GLOBAL VIEWS

4th Quarter 2013

ACORN PARTNERS

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A Place in the Sun Home and Away

If anyone has ever watched Daytime TV, they will have undoubtedly have watched some form of version of a Home Hunters program. An “expert” property person looking for a new home, frequently a retirement home for a couple seeking to move to Spain, France, Australia or somewhere similar to fulfill their retirement dreams

Many people, especially expatriate workers, develop a desire not to return to their country of birth. Perhaps it’s the weather, perhaps the taxman, but frequently we find clients seeking new locations at retirement.

However, in recent years with the decline particularly in cash returns, the question is raised as regards affordability. Popular destinations in the past have been France, Spain and Portugal. However, whilst house prices may be very attractive, increasingly the cost of living is rising, along with local taxes.

In France whilst the government has backed down on original plans to impose stringent capital gains taxes, instead they are now conducting a review of the official rental value of property. Of course expats who do not let their property tended to ignore this new threat, that was until it became apparent that the new, obviously increased values, will also be used to assess *la taxe habitation* (dwelling tax), and *la taxe fonciere,* (land tax). The current base for these figures go back to 1970, so French property owners be warned.

In Cyprus the government has imposed an Immoveable Property Tax. This will apply to all properties and is based upon a value determined as of the 1980s. The original plan for a minimum payment of 75 Euros from every property have been altered, and now any property which was valued at less than the equivalent of 12,500 Euro, is exempt, or 25,000 if jointly owned.

In isolation these seemingly small additional taxes appear of little consequence. However, many of us believe this is the dripping tap, which will see increased tax burden for everyone. Governments will be seeking new and innovative ways to finance their countries, new taxes one route, getting smarter on those they perceive not paying sufficient will be another.

Five Years on from Financial Disaster

Unbelievable I think, but it is five years since one of the principle catalysts of the Financial Collapse, Lehman Brothers filing for bankruptcy in September 2008. Lehman’s collapsed whilst employing 25,000 people, with assets of approaching $700 billion.

The next several months saw numerous banks, insurance companies, building societies etc collapse and have to be bailed out by governments. Many as we know still remain in public hands.

Stock markets plummeted, currencies collapsed, the world was seemingly about to come to a financial ruinous end.

Five years on, and whilst the world is nowhere near where it was in financial terms, there remains enormous threats to the worlds economy, not least from what is effectively bankrupt countries within The EU, but also the worlds largest debtor nation, The US.

However on a brighter note investors who saw through the storm have seen some stellar returns on equity investment. Also there continues to be some good news as regards some individual countries, with the UK currently taking centre stage with increasing economic good news.

The OECD (Organisation for Economic Development) have also stated that they are optimistic on many fronts that there are encouraging signs in North America and Japan that the worst of the storm has passed, that is until the next one!

To put a final damper on the good news, we should bear in mind that any growth has come from a very low base, so whilst as an example house building in the UK took a welcome jump,it is still almost 13% below the levels seen in 2008.

Getting a Kick

Recent years have proven tricky for equity investors and, with cash rates so low, many investors are seeking better returns elsewhere. Turbulent stock markets have wiped out gains in an instant and investors have been left scratching their heads for options.

Whether there is volatility or trend in the markets a Kick Out or Autocall investment could prove a solution. You don't have to invest directly into a stock market or mutual fund to get exposure to an equity market. Instead many investors have realised they can get exposure to markets via a structured note and achieve a return with some correlation to a market. Autocalls offer an investor the opportunity for fixed return at preset dates, along with the repayment of the existing capital, provided the underlying asset is at or above the opening price on a given day. Many investors have used these products to provide positive returns in difficult market conditions.

As an example we could look at a product which provides a fixed return of 9% after the first year, if the FTSE 100 is at least the same value as it was when the product started. If the FTSE is not the same or above the opening price, and provided it has not fallen by more than 50%, the product rolls over to the next year. If the next year the price of The FTSE 100 is the same or higher than the opening price the product calls and pays 9% for each year held, and a return of capital. If the product ran the whole five year term and at each observation date the FTSE 100 was not the same or higher than the opening price, and the FTSE has not fallen by more than 50% on that day, the product matures and pays back the capital.

Products like these are constantly changing, and the underlying asset can be a myriad of stock markets, individual stocks, commodities, or a combination. The trick, and the job of the Advisor, is to examine these underlying assets in close detail, and appraise the likelihood of the underlying assets rising in value, or staying stable.

The amount of return you may hope to receive will depend upon a number of factors, the credit rating of the issuer is crucial, the underlying assets, you would expect underlying of say The FTSE and S&P, two major correlated markets to offer considerably less than say 5 mining stocks. The former probably considerably less volatility, and very correlated, the latter, really perhaps just a punt.

