UKSA
UK Shareholders' Association

The Private Investor

ISSUE 212 | JUNE 2021

Financial well-being – from a young age

When financial service providers sought to repair their battered image after the financial crisis of more than a decade ago, they touted financial education as the way forward. More recently the focus has shifted to financial well-being.

A charitable view might be that institutions – notably UK high-street banks – have understood that a top-down approach is not enough. They may finally have understood the need to make savers – particularly young savers – aware that their future well-being is in their own hands.

At first sight at least, this seems to be the approach behind the Lloyds Bank Academy's web pages.

Just such an attitudinal shift is also one of the key tenets of the Savers Take Control approach developed by UKSA's Martin White.

Coincidentally the Lloyds Bank Academy's web pages contain links to videos by Iona Bain, about whom Martin writes in his article on page 2.

As Martin emphasises, starting young is important and those of us who are definitely no longer young often try to interest young people in investing.

We must understand the vast amounts of information younger people have to cope with and the financial strains they face, but with our complete independence from the financial industry and with impartial resources such as HonestMoneyNow we have a duty to help.

Helen Gibbons

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Helping people into investing – a focus on the problems of the young

by Martin White

As I mentioned in the last newsletter, and also at the recent UKSA AGM, an important new discovery for me is Iona Bain, the author of a recently published book entitled "Own it: how our generation can invest our way to a better future". It is published by Harriman House. Let me explain why I feel this is so significant.

It is generally agreed that the level of financial capability in the UK is poor. And also that the sooner you can get a grip on your personal finances and plan for the future the better off you will be, and not only in financial terms. Having your finances under control gives greater confidence, reduces stress and gives more flexibility over your whole lifetime.

Starting young is so important. And those of us who are definitely no longer young often try to interest young people in investing. But with how much success? Do we have any appreciation of the vast amounts of "information" they have to cope with, and the financial strains they face?

If you want to find out the truth about investment, where on earth do you start? Good question, but yes, being completely independent of the financial sector, we can help with this once people have actually decided to start.

So there's a more fundamental question than "where do I start?", which is how can you help people get to the stage where they see the point of engaging with investment at all? If something is unknown, and everyone tells you, quite rightly, extremely uncertain and quite complex, isn't the easy way of dealing with it just to ignore it? And how does it help to be told, in one breath, "if in doubt consult an independent financial adviser" and, in another breath, "but if you don't have savings of "£100,000 they won't be interested in helping you"? It doesn't help at all.

Engaging with young people is where Iona Bain comes in. I was alerted to her by a recent article she wrote for the FT which appeared on 2 April 2021. It was headed as follows: "Young people, their money and how all is not lost. The Covid generation is waking up to the predicament they find themselves in and sensing the need to do things differently."

I discovered that about 10 years ago, as a music graduate aged not much more than 20, Iona had decided to start a blog to help herself learn about personal finance by sharing the lessons as she went along. It is at https://www.youngmoneyblog.co.uk/ Here she describes her mission, which has developed into the following:-

"All young people should be financially knowledgeable, confident and in control of their futures. This is essential for individual, economic and social progress. That means promoting real choice and opportunity and moving away from a system that drives apathy, unfair sacrifice and learned helplessness.

We deserve:

• a truthful, fair and informed view of the financial sector;

• policies and regulation that genuinely serve OUR interests;

• representation at all levels so that we can properly shape our financial futures."

Iona now has a host of short videos on YouTube, and is very active in broadcast media including the BBC, where she is an acknowledged expert in the opportunities and challenges facing the young in their

finances; there is plenty of detail about this on her blog site.

It was "Own It", her very up-to-date book (finished in the Covid19 lock-down period), aimed especially at people in their 20s and early 30s, that caught my interest, so I ordered one immediately.

The book is an easy read, a masterpiece in clear communication. Its accessible style I look at with some envy – I couldn't possibly write like that. As someone with plenty of financial background, it was easy to skim through in two hours. But it was on a second read that I realised how carefully thought through it is and just how much relevant detail is included.

It would be interesting to know about the feedback that Iona has received directly from her target audience. I think it will score well, grabbing their attention and keeping it through to the end. I can see a number of the Amazon reviews are from older investors who are recommending it to younger generations for its combination of accessibility and good sound sense. As far as I am aware, Iona is unique as a young person herself engaging with the young in the area of financial capability, and we must wish her every success.

Having read the book, of course, our young person new to, but now considering, investing as a necessary part of life will be wondering where to go next. In "signing off", at the very end of the book, Iona points out the correct current legal situation in the UK: "It's important to seek regulated and independent financial advice if you want specific recommendations based on your personal situation." But something I have come across fairly recently is financial coaching. You can pay a financial coach a one-off amount for a few hours of their time, and they will take you through a really helpful journey of facing up to your needs and attitudes to money and financial planning, and that is where I would suggest most people who feel they need help could usefully start. A beauty of a financial coach is that they will not want to view you as a future source of income in the way in which a financial adviser may do. Financial coaches are not authorised to give specific recommendations.

"Own it" is Iona's second book. Her first book, published in 2106, is Spare Change: How to Save more, Budget and Be Happy with Your Finances. Unlike the second book, which is quite unique in its focus on today's younger generation of investors, this one is in a rather more crowded place. But I like it – lots of practical wisdom. A chapter that really caught my eye was entitled "money around others". This is about how, when searching for a partner, it is important to check that your attitudes to money are compatible. That's hardly exactly romantic but I was convinced, and Iona gives some great suggestions for tackling this.

Getting back to "Own it", I should give an idea of what's covered. In the intro, Iona sets out the things she is going to tackle:

• what's gone wrong with millennials'' money – and how we can put it right;

• why saving AND investing matter;

• whether you should be saving or investing for your first home;

• what the hell a pension is, and how to make yours work for you and the world;

• how to use investing apps; the difference between various assets, fund structures and investing approaches;

• important concepts like diversification and risk versus reward;

• how to manage your investing brain.

The book is in two parts: first why, followed by how. The essential basics are all covered. Budgeting, getting rid of expensive debt. And whilst Iona does not put things quite as forcefully as I would, she mentions Vanguard, she doesn't duck the fact that passive tends to outperform active and points out that when your funds get above a certain size, the DIY option that avoids platform annual percentage charges makes massive sense. She mentions ETFs as, perhaps above everything, posing "the biggest existential threat to active fund managers". As we know, you can have a DIY account in which you can happily limit yourself to ETFs. So no get rich nonsense and plenty of good hard common sense!

From an UKSA perspective, I find this development potentially very exciting. Of course we want to help young people who do not become full members. But we also need young people to join us, so that we can freely share our knowledge and experience with them, and so that they can help us in accessing their peers, ensuring that we communicate appropriately with them, and also influencing and contributing to our campaigning and representation work. But accessing them has been pretty well outside our grasp to date. It is those new investors who choose to go the DIY route that are most likely to want to join us as full members, but wouldn't it be great for us if we could develop some momentum of interest from the younger generations? We are completely independent of the financial sector, and we want to share our knowledge for free, and wider awareness of this would help massively. We can of course already point to Financial Education Made Easy | Investing is Simple (honestmoneynow.co.uk) at www.honestmoneynow.co.uk, which is freely available to anyone.

Online discussions on investing in the insurance business

Advance notice from Martin White

Having worked in the insurance business all my life in one way or other, and having always looked at it from a shareholder perspective, I am planning to do one or more online sessions for UKSA members where we discuss the technical and human challenges of running a successful insurance business. It all depends whether anyone is interested! I am thinking that an hour might be about the right length.

I will focus on general insurance, which is where most of my experience is. The essential character of general insurance is that it is price-transparent. So the customer can see what they are getting and what it will cost them. This is completely the opposite situation from life insurance, which is far from transparent. I am afraid I regard most life insurance business as part of the essentially exploitative savings and investment industry.

