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YOUR FINANCE **MATTERS**

Issue 29 Q4 Autumn 2023

Achieving your long-term financial goals

Lifetime Allowance removal provides pension boost

Overcome the complexities of succession planning

The FIRE investment movement

'Megatrends are defining the future'

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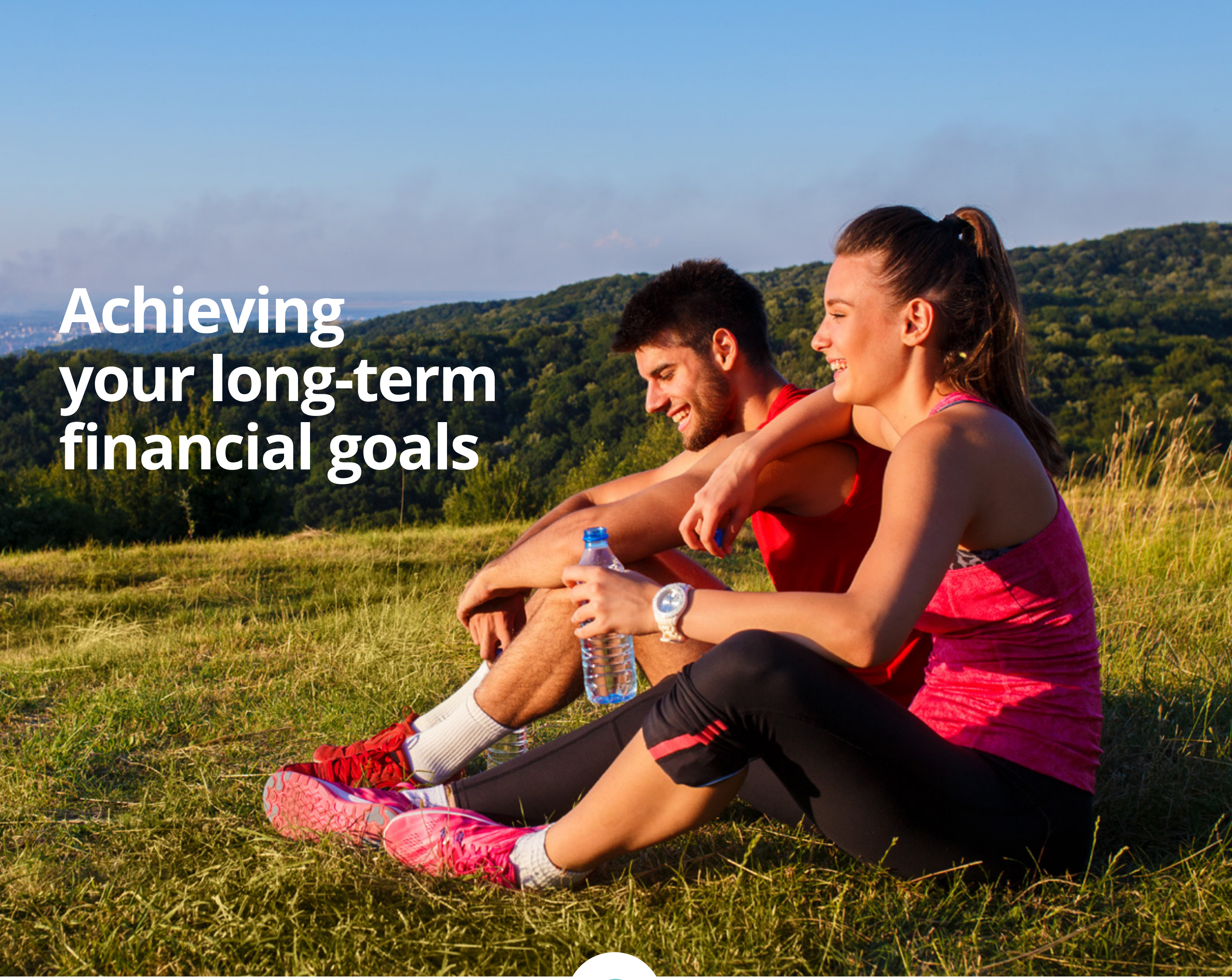

Achieving your long-term financial goals

After more than a decade of putting up with paltry savings rates, the sharp increase in rates over the past two years has certainly brought considerable cheer to savers. However, while the rise is welcome, it is important savers do not overly rely on cash savings but carry on investing if they are to maximise returns and achieve their long-term financial goals.

