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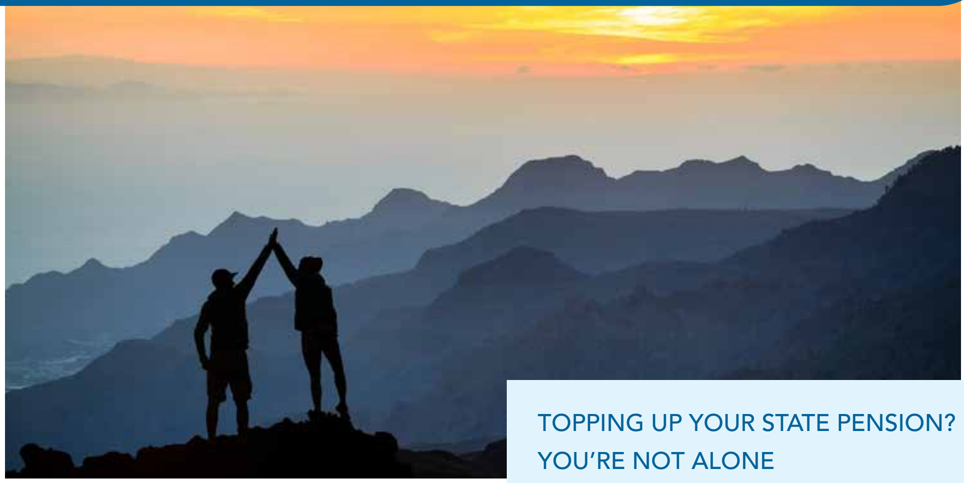
YOUR WEALTH WINTER 2020

INSIDE THIS ISSUE



NEW YEAR, NEW YOU?

It's the New Year. We're all full of plans for what we want to accomplish and making resolutions left, right and centre. It could be hitting the gym, finally getting around to that long-awaited clear-out or… perhaps getting a grip on your finances?

DON'T GO IT ALONE

A recent study of over 100,000 advised US investors should be enough to convince anyone currently on the fence about the value of good financial advice. It found that eight out of 10 investors with a clear retirement plan (i.e. one constructed by a professional adviser) had at least an 80% higher chance of reaching their financial goals[1].

FAIL TO PLAN…

We all know the old adage - failing to plan means planning to fail - something that is vividly demonstrated in the research. Taking expert advice and constructing a well thought out financial plan can significantly enhance investor wellbeing. In many ways, this comes as no surprise, as the benefits associated with financial planning are abundant and renowned.

A PROBLEM SHARED…

Ongoing reviews and discussions are key to keeping your finances on track. We will help you understand what you want your assets to achieve, establish clear and achievable goals, monitor the progress of your financial plan and adjust it accordingly to keep your investments flourishing. The plan will also look to minimise your tax liabilities and maximise your hard-earned money.

…IS A PROBLEM HALVED

This study reiterates the value gained from taking professional advice. The value of financial advice comes in different guises and can include enhancement of return on investment, peace of mind, achieving goals and realising opportunities, all combined with future security, ultimately ensuring you have enough money.

If your circumstances have changed or the New Year has encouraged you to refocus your financial objectives, get in touch, that way we can ensure your financial goals are realistic, giving you the best chance of turning any resolutions into reality.

[1]Vanguard, September 2019

TOPPING UP YOUR STATE PENSION? YOU'RE NOT ALONE

Recently released data has highlighted a steep increase in voluntary National Insurance Contributions (NICs) over the last few years, as people focus on topping up their State Pension record.

The value of voluntary 'Class 3' NICs in 2018–19 totalled £119.3m; in comparison, in 2016-17 the figure was £12.8m. This represents a nine-fold increase in just two years, largely driven by the introduction of new State Pension rules in 2016, particularly the increase from 30 to 35 in the number of years' contributions required to qualify for a full pension. To have enough qualifying years for a full State Pension, some people therefore choose to pay voluntary contributions.

STAY ON TRACK

To help you keep on track, regularly reviewing your pension provision, both private and state, is a good discipline. In addition to requesting a State Pension forecast from www.gov.uk/check-state pension, pension providers will send out annual benefit statements detailing entitlements.

Don't fall into the trap of only reviewing your pension when you are about to retire, as it's too late at that stage; prioritise your pension in 2020.

The value of investments and income from them may go down. You may not get back the original amount invested. A pension is a long-term investment. The fund value may fluctuate and can go down. Your eventual income may depend on the size of the fund at retirement, future interest rates and tax legislation.

IN THE NEWS…

UK RANKED LOW IN TERMS OF RETIREMENT SECURITY

A recent Global Retirement Index highlights how the UK lags behind many global counterparts in terms of retirement security[2]. The Index compiles data from a series of sources to collate a comparable score across countries. In 2019, the UK was ranked 17th out of 44 nations. The lowest score was recorded in assessment of finances in retirement, where the UK languished 34th in the rankings. The UK was also ranked 17th in the 2018 Index, moving up from 18th in 2017. The top five spots were held by Iceland, Switzerland, Norway, Ireland and New Zealand.