Some general insurers are really successful, and others do badly. What are the big differences? Do shareholders appreciate the challenges, or do they put pressure on the managers to do things that are unwise in the long term? How honest with themselves are the managers of insurers – are their balance sheets an exercise in wishful thinking, or are they an exercise in prudence and restraint?

I wrote a paper on this subject for an actuaries' conference in 2003, and this is freely available here. It is 32 A5 (i.e. small) pages long with not a single formula. It is all about the human dynamics of the competitive general insurance market and was written with investors in mind, aiming to explain aspects of the market that they would be unlikely to work out for themselves.

I hope people will find this paper an easy and engaging read, but you won't need to read it before joining the online event.

A challenge to the active management community

An idea for long-term incentives – the Active Management Partnership

by Martin White

I have to admit I'm cheating a bit here. What follows is an article I wrote for this magazine in 2009. However, I think it's still as relevant today, and follows quite logically on from the article about Iona Bain and reaching the younger investors of today. The article itself was the result of my entering the idea into a competition the FT ran called "design the perfect product". I entered it, but my entry was not even acknowledged. Not pleased! Since active managers in aggregate cannot help underperforming a passive, low-cost alternative, the intelligent approach is quite simply to avoid them. I do have to confess that I made an exception when I learned about Terry Smith's FundSmith when he first set it up, as I believed that Terry was himself exceptional. But apart from that I have no actively managed funds.

Just think for a moment how attractive fund management is as a business. You put up a small amount of capital. Your customers invest potentially huge amounts with you, on which you make a "small" charge. Your customers generally lose money compared with a passive alternative, but miraculously you don't lose your customers. Why not?

This requires some exploration of psychology. Whilst big pension funds some time ago began moving money away from expensive active managers to much cheaper passive managers, how come they and their advisers became seduced by the idea of hedge funds? So it's not just Joe Public that loses objective reason where investment is concerned.

The psychology of human misjudgement really does repay study. Our minds are just not wired in a way to take sensible decisions in relation to uncertainty and the future. A perfect example is commission to an "advisor" – there's no reason to think that the advice is objective, or even sometimes much use, but we don't think it through, preferring the feeling of comfort and reassurance. Really successful investors seem to be aware of these tendencies and to train themselves into habits of mind which lead to more objective and more disciplined analysis.

But back to analysing the big con… Intelligent investor (II) to fund manager (FM):

II: "Why should I put my money with you? You are going to charge ¾ % every year in the future, of which ¼% goes to the broker. Surely I'll be better off in an index tracker or ETF?"

FM: "You're paying for my investment expertise. You have to pay for performance – surely there's nothing wrong with that? Your broker's done the research and recommended me – look, he's authorised by the FSA and everything!"

II: "The broker hasn't actually told me he thinks you will outperform. What he's done is list the six of your funds which have outperformed in the last 18 months, just like that huge advert you have at some of the big stations in London. Nothing about the 20 funds which have underperformed. And, looking at it myself, I can't find any record of your 10-year performance anywhere! Why should ¼% of my savings be taken every year in the future to reward the broker for such rotten advice?"

FM: "We get almost all our business from brokers. We find that unless we give good commissions, we don't get the business. And, even if you were to come direct, we would have to charge the full ¾ %, because giving you cheaper terms by coming direct would annoy our brokers and they might stop recommending us altogether."

II: "Well, I'm not very impressed. I'll give you one last chance. Why should I pay so much to you, when a passive option is so much cheaper and logic suggests that it should outperform over time?"

FM: "Because I'm confident this fund really will outperform in the long term, enough to pay for the ¾ % per annum charges I levy, as well as the additional costs from turnover within the portfolio".

II: "Are you confident enough to only be paid anything if you really do outperform? I'm prepared to be

generous after the event, if you do well. No commission to any broker, either.

FM: "Well, er..."

There seem to be two "establishment" views in relation to fund management performance. The common academic view, which incorporates the theoretical world of the financial economists, is that investment markets are very competitive and too efficient to leave anything on the table after expenses. So any manager who outperforms is simply lucky.

The other view, which is believed by all those whose living is fund management, or fund manager selection, is that there are a few people out there who can and will outperform – the challenge is simply to find them, and it's worth paying lots for the service.

I believe the truth is somewhere between the two. There are indeed a few individuals with the right skills, application and mentality. In fact, I believe that a number of private investors do outperform over time. But the emphasis is on "over time". If you realise that a company is objectively worth much more than the current price, and if your judgement genuinely is better than that of the market, you can buy. It's a matter of waiting until the market finally realises, which can take quite a few years. In the meantime, the price can fall much further, in which case you have to be confident enough not to worry. But if someone's looking over your shoulder every few months, you could easily get sacked before the wisdom of your decisions is proved.

Solution? A genuine partnership: If the fund manager's proposition is that he will outperform, and that's the reason to invest with him, I believe it's quite simple to set out something that makes sense to the investor. But it's a long-term commitment on both sides. I've only ever found a couple of fund managers prepared even to consider the idea – read on and you'll see why. They have to be confident in their skills, to be wealthy enough already not to need fees now, and they also have to have the patience to get rich slowly with you, rather than quickly at your expense.

I call this idea the Active Management Partnership (AMP). Uniquely, the contract terms ensure a genuine identity of interest between investor and manager. No commission is paid to advisers. Those managers brave enough to offer this contract would attract huge sums and publicity, and might transform the UK's investment market. Their incentive to have a long-term ownership focus would also improve corporate governance.

AMP principles can be applied to any sort of brief. They could also apply to any sort of fund for holding the assets. This is a long-term relationship. The manager is paid 30% of outperformance and nothing else. There are no annual fees. To perform, the manager has to beat an agreed index after expenses. Any period of underperformance has to be completely made up before any profit commission is paid.

The investor commits for a minimum of eight years, as does the manager. Earlier withdrawal by the investor is possible; any accrued but unpaid performance charges at date of leaving would be levied together with a penalty equal to, say, 3%, plus 0.5% for each year remaining of the eight years.

The management places a meaningful proportion of its total wealth as investment in the fund. This ensures that there is no incentive to take cynical "punts" with investors' money in the hope of securing a large performance fee. Performance is assessed by comparing the fund with a notional fund invested in an agreed benchmark replicating the fund's actual tax position but assuming no other charges, dealing or otherwise. The comparison will first be made after three years from start-up, annually thereafter.

A profit commission, if positive, will be paid equal to 30% of the amount by which the value of the actual fund, marked to market, exceeds that of the notional fund. The manager must be in a financial position not to need remuneration; that is no problem for a large financial institution. Direct investment costs such as brokerage and custody are met from the fund, as is the cost of an independent performance-monitoring service.

This very simple arrangement makes it clear that the manager has every incentive to aim for long-term outperformance but, vitally, that he will not be penalised for short-term underperformance, as the

investors are locked in. But the manager is constrained in a number of ways as well, including having committed his own money, which he is never permitted to extract before the eight-year period, or when he ceases to be manager if later. Contract terms thus ensure an identity of interest between investor and manager. What more can intelligent savers and investors ask for?

The FCA's consultation on "A new consumer duty"

by Martin White

The number of consultations that keep coming out of the official world is as daunting as ever. This consultation, which requires us to respond by the end of July, is the FCA's response to demands that financial firms should "do better" in how they treat their customers.

Quoting from the FCA's summary document, in the section headed "Why we are proposing a new consumer duty", we have the following: *We know that due to the way that financial services markets operate, consumers don't always get the products and services that meet their needs or the outcomes they might reasonably expect. Consumers' ability to make good decisions can be impaired by various factors. These include their weaker bargaining position, asymmetries of information, lack of understanding or behavioural biases (as explained in the Consultation Paper (CP)). And firms may not always compete effectively to drive up quality and bring down costs in consumers' favour.*

These market conditions can be exploited by firms to consumers' detriment, and the negative impact on consumers and their ability to make good decisions can be exacerbated by their circumstances. For example, where consumers are using digital and online services, these can provide greater choice and convenience, but can also introduce complexity and risk.

