthodox question:

How does it make you *feel*?

If all this uncertainty* makes you feel anxious then you should try to go back to basics and follow these three rules:

1. Understand your risk tolerance: research from FinaMetrica shows that our inherent attitude towards risk remains surprisingly stable through all market conditions. Only our *perception* of risk will change.
2. Stick to your guns: so long as you have created a portfolio that is in line with your risk profile (and you can demonstrate as such), the best advice is to stick with it. Have faith in the

principles, theories and research that underpin your portfolio.

3. Stay diversified.

* Markets are always uncertain. Get used to it.

Why we are programmed to panic

Humans are terrible investors. Our brains are primarily driven by emotion and, in certain situations, it can make us act irrationally. This presents a problem for traditional economics, where there is a presumption that everyone acts rationally.

To demonstrate this, imagine I offer you a game to play. A simple coin-toss: heads or tails. If you win, I will give you £1; if you lose, you give me £1.

Most people would be pretty indifferent about this. And rightly so: economic theory would calculate the expected return of this game to be zero. Therefore, the game is neither worth playing nor avoiding.

But let's now change the stakes. Instead of betting £1, let's bet your house. If you win, I will give you another house. If you lose, you and your family will lose the roof over your heads.

I suspect that there would be very few takers now. Yet pure economic theory says we should still be indifferent about a game with the same expected return (zero).

However, our emotional reaction is to fear losing our house. The impact of that would be far worse than the joy of winning a second house of equal value.

In fact, Daniel Kahneman (the Nobel-prize winning author of "*Thinking Fast and Slow*") has observed that the pain of loss is up to two-and-a-half times greater than the joy of winning. "Losses loom larger than gains," he points out.

Therefore, when the stakes are high (e.g. where you fear the threat of poverty in old age, or risk having to pull children out of school because you cannot afford the fees), we have a greater tendency to lose our discipline and panic.

Fortunately, there are steps that you can take to help maintain a more disciplined, rational approach.

The first is to fully understand your attitude to risk, and do not be tempted to take on too much risk. More volatile investments have been shown to be more detrimental to investor outcomes, as they amplify the emotional ride and encourage mistakes.

The second is to be able to counsel an independent, objective and unemotional opinion from a third-party when needed.

The third is to ensure you can trust in the investment process that underpins your portfolio, preferably with the ability to see how it would have performed through a wide variety of market conditions and previous crises.

At Kennedy Black Wealth Management, we help take care of all three. Of note, we can back-test our client's investments to 1926, thereby capturing the Great Depression, WW2, the oil crisis of the 1970s, Black Monday 1987, the dot-com boom and the recent financial crisis.

Why am I doing this? #3:

"To give my children the best start in life."

A lot of our clients have young children and one of their biggest financial commitments is school fees.

We have calculated that sending a child to the most expensive boarding school in the country could cost as much as £720,000 per child over a fourteen year school career (assuming 6% inflation and ignoring university fees).

The aim of course is to give our children the best possible start in life. That is a considerable burden that motivates a lot of families.

However, a proper financial plan must also consider the impact of children inheriting too much too young. A carefully constructed Estate Plan should ensure that assets are not passed down absolutely, allowing you to retain some control from beyond the grave.

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