Think holistically

Although the availability of higher rates has provided a boost to cash savings, assessing the appropriate amount to hold in rainy-day funds is always difficult, particularly given recent cost-of-living pressures. However, history suggests holding too much money in cash can hold back your future wealth, as returns on both bonds and equities have a better long-term record in terms of outpacing inflation.

> ***History suggests***
> *Holding too much money in cash can hold back your future wealth, as returns on both bonds and equities have a better long-term record in terms of outpacing inflation*

Time in the market

History also suggests long periods out of the market increase investors' chances of underperforming. This is because, while cash rates may look attractive, knowing when to sell and buy back into the market is extremely difficult if not impossible, particularly when markets are volatile. The best approach is therefore usually to stay in the market and build a portfolio capable of capitalising on any improved outlook in order to maximise potential long-term gains.

Don't be intimidated

Another reason why some people might shy away from investing is because they feel overawed. Indeed, a recent survey[1] found that half of the UK population admits to being intimidated by investing, with more respondents saying it would be easier to learn a new language than start investing. On a more positive note, however, other research[2] recently showed growth in the uptake of regulated financial advice, with 4.4 million UK adults seeking advice in 2022, up from 3.8 million two years earlier.

Here to help

And of course, we're always here for you; so, if you need any advice get in touch and we'll help you build an investment strategy focused squarely on your future dreams and aspirations.

[1]Lloyds Bank, July 2023, [2]FCA, July 2023

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Lifetime Allowance removal provides pension boost

Several months have passed since the Spring Budget, which, although not necessarily packed with good news stories, held one announcement that certainly did bring considerable cheer to higher rate taxpayers. A recent survey has revealed the dramatic impact that Chancellor Jeremy Hunt's decision to scrap the pension Lifetime Allowance (LTA) is having on people's retirement planning strategies.

Purpose of the move
In his first Spring Budget Statement delivered on 15 March, the Chancellor announced that the LTA charge would be removed from April 2023 and that the LTA would be abolished altogether from April 2024. This decision was essentially designed to remove a disincentive for retirement saving amongst higher earners and dissuade an increasing number of this group from retiring early.

Boosting pension contributions
New research[3] suggests the change has already had a significant impact on higher earners' pension saving and retirement planning decisions both in terms of spurring more contributions and encouraging retirement delays. According to the survey, 51% of higher rate taxpayers have restarted, increased or made plans to increase their pension payments since the announcement, with average additional payments amounting to £650 a month.

Extending working lives
In addition, 23% of respondents said they had delayed their planned retirement or are likely to delay their retirement due to the fact that they can now save a higher amount in their pension pot without facing a heavy tax charge. Furthermore, around 10% said they had actually come out of retirement as a result of the change, while another 6% were planning to come out of retirement.

Advice is paramount
While abolition of the LTA has undoubtedly simplified some decisions in relation to retirement and estate planning, it has also effectively increased the need for clients to seek professional advice on their pension arrangements due to the change in tax treatment. There is also always an element of political risk in financial planning which means clients may need to act quickly if they are to make the most of the opportunity the Chancellor has provided.

[3]Investec, July 2023

In the news

Cost of raising a child soars

Recent research[4] has found that the cost of raising a child has increased by 10% over the last year, with the average UK family spending £223,256 in their offspring's first 18 years. This works out at over £12,000 a year per child. The research looked at the different costs associated with bringing up children, ranging from essential through to leisure activities.

End to rising wealth

The Resolution Foundation has found that the cost-of-living crisis, coupled with the monetary policy response, has put an end to the trend of rising wealth in the UK. The independent think-tank estimates that the wealth-to-GDP ratio fell to around 650% by early 2023. This is by far the biggest fall on record as a proportion of GDP, wiping out £2.1trn of household net worth in cash terms.

Gender pensions gap

There is still a wide gender pensions gap – recently published government data (for 2018–20) shows a gap between median male and female private pension wealth of 35% overall. The size of the gap varies according to age, with women aged between 45 and 49 seeing a 47% chasm relative to men in the same age group.