Excellent! However, just as with the FCA's September 2020 document "Call for input: Consumer Investments", having pointed out the problems, this current document once again fails to bite the bullet. What consumers need is a way to judge correctly what are good value products and services and what are to be avoided at all costs. Sufficient transparency here would transform the market in the interests of consumers.

We will be working on a suitably hard-hitting response – if any members would like to make any suggestions we would be delighted to hear from you!

Tribute to a stockbroker

by Malcolm Hurlston

I would like to pay tribute to the finest stockbroker I ever dealt with anywhere in the world, Mark Tunmer, whose funeral took place in Harare on June 4.

Twenty years ago I decided to give my wife a Christmas present of shares in Zimbabwe-quoted Hippo Valley, the hippo being an animal which she particularly likes. I instructed Mark to buy 1,500, meaning shares. Misunderstanding he bought £1,500 worth - a significant difference. When I pointed out the mistake he immediately offered to reverse the transaction and cover any costs I'd incurred.

As luck would have it, the shares in Hippo Valley shot up in the meantime and Mark gave me the gain from the purchase as well as the shares from the correct order. There was enough profit to buy my wife diamond earrings in addition to the modest Hippo Valley holding which she still has. The firm, Imara, remains the country's leading stockbroker and an important influence in international relations.

Give shares to charity instead of money

by Mohammed Amin
MBE FRSA MA FCA AMCT CTA (Fellow)

Editor's note: although Amin is a member of UKSA's Policy Team, he is writing in a personal capacity.

UKSA members are of course shareholders, almost by definition! Many of us will give to charity. However, few of us are tax specialists.

As a tax specialist, I have known about the relief for giving shares to charity since it was first legislated. I used it for the first time in November 2000 when I gave some shares to the Manchester Grammar School Bursary Appeal and have used it subsequently for further gifts to Manchester Grammar School and Clare College Cambridge.

Despite that, I still come across individuals who don't know about the relief, or who are unfamiliar with the implications.

The attraction in giving shares to charity instead of cash is very simple. It avoids eventually suffering capital gains tax ("CGT") when you sell the shares.

If you would pay CGT on selling the shares, (1) below always gives a better answer than (2).

1. Giving the shares to charity.
2. Selling the shares, paying the resulting capital gains tax, and giving the remaining cash to charity.

How the tax rules work

It helps to look at the tax rules in stages.

Scenario 1 - Give cash to charity

If you are not a taxpayer, the tax implications are very simple.

1. You give £1 to charity.
2. You receive no tax relief, obviously, so you are £1 poorer.
3. The charity receives £1.

In the later calculations, I compute something which I call the "Benefit ratio." That is the amount of benefit the charity receives divided by the net of tax relief cost to you the donor.

Here the benefit ratio is very simple. £1 divided by £1 = 1.0

In this example, the donor does not give a Gift Aid certificate to the charity. When you are not a taxpayer, if you provide a gift aid certificate, HM Revenue and Customs will charge you tax equal to the Gift Aid refund received by the charity.

If you had given the charity a Gift Aid certificate, it would receive a 25p refund, but you would get a tax bill for 25p. Incidentally, the benefit ratio would still be 1.0, being £1.25/£1.25.

The figures become slightly more complicated when you are an income taxpayer. There are three different rates of income tax, 20% (paid by most people), 40% and 45%.

I have done the calculations for each case and recommend downloading the file "Scenario-1-cash-gift.pdf".

The calculations show what happens when you give £8,000 being someone who pays tax at 20%, 40% or 45%, computing both the net cost to you after tax relief and the amount received by the charity.

Obviously, the higher your tax rate, the greater the tax relief to you. That is the mirror image of the fact that if you earned an extra £100, the higher your tax rate the more tax you would pay.

The benefit ratio ranges from 1.25 for someone who pays tax at 20% up to 1.82 for someone who pays tax at 45%.

Scenario 2 – Sell shares, pay CGT, give the balance to charity

The calculations become more complicated if you own shares where there is an inherent capital gain; in other words, the market value of the shares is greater than your base cost.

Each person has an annual capital gains tax exemption; the figure for the tax year 2021-2022 is £12,300. However, I suspect most UKSA members are already using this exemption for other gains, so I ignore it in the calculations.

The amount of inherent capital gain will vary depending upon how much you paid for the shares and how much they are worth now. Obviously, the smaller the capital gain, the less capital gains tax you will pay.

To illustrate the figures, I have done some calculations in the file "Scenario-2-sell-shares-give-net-of-CGT-cash.pdf".

I assume that you have some shares worth £10,000 which cost you £2,000. For each income tax rate, I compute what happens when you sell the shares, pay the capital gains tax rising, and give the cash left over to charity.

The benefit ratios are lower in each case, being 1.06, 1.11 and 1.17.

They are lower because the CGT paid is "dead money." It is money that is lost to you but does not reach the charity, being paid to HM Revenue and Customs.

Scenario 3 – Give shares to charity

In this scenario, I assume that you own the same shares as in Scenario 2. They are worth £10,000 and cost you £2,000.

In this scenario you give the shares, as shares, to charity. Once the charity owns the shares, it will almost certainly sell them to get cash but that is up to the charity to decide.

Giving shares to charity has two important tax consequences:

1. No capital gains tax arises on the gift.
2. You receive a deduction from your taxable income equal to the market value of the gift.

Accordingly, people who pay income tax at 20%, 40% or 45% save income tax of £2,000, £4,000 or £4,500. The calculations are set out in the file "Scenario-3-give-shares.pdf"

The benefit ratios are 1.25, 1.67 and 1.82.

These are the identical benefit ratios to Scenario 1 where you give cash.

The key point is that there is no "dead money", since you are not paying any capital gains tax.

Why give shares rather than cash?

Having done the calculations, there is still a residual question. Assuming you have a reasonable amount of cash as well as owning shares, should you:

- Keep the shares and give cash?
- Keep the cash and give shares?

The reason you should give shares is very simple. You cannot spend shares!

Accordingly, for substantial gifts, I believe that it is always better for your personal cash flow planning to give shares.

Obviously, if you are giving a small amount of money such as £100, it is simply not worth the hassle of giving shares.

That applies even if you have more than enough cash for the next few years of spending. If you give £10,000 worth of shares to charity, you will have £10,000 worth of cash retained which otherwise you would have given to the charity instead.

If you invest at £10,000 buying some shares, those newly acquired shares have a base cost of £10,000. The shares you gave away, in our example, had a base cost of only £2,000. Accordingly, when you sell these new shares in the future, your capital gain will be £8,000 less than if you had kept the shares and given cash to charity.

In passing, if you do this, you need to be careful which replacement shares you buy, or when you buy them.

Buying back the identical shares within 30 days will not uplift your base cost due to some complicated anti-avoidance rules introduced to counter "bed and breakfast sales". These rules are explained here on the HMRC page "CG51560 - Share identification rules for capital gains tax from 6.4.2008: the 'same day' and 'bed and breakfast' identification rules".

The effect would be to treat you for CGT purposes as having given to charity the shares you bought afterwards within 30 days, and as having kept your original low-base-cost shareholding.

How easy is it to give shares to charity?

That depends upon the charity. Both Manchester Grammar School and Clare College Cambridge have sizeable investment portfolios, so they already have a firm of stockbrokers who can handle the transaction very easily.

In both cases, I simply completed some paperwork and the charity's stockbrokers liaised directly with mine to transfer the shares concerned to charity. Once the transfer was completed, I received a letter from the charity telling me the market value of the shares transferred. I put that figure onto my tax return to receive the associated income tax relief.

