Financial Viewpoint

THE David Smyth Practice
Personal and Corporate Financial Planning

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2018 Q2 Report

We've scoured the global news headlines to recap the most significant geopolitical and economic events which took place in the second quarter of 2018, as Donald Trump's unconventional approach to foreign policy sent mixed signals to the financial markets.

UK

Brexit dominated the political agenda in the UK throughout the quarter. Prime Minister Theresa May struggled to come up with a customs deal which would not only satisfy the European Union but would also be acceptable to Tory MPs on both sides of the debate. However, Parliament narrowly passed the EU Withdrawal Bill in June after Mrs May overcame challenges from the House of Lords and the House of Commons. Against this backdrop, the Bank of England decided not to raise interest rates, although a six-to-three split on the Monetary Policy Committee signalled the likelihood of a hike in August – something that was indeed realised.

US

Despite seeming unlikely in the preceding months Donald Trump became the first US President to meet with a North Korean leader when he travelled to Singapore in June for a historic summit with Kim Jong Un. The summit represented an important step in the thawing of relations between the two countries, although it failed to deliver any concrete outcomes. Meanwhile, the Federal Reserve – the most advanced of the world's central banks in the monetary tightening cycle – raised interest rates for the second time in 2018 and hinted at two more hikes over the next six months.

Asia

Trade tensions continued between China and the US, despite appearing to ease in April as President Xi Jinping offered foreign companies, including the finance and automotive industries, greater access to Chinese markets. Two rounds of talks failed to produce any tangible results, so Donald Trump followed through on his pledge to impose tariffs on Chinese goods. China responded in kind. In other Asian news, the Bank of Japan decided to scrap its goal of raising inflation to 2% by the end of the first quarter of 2020.

Europe

The US also introduced tariffs on European steel imports and the EU countered by imposing levies of its own on a range of American goods including motorbikes and whiskey. Turning to economics, the European Central Bank (ECB) decided to leave interest rates unchanged at its April meeting and announced it would scale back its monthly bond-buying programme after September 2018 and end it completely in December.

Latin America

Amid economic reforms, in May Argentina's central bank raised interest rates three times in eight days to 40%, as it attempted to support the peso and bring down inflation. Elsewhere, populist candidate Andrés Manuel Lopez Obrador topped the polls ahead of presidential elections in Mexico, and the US imposed new sanctions on Venezuela banning the purchase of debt owed to the government and state-run oil company PDVSA.

If you are concerned about how global events can impact your investment portfolio, please get in touch.

The cost of retirement

How much money do you think you'll need to receive each year of your retirement?

According to the investment manager Schroders, working people in the UK aged 55 and over believe this figure would equate to 66% of their current income, but the reality according to UK retirees is actually 53%.

Despite the 13% shortfall, the majority of retired people (92%) felt their retirement income was sufficient. This may not come as a surprise if we consider they are likely to be part of the baby boomer generation and therefore enjoy significant wealth compared to future generations of retirees who quite possibly won't have the benefit of a final salary pension plan.

It might also be the reason that these pensioners can afford to invest one fifth of their retirement income, with the aim of further improving living standards later in life - putting money away for potential care costs, or perhaps boosting their estate for the benefit of their descendants.

Saving more

The fact remains, however, that expectations can often differ from reality; creating a potential shock in store when you reach retirement. In its report, for instance, Schroders found that while people of working-age might expect to spend 38% on living costs in retirement, the figure is closer to 53%.

It's clear that the more you save, the more comfortable your retirement (subject to the usual investment ups and downs of course). And when it comes to making investment decisions for retirement, advice is key.

Whether you're early on in your career and just starting to think about putting money aside for retirement, or your last day at work is looming and you're preparing for a new phase in life, the investment and savings decisions you make now can make all the difference to how comfortable you are in your retirement.

Talk to us to find out more.

The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested.

Savers in the dark about their pension

Are you among the 30.4 million working-age people who don't know if their pension pot will be big enough to afford a comfortable lifestyle in retirement?