[4]Moneyfarm, 2023

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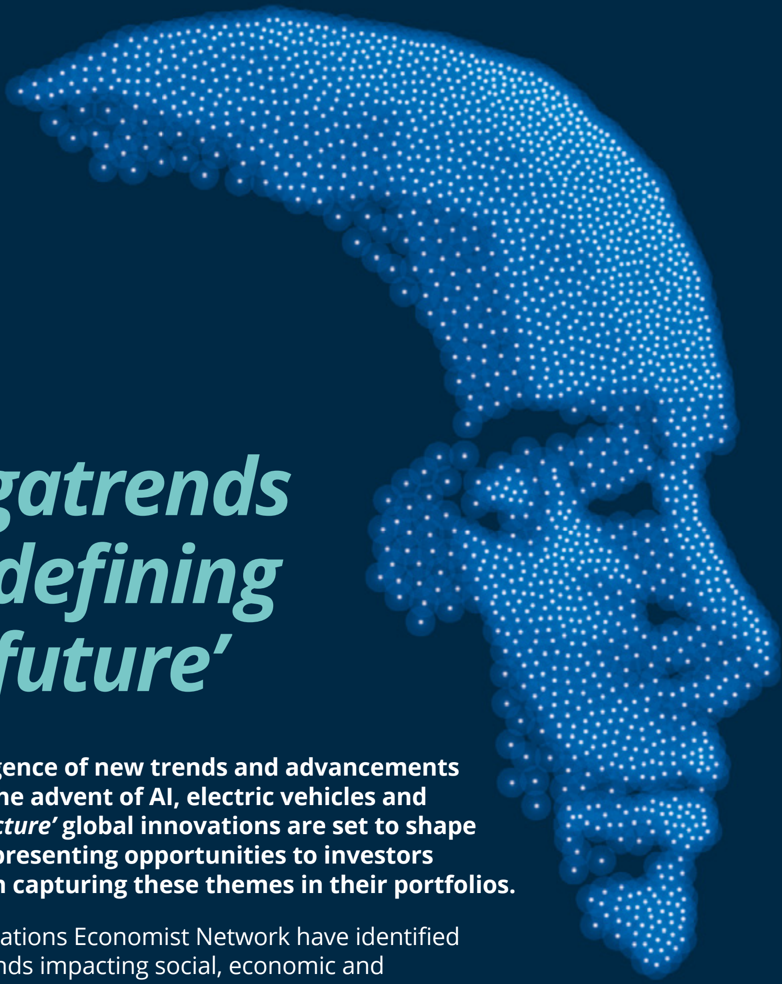

'Megatrends are defining the future'

The emergence of new trends and advancements such as the advent of AI, electric vehicles and other *'big picture'* global innovations are set to shape our future, presenting opportunities to investors interested in capturing these themes in their portfolios.

The United Nations Economist Network have identified five megatrends impacting social, economic and environmental outcomes, these are – climate change, demographic shifts, urbanisation, digital and disruptive technologies and inequality. The World Economic Forum have noted that *'megatrends are defining the future... short-term investors can be opportunistic, but long-term investors have to be more strategic, particularly in the face of these megatrends.'*

'Big picture' global innovations are set to shape our future, presenting opportunities to investors interested in capturing these themes in their portfolios

An ever changing world, creates opportunities and challenges
Developing a strategy and adding thematic investments to a portfolio can enable investors to align their personal objectives and interests, as well as identifying and hopefully capitalising on changes believed to be disrupting established markets and industries. By combining thematic elements with a well-diversified and well-managed core portfolio, investors could achieve balance between opportunity, risk and performance. Advice to identify these potential opportunities is essential.

Crackdown on *'finfluencers'*

Influencers who generate content on financial topics are rapidly rising in popularity on social media, having been dubbed *'finfluencers.'*

The good news is that finance is becoming more accessible and appealing to younger generations through bite-sized, more light-hearted formats. Coupled with a lack of financial education in their school years, Gen Z and millennials are increasingly turning to finfluencers to improve their financial education and boost their levels of financial literacy. Unfortunately, this demand is not always being met by those qualified or experienced enough to educate others.

City watchdog involvement
The Financial Conduct Authority (FCA) is working with the Advertising Standards Authority to help educate influencers and consumers about the risks involved in promoting financial products.

Sarah Pritchard, FCA Executive Director, Markets said, *"We've seen more cases of influencers touting products that they shouldn't be. They are often doing this without knowledge of the rules and without understanding of the harm they could cause their followers. We want to work with influencers so they keep on the right side of the law, as this will also help protect people from being shown scams or investments that are too risky."*

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The FIRE investment movement

Many of us dream about retiring early so we can devote more time to things we enjoy; but financial realities inevitably mean few of us actually realise those dreams. A growing number of people though are turbo-charging their chances of early retirement success by embracing the FIRE principles of investing.