GENEROSITY SPREADS BEYOND FAMILY

A significant proportion of the older generation are set to shun family in their Wills, a new survey reveals[3]. The research identifies that over a quarter of retirees intend to leave money to charities, friends or neighbours in preference to their children or grandchildren.

IHT RECEIPTS ON THE RISE AGAIN

In the last financial year, a record amount of Inheritance Tax (IHT) was collected, according to recent HMRC data. UK citizens paid a grand total of £5.4bn in death duties in the 2018-19 tax year; this represents an increase of 3% on the previous tax year. This escalation continues a long-term trend, as IHT receipts have doubled in the last nine years. This can be partly attributed to the freezing of the £325,000 nil-rate threshold since April 2009.

[2]Natixis, 2019
[3]Responsible Life, 2019

GENERATION BLAME. TIME TO REBALANCE?

There's lately been a rising tide of discord over what is often called intergenerational unfairness. Many younger people believe that the generations preceding theirs hold an inequitable proportion of national wealth while lots of them are struggling with student debt, high rents and insecure employment.

The discord is unfortunate, because concern is shared by many older people, who do what they can to assist upcoming generations, at least within their own family and sometimes more generally. This support may often be limited by insecurity felt by older people over the prospect of future care home fees.

A UK-based charitable think-tank, the Intergenerational Foundation says, *"We think it's only fair that younger generations should have the same standard of living as generations who have gone before. That means creating a new, fairer contract between the generations; one that reduces intergenerational inequality, and provides for tomorrow as well as today[4]."*

HOT TOPICS ARE EDUCATION AND HOUSING

This agenda goes beyond financial matters to include social, political and environmental aspects, but let's focus here on the financial, where the two hot topics are education and housing costs. UCAS figures indicate up to four in 10 18-year-olds are applying for university[5], while UK Finance puts the average age of first-time homebuyers at 32[6].

Today's younger generation aren't unique in their impatience to build independent lives; it's entirely commendable. But times have changed. Tuition fees were a response to the burgeoning student population; delay in buying a first home stems in part from entering the workplace aged 21-plus. However, things can be easier for those lucky enough to get help.

Child Trust Funds and then Junior ISAs were created to enable parents and others to put money away tax-efficiently until a child reaches 18. Other savings and investment products can also help at crucial life-stages. We can't square differences over Brexit or climate change, but we can assist with plans for intergenerational rebalancing.

[4]Intergenerational Foundation, 2019
[5]UCAS, July 2019
[6]UK Finance, August 2019

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LOOKING FOR GREEN SHOOTS OF RECOVERY

As 2019 drew to a close, the global economy appeared to be teetering on the precipice. However, while recent data supports this bleak prognosis, forecasters suggest 2020 will witness a recovery, albeit a relatively weak one.

GROWTH RATES DECLINE

Third-quarter gross domestic product (GDP) data revealed a continuing decline in global growth. In the US, for instance, GDP rose at an annualised rate of 1.9%, slightly below the 2.0% recorded in the previous quarter, while China's growth rate of 6.0% was the country's slowest in at least 27½ years.

Although the UK and German economies both grew in the third quarter, thereby avoiding consecutive quarters of negative growth – the 'technical' definition of recession – neither flourished. Indeed, the UK recorded its slowest annual rate in almost a decade, while the German economy actually shrank in the six months to end-September.

FORECAST DOWNGRADE

In its latest economic soothsaying, published mid-October, the International Monetary Fund (IMF) said the global economy is growing at its slowest pace since the financial crisis and downgraded its 2019 world growth forecast to 3.0%, a 0.3 percentage point reduction from April estimates. It also stressed risks remain skewed to the downside and described the outlook as *'precarious'*.

GROUNDS FOR CAUTIOUS OPTIMISM?

The IMF did, however, predict growth will pick up in 2020, with the world economy forecast to expand by 3.4% next year. While this may suggest green shoots of recovery are set to emerge, it does also clearly imply any recovery is likely to be modest.

WHAT IS ETHICAL INVESTING?

Ethical investing has crossed over into the mainstream, as more investors choose to allocate their money toward companies whose practices and values align with their personal beliefs. These beliefs can be environmental, social, political or religious, for example.

Investors may wish to exclude certain industries or allocate their funds to sectors which match their ethical preferences. This can be achieved by creating an investment policy with specific rules which aim to avoid industries or companies that fail to meet the criteria.

