WISE INVESTMENT

AUTUMN NEWSLETTER

As I am writing this, I am tucked in my sleeping bag, preparing to sleep under the stars for the night.

I am taking part in the CEO sleepout for the second year, in aid of Oxfordshire Homeless Movement. Last year, it rained the entire night, and this year, the temperature is predicted to drop to a chilly 0 degrees overnight. I am not sure which is more preferable. However, supporting our local community is very important to me personally, as well as for Wise as a business. The CEO sleepout is just one of the ways we have supported our local community this year. If you are interested in the other ways we support our local community, we tend to post quite a lot about this on our Instagram and Facebook pages.

What a busy but exciting summer we have had. We hope you all have had a wonderful summer as well. We have exhibited at some local shows again this year, namely the Moreton Show and Blenheim Palace Horse Trials. We have found that these are great opportunities to meet new people and make new connections. It was also great to see some of you who attended the shows and came over to see us.

We have now started our business planning for 2025. As an Employee-Owned business, we are keen to see everyone who works at Wise have an opportunity to contribute to the overall business strategy. It also makes sense for everyone to be involved as we all have different insights into the business. By making this a collaborative exercise, we believe we have a stronger business as a result. One way we do this is for each team to be responsible for a mini business plan for their department, which then gets factored into the main company strategy for the following year.

IT is a huge part of our business and something we invest in heavily. We rely on it for our day-to-day work in terms of the hardware we use, e.g. laptops, printers, scanners and so on. We also use various systems such as a CRM (client record management), an order management system, where we do our trading, scanning software, a client portal where we can send all your documents to you rather than post them, and so on. Most of the systems we use are already cloud-based, but as a further improvement, we are currently doing some work on moving to a cloud-based server. This is quite a big undertaking, but ensures the long-term security of our IT systems.

Our business is based on the relationships we have with you as clients. We value having personal relationships with all of you, through face-to-face meetings, and with people that you get to know well and can contact when you need to. We see the use of IT systems as essential support for us to carry out this work, and will use IT as much as possible in the background, in order to be able to deliver this personal service.

Alexandra Rae
Chief Executive Officer

MARKET UPDATE, Q3 2024

After a very strong start in the first half of 2024, markets have broadly flattened out in the second half of the year, with fits of volatility halting the previously steady upward March.

The most dramatic episode occurred in early August when Japanese markets plunged 12% on a single day.

The culprits behind this volatility are the usual gang of investors and speculators (i.e. Hedge funds...) making over-levered trades - meaning trades involving large amounts of debt. In this case, the trade was fairly easy to understand. Japanese interest rates have been incredibly low for a long time, at 0% (technically -0.1%), as part of their central bank (Bank of Japan or BOJ) policy to try to help stimulate growth in a stagnant economy. Notably, Japan also hasn't experienced inflation like other economies since the Covid and Ukraine conflict, meaning it is the last major developed economy left with low interest rates.

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MARKET UPDATE (CONT)

This makes it an excellent place to borrow money, especially for foreigners who have the added tailwind of the Yen being steadily depreciating over the last 5 years (e.g. down over 30% vs USD over the past 5 years to June). Traders borrowing Yen then have two good options to invest in a so-called "carry trade":

1. Invest in foreign bonds (Gilts, Treasuries, etc.), or even just foreign cash, that, thanks to a rapid tightening cycle to combat inflation, yield ~5% and pocket the difference
2. Invest in Japanese stocks and benefit from the recent initiatives to boost shareholder governance in Japanese corporates that then propelled the market up over 20% in the first half of 2024

Both options were extremely profitable... until they weren't.

In March, the BOJ raised rates for the first time in 17 years, from -0.1% to 0.1%, to combat emerging inflation and a plummeting yen. This was seen as a fairly tame move, with interest rates still very much near 0% and was followed by no further moves in April, May and June. At the end of July, however, another rate hike was announced, from 0.1% to 0.25%, showing the sign of an emerging trend. Markets overreacted, as they are apt to do, pushing up borrowing rates dramatically.

