

RMC Financial Services

Newsletter

January 2020

2019 in the rear mirror

After a very turbulent downward market trend in December 2018, the US market fell 7% in that month, equity markets delivered a very strong return for investors in 2019. World market indices were up 26.9% last year, extending the record bull market run that began in March 2009. See chart below for different regions/indices. As we predicted last year Irish markets produced the strongest performance. So while investors have every reason to toast the end of a very good year and decade, it makes sense to adopt a cautious, diversified approach in 2020, especially if you think you'll need access to funds in the short to medium term.



12 months equity performance 2019

Stock Indices	December 2019	December 2018	% change	% change year € terms	% change 5 years € terms
ISEQ (Irish)	7138	5479	31%	31%	37%
FTSE 100 (UK)	7644	6728	14%	19%	5%
Eurostoxx50 (Europe)	3745	3001	25%	25%	19%
S&P 500 (USA)	3231	2507	29%	31%	69%
Nikkei (Japan)	23565	20015	18%	22%	61%
Hang Seng (Hong Kong)	28189	25845	9%	12%	28%
MSCI World	2358	1883	25%	28%	49%

An example of early maturity for client structured investments in 2019

Structured Investments have a maximum term and the maximum potential return is clear from the outset. These funds usually have 'soft guarantee' in the terms and conditions. They are highly suitable as a percentage of your overall investment or where you need guarantees.

Blackbee Investments

June 2019	Gold Twin Win 29 – matured after 6 months – gross return: 5.5%
August 2019	Gold Twin Win 15 – matured after 24 months – gross return: 18%
December 2019	Dynamic European Equity Fund 17 12 months – gross return: 10%

Broker Solutions

June 2019	Kick Out Bond 6: after 18 months – gross return: 12.6%
December 2019	Kick Out Bond 8 after 12 months – gross return: 10%

Currency exchange rates

The US\$ and UK£ strengthened against the € in 2019, giving an even better return for € investors last year. The ongoing Brexit soap opera will for sure continue to impact on sterling values.

FX Rates	December 2019	December 2018	% change year	5 years
€/£	1.12	1.14	-2%	-7%
€/€	0.85	0.89	-5%	+8%
€/¥	121.73	125.41	-3%	-16%

Commodities



Commodity	December 2019	December 2018	% change	5 year % change
Oil (Brent)	66	54	22%	+8%
Gold	1515	1278	19%	+28%
CRB Commodity Index	402	409	-2%	-8%



“Before you speak, listen. Before you write, think. Before you spend, earn. Before you invest, investigate. Before you criticise, wait. Before you pray, forgive. Before you quit, try. Before you retire, save. Before you die, give.”

William A. Ward

Plan your pension now

What to do when it seems the time will never come that you have enough money to tick off everything on your bucket list.



When clients, friends and family ask us about their pension, it is usually the financial jargon that puts them off and confuses them. We believe the best way to address that confusion is to explain pension terms using simple, straightforward language.

Key ideas



1. Saving for your pension is THE BEST long term, tax-effective savings plan still available in Ireland.
2. Aim to have a MINIMUM value of €300,000 in your pension fund.
3. With current interest rates that will give you an annual income of approximately €12,000.

The state pension only kicks in from age 68 and this is likely to be pushed out further. Private pensions are payable from age 60 and in some circumstances 50.



The Table below shows the amount you need to pay in each year to achieve the minimum €300,000. The earlier you start the better but it's *never too late*, no matter what your age. Starting a pension at any age will ensure you have a better living standard when you retire.

Years to retirement	Monthly funding required	Net cost with 40% tax relief
30	€ 230	€138
20	€ 530	€318
10	€1,600	€960
5	€4,000	€2,400

Note: Tax relief depends on the marginal tax rate you pay.

Projected growth rate is 5% per annum with indexation of 5% per annum. This assumes you have no pension in place at outset.

Ethical, social and environmental investments



Reflecting growing public concern, investment in ethical, social and environmental funds has increased significantly in recent years as people become more aware of the wide impact of companies on the planet. Typically, these funds do not invest in banks, oil, mining, metals or large cap technology stocks. Instead they opt for alternative energy, water, waste management, choosing companies who demonstrate strong corporate social responsibility in their culture and work practices.

Environmental, social and governance factors can have a major impact on a company's financial performance. Volkswagen's emissions' scandal in 2015, for example, cost the company \$7 billion and more than \$4 billion in penalties, causing its share value to plunge (source: Corporate Finance Institute).