We didn't start the fire
The FIRE movement began in the US but now has a growing band of UK-based devotees. The acronym stands for *'Financial Independence, Retire Early'* with followers adopting extreme saving techniques in order to invest as much as possible during their working years so they can attain financial independence at a relatively young age. For some, the ultimate goal is retirement in their late thirties or early forties, while for others it's simply the financial freedom to be able to work part time.

> ***Financial Independence, Retire Early***
>
> *FIRE followers adopt extreme saving techniques in order to invest as much as possible during their working years*

Playing with fire
Some of the key principles associated with the FIRE movement include maximising savings, with followers setting aside up to 70% of their income every month; paying off all debt, including a mortgage; and living exceptionally frugally. Devotees also save via investment products, such as a stocks and shares ISA, in order to maximise returns while sheltering proceeds from the taxman.

Eternal flame
Another pillar of the FIRE movement is the *'4% rule'*, a formula used to calculate when someone has enough money to stop work. In simple terms, 4% is the amount someone can typically afford to withdraw from their retirement pot each year without too much risk of running out of money. So, if someone expected to spend £20,000 a year, they would need a pot worth at least £500,000.

Light my fire
Creating a clear, appropriate investment goal is key to financial planning success, and FIRE investors have certainly nailed that. Furthermore, the basic principles do make sound financial sense. So, if early retirement is a burning desire for you, it might just be worth joining the FIRE brigade.

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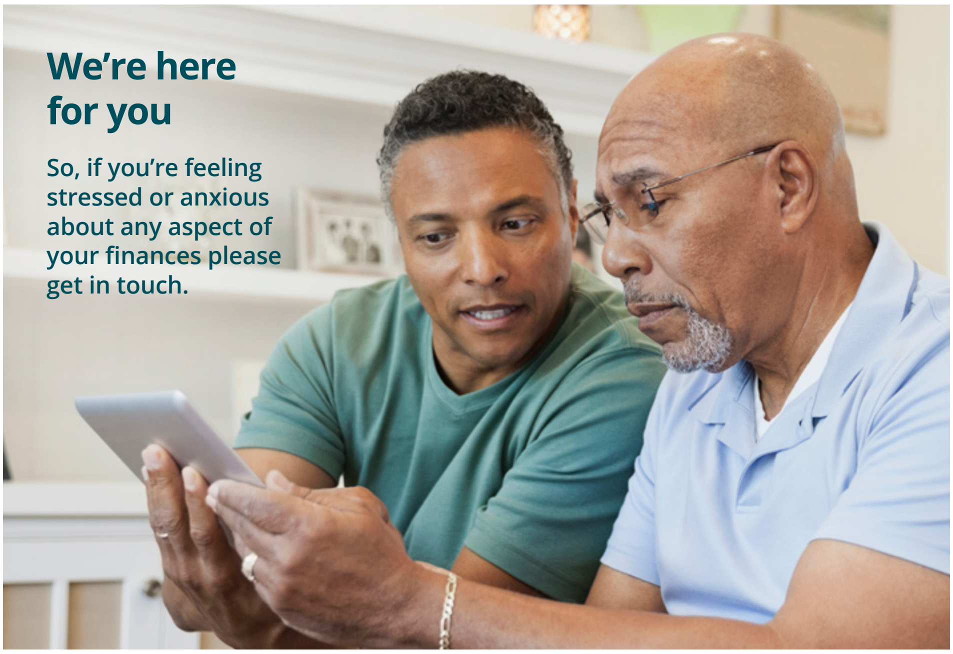
It's good to talk

A pandemic closely followed by a cost-of-living crisis has undoubtedly created a challenging financial backdrop for us all and inevitably heightened money-related stress and anxieties. At times like these, it's more important than ever to open up and talk any concerns through with loved ones or a professional adviser in order to protect both financial and mental wellbeing.



We're here for you

So, if you're feeling stressed or anxious about any aspect of your finances please get in touch.

An intricate link
The sheer volume of negative news stories relating to the economy and household finances makes it almost inevitable that this doom and gloom plays on people's minds. Research highlights a clear, if intricate, link between financial and mental health, with a poll conducted by the Money and Mental Health Policy Institute revealing that 86% of people experiencing mental health problems believe their financial situation worsened their mental wellbeing.

Long-term outlook
While it is obviously normal to worry about finances, things are not usually as bad as people fear. This is particularly true for those who have developed a well-structured long-term financial plan. In this case, talking through any potential problems with us typically provides much-needed reassurance and can ease any concerns you may have.