According to a report by the Pension and Lifetime Savings Association (PLSA), some of the blame for this worrying statistic could be down to simply not knowing how much retirement income is needed. Perhaps unsurprisingly then, 70% of those questioned said they would save more if they had a target to aim for.

So how do you go about finding the income target that's right for you?

We could look to Australia, where savers have defined income goals depending on whether they want a 'modest', or 'comfortable' standard of living in retirement. Here in the UK, if the study by Which? is anything to go by, every household needs a pension pot of at least £370,000 to feel comfortable in retirement.

Take control of your spending – and saving

Of course, everyday living expenses and the cost of renting or buying a home will take priority with your finances. And if you have a dependent family those 'everyday' costs will demand a bigger slice of your available income. But at the same time, it is extremely important to start saving as early as possible.

Worryingly though, current savers could be hugely underestimating how much they would need to set aside for retirement, with the average Brit saving just 12% of their annual income, something that would create a significant shortfall in disposable income once they reduce, or stop working.

We can help you set clear investment goals and plan for a comfortable retirement. Please get in touch to find out how.

While the PLSA is lobbying the government and the pension sector to introduce targets for savers, there are steps you can take to get to grips with your own financial situation and plan for the retirement you want:

1. Take control of your spending
2. Create a long-term financial plan
3. Explore ways to boost your pension pot
4. Monitor the progress of your plan
5. When the time comes, know when, and how best, to convert your pension savings into income

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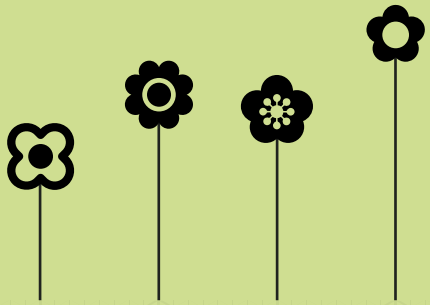
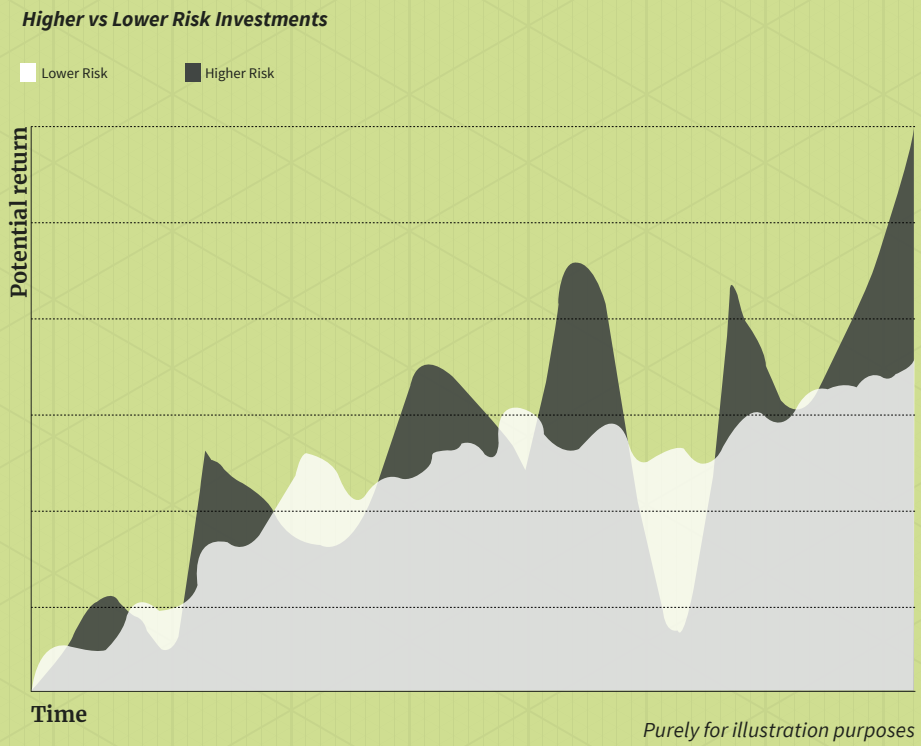
Risk vs reward

Despite the recent mortgage interest rate rise, savers will still struggle to enjoy any kind of growth on money they have on deposit, leading some to consider a riskier investment.

