Investment Solutions

Ivan Lyons, FPFS
Fellow & Chartered Financial Planner
Managing Director

David Connor, APFS, Chartered MCSI
Chartered Financial Planner
Director

Angus Willson APFS
Chartered Financial Planner
Director

Investment Solutions
Grafton House
26 Grafton Road
Worthing
West Sussex
BN11 1QT

Tel 01903 214640
Email ifa@investment-solutions.co.uk
Website www.investment-solutions.co.uk

www.facebook.com/financialadviserworthing
@investment_sols

YOUR FINANCE *MATTERS*

Issue 13 Q4 2019

How much do you need to retire comfortably?

Tending your portfolio will make it bloom

On your radar – key personal financial tips

FINANCIAL LESSONS FOR THE NEXT GENERATION

PLANNING FOR A FAMILY

SAVE TO SUCCEED

INSIDE *THIS ISSUE*

HOW MUCH DO YOU NEED TO RETIRE COMFORTABLY?

People on an average salary who wish to retire at the age of 65 will now typically require a pension pot of almost £450,000 in order to fund their retirement until they are 100 years old, recent analysis has found[1].

Never too early to start saving

The research also shows that an individual who starts saving into a pension at 25 years of age will need to invest around £235 a month in order to accumulate a retirement fund of that size. However, a delay of 10 years would see this monthly figure almost double to £428, while someone who only starts saving at the age of 45 would need to set aside £859 a month to attain a pension fund of that size.

This analysis vividly demonstrates the benefit of starting to save for retirement at the earliest opportunity, ideally from the day you first start work. While other financial challenges can inevitably make this difficult, investing regular amounts in a pension throughout your working life provides the best chance of building up sufficient money to enjoy a prosperous retirement.

Better late than never

Although it's undoubtedly better to start saving for a pension early in your working life, it's never too late to begin saving for your retirement. Employer contributions, including those made through automatic enrolment, allied with the favourable tax treatment pensions enjoy and their potential for investment growth, means that any contributions you make later in life can also still make a huge difference to your standard of living in retirement.

Make pension saving a priority

While it can seem a long time until retirement, it does creep round a lot faster than people expect. So, the sooner you engage with the topic, the better the chance of enjoying the retirement you deserve.

[1]AJ Bell, June 2019

FCA to tackle web fraud

The Financial Conduct Authority (FCA) has established a 'war room' to tackle suspect investment schemes advertised online. This follows a wave of internet scams, often targeting vulnerable pensioners. The team aims to curtail the increasing number of internet-enabled fraudulent schemes, often operated by small groups of criminals, which are defrauding consumers out of hundreds of millions of pounds.

NS&I attracting youngsters

National Savings & Investments (NS&I) has seen a sharp rise in new customers under the age of 16. This increase is partly attributed to a raft of Premium Bond rule changes, including lowering the minimum investment from £100 to £25. And further rises are expected later this year when, for the first time, any adult will be able to buy Premium Bonds for any child.

Credit card debt at all-time high

Bank of England statistics show the total amount of UK credit card debt now stands at a record £72.9 billion, as lower interest rates have driven a decade-long consumer borrowing binge. The data also confirms, however, that a slowdown in the growth in borrowing that has been evident for the past three years has continued, suggesting people are reining in their spending.

Tending your portfolio will make it bloom

All successful gardeners will understand the need to regularly tend their plants, shrubs and lawns in order to ensure a garden can flourish. And, for investors, taking a similar approach with their financial affairs can also bear fruit by ensuring their investment portfolios don't become neglected and, as a result, underperform.

Weeding, sowing...

As with a garden, your investment portfolio requires regular, careful attention in order to ensure it continues to grow. Typical tasks include weeding out any perennially underperforming funds and switching to potentially more profitable ones and, for those with new money to invest, sowing the seeds of your portfolio with carefully selected additional new investments.

...pruning and trimming

Another important task is pruning. This will ensure your investment portfolio stays balanced and continues to fully reflect both your current and long-term financial goals as well as any changes in your appetite for risk. It may also require taking profits at certain points in time to ensure you are using any potential tax allowances.

