RMC Financial Services

Newsletter

January 2021

2020 in review

2020 was a very difficult year for the hospitality sector.

After a very strong return in equity markets for 2019, we headed into 2020 optimistic but cautious around expectations of market performance in the year ahead. No one could have predicted what was to come. The year started with the discovery of a virus by Chinese scientists investigating a pneumonia outbreak which began initially to impact on Asian markets. In a 6 week period, February-March 2020, the Dow Jones and S&P 500 fell over 30%, followed by the fastest ever recovery of a bear market on the S&P 500 index.

As shown in the chart and graphs on p.2 the S&P had a positive return of 18% this year, however due to a fall in the value of the dollar, for euro investors the positive return was reduced to just over 8.7% for the year. Sector divergence was significant in the past year with technology (+32%) and consumer discretionary (+26%) outperforming the energy (-36%) and real estate (-12%) sectors; see graph on p.2.

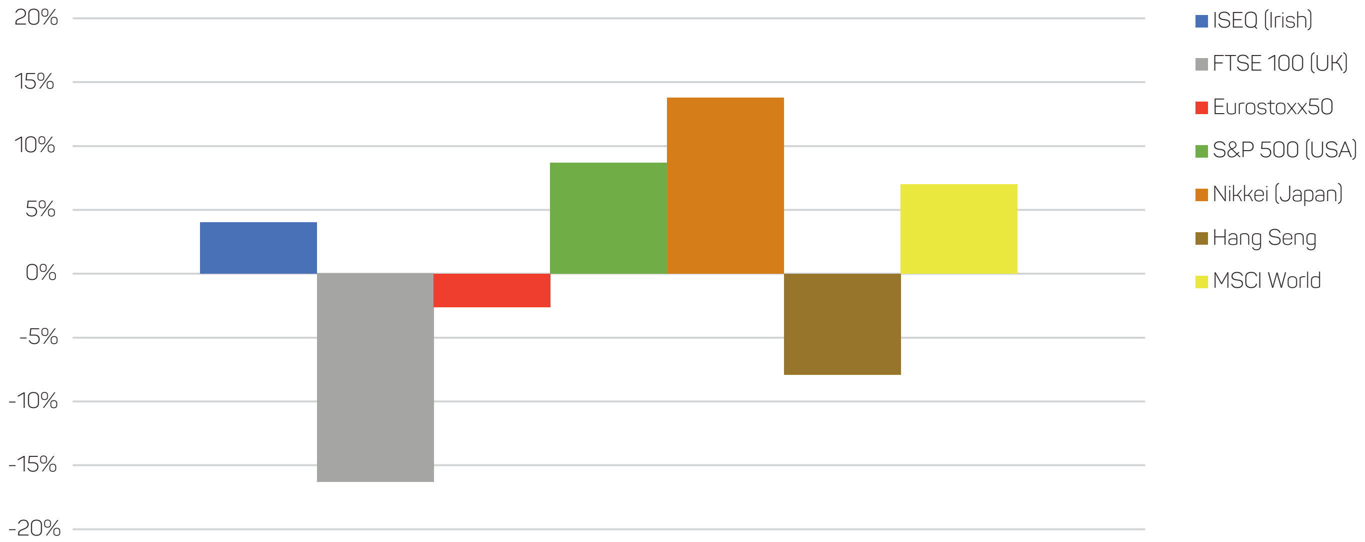
Despite this positive return for equity markets, we are very conscious of how extremely difficult it has been for the whole hospitality area, restaurants, bars, hotels, entertainment business etc. A lot of those businesses are clients of RMC Financial Services and the impact of the virus has been so much more severe for them. Most employment in Ireland is in small businesses, David McWilliams calls much of it "the craic economy". These businesses need a huge boost and we hope by end of 2021 there will be a massive turnaround for that sector of the market.