If you're considering investing in the stock market, an important – and very personal issue – is how you feel about the prospect of putting money at risk and your ability to accommodate any loss in value.





Factors in determining risk

As investment advisers, we will consider a range of factors when assessing your attitude to investment risk:

Age

How old you are may affect how you would like to invest, particularly the closer you get to retirement.

The need for emergency cash

You should always keep a certain amount readily accessible (for example, in a deposit account) in the event of an emergency or as a foundation for your longer-term savings and investment.

Can you afford to take a risk?

If your investments dropped in the short term, do you have the time to wait for them to recover?

Can you afford not to take a risk?

Leaving all your money on deposit may carry minimal risk, but you may miss out on higher potential returns and possibly see the spending power of that money fall due to inflation.

What's your appetite for risk?

It's a fact that risk and the potential for reward go hand in hand: Investments that are low in risk are low in potential reward, whereas the more risk you're willing to take with your money the greater the potential for reward.

Devising an appropriate investment strategy

Once you're clear – and comfortable – with the level of risk you need to take to reach your goals, you'll need an investment strategy that's finely calibrated to deliver the results you're looking for.

An important part of this is to avoid the 'eggs-in-basket' principle and make sure your portfolio is invested across a range of assets in order that the positive performance of some neutralises the negative performance of others.

You'll also want to know that your money is in the hands of some of the best and most consistent investment managers in the business and you'll need to give your investments time – the longer you can leave your investments in place, the more likely you are to cope with any short-term changes in market value.

Talk to us

As members of Openwork, the UK's largest financial adviser network, we follow a clear and thorough process designed to clarify exactly what you need from your investments. We also have access to a meticulously researched and managed range of investments specifically designed to meet different needs. Taken together, you will know not only that your money is in good hands, but also that given time, there is an increased level of probability that it will perform in line with your expectations.

Need advice?

Good investment advice involves building a clear picture of the results you're looking for, taking into account your current financial position, your future goals and your personal attitude to investment risk.

Talk to us for expert advice.

The value of investments and any income from them can fall as well as rise. You may not get back the amount originally invested.

The Junior ISA

Junior ISAs (JISA) are long-term, tax-efficient savings accounts for children, introduced in November 2011 to supersede the phased-out Child Trust Fund (CTF).

If you want to know more about investing for children, or yourself, please get in touch.

There are two types of JISA:

A cash Junior ISA - where you won't pay tax on interest on the cash you save

A stocks and shares Junior ISA – where your cash is invested, and you won't pay tax on any capital growth or dividends you receive

Since April 2015, anyone with a CTF has been able to transfer that money into a JISA. Whilst the savings limit for both the CTF and JISA are the same (£4,260 in the 2018/19 tax year) CTFs have become less innovative and attract a lower interest rate than JISAs, making the latter a more attractive proposition for parents looking to create a tax-efficient nest egg for their kids.

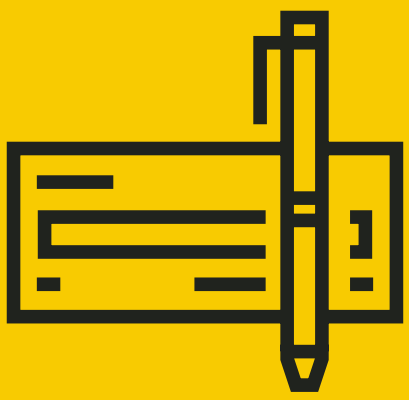
One, or both types of JISA can be opened by parents or guardians with parental responsibility for a child aged 17 or under who lives in the UK. The child takes control of the account when they're 16 (until then the parent manages the investment), but can only withdraw the money when they turn 18. Children aged 16 and 17 can open their own Junior ISA as well as an adult cash ISA.