However carefully your initial range of investments were selected, your portfolio will also inevitably get out of shape over time. This creates an ongoing need to regularly review the allocation of different asset classes, such as cash, equities, bonds and property. And such a review may result in the trimming back of certain assets in order to restore balance to your portfolio.

Help is at hand

Many people now seek professional help to create and maintain their garden and it's obviously wise for investors to do the same thing. Indeed, with ongoing political and economic uncertainties causing increased market volatility, there has arguably never been a more important time to seek professional financial advice. Keep in touch, so that we can help you keep your investment portfolio in full bloom.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

ON YOUR RADAR – KEY PERSONAL FINANCE TIPS

Taking the time to tune in to a few key pointers can really benefit your finances, helping you plan and manage them effectively.

SAVE INTO YOUR ISA

The ISA allowance for 2019-20 is £20,000. Don't miss this opportunity to save or invest tax-efficiently. We can help you choose the right ISA for your needs.

KEEP TABS ON YOUR PENSIONS

If you've moved jobs a few times, it's likely you've paid into several pensions. It's important to know what your entitlements are; we can advise you whether you'd be better off consolidating them.

YOUR STATE PENSION AGE AND ENTITLEMENT

If you're not sure when you'll receive yours, you can check the date and get a forecast of the amount you'll receive on the government's website https://www.gov.uk/check-state-pension

YOUR HOME CONTENTS POLICY – DON'T RISK BEING UNDERINSURED

If you don't insure your possessions for the right amount and if you make a claim you could find your insurance company reduce your payout. It may be time to increase your sum insured in line with the value of your contents.

YOUR MORTGAGE RATE OF INTEREST

With the monthly mortgage repayment often a family's largest outgoing, it's important to review your mortgage, as there may be a better deal to be had by remortgaging, especially if you're currently paying interest at your lender's standard variable rate.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

The ISA allowance for 2019–20 is
£20,000
Don't miss this opportunity to save or invest tax-efficiently. We can help you choose the right ISA for your needs.

As a mortgage is secured against your home or property, it could be repossessed if you do not keep up mortgage repayments.

Inheritance Tax update

The Office of Tax Simplification (OTS) has published a second report in relation to its Inheritance Tax (IHT) review. The report, published in July, spans 103 pages and is entitled 'Simplifying the design of Inheritance Tax'.

Recommendations

The report explores the main complexities and technical issues associated with IHT, making 11 recommendations which the OTS believes would make the tax easier to understand. Four of these relate specifically to lifetime gifts and aim to streamline gift exemptions and change the way the tax works in this area to make it simpler and more intuitive.

Other recommendations consider IHT in relation to businesses and farms, addressing distortions in the operation and scope of reliefs such as those for business property and agricultural property. A further recommendation focuses on the interaction between IHT and Capital Gains Tax.

An unpopular tax

The OTS has acknowledged that IHT remains unpopular and raises strong emotions amongst the public. The Treasury, who commissioned the report, said it will respond to the recommendations in due course. We'll keep you updated on any further developments.

The Financial Conduct Authority does not regulate some forms of taxation advice.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

Financial lessons for the next generation

Passing money from one generation to the next can be a difficult issue for parents, particularly when it comes to ensuring children are ready to take on the responsibility of handling family wealth. However, while discussions about money can be uncomfortable, the key to instilling financial responsibility undoubtedly centres on education and communication.

Sooner rather than later

Although each individual family's dynamics and circumstances will be different, the best course of action is typically to begin the process at an early age. This involves talking about a variety of age-appropriate topics in order to initiate and simplify the financial education process.

During their school years, for example, discussions may focus on basic money management skills with reference to pocket money and introducing concepts such as 'saving'. When children are studying at university, the emphasis will shift to applying financial concepts such as budgeting and also introducing other ideas such as investment principles.

Expanding the scope

Once your children start their careers, they will require more in-depth knowledge and advice on specific issues such as investing, pensions and taxation. Other topics for discussion may include charitable-giving options, and a range of financial concepts such as mortgages, trusts and Wills.

The final phase usually takes place when your children are in their forties and involves preparing them for financial leadership. This is likely to include discussions about the wealth-transfer process and future plans relating to how family assets are to be divided.

Increasing importance

In many ways, today's youngsters face greater financial challenges than their parents or grandparents. And this increasing burden of financial responsibility inevitably heightens the need to make the transfer of family wealth as smooth and successful as possible.