Autocalls will have less attraction for any investors who have confidence in a particular market or asset class. So, if an Autocall was available with an underlying of just the FTSE 100 and offering a coupon of say 8%, if an investor believed that he could make a greater return than 8% on that market, then clearly he would be better served buying the index.

Several particularly fortunate (astute) clients have a delightful tale to tell.

Investing £100,000 initially into a FTSE SPX Note, which paid out in the second year 2011, with a return of capital and 26% (13% per annum).

2011 invested £126,000 into an Emerging Market Autocall, underlying's were China, Russia and India, paid out after 6 months at 14%, and return of capital.

2012 Invested £143,600 into a 15% Autocall with underlying 3 indices covering UK, US and Europe, paid out March 2013 returning the capital and 15%.

Needless to say the £165,000 was reinvested across a range of Autocalls.

Below is a chart showing just some of the Notes which have called this year. This is a small sample, but gives a flavor.

2013 Maturities

Note	Coupons	Maturity Date	Duration
RBS Autocallable 31	15.00%	07/01/2013	6 Months
Morgan Stanley EM Autocallable	16.00%	23/01/2013	6 Months
RBS Autocallable 32	13.50%	04/02/2013	6 Months
RBS Autocallable 24	16.25%	11/02/2013	12 Months
Morgan Stanley EM Autocallable	20.00%	13/02/2013	12 Months
RBS Autocallable 33	13.00%	28/02/2013	6 Months
RBS Autocallable 25	17.50%	11/03/2013	12 Months
Morgan Stanley Autocallable	16.75%	11/03/2013	12 Months
RBS Autocallable 34	14.00%	28/03/2013	6 Months
Morgan Stanley Autocallable	19.00%	15/04/2013	12 Months
RBS Autocallable 35	13.00%	26/04/2013	6 Months
Morgan Stanley Autocallable Note	18.75%	13/05/2013	12 Months
Morgan Stanley EM Autocallable Note	11.00%	16/05/2013	6 Months
RBS Autocallable 36	12.00%	23/05/2013	6 Months
RBS Autocallable 29	20.50%	27/05/2013	6 Months
Morgan Stanley Autocallable Income Note	13.25%	28/05/2013	6 Months
Morgan Stanley 5 Year Autocallable on 3 Indices	19.25%	10/06/2013	12 Months
RBS Autocallable 3	60.00%	01/07/2013	36 Months
Morgan Stanley 5 Year Autocallable on 3 EM	21.50%	08/07/2013	12 Months
Morgan Stanley 5 Year Autocallable on 3 Indices	18.00%	05/08/2013	12 Months
Morgan Stanley 5 Year Autocallable on 3 Indices	18.00%	03/09/2013	12 Months
RBS Autocallable 4	52.50%	13/09/2013	36 Months

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Offshore Centers under Attack

Mr Cameron, the UK Prime Minister, is having to go public and defend a number of British interests, notably Jersey in The Channel Islands. Other locations such as Bermuda and The British Virgin Islands have also been targeted, in particular by the French. In fact the French have blacklisted a number of countries as being uncooperative.

These countries have joined an increasingly long list of countries cited by the French as uncooperative, and thus any income passing through France or French financial institutions will now be subject to a 75% withholding tax.

The countries in question, whilst sounding shocked and surprised at the news, have stated they will work with the French in order to attempt to be removed from the list.

To us, another example of a government using any means, fair or foul, to raise revenue. You have been warned.