However, many charities do not have a stockbroker. Fortunately, there is a charity called ShareGift whose purpose is to facilitate giving shares to charity.

I first came across ShareGift about 20 years ago when they were mentioned in the magazine "Investors Chronicle" which I subscribe to. Investors are often left with small shareholdings which are inconvenient, and not particularly practical to sell. For example, either I or my wife had a shareholding where we had elected for scrip dividends. That means each time the company paid a dividend, instead of receiving a cash dividend we received a few more shares of value equivalent to the dividend.

We had sold the main shareholding and then received a few months later the scrip dividend, since there is often a reasonable delay between the date you become entitled to the scrip dividend and the date you receive it.

Having some shares worth about, say, £20 is a complete nuisance. Each year, you would receive a few pennies of annual dividends. If you sell the shares, about half of the sale proceeds would disappear in stockbroker's charges.

Instead, we gave away the shares to ShareGift. We had the satisfaction of knowing that charity would benefit by £20, we received tax relief on the £20, and there were no associated costs. In that case, although the £20 value goes to charity, we had no control over which charity it went to.

However, I recently discovered that for larger gifts (defined by ShareGift as being over £500), ShareGift allows you to nominate the charity that will receive the cash after ShareGift has sold the shares that you have given to ShareGift.

I intend to start using this facility for intermediate size donations where historically I have given cash.

UKSA & ShareSoc proposal for Capital Gains simplification

by Dean Buckner

Malcolm Howard (*The Private Investor*, Issue 211, April 2021, letters) writes about the problems he sees with the proposal described in Toby Keynes' article in The Private Investor, Issue 210, February 2021 about the joint UKSA & ShareSoc proposal for Capital Gains simplification.

Suppose we have a portfolio of ten shares, of which nine are doing well and a few are doing exceptionally well, but one is languishing and going nowhere. If we sell the languishing asset under the current rules, we pay no CGT (because it has languished, of course). But under this proposal, Malcolm argues we would now pay tax on the unrealised gains as all calculations would be based on the overall portfolio. In addition, he says he would be reliant on a third party to complete the calculation, thereby incurring administration costs.

The Policy Team discussed Malcolm's point.

The first, and most important point, is the proposed new investment account, the SISA, would be optional. Nobody would be forced to have a SISA, any more than they are forced to have an ISA.

Under the proposal, a new investment account, the SISA, would be created, with no limit on the amount that can be put into the account; CGT liability only arises when cash is removed from the account, based on capital growth within the account and the percentage of the account value being withdrawn. So, for example, if the amount withdrawn following sale of the languishing share is a tenth of the current value of the account, CGT is calculated based on a tenth of the capital growth that has accumulated within the account.

The account's capital growth is the difference between the base cost of the account and the current value of the account, just as it would be for a shareholding under existing CGT rules; and the base cost of the account is recalculated after cash is withdrawn, in the same way that the base cost of a shareholding changes under the existing CGT rules after a part of that shareholding has been sold. The full explanation is on pages 10 to 15 of the UKSA/ShareSoc submission.

However, the CGT calculation is only triggered if the cash is withdrawn from the SISA, and CGT will only be paid if the amounts withdrawn during a single tax year (plus any other amounts which are not within any other tax-privileged vehicle) are large enough for the applicable profits to breach the £12,300 CGT exempt amount, which would still apply.

So Malcolm is right if he wants to realise the value of underperforming investments as cash and use it to build a patio. But selling an investment from within the account and then reinvesting the resulting cash or retaining that cash within the account would not result in any CGT liability whatsoever.

In terms of managing tax liability, the Policy Team think that being able to rebalance the portfolio without incurring liability is a significant benefit. That is why, if the SISA existed, the members of the Policy Team would probably use it.

However, as Malcolm subsequently pointed out by email, an ISA gives significant further tax benefits such as exemption from dividend tax. So anyone wishing to move assets from the SISA to the ISA (up to the ISA subscription limit of £20,000) would want to be careful that the capital gains calculation for withdrawals from the SISA did not raise their total capital gains figure for the year over £12,300 and incur CGT as a result. While this is true, anyone engaging in share transactions should always think about the tax implications.

Dividend update

by Dean Buckner

In the June 2020 edition of TPI I discussed the dramatic dividends cuts that we had seen in the wake of the Covid crisis, when 46% of FTSE 100 companies either cut or suspended dividends. Notwithstanding, I said: "I have full confidence in the investment strategy I began when I started investing in 2000, inspired by the seminal work of Nobel laureate Robert Shiller, Professor of Economics at Yale University, which depends on the assumption that, over the long term, dividend income is more stable than fluctuations in stock value would suggest."

My confidence was not misplaced. The table below shows the quarterly dividend income from my FTSE 100 portfolio, with the June 2019 dividend indexed to £100.0. I would have expected roughly the same £100.0 in June 2020, but as you see the collapse was dramatic, to £38.1, i.e. with the income from the June dividend, normally the biggest of the year, cut by nearly 62%. Not pretty.

Quarter	Actual	Expected
Jun-19	£100.0	
Sep-19	£73.9	
Dec-19	£36.7	
Mar-20	£27.4	
Jun-20	£38.1	£100.0
Sep-20	£43.9	£73.9
Dec-20	£26.1	£36.7
Mar-21	£29.4	£27.4
Jun-21	£69.4	£100.0

Table: dividend income, June 2019 = £100

I waited anxiously for the June results, and there is bad news and good news. The bad news – see the table – is that June income is £69.4, still down on the £100.0 that I would have expected in a normal year. The good news is that it is well up from the £38.1 of June 2020. Thus dividends are recovering more quickly than in the 1930s, when it took 10 years (and the advent of a world war) for them to get back to 1920s levels.

But, as Shiller says, over the long term dividend income is more stable than fluctuations. Sometimes the long term can be very long, as in the 1930s; sometimes it can be shorter, as hopefully will happen if the current crisis resolves. In either case, as Cliff Weight has said, you should not be wholly dependent on income from investments. "You should have a sufficient cash buffer so that if the worst does happen then you're not financially destroyed."

Nor should you be wholly dependent on fixed-income investments like bonds or pensions. With the massive government borrowing needed to finance the crisis, all the talk is of the possibility of raging inflation. We shall see, but one of the proven advantages of equity investments is protection against inflation, which I shall discuss in a later article.

Cross-border voting - Calling members in Ireland

Better Finance, the pan-European body of which we are a member, is conducting a survey on cross-border voting. The Shareholder Rights Directive II, which, despite Brexit, has been transposed into UK law as the Companies (Shareholders' Rights to Voting Confirmations) Regulations 2020, was intended in part to facilitate cross-border voting, but shareholders are finding that many barriers remain. (This is pertinent particularly for members in the Republic of Ireland, who remain EU citizens.)

If you have cross-border holdings in Europe and would like to express a view, please complete the Better Finance survey here.

Avoiding Scams

by Sue Milton

We are all aware of the increasing number of scams. How can you tell fake from real? With increasing difficulty. Here are my basic, personal, due diligence checks.

1. I have been offered an opportunity to invest by a financial services provider.

To check I am not about to be scammed by a new investment I am interested in, I check the FCA's ScamSmart site How to avoid investment scams | FCA. It acts as sanity check for any misplaced enthusiasm on my part, and enables me to verify what my contact claims to be, that the organisation s/he represents is authorised by the FCA for the activities it does, and to check the firm I am talking to is not a clone of a genuine one.

2. Checking information about a company I want to invest in.

Companies House is a useful source of information to check the basics about what a company says on its website with what is filed at Companies House Companies House - GOV.UK (www.gov.uk). This helps identify a clone from the genuine.