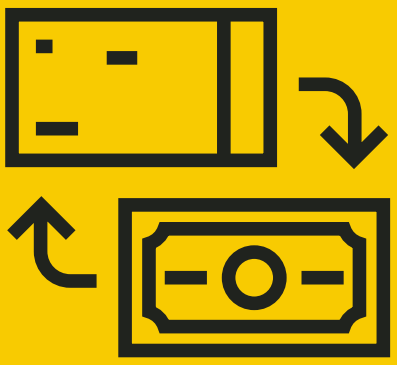
Topping up

Anyone can pay money into a JISA as long as the total amount invested is no more than £4,260 in the 2018 to 2019 tax year. If you've invested in both types of JISA, this is the total amount you can pay across the two accounts in the current tax year.

JISAs automatically lose their Junior status when the child turns 18 and the maximum contribution limit increases to that of an adult ISA. Which is £20,000 in the 2018 / 19 tax year.

The tax efficiency of ISAs is based on current rules. The current tax situation may not be maintained. The benefit of the tax treatment depends on the individual circumstances. The value of your stocks and shares ISA and any income from it may fall as well as rise. You may not get back the amount you originally invested.

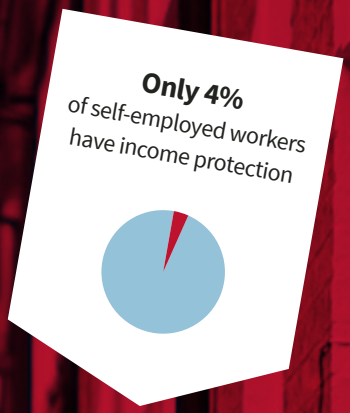




Self-Employed lack protection

Just 4% of self-employed workers have income protection in place, leaving the majority vulnerable to financial difficulties if they are suddenly forced to stop working through illness or accident.

In its survey of more than 9,000 adults, LV= identified the self-employed as a niche group who would struggle to make ends meet if they stopped earning. This is partly down to the fact that they have no employer's safety net and little, if anything, in the way of emergency funds.



The benefits of income protection

Income Protection pays out a regular income if you're unable to work due to an accident or illness or, with certain policies, unemployment. For a monthly premium that can be adjusted to suit your budget, this valuable insurance will help to reduce stress, prevent your family suffering financial hardship and help you get back on your feet.

And budget is clearly a factor when it comes to the self-employed taking out protection, with two fifths (41%) surveyed saying they could not afford to save money on a monthly basis.

LV= also found there was a lack of understanding among the self-employed, which could account for such a large number having no income protection cover. In fact, four out of ten self-employed workers mistakenly believe they aren't eligible for this sort of cover.

How can you protect yourself?

Most of us don't think twice when it comes to protecting our vehicles or treasured possessions, and yet it's our income that enables us to enjoy these material things. Those of us who are employed may have some kind of cover provided by their employer, but if you're self-employed you could be exposed.

If you'd like advice on how to protect your finances, or you'd like to review your protection needs, please get in touch.

What's stopping you from saving?

Generally speaking, and subject to investment charges and performance, the more you save and the earlier you start saving the better shape your finances are going to be in when you need to draw on them.

So why is it then that many of us are reluctant to put money aside for a rainy day, a specific objective, or – perhaps most importantly – our retirement?

We offer a professional and personal approach to your savings and investments, not only in the initial design of your strategy, but also over the long-term.