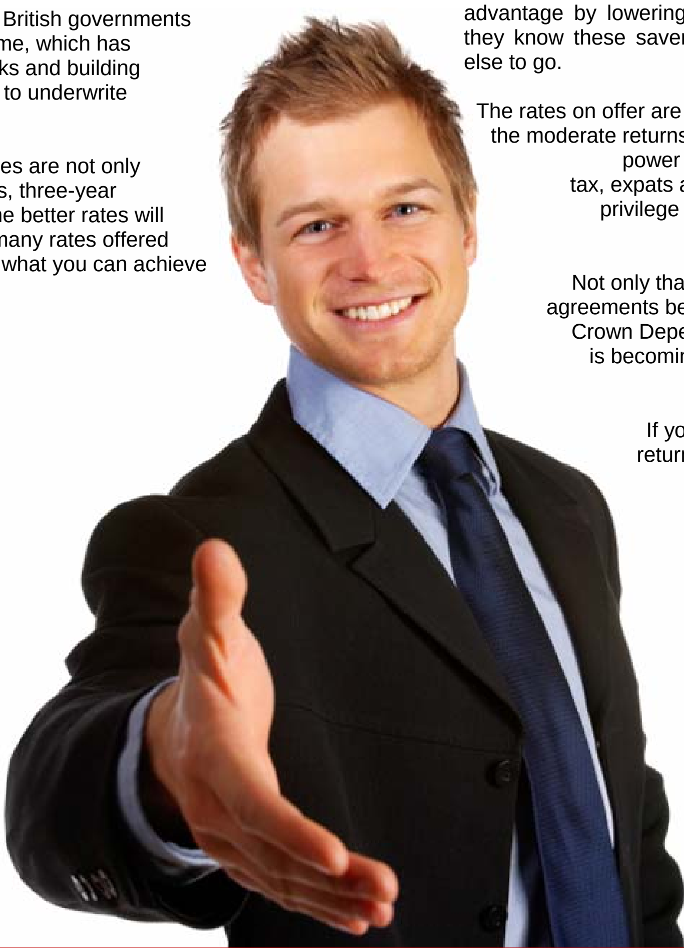
Falling Rates

Five-year rates have halved in just two years.

Winding back the clock to 2011 would see Clydesdale, which has now left the market, offering 4.15% to offshore savers.

The wind of change is the British governments Funding for Lending scheme, which has removed the need for banks and building societies to raise deposits to underwrite cash to lend.

Banks and building societies are not only pulling their five-year deals, three-year terms are scarce. Again the better rates will only just exceed 2% and many rates offered by banks will be less than what you can achieve on instant access.



Banks and Miserly Returns

Offshore banks and building societies are inflicting more financial misery on expat savers as they drop rates and close account options.

As offshore banking opportunities shrink, expat savers are now losing money compared with rates offered to onshore savers.

With rates hovering around 2% gross for offshore savers, and returns dropping all the time, the future looks grim for expats looking for a decent yield.

For those willing to lock up their cash for five years, the best current deals are all under 2%. Some banks offer higher “headline rates”, however they come with conditions, such as the requirement not just to open a current account, but to have an amount of money paid in every month, and to operate one or more direct debits.

The current crop of deals looks very much like offshore banks cherry picking the cream of expat savers who have a significant amount of money to tie in to modest rates.

Lack of Choice

The problem for offshore savers is the banks know October is a prime time for saving terms to mature and understand savers are looking around for new best deals to place their cash.

The suspicion is the financial institutions are taking cynical advantage by lowering rates and limiting choice because they know these savers with piles of cash have nowhere else to go.

The rates on offer are also no better than inflation, so even the moderate returns are not keeping pace with spending power for expats. With inflation and income tax, expats are paying out of their savings for the privilege of lodging their money in an offshore account.

Not only that, but with the advent of tax reporting agreements between British offshore territories and Crown Dependencies, managing expat accounts is becoming more expensive for the banks and lowering margins.

If you are disappointed with your rates of return please contact us for a discussion.

Buying a Property Abroad - USA

America the land of opportunity has much to offer and, given the size of the land mass and the number of inhabitants, plenty of space to do whatever you wish to do. If we just look at one state, the largest it is fair to say, Alaska. Alaska has a population of 1.5 million and about half of those live in Anchorage. Its land mass is approaching 600,000 square miles, as compared to England with a land mass of around 50,000 and a population of 56 million. There is plenty of space to find yourself!

Seemingly whilst the traditional hot spots for property maintain popularity, increased flights from discount airlines have seen a gradual movement to new locations. Florida in particular has seen a decline in property sales whereas new locations, probably based upon distressed sales, such as Chicago, Detroit and Augusta have seen increasing sales.

Some of the best Buy to Let opportunities are the tourist hot spots. It should be remembered that only an estimated 37% of Americans have passports. Lakeside Holiday Homes or Log Cabins in forests can bring some attractive investment opportunities.

Taxation

Income derived from rental homes is generally taxed at the standard Federal Taxation Rate of 30%. However foreign investors can opt to have the income taxed as a US business venture, and benefit from tax on a net basis, after the deduction of expenses and at a gradual rate. The final option is to pay gross income tax, which will cost considerably more, but will make life simple. Any rental income may also be liable for state taxes and some licensing fees. There is a double taxation agreement between the US and many countries, which may prevent a double whammy.

Legal Issues

Buying and selling property is a relatively straightforward process. There are variances between different states, so be sure to understand the process where you are seeking to buy. Many Realtors, as Estate Agents are called in the US, have multiple listings so properties are frequently multi-listed. In addition some states have both buying and selling agents, so by enlisting the services of a buying agent he or she will endeavour to work with you to obtain the best deal. Generally contracts are exchanged fairly swiftly with a 10% deposit being paid and held in escrow by an independent third party. Both buyers and sellers are bound at this time, although contracts frequently provide for a get out clause.

Top Tips

As always don't believe everything you are told, check and verify. Get all information in writing, it may protect you later.