At RMC Financial Services we are pleased to offer our clients a range of ethical, social and responsible investment funds.



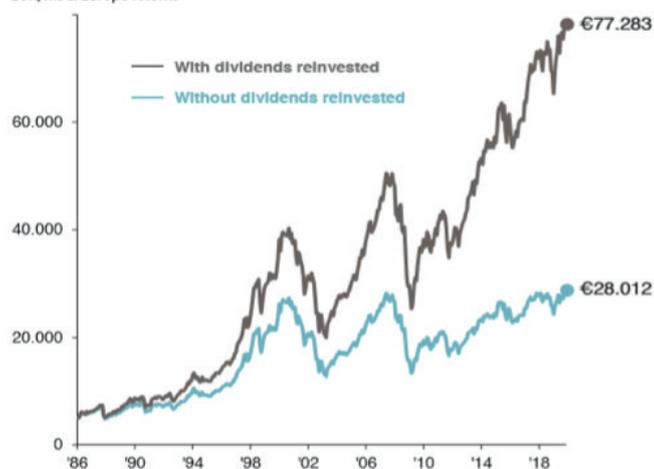
"It is better to have a permanent income than to be fascinating."

Oscar Wilde

High yield dividend funds

It is always satisfying to see your shareholding value rise in a very short timeframe. But it is really important when planning long term investments to assess how your dividend returns relate to the overall value of your holding. Dividends are payments made to shareholders, usually on an annual or bi-annual basis and with certain funds the dividends may be reinvested back into the fund. If under financial pressure a company may decide to reduce or suspend payment of dividends. At RMC Financial Services we give preference to dividend funds where they invest in companies that have not reduced or suspended dividends in the past 20 years.

€5,000 investment with/without income reinvested
EUR, MSCI Europe returns



Source JP Morgan Asset Management – for illustrative purposes only, assumes all income re-invested, actual investments may incur higher or lower growth rates and charges – Data as at 30/09/2019.

Planning for inheritance tax: annual gift exemption

When you consider the major potential tax savings over 15 years by using this annual gift exemption to make gifts to your family, loved ones or friends it's clear that to reduce inheritance tax, building up the value of assets you'll leave behind may not be very cost-effective.



"I made my money the old-fashioned way. I was very nice to a wealthy relative right before he died."

Malcolm Forbes

Leaving aside any growth in investment, the potential inheritance tax saving is currently €29,700 over 15 years, if both parents set up the maximum annual gift of €3,000 each to one person. This represents a potential tax saving of €29,700 for your family, double if you gift this amount to two children.

Make sure to use this exemption before the end of the year, you can't carry it over to next year.

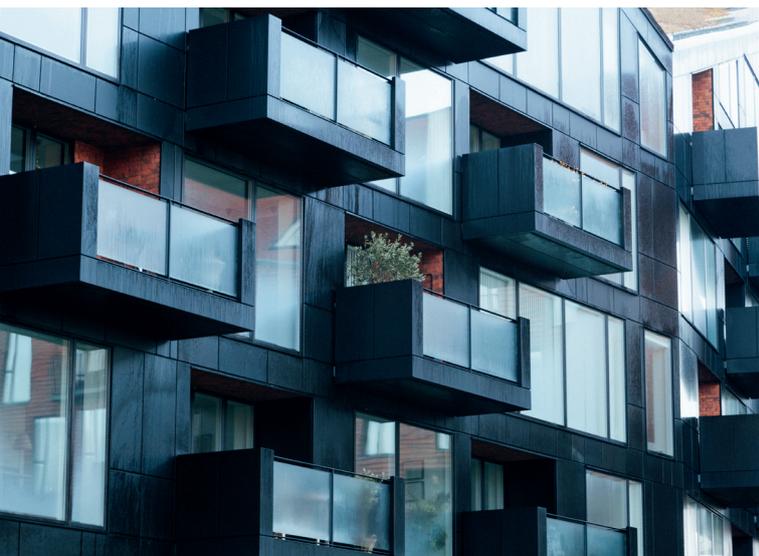
Performance of selection funds, pensions and investment in 2019

The Table below shows how a number of funds performed over one year and 5 years. Please note funds may have various volatility factors with a different risk profile. Percentages are gross before tax and exclude annual management charges which vary from 1% to 1.6% per annum.