Investors were already nervous, particularly as other central banks had either begun to cut or were likely to cut rates soon, dragging down yield curves and reducing the % margin difference on that trade. In July, the Yen also began to strengthen vs other currencies as monetary conditions tightened, meaning Yen-denominated debts, now with proper interest payments, were becoming rather expensive. The stock market started to slide through July, and sure enough, the trade started to unwind, slowly, slowly, then all at once.

After the last two weeks of July, which saw steep declines in the markets, ended with the 2nd rate hike and clear signals more was coming, something clearly snapped over the following weekend. On Monday 5th, the Japanese market plummeted 12%, sending shockwaves through financial markets and spiking volatility. Other markets followed, dropping violently before calm was restored, and they recovered more or less to their previous levels within a day or two when everyone realised it didn't really affect them. The Japanese market, however, didn't get out unscathed and remained well below its July peak.

This event demonstrated to us the fragility of current investor sentiment but also the amount of cash still on the sidelines, ready and willing to jump in when assets go on sale. Currently, bar pockets of value, such as our own UK market, equities and stock remain comparatively expensive, compared to historical averages. While stocks remain the champion asset for driving long-term investment returns, their current high valuations in areas like the US make them particularly vulnerable to spurts of volatility and, more importantly, substantial drawdowns if economic conditions turn down in the near future.

In fixed income, it is clear most key economies (Europe, the US, and the UK) are now entering the later part of the credit market cycle with the beginning of a series of interest rate cuts. The question is, how fast and how deep will these cuts go? To us, the bond markets seem to have gotten a bit carried away with their estimations, particularly on the far end of the yield curve (i.e. the anticipated 10yr+ rates). This means that as opposed to a curve that should appear as a Nike swoosh (where longer borrowing periods have higher interest rates), we have one that is flat. So, as the rate comes down, we expect this to normalise and the "belly curve" (at around the 3-5yr mark) to drop the most, making it the best place to position our portfolios.

In terms of credit spreads, these are generally very tight (i.e. we're not getting paid much for extra credit risk), meaning we are focussing on high-quality investment-grade bonds, which also pair nicely with equities as they hold up better into economic downturns and market volatility. The exception to this is the spread we see in ABS (asset-backed securities), effectively batches of mortgages and other similar securities, which benefit from substantial protection from post-GFC regulation and offer 2 or 3% extra yield for equivalent credit quality due to being structurally under-owned which we believe makes them very appealing to those investors who can buy them.

Overall, going forward, while we will likely not see the kinds of easy returns we saw over the past 18 months, there is still juice to squeeze for those investors able to take on the inevitable ups and downs good assets inevitably produce.

William Geffen
Head of Investment Management

Disclaimer
Please note that these views represent the opinions of William Geffen as of 18th September 2024 and do not constitute investment advice. Where opinions are expressed, they are based on current market conditions, they may differ from those of other investment professionals and are subject to change without notice. This document is not intended as a recommendation to invest in any particular asset class, security or strategy. The information provided is for illustrative purposes only and should not be relied upon as a recommendation to buy or sell securities. For an updated view of the market, please contact your usual adviser.

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SUMMER SHOWS AND EVENTS

This summer we exhibited at Moreton Show and Blenheim Horse Trials.

It is our third year exhibiting at Moreton Show, and it continues to be a firm favourite in our calendar. We do however feel that Blenheim, spanning four full days, is probably one that we will look to replace with something else for next year. If you have any suggestions of events, shows or conferences that you think we should consider, please let us know.

MEET THE TEAM – JOANNA CAMPBELL-MEIKLEJOHN

Introducing the newest member of our Financial Planning Team, Joanna Campbell-Meiklejohn. Joanna joined us in July, and we took the opportunity recently to ask her a bit about herself:

Q: So, Joanna, tell us a bit about what you do and how long you have been in the industry.

A: I have worked in the industry since the late 90's, initially working in Corporate and Investment Banking. I've had a variety of roles over the years, with Citibank, ABN AMRO and RBS. I have worked across Sales, Relationship Management, M&A, Strategy and Business Management. Since joining Wise I have predominantly been looking after all of our new enquiries coming into the business.

