KENNEDY BLACK
WEALTH MANAGEMENT

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Short-listed for Best Use of Technology by an Adviser

MoneyMarketing
Financial Services Awards 2014
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Welcome to the last edition of 2013 of Kennedy Black Wealth Management's Private Client Newsletter.

The big news here is that we have recently been shortlisted for a prestigious Money Marketing Award – for the second time in three years. Five firms have been invited to interview in January and will find out the result at a gala dinner at Grosvenor House in March. Wish us luck!

We also include two topical articles: a set of rules to help identify asset bubbles; and a quick overview of last week's Autumn Statement from George Osborne. We also continue our series on irrational investor behaviour with number six out of ten: the Empathy Gap.

Short-listed for another Money Marketing Award

We are absolutely delighted to be short-listed for a Money Marketing Award – for the second time in three years.

This time it is for Best Use of Technology by an Adviser – for our new INTELLIGENT WEALTH MAP™ and our Titanium wealth management tier – for clients with investment portfolios in excess £500,000.

If you are feeling let down by your wealth manager or private bank and would like to see our market-leading financial planning software and service in action, please get in touch for a no-obligation demonstration.

These national awards, in their 24th year, are among the most prestigious in the UK.

The Six Rules of Asset Bubbles

Asset bubbles are highly topical at the moment with bubbles supposedly developing in London property, contemporary art and US shares (among others).

Bubbles are a sign of our times. They have been around for centuries but perhaps we are privileged to have lived through so many in recent years (the Economist last week cited data claiming the number of bubbles has risen fourfold from the 1950s).

We have therefore created the following six rules of asset bubbles to help you spot them (or just as good, spot when there isn't one).

Rule 1: If you think it is a bubble, it probably isn't
This is the most important rule in our view, yet perhaps the most counter-intuitive. If you can get your head round it, then the rules that follow will make more sense.

Bubbles are notoriously hard to spot at the time. If it were easy, then we would all be making millions buying as the bubble inflates and selling just as it pops.

So if you think to yourself "this must be a bubble" then the ask yourself: "what do I know that everyone else doesn't?"

The rationale for this rule is simply: if everyone thinks prices are too high, then why are there still buyers? In an efficient market, the price would surely have dropped by now.

Rule 2: Bubbles will inflate and deflate much further than you think
When prices are looking uncomfortably high, in our view that is exactly when they are most likely to go higher.

This is an extension of 'anchoring,' which we have highlighted as a behavioural bias in our June edition. Anchoring is the tendency to attach irrational significance to certain numbers (e.g. round numbers, or the price paid for an investment).

Often the only reference points we have are previous prices, and these can be distracting. When the market is rising, the natural tendency is to want to sell. When prices move higher, these sellers then turn into panic buyers – pushing prices higher still. The reverse is true in a falling market.

Rule 3: The bubble will only 'burst' when everyone thinks it cannot
The final casualty of a bubble is logic. This harks back to what Sir John Templeton called the four most dangerous words in investing: "This time it's different."

The bursting of a bubble is often accompanied by some claim of 'a new paradigm'. James Glassman famously wrote "Dow 36,000" in 1999 (with the Dow at

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around 12,000; it has only just breached 16,000 fourteen years later, having dipped below 7,300 within three years of the book's publication).

Rule 4: Bubbles don't make people rich
While you might think of examples to the contrary, most investors don't make money from the rise and fall of asset bubbles. In fact, most investors get swept up in the hubris and jump in at the top, often with disastrous results.

While John Paulson, the hedge fund manager, famously made billions from predicting the collapse in exotic derivatives based on US mortgages in 2008, he has fared particularly badly ever since. And when one looks back, it is easy to find economists who claim to have predicted a crisis and are thus portrayed as prophetic.

There will always be some exceptions, but in fact it is surprising how few exceptions there really are. Even the professionals get carried away and the success stories rarely outnumber what can be attributed to luck.

Rule 5: Afterwards, it will all seem so logical
It is easy to get swept up in bubble mania. However, when the dust settles, the temptation is to post-rationalise it all.

While it will all make more sense with the benefit of hindsight, it would be wise to remember that no one really saw it coming.

In a recent poll by ING eZonomics, 43% of respondents claimed: "Looking back, I feel like I knew the global financial crisis was coming." Only 27% admitted they did not see it coming; the rest were "not sure."

Rule 6: Like Underground trains, there will be another one along in a minute.
But it is important to bear in mind that it will probably appear where you least expect it. The more people go looking for bubbles, the harder they are to find.

Autumn Statement 2013

Last week's Autumn Statement was relatively uneventful from a personal finance perspective. However there were a couple of points that we think might have an impact on our clients and their finances.

The most significant we picked up on is a change to the Principle Private Residency (PPR) relief that applies to investment properties (e.g. Buy-to-Let).

If you live in a property and then move out and rent it out, the profit you make on a rise in its value is potentially liable to Capital Gains Tax. The time you lived in the property qualifies for PPR relief, as well as the final three years you own it (whether you actually lived there or not).

This three-year period is being halved to 18 months from April 2014, which is likely to have a material impact on anyone with a Buy-to-Let property that has risen in value. Get in touch if you would like us to provide a free, no-obligation calculation to determine the impact it might have in your circumstances.

CGT will also apply to future gains (starting from April 2015) on residential properties owned by non-UK residents.

The other point of note is that the State Retirement Age will continue to rise. Current 40-somethings should now expect to receive their State Pension at the age of 68, 30-somethings at the age of 69 and 20-somethings at the ripe old age of 70.

Life expectancy is clearly rising so the government needs to act to protect the public purse. We expect this to be just the start – the State Retirement Age will need to rise even faster. You have been warned.

Irrational Behaviour #6:

"The Empathy Gap"

Careful planning is always to be commended, but it is notoriously difficult to anticipate the influence of emotion in our future decisions – the Empathy Gap.

Since emotional decision-making (e.g. panic-selling in the middle of a market crash) can be costly, planning must take emotion into account in order to be effective.

To demonstrate the Empathy Gap, think how at this time of year it is very difficult to appreciate the unbearable feeling of being in the middle of a sweltering heat wave.

Successful investing is all about discipline and a financial 'coach' can add substantial value in offering a cool head to bounce investment ideas off and keep you on track.

The contents of this newsletter do not constitute advice and should not be taken as a recommendation to purchase or invest in any of the products mentioned. Before taking any decisions, we suggest you seek advice from a professional financial adviser. Past performance is not a reliable indicator of future results. Levels and bases of, and relief from taxation are subject to change. All figures and data contained within this document were correct at time of writing. Not all areas of tax planning are regulated by the Financial Conduct Authority.

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