Invested 1 January 2019	1 year to 31 December 2019 %	5 years to 31 December 2019, cumulative %
Equity funds: medium to high risk		
Irish Life MAPs 4	+ 11.6	+ 39.1
New Ireland I Funds 4	+ 14.0	+ 26.4
Standard Life Myfolio Active IV	+ 19.4	+ 26.0
Zurich Life Prisma 4	+ 18.3	+ 35.0
Aviva High Yield Fund Risk level 5	+ 29.3	+ 62.8
Equity funds: low to medium risk		
Irish Life Multi Asset 3	+ 8.9	+ 28.7
Zurich Prisma 3	+ 8.45	+ 15.2
Other funds: low to medium risk		
Aviva Target Return Fund	+ 10.5	+ 6.6
Aviva Multi Asset Strategic Fund	+ 17.0	+ 24.1
Friends First Magnet Cautious	+ 9.4	+ 14.3
New Ireland BNY Real Return Fund	+ 13.0	+ 20.4
Standard Life GARS Fund	+ 5.5	- 2.8
Commercial property funds		
Aviva (Irish)	+ 5.2	+ 67.9
Friends First (Irish)	+ 7.9	+ 45.3
Irish Life (Irish)	+ 4.0	+ 80.0
New Ireland (Ire, UK, Europe)	+ 4.5	+ 43.8
UK property fund		
Standard Life UK Property Fund	- 2.4	+ 5.5

Past performance is not a reliable guide to future performance. The value of your investment may go down as well as up and returns on investments may increase or decrease as a result of currency fluctuations.

EII Investment: Tax relief against rental and ARF income



The EII Scheme is a tax relief incentive to allow investors deduct the cost of any qualifying investment from their total income for income tax purposes. It is one of the few extant sources of *total income relief*, including, for example, rental and deposit income.

What's the outlook for 2020?



“The only function of economic forecasting is to make astrology look respectable.”

John Kenneth Galbraith

Global stocks have had their best year since the 2009 financial crisis. For the 10 years to December 2019 the S&P 500 is up 190%. Should we now assume “what goes up must come down”? CNBC conducted a trends analysis from 1950 onwards, finding that when the S&P gained more than 25% in any one year, markets gained *on average* 11.3% the year after. This is a positive indicator but at the risk of repeating ourselves: past performance is not a reliable guide to future performance.

Financial forecasters predict modest returns for 2020

Even without a crystal ball it is clear growth in company earnings will have to reflect current valuations to maintain and or increase values going forward, as 2019 overall earnings were flat. For example, Apple's share value rose 80% in 2019 but delivered



zero earnings growth. It may be the unknown, not one of the current headline concerns that cause a market setback, such as conflict in the Middle East, Brexit (of course!), fears about a worsening China-US trade war or a US interest rate hike.

Despite these risks consumer sentiment is strong, unemployment is at one of its lowest levels and there is a possible upside from an early US-China trade agreement. Central Banks continue to endorse policymakers who support growth and strive to extend the positive cycle. All these are positive indicators.

With such strong returns in the US over the past decade it is difficult to see where to find value in the US market in 2020. Emerging markets and Europe may offer better potential for 2020.

At RMC Financial Services our constant investment advice is to remain focused on your long term plan and make sure you review your portfolio once a year with your RMC advisor. If you feel overexposed to any one asset or market or if your personal financial circumstances change, rebalance your assets where appropriate. We can help you do this. And although easier said than done, resist the temptation to react impulsively to negative media headlines.

We at RMC Financial Services want to thank you most sincerely for your business, it is really appreciated. We wish each and every one of our clients and your families a healthy, prosperous and successful 2020.

RMC Financial Services: what we offer



With over 20 years' experience in accountancy and financial advice RMC Financial Services provides the following services to our clients:

- Financial planning
- Investment and pension fund reviews and advice
- Savings and deposits
- Retirement advisory services
- Post-retirement investment services
- Life insurance, personal and business protection
- Insurance against illness or incapacity
- Mortgage protection insurance
- Income protection insurance

Contact details

Contact us today to help make 2020 your best year ever.

Rosemary Collins ACA, QFA

Managing Director
RMC Financial Services
O'Connell House
Glenrock Business Centre
Ballybane
Galway



Tel: 091 763716

Mobile: 087 1331851;

Email: rosie@rmcfs.ie;

Website: www.rmcfs.ie

Rosemary Collins Ltd, T/A RMC Financial Services is regulated by Central Bank of Ireland.