Q: Is Financial Planning a challenging role to get into, and what qualifications do you need?

A: The main barrier to entry is that you need your Level 4 Diploma to be able to advise clients. I have the Diploma in Regulated Financial Planning with the Chartered Insurance Institute.

Q: Has the world of finance always interested you?

A: I have had a love for economics since school days. It was the first subject that came really easily to me, and that I loved. I went on to study it at Manchester University and added Politics into my degree. These two combined were a natural stepping stone for a career in finance. My father also tried to encourage an early interest in investing. For my 18th birthday I was given some unit trusts, I guess not your typical 18th birthday present.

Q: What did you think you might be as a child?

A: When I was younger, I actually wanted to be a hotel manager. I have always loved travel and staying in nice hotels.

Q: Where would your dream holiday destination be?

A: I look to share my passion for travel with my children as often as I can. We love travelling to Asia, due to the varied cultures and food. Last summer we had the opportunity to spend some time in Mexico traveling along the Yucatan Peninsula. This was an amazing experience, seeing both ancient ruins, the beautiful countryside and tasting the amazing cuisine. This trip made me want to explore more of South America, so I would love to go back.

Q: You haven't been with Wise all that long, what did you do before?

A: I spent the last few years at a Partner Practice of St James's Place in Stow on the Wold, having completed my training through their Adviser Academy.

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MEET THE TEAM – JOANNA CAMPBELL-MEIKLEJOHN (CONT)

Q: What's the most challenging aspect of your job?

A: Keeping up with the ever-changing regulatory landscape is a key area as a Financial Planner. Luckily, I enjoy reading around the subject. One of the more sensitive parts of the role can be the management of expectations about realistic returns or how long someone's funds may last. These are skills that come with life experience and aren't really taught.

Q: What really makes you tick?

A: My family is at the core of everything I do. I am married with two daughters and a dog, who all keep my husband and I on our toes. Helping them grow up into happy, healthy adults who are the best versions of themselves is what makes me happy.

Q: What are your hopes for your future at Wise?

A: I am looking forward to growing with the company and helping to deliver a great experience and positive long-term outcomes for our clients. As we run up to the festive season, I am looking forward to the staff Christmas Bake Off, which I've heard is very competitive. I need to get my baking skills honed and ready!

AUTUMN BUDGET 2024 – FREE WEBINARS

In the wake of the budget on 30th October, we are gearing up to provide you with expert analysis on how the new policies could affect you. We are hosting two free webinars in November in conjunction with Chartered Accountants Whitley Stimpson.

The first will take place on Tuesday 12th November at 10am, discussing the potential corporate implications. The second will take place on Thursday 14th November at 10am, covering the potential personal implications.

Each webinar will last 45 minutes, with a 15-minute Q&A at the end. Keep an eye on the Events section of the News & Views page of our website to reserve your space on our free webinars.

Some Key takeaways from the Budget that may affect your financial planning.

Investment planning and Capital Gains Tax (CGT):

- With immediate effect CGT rates are changing - Basic Rate is up from 10% to 18% and Higher Rate from 20%-24%.
- Property rates remain the same at 18% and 24%.
    - Using your annual CGT and ISA allowances becomes increasingly important.
- For Business owners there are considerations regarding Business Asset Disposal Relief (BADR) payable when you exit your business. Whilst the £1m allowance is maintained the CGT rate changes mean the 10% rate will increase to 14% in 2025 and 18% in 2026.
    - If you are thinking of a business sale, then planning is key.
- Rumoured dividend rate increases to align with income tax levels and capping the amount of ISA benefit that can be built up did not happen - a positive for investors.
- Allowances for CGT, Dividends and ISA contributions all remain the same and EIS and VCT schemes continue.