12 Month equity performance 2020

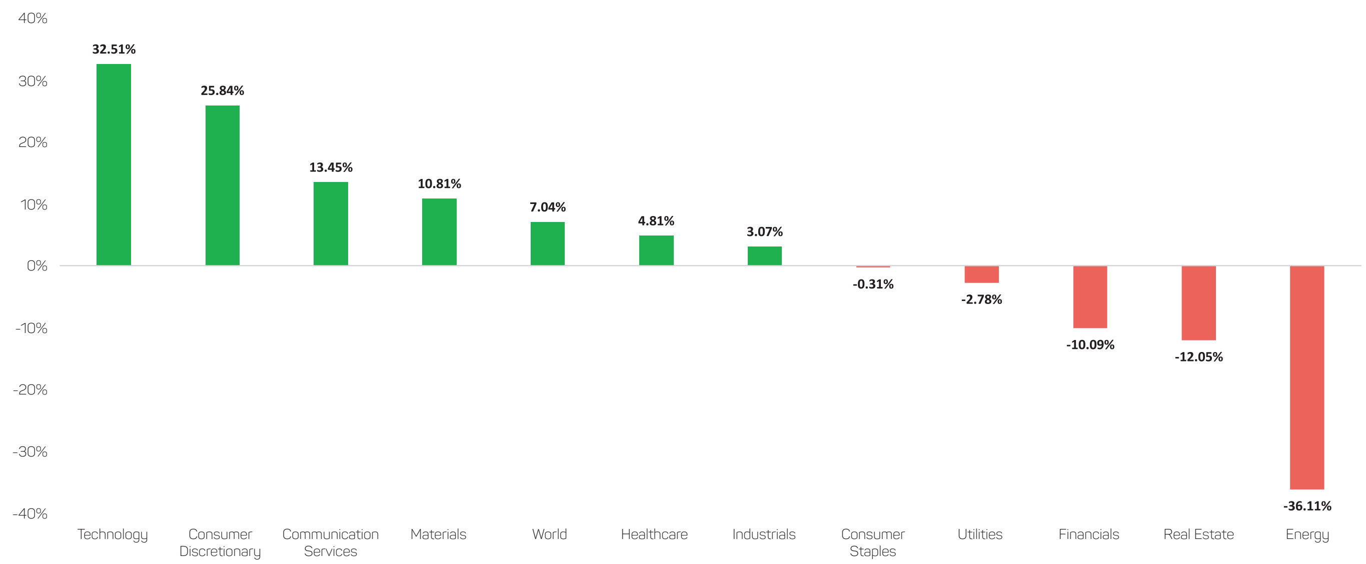
Stock Indices	Dec 2020	Dec 2019	% Change	% Change year Euro Terms	% Change 5 years Euro Terms
ISEQ (Irish)	7376	7078	+4%	+4%	+17.3%
FTSE 100 (UK)	6461	7292	-11.4%	-16.3%	+4.0%
Eurostoxx50 (Europe)	3553	3647	-2.6%	-2.6%	+28.8%
S&P 500 (USA)	3756	3172	+18.4%	+8.7%	+80.4%
Nikkei (Japan)	27444	23218	+18.2%	+13.8%	+64.7%
Hang Seng (Hong Kong)	27231	27285	-0.2%	-7.9%	+32%
MSCI World	2690	2309	+16.5%	+7.0%	+62.7%

Past performance is not a reliable guide to future performance.

2020 % Market Performance in Euro terms



Big difference in sector performance 2020



“We have no more right to consume happiness without producing it than to consume wealth without producing it.”
George Bernard Shaw

Sustainable investing

In recent years there has been growing interest in ethical and sustainable investing. We predict this will continue to grow exponentially in future years. The value of an investment is no longer just about returns, an increasing number of investors now want to be sure their money will make a positive impact on society and the world at large.

Environmental, social and governance (ESG), socially responsible investing (SRI) and impact investing are industry terms used by clients and advisors. The assumption might be they convey the same meaning and approach but there can be significant differences. They are not mutually exclusive.

Many investors are opting for an ethical or sustainable fund for their investments.

ESG describes how fund managers assess corporate behaviour under the headings of environmental, social and governance factors alongside more traditional financial measures. ESG does not always refer to exclusionary policies the same way ethical investing does. It is not about excluding companies from your portfolio, rather ESG seeks to influence the companies in which fund managers invest, encouraging them to adopt better practices under the headings mentioned above.