Emotional value of advice
Indeed, while financial advice clearly delivers benefits on many fronts, emotional support is one aspect particularly valued during challenging economic times. We are able to provide clients with a more holistic market insight that considers positive as well as negative factors and provides a sharp focus on potential opportunities. This can bring considerable comfort and peace of mind to clients, with the reassurance of knowing long-term financial plans remain firmly on track.

Tax punishment on prudence

Taxes on savings and dividends are set to top £24bn this fiscal year in what is being seen by some as a fresh attack on savers who have shown prudence and thrift.

Savers hit...
Higher interest rates mean that more savers are being drawn into paying tax by crossing the Income Tax savings threshold. Interest earned on savings is only tax-free up to a maximum of £1,000 a year for basic rate taxpayers and £500 for those paying the higher rate. HMRC is expected to raise £6.6bn in 2023-24, which is more than five times higher than two years ago.

.. and those getting dividends
Individuals who own significant dividend-paying stocks or rely on dividends as a primary source of income have also been hit, with the annual Dividend Allowance having been halved from £2,000 to £1,000 in April 2023, and halving again in April 2024, to stand at just £500. The take on Dividend Tax is set to increase by almost £2bn to £17.6bn this tax year, according to new figures from HM Revenue and Customs (HMRC).

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Overcome the complexities of succession planning

Succession, the hugely popular TV show, highlights the complexities of wealth transfer. There's a lot to think about when passing on your wealth – as well as the risk of family disputes, tax implications need to be taken into consideration.

Preserving, planning and communication
As families accumulate wealth and assets it becomes important to preserve these and to plan the transfer across generations. Without a solid succession plan, a family's hard-earned wealth could be at risk of erosion or loss, leading to potential disputes down the line.

Open communication through proactive discussions with all family members is important.

Take care with property
If you're planning to gift property during your lifetime, you need to be aware of complicated Inheritance Tax (IHT) rules around this. For example, if you gift a house to a family member but continue to benefit from it in some way, it will remain part of your estate when you die and HMRC could tax your loved ones at 40% on anything over the tax-free threshold.

Reclaiming overpaid IHT
Even when the estate has paid any IHT that's due, that's not the end of the story. Following several years of significant house price growth during the pandemic, property prices are now falling. This means that properties that were valued for IHT at the height of the pandemic are now likely to sell for less. Over the years, stock market volatility due to political and economic uncertainty has also led to investment losses for many. So, the IHT bill may have been overpaid and the estate will need to put in an overpayment claim.

There's plenty to consider. For support with your succession plans, get in touch.

In other news

More pension savers want to exclude oil

New analysis[5] has revealed an increase in the number of pension savers who would like to see the oil sector completely excluded from their pension investments, up from 15% in 2022 to 21% in 2023. Of the remaining 79%, almost half said they would only continue to invest in this sector if companies show a concrete commitment to cutting greenhouse gas emissions and improving their environmental impact. Alongside oil, investors were also concerned about companies contributing to deforestation and habitat destruction, predatory lending, and investments in alcohol and gambling.

With COP28 kicking off in the United Arab Emirates on 30 November it will be interesting to hear further views on this from the pension and investment industry and groups such as the Net-Zero Asset Owner Alliance, plus the intentions of the oil sector in committing to net zero.

Artificial Intelligence (AI) to be regulated

AI is having an impact on almost all areas of life, including financial services. With the government calling on the UK to be the global hub of AI regulation, the FCA has announced its intention to regulate critical third parties, including AI services, for the UK financial sector. Commenting on the FCA's role, Nikhil Rathi, FCA Chief Executive said, *"While the FCA does not regulate technology, we do regulate the effect on – and use of – tech in financial services."*

He added, *"As the Prime Minister has set out, adoption of AI could be key to the UK's future competitiveness – nowhere more so than in financial services."*

[5]PensionBee, 2023

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 Financial Conduct Authority (FCA) does not regulate Will writing, tax and trust advice and certain forms of estate planning.

Dividend Allowance cuts: implications for investors

With the UK in the midst of a sharp tax-raising drive, understanding the full impact of fiscal changes on investments has arguably never been so critical. One area that has been subject to particularly draconian reductions is Dividend Allowance, with changes in this area likely to have a significant impact on many investors.

Six-year slide

The annual tax-free Dividend Allowance was first introduced in 2016/17 and originally stood at £5,000. In 2018/19, it was reduced to £2,000, and was then halved to £1,000 from the start of the current tax year. This figure is set to halve again next April to stand at £500 – overall, this equates to a 90% reduction in the value of the allowance in the space of just six years.