3. I appear to owe or be due a tax refund.

There are many scam HMRC emails and texts for additional tax payments or refunds. I make sure I understand my tax position. I can then assess if any contact from HMRC is likely to be genuine or not. I also like to check how any significant change to my investments affects my tax position. Home | IFS Taxlab is a site that explains things in plain English. I use it to check what the various tax bands are, what tax benefits decrease or fall away if other income streams increase. Bizarrely, in my opinion, because it is a tax on income gained, there is no obvious mention of Capital Gains Tax, so this Capital Gains Tax - GOV.UK (www.gov.uk) site is useful.

Please note that these actions reduce but never fully mitigate the risk of being scammed. Scammers are very persistent. But I hope the chances of our banks helping us getting money back will increase if we show we did things in proven good faith.

John Kay

John Kay has posted another seminal essay on the future of the corporation in Prospect Magazine.

Its concluding paragraphs are food for thought for all of us:

It is time to finally end the era defined by Milton Friedman's assertion that "the social responsibility of business is to maximise its profits", in which executives were urged exclusively to pursue the maximisation of "shareholder value" (as if anyone knew how to do that in a radically uncertain world). The Friedman doctrine was always a dangerously misleading caricature of how businesses worked and thrived, but it's doubly so in a world where the deepest roots of success lie in a strong collective commitment to solving important problems.

Business has lost political legitimacy and public trust by pandering to an account of itself that is both repulsive and false. The corporation is necessarily a social institution, its success the product of the relationships among its stakeholders and its role in the society within which it operates. Whether "public" or "private", the fundamental shift needed is to recognise that modern role of business.

A reminder why our Northern Rock Campaign continues to claim back shareholder rights

by Bill Brown

In the last issue of this Magazine I summarized the current Northern Rock situation. That article dealt principally with the background to the case, but this time, I feel, in view of the recent local authority election results, that some further comment is appropriate.

Boris Johnson, Prime Minister, commented on the election results in the following manner: *"Results show that people want a Government focused on them"*.

Since 2010 we have had firstly a coalition government of the Conservative Party and the Liberal Democrats, Conservatives being very much in the majority. That was followed by three Conservative Party governments with three different leaders.

Immediately before Boris Johnson we had Theresa May as Prime Minister. In her inauguration speech she said: *"The Government I lead will be driven not by the interests of the privileged few, but by yours."*

"We will do everything we can to give you more control over your lives. When we take the big calls, we'll think not of the powerful, but you. When we pass new laws, we'll listen not to the mighty but to you ---------''.

David Cameron may have used somewhat similar rhetoric, but I have not traced it.

We live in a democratic society.

Democracy is defined as a political system that allows the citizens to participate in political decision-making, or to elect representatives to government. Democracy involves inverting the long-standing idea that the ruler's job is to govern, and the people's role is to obey. In words that are often attributed to Abraham Lincoln, democracy is government of the people, by the people, for the people.

"Democracy allows all citizens to participate in political decision-making." In the UK it does so through the Freedom of Information Act 2000, which gives any adult citizen a right of access to information from any public authority and that authority is then required to provide it, if held.

The Act applies to UK Asset Resolution, a government-owned holding company, but does not apply to its subsidiary NRAM, which is specifically exempted from the provisions of the Act on the basis that NRAM was a company governed by its own Executive Officers and its own Board of Directors operating at "arms length" from the government. As a result, the only information available is that contained in the annual accounts, including a balance sheet which only provides a "snapshot" of NRAM on a specific day. Many of the events that happen during each year are therefore opaque and not public knowledge.

When I was writing my book in 2008 about the Financial Crisis, *"Decline and Fall of Banking"*, I encountered numerous instances of rhetoric, from politicians, chief executives and directors of banks, which I paraphrased as falling into the category of "I say, therefore it must be so". In other words, they made statements, generally positive in nature, which did not reflect the true situation.

So, are they just rhetoric, or can we trust in the statements of politicians as related above.

We all know that loans from the Bank of England were made to Northern Rock as LOLR loans. The sums

were quite small, up to £3 billion initially but increasing over the ensuing months to a total of £26.8 billion, although the Bank of England recognized that the total could be upwards of £40 billion if necessary, a sum for which Northern Rock had sufficient assets to provide satisfactory security to the Bank.

However, to enable it to be in a position (vis-à-vis the EU) to categorise the loans as "State Aid", the UK Labour Government on 28 August 2008 had the loans "novated" to it. That is an interesting description of the transfer.

Webster's US dictionary defines "novated" as "the replacement of one legal agreement by a new obligation, with the agreement of all the parties". By way of example, on financial exchanges using a clearing house, transactions between members are novated so that matching contracts are created between the buyer and the clearing house and between the clearing house and the seller. Novation is an expression limited to financial transactions in the USA.

According to the Oxford English dictionary, there is no exact match for "novated" in English.

It appears to follow, therefore, that the use of "novated" can be attributed to the US advisers to HM Treasury, Goldman Sachs. HM Treasury appears not to have initiated this transfer of its own volition.

Why was HM Treasury recommended to "novate" the Bank of England LOLR loans? There can only be one answer: Goldman Sachs had determined that in late 2007 Northern Rock had an excess of £2.8 billion of assets over liabilities. In other words, it had equity (shareholder's funds) of that amount and it was therefore likely that a positive outcome would arise from an administration of Northern Rock.

It follows that "taxpayers' funds" were not used to "bail out" Northern Rock. It was never "bankrupt" and the use of Bank of England LOLR loans was a legitimate way of resolving its liquidity shortage.

A question that has to be asked is why the Bank of England LOLR loans were, nearly seven months after nationalisation, "*novated to*" HM Treasury, i.e. the loans, by that time reduced to £15 billion and forecast to be no more than £8.9 billion by the end of 2008, were acquired by HM Treasury. In other words, HMT acquired a bank with gross assets exceeding £100 billion at no cost because no payment by way of compensation was paid for the ordinary shares owned by shareholders. Their shares were erroneously declared to be valueless notwithstanding that Goldman Sachs had attributed to them a value of £2.8 billion for the purpose of attracting take-over bids.

In 2008 the ordinary shareholders had their shares acquired by a Labour Party government with an undertaking that the question of compensation would subsequently be considered by an independent valuer (but one chosen and appointed by the Chancellor of the Exchequer).

It was conceivable that all the loans assumed by the government could have been repaid no later than early 2011. However, there have since been four consecutive Conservative governments that have kept nationalisation in place, notwithstanding that 167 Conservative Party MPs voted against nationalisation and despite the fact that the Labour government in 2007/9 only intended "a temporary nationalisation" leading to a return of Northern Rock (possibly smaller) to its former status as a publicly owned bank.

Now, thirteen years later, Northern Rock (what little is left of it) has been sold off piecemeal by successive Conservative governments at what is believed to be a profit of £7.8 billion.

Here is an Extract from the minutes of a Bank of England meeting held on 10 October2007 (but not published until 2014): "The authorities needed to create leverage over the shareholders in order to achieve a resolution in the absence of the special regime. Nationalisation was an option to deal with shareholders---------" "It was pointed out that while it was true that nationalisation did not itself solve the company's problems, it did open up another option. It would enable a fresh bidding

process without the shareholders and with the Goldman Sachs financing option on the table."

"In discussion, it was noted that nationalisation only dealt with the legal position of Northern Rock's shareholders, nothing more".

It was the frequently repeated intention of government that the loan funds due to the government would be repaid as soon as possible. HM Treasury (presumably guided by Goldman Sachs) changed that policy in 2010 to one that slowed repayment in favour of unsuccessfully stimulating the UK mortgage market.

For that purpose, it lent a further £8.5 billion to NRAM, notwithstanding that a condition of NRAM's creation was that it would not engage in new business. Why, therefore, was this additional loan (for which NRAM had sole liability for repayment) made to NRAM? NRAM derived no benefit and could make no use of it, although it was obliged to repay it together with the interest cost.