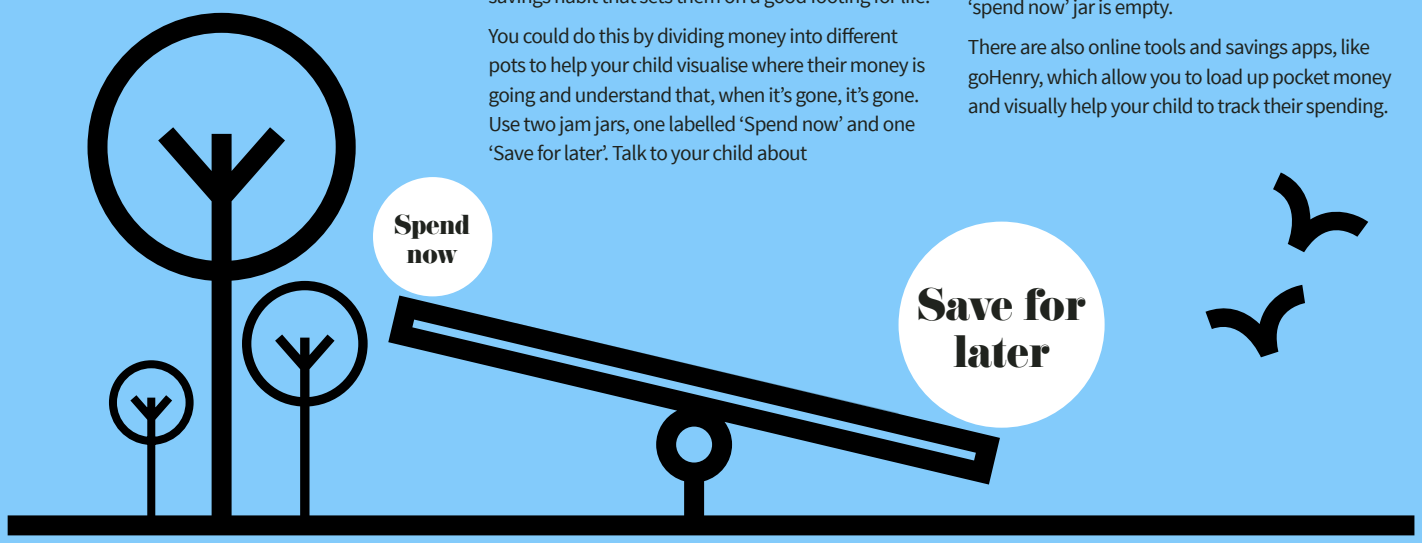
Please talk to us to find out more.

Start early!

Helping your child understand the value of money from an early age could help them develop a healthy savings habit that sets them on a good footing for life.

You could do this by dividing money into different pots to help your child visualise where their money is going and understand that, when it's gone, it's gone. Use two jam jars, one labelled 'Spend now' and one 'Save for later'. Talk to your child about how they would like to divide their pocket money or any cash gifts they receive between the two jars. If they keep their savings jar topped up, they can see they have rainy day money if they need it when their 'spend now' jar is empty.

There are also online tools and savings apps, like goHenry, which allow you to load up pocket money and visually help your child to track their spending.



Swap instant gratification for longer-term satisfaction

When you have spare cash it's lovely to spend it on a treat – after all, you don't get instant gratification from saving for the future. But with many of us enjoying long, hopefully healthy retirements thanks to advances in medical science, it's all the more important to invest now so that you have more time to build up a sufficient pension pot.

Think about what you want to do with your money and set clear achievable goals with milestones that make it feel like you're winning but will benefit you in the longer-term.

Don't bury your head in the sand

According to Which? every household needs a pension pot of at least £370,000 to feel comfortable in retirement – a target which could put people off from saving anything into their pension when they should be doing the exact opposite.

Don't ignore your future financial situation, talk to us for advice on how to achieve the retirement you want so that we can work with you to put a plan in place that will help you achieve your investment goals. We'll follow a meticulous process when it comes to helping you create the right portfolio of investments, starting with getting a deep understanding of the following:

1. What are your investment objectives?
2. What level of risk are you prepared to accept and what potential level of loss can your finances tolerate?
3. Which types of investments we think you should consider in light of your objectives and risk profile?
4. What the most tax-efficient way of holding these investments would be?
5. How your portfolio should be managed on an ongoing basis?

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