Socially responsible or ethical investing means actively choosing or removing investments based on specific ethical guidelines. Ethical funds typically will not invest in companies making products such as alcohol, tobacco and other addictive substances, or arms manufacture etc. For clients seeking ethical investments, the goal is to generate returns without compromising their social conscience.

Impact investing aims to help businesses or organisations complete a project or develop a programme with positive benefits for society e.g. non-profit funding of research and development in clean energy, regardless of whether there is any guarantee of success.

An example of a specific fund which may interest RMC clients is the Green Effects Fund available through Cantor. This fund invests in a wide range of companies which either support the environment or demonstrate a strong corporate responsibility ethos. Wind energy, recycling, waste management, forestry and water related businesses feature prominently in the fund which had a return of over 34% in 2020.

New Ireland and Aviva/Friends First have a specific fund which offers investment in ethical funds. The New Ireland ethical fund’s performance was -4.3% for 2020 while the Aviva Stewardship fund was +13.3%. The main difference in the performance of the two funds is the higher allocation to technology stocks within Aviva’s Stewardship fund, with New Ireland having a value driven approach vs growth driven selection.

Currency exchange rates

FX rates	Dec 2020	Dec 2019	% Change Year	5 year % Change
EUR/USD	1.22	1.12	+8.9%	+12.3%
EUR/GBP	0.89	0.85	+4.7%	+21%
EUR/JPY	126.47	121.73	+3.9%	-3.2%

Both sterling and the dollar fell in value against the euro in 2020. Sterling is down 21% against the euro in the past 5 years. Overall 2021 predications are that the dollar may fall further this year.

Commodities

Commodity	Dec 2020	Dec 2019	% Change	5 year % Change
Oil (Brent)	52	66	-21%	+40.5%
Gold	1895	1515	+25%	+78.7%
CRB Commodity Index	178	196	-9%	+0.9%

Claiming all your tax reliefs

At RMC we find many people fail to claim tax relief on payments to which they are entitled. If you are paying into a personal pension or making PRSA additional voluntary contributions (AVCs), those that do not go through your wages, income protection premiums or pension term assurance, then the onus is on **YOU** to claim the relief. The relief is not provided at source.

To do this, log into Revenue, go to My Account and insert your PPS and date of birth.

Here is a summary of the steps you need to claim reliefs due from past years. You can go back up to four years to amend previous tax returns and claim any reliefs due.

- Complete your income tax return
- Add your tax credits
- Enter your job
- Include any AVCs

Revenue
Cáin agus Custaim na hÉireann
Irish Tax and Customs

To claim the correct reliefs for 2021, click on “Managing your tax 2021”.

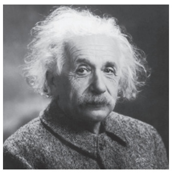
This is a very simple process but of course everything is simple when you know how. If you have any difficulty please contact us and we will try to help you.

> “Money is multiplied in practical value depending on the number of Ws you control in your life: what you do, when you do it, where you do it, and with whom you do it.”
>
> Tim Ferriss

The power of compounding – savings for your children’s education or your pension – the same principle applies

It is never too late or too early to start a savings plan, but one of the not so magic ingredients that makes compound interest work best, is time. The fact is that WHEN you start saving may outweigh how much you save and of course what the annual growth rate you receive for what you invest. Last year savings increased by €12.6 billion in Ireland, most of it is sitting in bank accounts earning zero and now even negative interest rates!

Children’s savings *ideally* should start when they are babies. The power of compound interest can clearly be seen when you compare starting to save when they move to secondary school or later on. For example, if you save €250 per month over a 15 year term at 5% growth rate, the projected fund value after 15 years will be €68,000. See the example of an investor starting saving at the age of 25, 35 and 45. The same principle applies to personal or children’s savings plans.



> “Compound interest is the eighth natural wonder in the world and the most powerful thing I have ever encountered.”
>
> Albert Einstein

How do I get started?

Feel free to call us with on any questions you may have on setting up a savings plan for yourself or your family.

Shorter term investments with income tax relief – EII investments

The Employment Investment Incentive scheme (EII) is a tax relief incentive scheme which allows investors to deduct up to €250,000 from their total income for income tax purposes. The average investment tends to be €50,000 to €75,000. It is one of the few sources of total income relief, including, for example, rental, pension and salary income.