Review of UKSA and Signet Northern Investors Group meeting, June 2021

by Sue Milton and John Hunter

The third of our joint initiatives with Signet and the UKSA Northern region, under Julian Mole, was held on 19 June. It was a free-form discussion but, to focus our minds, two subjects were suggested – FIRE and HMN. FIRE is an acronym for 'Financial Independence, Retire Early', a movement that began in the US (Early Retirement & Financial Independence Community (early-retirement.org)) and is now gaining traction here (see Reddit Financial Independence / Retire Early (reddit.com)). HMN stands for UKSA's financial education website HonestMoneyNow (Financial Education Made Easy | Investing is Simple (honestmoneynow.co.uk).

The meeting was expertly and sympathetically chaired by Danny Wallace of Signet and was full of fascinating stuff. It went on for two and a half hours – an hour longer than the advertised one-and-a-half.

John Hunter introduced HMN. It was conceived fifteen years ago as a corrective to the savings wisdom of the time, which was to concentrate on securing a fixed income at a fixed retirement date – secured by the lucky ones through a company pension and by the less lucky ones through a package of expensive intermediation of advice and financial products. The HMN message was (and is) that ordinarily intelligent people can manage their own financial affairs provided they understand a few key fundamentals of the markets; that these are not necessarily those things promoted by market participants; and that financial management is a continuous process to meet personal goals, not something for which you can buy a one-stop bullet solution.

A free-form discussion followed, with some excellent exchanges of experiences. Everyone should make themselves a financial and retirement plan, being a guide for short- and long-term savings strategies, 'savings' to be taken in the widest sense, covering all types of investment from deposit accounts to shareholding. The plan will need reviewing and adapting over time.

The underlying consensus was that saving for a pension should start as early as possible. By default, we think occupational pensions as being the default/only option but there are others. Our discussion covered the merits of a SASS (pensions that are independently managed by the company providing the pension scheme) and of a SIPP (a 'do-it-yourself' pension for individuals to manage themselves), and the

ease of setting up equity ISAs. For readers of TPI, April's edition (https://www.uksa.org.uk/sites/default/files/upload/2021-04/TPI-211.pdf) contains a good piece on Lifetime ISAs, which offer free money from the government.

People also need to be aware of the tax advantages and disadvantages for each product and the individual and collective values of each. Many are unaware of the lifetime allowance restriction on the amount of pension savings that a person may build up in a tax-favoured environment (currently £1,073,100) and the consequences when benefits are taken from a personal or workplace pension.

The usual question was raised as to why self-education on personal financial management is so daunting for so many. We are aware of the benefits and risks of going to a financial adviser. You get introduced to products and – if you chat to several financial advisers in turn – do get an understanding of what is available and the charges attached to the service underlying the product. But you also come away with a feeling that it is difficult to compare products because of the nuances attached to each product and each price tag. Another problem we had all observed is that many people do not understand the impact of one-off and cumulative charges. Charges are quoted in small percentages, beguiling many into thinking a product is 'cheap'. But, on long-term products these could amount to many thousands of pounds that, if retained, would have earned more income. A double whammy of opportunity costs.

The merits of managed funds were discussed. For some, diversification is important and so a mixture of self-managed investments and managed funds provides a balance between knowledge, access to wider information and time to manage investments. Others believe that if there is a general lack of interest, experience or confidence, then paying for fund management is acceptable.

A way of having the advantages whilst reducing the disadvantages is to use a retail investor platform, such as Vanguard. But start by buying a share in a single company. It is a good way to get a feel for how equity investments and investment platforms work.

The general conclusion was that informed choice was the ideal we needed to achieve.

We also discussed how UKSA, with its collective experience and talent, could attract younger people. UKSA was founded nearly forty years ago and some founders are still members. UKSA and its membership have grown up together. We now need to find the equivalent of what made UKSA attractive to us then to make membership attractive to Millennials, Gen X and Z.

We were lucky to have a Millennial at the meeting. She provided some useful insights in how younger generations approach investing. Some key points:

- Most Millennials get their financial advice from social media and peer groups;
- Whilst young and single, there is minimal harm in taking big risks. The rewards can be large to set one up for life. Even if large losses are made, there is plenty of time to recover;
- The trick is to sense the correct time to set some of those gains aside for the long-term or rainy day fund. Not covered in this meeting, but those of us who attended May's Midlands and Southwest Sharetalk meeting will remember that our speaker, Sami Loyal, shared his personal experience of making a big win in crypto investments as a teenager that allowed him to invest in a home and make his family financially secure.
- Younger people are likely to work for many employers or be self-employed across the globe (as compared with the 'career for life' a lot of baby boomers had). Therefore products need to be global. For example, was it possible to continue managing equity ISAs when living and working outside of the UK?
- UKSA should have a LinkedIn presence. Young professionals exchange ideas there – the serious chat. Twitter is not something they would look to for advice.

The conclusion must be that UKSA's message – particularly that delivered by 'Savers Take Control' –

applies as much to young people as to old. Membership of UKSA would be a birthday gift to help children and grandchildren on the right path. It's also worth recalling that joint membership applies to two people living at the same address (both home and email) – so it can be across generations.

The next UKSA and Signet Northern Investors Group meeting is planned for 24th July 2021, 10:30am.

Capital gains tax simplification

Second report (part I)

by Roy Colbran

The joint evidence of UKSA and ShareSoc to the OTS (Office of Tax Simplification) noted the complexities and difficulties of making CGT calculations. Reading the second report[1] on the subject one sees how strongly this comment was justified. In fact the report opens by telling us that people have limited understanding of the tax and of the reporting and paying obligations. Part of the reason for this is that relatively few people are affected each year and those that are affected are only affected infrequently. Over 11 years 70% of the 1.5 million payers paid only once. But each year nearly twice as many people as actually paid the tax had to submit a return.

With no indication of action following the first report, we have no idea when or if any of the many recommendations will be adopted. Nevertheless, one great value of the latest report is that it brings together in one place a consolidated guide to the current system. Many of the details came as a surprise to me and so may do so to our readers. Accordingly, I will concentrate on them in this article and touch only lightly on the recommendations. In this first part I will deal with general administrative matters and those relating to sale of property. The rest of the report covers a number of other issues and I will cover some of those in the next edition.

The report tells us that, because of the complexities and lack of knowledge, many people liable for CGT feel obliged to have an adviser. Moreover, it is not a tax which only applies to people with high incomes; half of those who paid were people who otherwise paid either no tax or only the basic rate. Also, while capital losses have to be reported within four tax years if they are to be available in subsequent years, HMRC have no system of allowing for them in later tax computations unless the client or their agent claims them. This means that it is very easy for them to be overlooked and lost if the adviser is changed.

Capital disposals can be reported to HMRC in several different ways described in some detail in the paper. Those liable to pay tax under the 30-day rule (see below) who, because of other income have to complete a self-assessment return, will have to report the same gain twice (although only paying once). For some reason the relevant date for including a property disposal in a self-assessment return is the date of exchange, whereas the 30-day rule is tied to the date of completion.

There is very little in the report about individual shareholdings. The only thing that really concerned the OTS was where an individual had more than one portfolio of shares with different managers. If the same share was held in more than one such portfolio, there was likely to be difficulty on a sale of establishing the average price across all the portfolios. This is what the law currently requires, since the base cost always has to be determined on the average of all the different purchases. They suggest that the rules should be changed to allow a pooled price to be used for each portfolio separately.