JISAs GAINING IN POPULARITY

As the emphasis on intergenerational wealth planning intensifies, the popularity of the Junior ISA shows no sign of subsiding. The JISA star continues to rise, with almost 15% more plans subscribed to in 2017/18 than the previous year. Some of this growth can be attributed to the flexibility of the JISA to fit into financial plans, where the aim is to pass wealth down the generations.

A JISA can be set up by the individual with parental responsibility for a child under the age of 18. However, a great benefit is that anyone can pay into the child's JISA, including parents, grandparents and godparents, within the child's allowance of £4,368 in the 2019-20 tax year. Like any other ISA, if the subscription is not used up in a tax year, there is no opportunity to carry forward unused subscriptions. With income and gains from savings and investments exempt from Income Tax and Capital Gains Tax, it's a win win. In normal circumstances, savings and investments held in a JISA cannot be accessed until the child reaches 18.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

Over-55s struggle with pensions jargon

A recent study[2] has found that a significant proportion of over-55s struggle to understand a range of key terms and rules relating to pensions. The survey asked 2,002 UK adults to identify and define various pension-related terms and acronyms.

Baffled...

Findings from the survey highlighted a serious lack of pensions knowledge, even amongst those people who have already reached an age where they can access any defined contribution personal pensions savings they have accumulated. With only one in five baby boomers (aged 55 to 75) able to correctly identify the definition of the Lifetime Allowance and almost two in three incorrectly defining the Annual Allowance, it is clear that many people are struggling to understand the terminology relating to their pensions.

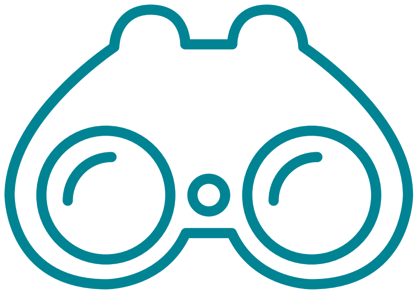
...and confused

In addition, very few respondents were able to correctly identify key pension acronyms. For example, only 4.5% recognised TVAs (transfer value analysis) and just 1% identified TVCs (transfer value comparator) as pensions acronyms. Adding to the confusion, around 4% of respondents in each case thought that the texting acronym LOL, the television shopping channel QVC and the footballing term 'offside' were all pension-related terms.

Cutting through the jargon

If you are one of the baffled and confused, then don't panic, you're certainly not alone! We know that many people view pensions as complex products and are often bemused by the complicated array of acronyms and jargon pension providers use. Funding your retirement and feeling confident that you understand your pension products is vitally important. So, we're here to help. We'll cut through the jargon, explain everything in plain English and help guide you through the pensions maze using language you'll understand.

[2]Portafina, June 2019



UK DIVIDEND OUTLOOK

Although the overall level of dividend payments recently rose to another all-time high, the outlook is less favourable, and it may be time to temper expectations.

Underlying weakness

According to data[3], total dividends paid by UK listed firms rose to £37.8 billion in the second quarter of 2019, a rise of 14.5%. This can be attributed to the continued Brexit-related weakness in sterling and buoyant special dividends. The exchange-rate effect accounts for half the underlying growth rate. UK dividends benefit from the weaker pound because multinationals earn the majority of their profits overseas.

The data also revealed a weakening in the underlying growth of UK company payouts. And this weakness implies a more cautious outlook for future dividend payments.

[3]Link Asset Services, July 2019

THE GROWING APPEAL OF MULTI-ASSET FUNDS

It's no secret that, in recent times, a combination of geopolitical uncertainties, weaker growth and increased volatility has heightened awareness of risk amongst investors. And this, in turn, has sparked fresh interest in multi-asset funds, as investors try to manage risk and protect capital whilst also seeking growth opportunities.

Why invest in multi-asset funds?

Multi-asset funds invest in a combination of asset classes, which typically include equities and bonds, but can also cover a wider range of assets such as property and commodities. Their appeal is that they provide diversification and thus ensure investors 'do not put all their eggs in one basket'.

