

KENNEDY BLACK

WEALTH MANAGEMENT

QUARTERLY PRIVATE CLIENT NEWSLETTER

ISSUE 12: NOVEMBER 2012



Welcome to the twelfth edition of Kennedy Black Wealth Management's Private Client Newsletter.

We are delighted to publish below the results of the Client Satisfaction Survey that we sent to all our clients recently. We are very pleased with the feedback but promise not to rest on our laurels.

We also include a couple of important and timely topics that we urge you not to overlook. The most pressing refers to changes to insurance regulation which come into force at the end of the year. If you are thinking about life assurance (or any form of protection product) or an annuity, we urge you to get in touch to discuss your options in good time.

KBWM CLIENT SATISFACTION SURVEY – THE RESULTS

In October, we sent out a Client Satisfaction Survey to our current and potential clients. We were absolutely delighted by both the number and the quality of responses, so thank you to everyone who provided feedback.

If you are interested in the complete responses, please let us know – we are more than happy to share. In short, our two favourites are:

- 100% of clients said they are “very” or “extremely” happy with the service provided;
- 95% of clients said they are “very” or “extremely” likely to refer us to people they know.

To put this second figure into some context, a recent YouGov survey for [vouchedfor.co.uk](http://www.vouchedfor.co.uk) found that only 50% of clients of financial advisers were “very” or “fairly” like to recommend their adviser.

Please get in touch for the full breakdown.

THE COST OF BEING A WOMAN MAY RISE THIS CHRISTMAS

Over the next couple of months, new insurance regulations are expected to have far-reaching consequences for the industry. We urge anyone thinking of taking out life assurance or annuity products to get in touch immediately to discuss your options in good time.

On 21st December, the EU Gender Directive comes into force, followed by new tax rules on 1st January 2013 (affecting rules known as “I minus E” – standing for “income minus expenditure”).

Under the EU Gender Directive, insurers will no longer be able to discriminate on grounds of gender when it comes to providing insurance quotes.

This means that men and women applying for insurance products (including life assurance, critical illness cover and annuities) must receive the same quotes.

In the past, women have paid less than men for life assurance and other protection products by virtue of the fact that they tend to live longer.

Similarly, men have traditionally received higher levels of income from an annuity, on the basis that they tend to die earlier.

Under the changes to the ‘I minus E’ tax regime, insurance companies will no longer be able to offset the costs of their life assurance business against their investment gains for tax purposes. HMRC expects this to result in higher tax receipts.

It is fair to conclude that policies taken out after the new rules come into force are likely to see premiums rise as a result.

LV= has estimated that life assurance premiums for women could rise by 22% under the combined new rules, while critical illness cover could cost 16% more. Men could see rises too, they anticipate, albeit to a lesser degree (up 6% and 3% respectively).

Similarly, annuity rates will move the other way, with men likely to pay more for their retirement income once the new rules come into force.

If you're thinking about life assurance or annuities, we would therefore recommend acting sooner rather than later.

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WEALTH MANAGEMENT

SAVE ME FROM MYSELF!

The core of what we do at Kennedy Black Wealth Management can be distilled into three elements:

- Comprehensive financial planning – really getting to understand our clients, their circumstances and their goals and helping them get their on top of their finances so that they can plan effectively for the future;
- Wealth protection – whether that's protecting someone's lifestyle from the unexpected (death or illness) or protecting their estate from the taxman;
- Wealth enhancement – through the construction of robust investment portfolios based on long-standing financial theory, and then through acting as a 'behavioural coach' to help clients avoid classic investor mistakes such as buying high and selling low.

The first two points undoubtedly help our clients achieve peace of mind, so we'd like to focus once again on the value of the third point (having already illustrated the performance of our model portfolios in August's edition of this newsletter).

We therefore present four different pieces of well-respected research that help quantify the value that the right adviser can bring by acting as a behavioural coach. These reports collectively demonstrate that investors left to their own devices typically underperform the market, and that they would be significantly better off seeking proper financial advice.

For example, the Dalbar Study in the US calculated that, in the period 1988 to 2008, active investors achieved a return of 1.9% per annum when the S&P 500 returned

8.4% p.a. To put this another way, investors achieved just 23% of the market return.

Secondly, in the *"Little Book of Common Sense Investing"*, John Bogle concluded that active investors achieved between 0% and 73% of the market return (depending on the time horizon involved).

Thirdly, a UK-based study at Cass Business School in 2009 (which we have referred to in previous editions of this newsletter) reached the conclusion that investors achieved around 81% of the market return.

In all cases, the lag to the market comes about through paying excessive fees and making poor timing decisions.

However, a Morningstar study in 2005 has demonstrated the clear benefits of using a passive investment adviser properly educated in the benefits of long-term investing and behavioural issues.

By looking at fund inflows and outflows, Morningstar calculated that the average passive investor (using index trackers) obtained 82% of the market (already an improvement of most of the studies of active investors).

Yet they also discovered that investors who adopt a passive investment approach with an adviser who preaches the benefits of a long-term, buy-and-hold strategy and builds portfolios with the same funds that we use at Kennedy Black Wealth Management achieved 109% of the market return over the same ten-year period.

Surprisingly, investors continue to miss out on market returns. For instance, according to Morningstar, the best-selling funds over the 2009-12 rally have consistently been lower risk bond funds or cautious managed funds.

This is why a behavioural coach, not just a financial adviser – even one who delivers excellent service (see the first article above) – is so important.

IRRATIONAL BEHAVIOUR #2:

"Follow the herd"

It is basic human nature that, when forced to make complicated decisions in uncertain circumstances, we seek comfort in the decisions of others.

Investors therefore have a tendency to follow other investors, with the result that asset price bubbles form and disappear with alarming regularity.

One only needs to look at some of the more famous bubbles to see how costly this can be. Tech stocks, subprime mortgages, tulips... However one of our favourites statistics is that, in 1989, the Japanese Imperial Palace (all 1.3 sq mi) was valued more than all of the real estate in all of California.

While following the herd might make you feel better, it can be hazardous to your wealth.

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 Services Authority.



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