[1] Capital Gains Tax – second report: Simplifying practical, technical and administrative issues

Sales of property

The OTS devote several pages to the new 30-day limit for reporting and paying the tax when any CGT is due on a property sale. This is said to have been the brainchild of George Osborne as a way of raising more revenue, at least in the first year, although implementation was deferred until the tax year 2020-21. When the relevant Finance Bill was being debated the official justification was that it brought CGT into line with income tax, which is paid more or less at the time the income is received. Also it meant that payment would be made when funds were available. All this ignored the practical difficulties of compliance which are explained fully within the OTS report. Within the 30-day period following the sale the taxpayer has to find (i) the price paid plus expenses (or the value when received as a gift or bequest) (ii) the cost of any allowable enhancements, (iii) details of any offsetting losses from earlier years, and (iv) any element of Private Residence Relief allowable. They also need to estimate their likely income for the current year to determine the rate of tax applicable. Furthermore they have to have a Government Gateway user ID and, even if an authorisation for an agent exists for other taxes, set up a new one since the existing one does not carry over. All this must be done in time to make payment within 30 days. This did not stop two-thirds of those reporting in the first nine months of the new rule from complying and some of those who did not may have been helped by HMRC's extended deadline of 31 July for the first three months. But only when the self-assessment returns are complete for the tax year (which will not be until 31 January 2022) will it be known how many have missed the deadline through ignorance or otherwise and are liable for interest and possibly penalties.

In the last full year for which returns are available, 85,000 people paid tax on sales of property, representing about one-third of all the payers of CGT. In the first year the 30-day rule was estimated to produce £935 million, but obviously much less in subsequent years. The OTS avoids any criticism of the introduction of such an unrealistic deadline merely suggesting that 30 days might be extended to 60 and even then feeling it necessary to point out that this would cost £105 million in the current tax year.

The chapter on Main Homes opens with the statement that Private Residence Relief costs the Exchequer £25 billion in a tax year. This raised my hackles immediately since they were in effect saying that all your money belongs to the Treasury but by concession you are allowed to keep some of it. It shows that despite being allegedly independent of HMRC (but sharing the same address as the Treasury), the staff are imbued with Treasury think. And if PRR were to be abolished surely there would have to be rollover relief. Stamp Duty is enough of a deterrent to moving house without a CGT burden on top.

PRR is subject to quite complicated rules about long-term absence from home and how as a result only partial relief may be available. Anyone away from home for an extended period would do well to study the report and see what lengths of period are allowed in various situations. The OTS point out one curious anomaly whereby a person away for employment outside the UK is allowed unlimited absence whereas if the employment is in the UK, or if they are self-employed anywhere, only four years are allowed.

Another surprising instance is where a home owner builds a smaller property in their large garden and moves into it. When selling the smaller property they will only get PRR for the proportion of the time since they moved into it. Of course, if they stay in the property until death the potential CGT liability will be wiped out (although possibly not if the Chancellor gets round to taking action on the first report).

The relatively unusual situation of a plot exceeding 0.5 ha (or less with a smaller garden with land attached) is said to be a common source of disagreement between HMRC and taxpayers. This is not surprising given that (i) the taxpayer may be arguing that more than 0.5 ha is needed for the enjoyment of the property given its nature and (ii) will have to agree the apportionment of both purchase and sale prices between permitted and non-permitted part. HMRC's internal manual instructs inspectors not to lift a finger in such cases without consulting the District Valuer. Again, under the current rules, all this has to be done within the 30-day period.

Second homeowners, of which we are told there about 1.4 million in the UK, will enjoy PRR on only one of their properties, the main residence (although cohabiting couples who are not married or in a civil partnership can each have one!) In many cases the one which is the main residence will be obvious. However, the report reminds us that there is a system whereby the taxpayer can nominate either as the main residence thus giving the opportunity to choose the one most likely to be tax effective. For example if the more valuable residence is likely to be retained until death, it could be advantageous to nominate the second home. Another reason would be where the homeowner spends, maybe because of working away from home, more time in rented accommodation than in the main home. In that case, without a nomination, it is said to be possible for the rented home to become the main residence despite the fact that there is no possibility of the taxpayer selling it. A nomination must be made within two years of the acquisition of the new home and may be amended at any time. There is no set procedure for making the nomination – a simple letter to HMRC is enough. Of the individuals who responded to the OTS's survey only one-third of those who had second homes had made a nomination, maybe indicating a lack of knowledge of the possibility.

With the increased trend to working from home, readers may be reassured that it is only where any part of the home is used exclusively for business purposes that PRR is lost on that part. So long as it is occasionally used for a non-business or personal purpose it would still be entirely covered by the relief. Shared occupation is likely to result in some loss of relief but taking in a lodger who lives as a member of the family, sharing their accommodation and taking meals with them means that relief is not restricted. The OTS note that the rule about taking meals with the family is over 40 years old and they consider it out of date. However, they note that HMRC is pragmatic and flexible in applying this rule.

Author's note:

For anyone directly affected by the requirement to pay CGT, this short article can be no substitute for reading the full report or either the general guidance available on the Gov.uk website or even HMRC's internal manual. I hope that it will be of some assistance in helping our members to avoid possible pitfalls.

In the next edition of The Private Investor I will try to cover possibly relevant information from the rest of the report including chattels (Tangible Movable Assets) and Divorce and Separation.

A cautionary tale

by Nigel Dewar Gibb

Editor's note: We are grateful to Nigel for reprising and updating a previous article for The Private Investor. It gives us an opportunuty to take a long view of the issues faced by individual investors.

This message should serve as a warning. It concerns the way people handle their Stock Exchange investments upon which, in many cases, their livelihood depends.

There are many ways of dealing with these investments. Through execution-only brokers or the Internet one can handle them direct, holding one's own certificates, receiving dividends at home and listing these for tax purposes and buying and selling shares as and when one chooses. This method will involve the calculation of any capital gains tax and making an annual return to one's accountant or straight to the Inland Revenue. All of which is time consuming and demands a degree of understanding and knowledge.

This method does not appeal to everyone and many seek professional help. Stockbrokers, accountancy firms or legal firms will be able to provide all or part of the necessary services with expertise, although this will naturally involve an annual fee. Outside assistance of this type will save a lot of the investor's

time and relieve him or her of some of the responsibility for accuracy and the requirements of the Revenue. If the investments involved are numerous or indeed the holder is inexperienced, elderly, or otherwise unable to attend to the required tasks, either on their own or even with professional help, they may consider handing over the whole portfolio to one of the many firms of asset managers.

These firms offer an entirely comprehensive service. The investments will be safely held in CREST (the secure system for paperless Stock Exchange investments) or at least a nominee company and the asset manager will be responsible for lodging purchases in the appropriate custody and withdrawing sale records for delivery to the purchaser. There will be a substantial contract to sign before this arrangement can be confirmed with many clauses that will need to be read and understood. The manager will also have to know what the client's aims are – security, low, medium or high risks for any investments made and whether income or capital growth is the main objective for the holdings. There will almost certainly then be something that investors should consider very, very carefully – they will be asked to sign a form giving the managers "discretion".

This, in itself, seems harmless on the assumption of professional codes of practice, and a choice that reassures the investor that the manager can see to all the affairs without any consultation. The investor can safely have peace of mind at home or away, with the manager taking all the necessary decisions on the investor's behalf. He will gather dividends, respond to any company events, takeovers, mergers or the like, send regular reports and, at the end of each fiscal year, present either the client or the appointed accountant or adviser with a consolidated report of activities the Revenue requires to know.

What a relief this will appear to be. The investor thinks that the portfolio will be best protected against the occasional but regular downturns in the market as a whole and that the portfolio will make steady progress to stabilise at the very least or hopefully make gains that would have been beyond the capabilities of the individual. It seems obvious; appoint skilled investment managers to handle one's affairs completely untrammelled by discussion and doubts. This will incur substantial annual charges. An example would be 0.75% on the first £500,000, this fee decreasing slightly as the values increase. This works out at £3,750 per annum on £500,000 - plus charges for dealing at the Manager's discretion. Fees for handling PEPs and ISAs are standard at 1.25% on the total value for each. Normally, asset managers will have a limit on value below which they will not accept a client. This is likely to be £100,000.