Surge in sales

Increased interest in this sector has fuelled a surge of new money into existing funds and a flurry of new fund launches too. According to Morningstar, there are now 1,027 UK domiciled multi-asset funds, while Investment Association data shows the mixed-asset sector was last year's best-selling asset class with net retail sales of £7.9 billion.

While the wide choice of funds is clearly great news for investors, it has enhanced the need to seek advice.

Interesting times ahead

Recent data shows the global economy faltered in the second quarter of 2019. Policymakers have begun to respond, with the US Federal Reserve (Fed) cutting rates for the first time in a decade, but with the US-China trade dispute rumbling on and another Brexit deadline looming, fears of a global recession have increased.

Economic growth

Second-quarter gross domestic product (GDP) statistics have revealed a significant weakening in growth across most major economies. In the US, for example, GDP rose at an annualised rate of 2.1%, significantly below the 3.1% recorded in the first quarter, while China's annualised growth rate of 6.2% was the country's weakest since records began in 1992.

Fed reduces rates

With fears of a potential downturn growing, the Fed cut its key benchmark interest rate by a quarter of a percentage point on 31 July, the first reduction in US borrowing costs since 2008. It also signalled a readiness to provide further support if the economic outlook deteriorated further.

Recessionary fears

Global growth momentum has clearly waned in recent months and the balance of risks to the world economy appear skewed to the downside. The US-China trade war continues to cast a shadow over growth prospects, while the increased likelihood of a disorderly Brexit is also causing consternation.

Focus on what really matters

Many investors are getting used to a variety of political, financial and economic factors and learning to look through the 'noise' to focus on what really matters. Portfolio diversity holds the key to approaching your investments and managing risk. Having different assets in your portfolio from different sectors and global regions is helpful in achieving this. It is important to think about longer-term timescales instead of focusing too intently on short-term events and market fluctuations.

What is clear is that financial advice is essential to help position your portfolio in line with your objectives and attitude to risk. Remember to get in touch if you have any changes in your personal circumstances which may affect your objectives, risk and capacity for loss.

MAKING THE MOST OF YOUR TIME AND MONEY

Analysis of HMRC data[4] has highlighted the fact that a majority of pensioners are continuing to save for their future. The latest HMRC statistics reveal that the average value of an ISA held by someone aged over 65 now stands at £47,000, an increase of £4,500 on the previous year.

A cautious approach

The data indicates that many pensioners may be putting aside money to cover unforeseen costs, such as a broken boiler and to buy more expensive one-off items rather than relying on their day-to-day income to pay for such things. It seems other over-65s are continuing to save through fear of running out of money and whilst this may be a good idea in many cases, some over-65s could be living unnecessarily frugal lives as a result of this fear.

Finding the right balance

It is always a fine balancing act ensuring you plan for your future without forgetting to live in the present. Seeking sound financial advice can help to ensure you achieve the right balance.

[4]Just Group, May 2019

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

Poor financial wellbeing impacting employees

Do you spend much time fretting about money? If your finances cause you sleepless nights, you're certainly not alone. With mental health and wellbeing increasingly under the spotlight, financial worries are a big contributor, including for those in steady employment.

A Financial Wellbeing Index[5], assessing the financial wellbeing of UK employees, reveals a large number of UK employees are suffering from money worries, with over three quarters (77%) of the workforce saying that money worries impact them at work. This figure was even higher for millennials at 87%.

It seems that over a third (34%) of people are not financially prepared for a loss of income or unforeseen costs. Although one of the biggest money worries was coping financially if they lost their job, only 8% of employees have purchased an income protection product.

A large part of financial wellbeing is having the confidence that you can achieve your financial goals. It was therefore surprising to find that 55% of employees do not have a financial plan and 76% don't know what tax allowances and reliefs are available to them or have some awareness but are not sure if they are taking advantage of them.

[5]Close Brothers, Mar 2019

a large number of UK employees are suffering from money worries, with over three quarters (77%) of the workforce saying that money worries impact them at work

Drawdown retirees unaware of income flexibility

A YouGov survey commissioned by Zurich[6] has revealed that most retirees in drawdown are unaware they can vary their level of income. And, perhaps unsurprisingly, the research also found those not receiving financial advice were more likely to be in the dark.

Importance of advice

The study suggests over half of individuals who have unlocked their savings since the introduction of pension freedoms in 2015 were unaware they could scale back or stop withdrawals from their pension funds despite flexible income being a key feature of drawdown.