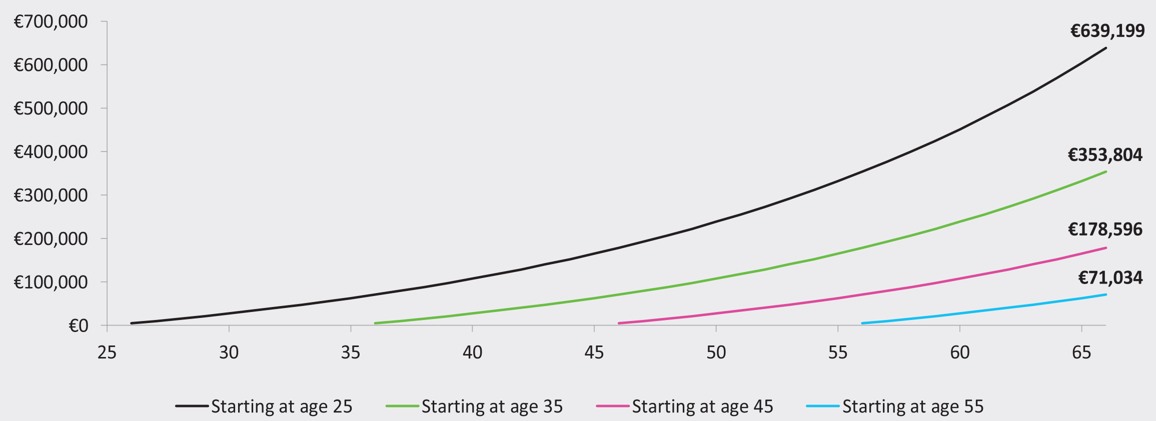
You can now avail of full relief in the first year of investment, i.e if you pay tax at 40% and invest €50,000, your income tax liability is reduced by €20,000. Those funds are launched in December each year for an average of 4 to 6 weeks.

> “I am grateful for the blessings of wealth, but it hasn’t changed who I am. My feet are still on the ground. I’m just wearing better shoes.”
>
> Oprah Winfrey

Inheritance tax planning: annual gift exemption

When you consider the potential tax savings over 15 years by using this annual exemption to gift to your family, it’s clear building up asset value in your own name may not be most effective from the point of view of inheritance tax planning. Assuming you reach the exemption for inheritance or gift tax, currently €335,000 from a parent to child, see the table on p.5 for the potential savings for gifts to two children.

€5,000 invested annually with 5% growth per annum



OVER A 40 YEAR PERIOD

A 25-year-old generates an 80% greater return than a person starting at 35 years of age.

Yielding a **258%** greater return than a 45-year-old.

Assuming €6,000 p.a invested for 15 year term	Parent savings in own name	Savings in the names of two children
Projected savings value	€136,000	€68,000 in each child's name.
Potential inheritance or gift tax liability @ 33%	€44,880	Nil

The above assumes each parent gifts the maximum allowed, €3,000 to each child over a 15 year term, without premium indexation and assuming a net return of 5% per annum each year.

Realms of gold

In uncertain times some people turn to gold as an investment. The nearest most of us come to gold is a ring or maybe a gold sovereign handed down through the family.

Gold is an amazing metal, of limited practical use, it is mined and hoarded all over the world. 30g, about an ounce, can be hammered out as fine gold leaf to cover the floor area of a ballroom, hence its common use for gilding and gold lettering on book covers.

All that glistens is not gold, but in this case it is: the gold vaults in the Bank of England, the UK's Fort Knox; not open to the public.

The City of London is not the most exciting area to visit but next time in London, when we're able to travel again, your meeting is over or you've done the main sights, consider a visit to the Bank of England Museum, the Old Lady of Threadneedle Street. The Bank holds the UK's gold reserves, 400,000 gold bars, Britain's Fort Knox. See **https://www.bankofengland.co.uk/gold**.

You won't get to see all these bars but you will learn more about the history of money and you'll be able hold a single gold bar in your hand. There's one on display in the Museum with an opening in the display case. You're invited to put your hand in and lift the bar. It is extraordinarily heavy, you won't be able to hold it for more than a few seconds. It's worth about €55,000.