The investor will probably receive quarterly or half-yearly statements, which may run to well over thirty pages, showing every conceivable detail of what has happened over the preceding four or six months, with a market analysis outlining how various worldwide markets have performed and forecasts as to the likely outlook. These will be lengthy and comprehensive and will most probably cause most people's eyes to glaze over within the first few paragraphs.

The impressive reports will have the holdings set out in great detail with reference to their base prices and gains and losses. There will be a stock movement section showing purchases and sales within the period and any other changes in the holdings. There will be a transactions section with cash movements and summaries of interest and dividends received and a foreign income schedule. Then with the year-end report there will be a subsidiary tax certificate of UK and overseas holdings. There will alsao be capital gains tax computations, if this is a year-end report, with analysis and taper calculations, and capital issues and purchase schedule. Remember all this will be repeated for PEP and ISA holdings.

Somewhere will be the almost casual mention of management fees deducted for the discretionary activities and also management.fees for the PEPs and ISAs, according to the agreement signed. The investor will not receive an invoice or be required to write a cheque for the fees. The amounts will simply be deducted from funds held by the managers and will naturally seem painless and may even escape notice. In addition, there are commissions and other charges payable on the frequent sales and purchases and there is no control over the number of transactions or charges.

Management fees are based on a percentage of the capital value of the portfolio at the time of each

quarterly or half-yearly valuation. If the market is booming, fees will be higher than when values are low, but either way the fees will be deducted irrespective of the actual performance of the manager in good or bad times. The portfolio will move with the general market, rising in boom times and falling in a crash. To expect anything else would be to credit a manager with foresight as yet unknown.

The portfolio may also feature various unit trust holdings rather than direct equities. What is wrong with that? Nothing, except that the portfolio is now being double managed. The unit trust managers extract fees for their management and the asset manager, too, is paid for his services on behalf of the investor. Double costs, and hedge funds are even more expensive.

Make no mistake; managers will take full credit for their expert management in any good quarterly or half-yearly performance while hiding behind market weakness when results are poor. The innocent and relaxed investor, whose eye is now off the ball trusting his manager, will go along with these findings and management fees will continue to be deducted. The manager will contact the investor to discuss the portfolio and the market in general. At this point it should be remembered that sentiment, world events such as the Twin Towers, world oil prices, inflation, threat of war, threat of or actual natural disasters, tsunamis, earthquakes, major volcanic activity in the wrong area, political threats, elections and many other factors all can, and do, affect share price movements and consequently the overall value of any portfolio. There is no fund manager in the world that can sensibly run a portfolio through thick and thin any better than an intelligent, worldly, well-informed individual.

Any investor considering tying up with an asset manager would be well advised to consider these points carefully before finally taking the decision. Read the proposed contract, calculate the costs as they will impact on the portfolio and ask some very searching questions.

To sever an arrangement with an asset manager, a substantial sum running into thousands of pounds may be necessary to break the bonds and transfer the investor's securities out of the hands of the asset manager.

Every newspaper offers investment advice and there are many, many books to help the uninitiated. One can also log on to any company's website where the investor will find a complete picture of the company with the latest figures, history, products and activities, details of the Board of Directors, in short a complete package of information to assist in decision-making. There are also financial websites offering various facilities like portfolio maintenance and valuation on a constantly updated basis.

Investments can be under your own control, working with CREST and through an appointed, good, traditional, advisory and dealing stockbroker who will help you with purchases and sales and also discuss your general needs and views on only minimum stock holding costs (approximately £10 per stock per annum) and dealing charges. It is quite possible that a portfolio of carefully chosen Blue Chips (quality equities) and Gilts (government stocks) and similar investments, purchased in consultation with a reputable stockbroker, left to mature and grow with the market, as history has shown, could usually outperform a portfolio in the hands of an asset manager.

Thousands of pounds in management fees and huge accrual of commission charges would be saved for the private investor.

2021 update

My previous article about asset managers was written 14 years ago. Since then there have been some major changes, not many beneficial to the private investor, and in reality little changed from my previous conclusions. The first noticeable change is the dropping of the word asset: they are usually now wealth managers. Experience will show that the wealth in question refers to the partners/directors' financial benefits from the change. More and more good stockbroking firms are surrendering their independence and submitting to takeovers. This is good for the firm's partners/directors, who gain massively in personal wealth, in one case a little short of £20 million per partner. But it is depressing and expensive in its effect on their clients. The client will continue to have contact with the partner who

he or she previously dealt with, but the background arrangements will be quite different. Justification for agreeing to the takeover will be made on the grounds of the cost of increased bureaucratic regulations and the need for enhanced research departments. The first is understandable but the second reason is highly questionable. My wife and I analysed the costs involved and found that these costs represented a very significant percentage of our annual budget and, calculated on a daily basis, it was simply a cost which we could afford, but decided that it was never justified. These costs are published, but are deep in the quarterly valuations. To make the arrangement seem more attractive, dealing charges may be waived, probably to avoid accusations of "churning", but the management charges will no doubt increase to cover this.

Reviewing two portfolios after our experience, we found that the majority of our profitable holdings were actually self-chosen and the recommendations from the much-vaunted research department were either losing money or stagnant. There were certainly no out-and-out winners.

Having now left this wealth manager and migrated to a preferable, more normal firm after due research, the transfer has, at the time of writing, taken nearly three months and as a parting gift we have just received four massive portfolio valuations providing us with information which is both convoluted and almost unintelligible to any inexperienced lay person. As a former stockbroker I found the content sufficient but one had to dig to understand each page and they were of little value. The wealth manager with whom we have now happily severed our relationship has, over the two years we were clients, made mistakes so numerous it is not worth detailing and latterly committed what is in fact an unbelievable series of actions that even the most junior member of staff should have avoided.

Again, my firm conclusion, based on personal experience, is that one should avoid committing to asset or wealth managers at all costs: there are preferable and much cheaper methods of successful portfolio management.

Published by United Kingdom Shareholders' Association Limited (UKSA)

Registered in England no. 4541415

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CURRENT UKSA EVENTS

Company meetings

UKSA has a programme of online meetings.
Details of every event are e-mailed to members.

Meetings of UKSA Croydon & Purley Group

Location	Spread Eagle, High Street, Croydon CRO 1QD Meeting dates will appear here. Chairman: Harry Braund harrycb@gmail.com

UKSA BRANCHES – If no contact name or number is given, please contact UKSA office

Branch name	Leader	Administration	Main purpose	Description
London & South East Region	Harry Braund 020 8680 5872 harrycb@ gmail.com	Andrew Girvan 020 8788 1665 agirvan247@btinternet.com	To co-ordinate activities in London and the South-East	Meetings in Croydon three times a year
London company visits	Nick Steiner	Individual meeting organisers	To arrange private meetings with companies	20/30 meetings per year individually arranged
Croydon & Purley	Harry Braund 020 8680 5872 harrycb@gmail.com	Tony Birks 01322 669120 ahbirks@btinternet.com	Social meetings to discuss investment issues	Meetings in Croydon monthly
South West	Peter Wilson 01453 834486 07712 591032	Peter Wilson 01453 834486 07712 591032	To arrange and develop activities for members in the region	Company visits and social events as arranged
North East	Brian Peart 01388 488419	Julian Mole 07870 890973 julian.mole@ btinternet.com	To arrange and develop activities for members in the region	Company visits and social events as arranged
North West	Julian Mole 07870 890973 julian.mole@ btinternet.com	Julian Mole 07870 890973 julian.mole@ btinternet.com	To arrange and develop activities for members in the region	Company visits and social events as arranged
SmartCo	Charles Breese	Charles Breese	Arranging access to 'Smart Companies'	Programme awaiting start-up
Northern Rock Small Shareholders Action Group	Dennis Grainger nrssag@uksa.org.uk	Dennis Grainger nrssag@uksa.org.uk	Pursuing compensation for small shareholders affected by NR's collapse	Lobbying and awareness-raising activities