A stark difference was also revealed in the knowledge of those who had sought advice and those who hadn't. Indeed, while only 35% of non-advised retirees knew they could reduce drawdown income, 77% of respondents receiving ongoing advice were aware of this fact.

'Pound-cost-ravaging' trap

There is a danger to this ignorance as it puts investors unwittingly at risk of draining their pension pots if stock markets fall. This is known as 'pound-cost-ravaging' (not to be confused with 'pound cost averaging') and is where people are forced to sell more investments to achieve unsustainable income levels. Engaging with your drawdown savings is vitally important; we're here to help you plan effectively.

[6]Zurich, June 2019

> ...over half of individuals who have unlocked their savings since the introduction of pension freedoms in 2015 were unaware they could scale back or stop withdrawals from their pension funds...

SAVE TO SUCCEED

Data[7] has revealed that 20% of 16 to 21-year-olds believe they will "need savings to succeed in life", but 17% say they currently don't save anything. Of those who save regularly, six out of ten put their cash with a bank, while 22% save money at home.

One fifth of respondents were unable to identify what 'ISA' stands for, whilst 33% didn't know how much you can save into one. Four out of ten said they don't have an ISA; the survey suggests that a lack of knowledge and financial education is partly to blame.

The survey highlights that family members are integral to encouraging this age group to save money, as 15% of respondents said they would definitely save more if their family was better at saving.

[7]BMO, 2019

What is infrastructure investment?

Investment in infrastructure has grown in popularity over the years, but what does it actually mean? Essentially, infrastructure refers to the basic systems and services that a country needs to function, and includes energy, transportation and communication networks. So, it includes the roads you drive on, the airports you fly to and from, and the mobile phone masts that enable us to receive and make calls. These infrastructure systems, which require large initial investments, are essential for enabling productivity in any modern economy.

As you would imagine, capital outlays for these infrastructure projects can be considerable, prompting financially constrained governments to turn towards the private sector to provide funding.

Infrastructure is generally regarded as a defensive asset class, which has a low correlation to other assets. Some companies and individuals like to invest in infrastructure funds for their defensive characteristics, such as funds involved in transportation or water infrastructure.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

Planning for a family

There are so many vitally important, exciting preparations to make when you are expecting a new baby. While financial planning may not be the most interesting task on the 'to do' list, it is definitely amongst the most critical and certainly should not be put off.

Take stock

Raising a child to the age of 18 can be a costly affair, especially when childcare and school fees are factored in. And parents will typically find themselves having to meet these new costs on a significantly reduced household income. Thorough financial planning before the birth is therefore imperative.

Save, save, save

It's always a good idea to open a savings account before starting a family in order to amass the funds required to cover initial expenses and to help finance the early months when most new parents take a hit to their income. Additionally, reducing outstanding debts is often a sensible strategy that can ultimately save money in the long run.

The future

As well as finding the money to meet the initial costs of a new baby, there are a number of other financial planning decisions it is advisable to consider when starting or expanding a family. For instance, welcoming a new arrival into the family may necessitate extra life protection, a new Will, a change to the named beneficiaries in a pension and even the opening of new savings or investment accounts such as Junior ISAs.

Financial review

So, if you are considering parenthood, it makes perfect sense to review your finances first in order to ensure a financially secure future for yourself and, more importantly, for your whole family.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

GENDER PROTECTION GAP REVEALED

Figures released by financial software firm IRESS highlight a substantial difference in protection sums assured across the gender divide, raising concerns that women are at far greater risk of being underinsured than their male counterparts.

Stark contrast

While the analysis[8] found no significant difference in the number of men and women arranging protection cover, it did reveal large variations in the sums assured. For instance, male sums for critical illness were typically 90% higher than equivalent female ones, while for life cover, the difference was over 50%.

Given the gender pay gap, it may be expected that men will have more protection cover than women. However, IRESS Executive General Manager, Dave Miller, admitted to being 'taken aback' by the size of the differences.

Review your cover

If you're concerned about your level of cover it might be time to review your protection needs. Cover is relatively affordable and should form an integral part of everyone's financial planning. Get in touch.

[8] IRESS, July 2019