Performance of a selection of pension and investment funds in 2020

The table below shows the performance of a selection of funds for one year and five years. Please note these funds have different volatility factors and a different risk profile. Percentages are gross before tax and annual management charges which vary from 1% to 1.6% per annum.

Invested 1 January 2020	1 Year to 31 December 2020, %	5 years to 31 December 2020, cumulative %
Equity funds: medium to high risk		
Irish Life MAPs 4	0.2	27.6
New Ireland I Funds 4	3.2	26.0
Standard Life Myfolio Active IV	1.7	19.0
Zurich Life Prisma 4	5.8	37.1
Aviva High Yield Fund Risk level 5	2.0	47.1
Equity funds: low to medium risk		
Irish Life Multi Asset 3	0.8	22.4
Zurich Prisma 3	2.8	15.9
Other funds: low to medium risk		
Aviva Target Return Fund	3.0	4.7
Aviva Multi Asset Strategic Fund	2.4	20.5
Friends First Magnet Cautious	0.6	19.3
New Ireland BNY Real Return Fund	8.0	26.3
Standard Life GARS Fund	6.0	0.6
Merrion Multi Asset 30	12.2	N/A
Commercial property funds		
Aviva /Friends First	-16.5	11.6
Irish Life (Irish)	- 9.6	21.0
New Ireland (Ireland, UK, Europe)	-11.4	9.7
UK Property Fund		
Standard Life UK Property Fund	-4.8	-6.8

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

The outlook for 2021: take a longer term view

2020 showed the futility of trying to predict market returns in the short term. Some economic forecasters did get it right but for all the wrong reasons, as we went through the fastest bear and bull market ever recorded. One of the main factors which contributed to the positive return on most markets is the ongoing support of Central Banks across the globe, this is referred to as quantitative easing with super low interest rate policies likely to continue for the foreseeable future.

As the table on p.5 illustrates there was huge divergence across sectors with technology stocks delivering +35% return over the year, e. g. Facebook, Amazon, Apple, Microsoft and Google, referred to as FAAMGs. So the growth driven type stocks performed much better than typical value driven shares such as Johnson & Johnson, Unilever, Nestlé or Proctor & Gamble.

We should not underestimate the rate of change caused by new technologies and the move to an ever increasing digital world that will continue but the growth rate may not persist and the focus may revert to some extent to typical value driven, high yielding stocks. In the past few weeks financials and energy stocks have been bolstered by expectation of an efficient roll out of the Covid-19 vaccine and the continuing fiscal stimulus package.

The longer term investor must be prepared to accept short term losses and volatility while waiting for more certainty. If you are investing, each year we strongly recommend you have at least a 5 year timeframe in mind. The reason so much cash has built up in negative interest rate accounts is because there is no certainty about returns. When investing in the shorter term investors have little alternative but to leave their funds in bank accounts earning nothing or negative return unless they are willing to take some risk in the longer term.

What will for sure bring confidence to the market is an efficient and successful roll out of vaccines and suppression of the Covid-19 virus, with global growth rebounding and an increase in consumer spending.

"Money is like muck, not good except it be spread."
Francis Bacon

Last word

At RMC our constant investment advice to our clients is to remain focused on a long term plan, but make sure you complete a portfolio review with your advisor once a year. Rebalance assets where appropriate, especially if you think you're overexposed to any one asset or market or your personal financial circumstances have changed. "Resist the impulse to react to negative headlines", easier said than done! We said this in last year's Newsletter, but never was a comment so appropriate as it was last February-March 2020 from the savings and investment point of view.

Thank you again most sincerely for your continued support, especially through a very difficult year, this is really appreciated. We wish each and every one of our clients and their families a healthy, happy and successful 2021. Make sure to do your part for the craic economy when it's possible.

A glimmer of hope: "There will be"

Have a look at this post which we hope will raise your spirits as we look forward to better times:

https://www.instagram.com/tv/CJbABoGnrEK/?igshid=1mkgc1cilxgil

Our services

With over 20 years' experience in the accountancy and financial advisory business, 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
- Illness insurance
- Mortgage protection Insurance
- Income protection insurance

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