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AUTUMN BUDGET 2024 – FREE WEBINARS (CONT)

Inheritance Tax and Estate planning:

- Allowances remain frozen till 2030, so the Nil rate band of £325,000 and Residential Nil Rate band of £175,000 remain in place to plan with, the below changes will come into effect after these bands have been utilised.
- Spousal exemption continues, meaning married couple can pass their estate to one another on first death with no IHT due.
- The gifting rules have not changed as rumored and the 7 year rule still applies.
- Unused 'Money Purchase' or Defined Contribution pension pots will become liable for Inheritance Tax from 2027 (except if passed to a spouse), death benefits with a Defined Benefit/Final Salary pension are already taxable.
- Agricultural and Business Property Relief rates are now capped at a combined £1m to benefit from 100% relief from IHT and thereafter 50% relief (a tax rate of 20%).
- AIM shares are now subject to 20% IHT regardless of value.
    - The need to understand your allowances, how they will be applied and your lifetime cashflow modelling for retirement and what potential estate may be left on death has now become an even more important part of estate planning.

Pensions:

- Rumours were rife that 25% tax free cash and pension tax relief at the marginal level of income tax would be lost, they all remain in place.
- The only change is that, from April 2027, unused pension funds will be subject to inheritance tax.

As with all financial planning how these rules impact you will be different for each reader so please do not take this post as financial advice, but reach out and lets have a conversation and see how we can help you plan.

Important Information
The above information is for educational purposes and is not a personal recommendation or investment advice. Content is accurate at time of writing. Tax limits and pension regulations may change. Wise Investment is authorised and regulated by the Financial Conduct Authority (FCA 230553).

CHARITY & COMMUNITY UPDATE

Proud Sponsors of Plunkett UK

We believe that creating sustainable futures isn't just about providing sound financial advice; it's also about giving back to the communities that matter most. That's why we were thrilled to sponsor a special charity auction in early October in support of Plunkett UK.

Plunkett UK is a remarkable charity that works tirelessly to support rural communities across the UK, empowering them to save vital local assets like pubs and shops that are at risk of closure. By helping these communities turn these assets into thriving, community-owned businesses, Plunkett is reducing isolation, creating employment opportunities, and fostering a renewed sense of connection in some of the most isolated areas of the country. Currently supporting over 800 community-owned businesses, Plunkett's efforts are transforming the future of rural communities.

The auction featured a wide variety of prizes, from a guided private flight over The Cotswolds, to a one week stay near Inverness. The event raised over a whopping £14,000 with all funds going directly to Plunkett UK.

Supporting Plunkett UK is a natural extension of our company values. Just as we strive to help individuals and families secure their financial futures, Plunkett is helping communities safeguard their future by turning local businesses into thriving, community-led initiatives. We're proud to stand with a charity that is so deeply embedded in the fabric of rural life and committed to making a long-lasting impact.

Plunkett UK

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CHARITY & COMMUNITY UPDATE (CONT)

Monthly Charity Wheel

September's charity wheel winner was The Dogs Trust in Evesham, nominated by Heather. Every week, around 1,000 people sadly make the call to give up their dog. While most go on to find loving new homes quickly, some require additional support for longer. The Dogs Trust relies solely on donations. Last year, thanks to these donations, they were able to:

- Provide care for 13,374 dogs without homes
- Rehome 10,612 dogs
- Support 12,806 dogs through their dog school
- Deliver nearly one million meals for dogs through Fairshare food banks.

If you would like to nominate a local charity to go onto our charity wheel, drop us a message and we will let you know if your charity wins.

CHRISTMAS FAIR – SATURDAY 16TH NOVEMBER.

Back by popular demand, we are hosting a Christmas Fair at our office on Saturday 16th November 10am – 4pm.

This is a free event and promises a variety of locally made festive goodies to browse and buy. Everything from jewellery and ceramics to craft beers and cured meats. Our Christmas Fair was a great success last year and we would love to see you there this year. Free parking on-site, refreshments available, and assistance dogs welcome.

WE VALUE YOUR FEEDBACK

We want to make our newsletters as engaging and relevant as possible, and we need your input! What topics would you love to see in our upcoming issues? Your enjoyment is our priority, so let us know what interests you. Please email your suggestions to our marketing coordinator, Jo, at jo@wiseinvestment.co.uk We look forward to hearing from you!

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