INCREASED AWARENESS

Recent global climate protests have raised awareness, prompting people to question their (and corporations') impact on the environment, which is transcending to their investment preferences. Divestment from companies involved with fossil fuel extraction exemplifies peoples' desire to make a difference. Research shows that just under half (45%) of investors would move their money if they discovered it was invested in fossil fuels[7].

Not new to the investment arena, ethical funds have been around since the 1980s. Demand has accelerated at pace in the last few years, as more vehicles and opportunities for investment arise. An increasing number of investors (66%) would like their investments to support companies that have a positive contribution to the environment and society[7].

RESEARCH IS VITAL

There is clearly a growing movement towards greater mindfulness in 'good' investing. Research is important because even if a company's mission statement reflects the values and beliefs of an investor, it is possible their practices may differ. Selecting investments based on ethics offers no guarantee of performance. We can help you navigate the investment options available.

[7]Triodos, 2019

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WOMEN HAVE TWO-THIRDS LESS SAVED AT RETIREMENT

With people living longer due to higher living standards and better healthcare, people's pension savings are having to stretch further. This is an especially worrying thought for women, who have on average £106,000 less in their pension pots than men when they reach retirement.

While women have around £51,000 saved to see them through retirement, men have accumulated an average of £156,500 – leaving many women worried about financing the years ahead[8]. So, what's behind this gender discrepancy? It can be attributed to a number of causes:

PART-TIME WORK

Three times as many women work part-time than men. Lots of women therefore don't meet the £10,000 threshold to qualify for auto-enrolment schemes, and so are missing out on pension contributions from their employer[9].

TIME OUT FOR CHILDCARE

In fact, 36% stop working altogether, while 44% return to work on reduced hours, greatly diminishing their saving capacity[10].

MONEY TALK

According to a recent survey, money is a 'no-go' topic for 16% of women. This makes it hard for some to discuss their pension openly and get the advice they need[11].

PENSION EMPOWERMENT

There are things you can do to take control of your pension. Take time to understand your current situation, what you're contributing and how much you have saved. We can assist you in finding the most suitable pension scheme for you, helping you maximise your savings and getting you on the way to a comfortable retirement.

[8]Now: Pensions, 2019

[9]ONS, 2017

[10]The People's Pension, 2019

[11]Fidelity International, 2019

INVENTIVE INVESTORS LED THE WAY

We hear a lot about the need to diversify investments; the lesson involving eggs and a basket could become tedious if it weren't so important. Even savings accounts may need to be spread if you're placing money in excess of the limits for deposits covered by the Financial Services Compensation Scheme. The need for care is also obvious when buying investments that fluctuate in value and can, in a worst-case scenario, become worthless with no recourse to the FSCS. It's an age-old challenge.

Since the Medici Bank in Florence collapsed in 1494, it's been clear that even the most prestigious companies can fail unexpectedly. The South Sea Company in 1720 was a famous investment bubble that inevitably burst. A century or so after that, the Joint Stock Company Act 1844 made it possible for people to own shares in a company, free of personal liability for its debts. This was a major boost for London's already long-established stock exchange.

Failing companies, from banks to railway pioneers, were not unknown in Victorian times. Even after 1844, investors that made unfortunate choices could still face losses. There were also risks involved in buying bonds issued by governments around the world. In the 1860s, Philip Rose came up with the idea of a company that would buy and hold numerous investments for the benefit of its own shareholders.

In 1868, Rose created the world's first collective investment vehicle, the Foreign & Colonial Government Trust[12]. Initially it bought and held government bonds but later changed its name to Foreign & Colonial Investment Trust. It also refocused on investments that its managers believed could provide better returns for its shareholders. It still operates today, holding shares in about 450 companies across global stock markets.

More lessons were learned by investors in New York's Wall Street financial district in the late 1920s. Earlier in the decade US stock markets had boomed, but when the bull run finally ran out of steam, investors were all sellers and there were virtually no buyers. The Wall Street Crash of 1929 sent shockwaves around the globe. Concentration of investments in a few companies in a single country, investors were harshly reminded, was not a smart strategy.

Enter George Booth, who had earlier founded Municipal and General Securities[13]. He conceived a different pooled investment model, enabling more investors to participate by making his UK investment scheme open-ended. He would issue investors with units in his collective scheme and so, in 1931, the unit trust was born. Like investment trusts, unit trusts spread risk across shares and markets. As with investment trusts some 60 years earlier, many financial firms followed Booth into the unit trust market.

This article is not intended as a recommendation to invest in any of the schemes mentioned either by name or generally. Although they can aid the spreading of risk, shares and units in collective investment schemes fluctuate. We can help with your investment decisions.

[12]BMO Global Asset Management

[13]M&G Investments

IF YOU WOULD LIKE ANY ADVICE OR INFORMATION ON ANY OF THE AREAS HIGHLIGHTED IN THIS NEWSLETTER, PLEASE GET IN TOUCH.