Implications

Once an investor uses up their annual allowance they are liable for Income Tax on dividends, with the rate payable based on the Income Tax band they fall into. These changes will therefore inevitably increase the tax pressure on any individuals who own significant dividend-paying stocks or rely on dividends as a primary source of income.

> Dividend Allowance is just one of the tax-free allowances investors can utilise in the UK

Other options

Dividend Allowance is just one of the tax-free allowances investors can utilise in the UK. As a result of the cuts, it could therefore be increasingly beneficial for dividend-heavy investors to explore routes that offer exemption from dividend tax on qualifying shares, such as ISAs (which are also free of Capital Gains Tax). Alternatively, it may be appropriate for some investors to consider equity options that prioritise long-term capital growth over dividend payments.

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Protection – a financial and wellbeing safety net

Life has a funny way of turning out differently to how we expect it. When faced with the unpredictable twists and turns of fate, it is comforting to have the support of the right protection cover for your needs.

Rising bills reinforce need for protection
Increased household bills, mortgage and rent costs, mean that protection is more important than ever right now. Have you considered how you would be able to afford your monthly outgoings if your family were to lose the income of the primary earner through death or illness?

Longer-term mindset
In response to these challenging conditions, some households are considering reducing their level of protection – and are therefore at risk of leaving themselves vulnerable to financial shocks.

It may seem tempting to save a few pounds a month by cancelling or postponing taking out cover. But there is a risk that, should the worst-case scenario strike, you and/or your family will be left in a difficult financial position.

Support for your wellbeing as well
Did you know – mental health issues are one of the top reasons for claiming under income protection? One leading provider[6] paid £6m in income protection claims last year of which a third (£1.91m) related to mental health claims. Many life and critical illness policies also include support services for mental health issues.

Protection is an essential part of long-term financial planning for everybody

Essential
Protection is an essential part of long-term financial planning for everybody. Having the right insurance cover for your unique needs is an indispensable financial and wellbeing safety net for you and your loved ones.

[6]Zurich, 2023

Gender division extends to money matters

Despite women's earning power increasing significantly over recent decades, the division of financial responsibilities does not appear to have evolved.

A survey[7] of 4,000 UK adults earlier this year found that women still typically have greater oversight of domestically focused financial matters, such as household costs (67% of women versus 51% of men) and utility bills (74% of women versus 66% of men). In contrast, men continue to hold more responsibility for longer-term products, such as investments (35% of men versus 19% of women) and pensions (43% of men versus 31% of women).

Redressing the balance
When it comes to financial planning, if one person in the couple takes on the role of spokesperson, it's important that they do not only speak for themselves in any meetings or discussions, as this raises questions about how suitable any advice will be for both parties.

Are things changing?
Worryingly, according to the survey, women under 30 years old are twice as likely as women over 30 to believe that they are naturally bad at managing their finances. This is despite younger generations saying that they've had a better financial education than older generations.

Financial confidence
We are here to guide and support all our clients, irrespective of their gender or their level of confidence in financial matters.

[7]Handelsbanken, 2023

Financial protection policies typically have no cash in value at any time and cover will cease at the end of the term. If premiums stop, then cover will lapse.

Understanding your behavioural biases

As an investor, you will have your own financial personality and preferences, which your adviser will consider when helping you to make financial decisions.

Parallels with F1
You may not think so, but parallels can be drawn between Formula One (F1) and investing. In F1, drivers may make suboptimal decisions during races due to cognitive biases, such as overestimating their abilities, ignoring risk factors, being overconfident or relying too heavily on past experiences.

Immediate gains
A driver may also adopt a herd mentality, such as following a similar strategy to another competitor and may focus too much on immediate gains rather than the overall race or championship. Emotions can also affect F1 drivers, potentially leading to aggressive driving or mistakes under pressure.

Just as in F1, recognising and managing behavioural biases is essential for successful investing

Systematic decision-making – in the driving seat
Just as in F1, recognising and managing behavioural biases is essential for successful investing. We can help you to counteract these biases by setting clear investment goals, diversifying your portfolio, maintaining a long-term perspective, using expertise to seek out diverse viewpoints and employing systematic decision-making processes that minimise emotional influences.

"British pensioners should benefit from British business success"

Chancellor Jeremy Hunt announced measures in his first Mansion House speech aimed at unlocking billions of pounds of extra pension cash to support the economy.

According to the government, the Mansion House Reforms aim to secure the best possible outcome for pension savers, whilst strengthening the UK's position as a leading financial centre. This is to be achieved through an agreement with pension providers to put 5% of their investments into early-stage businesses in the biotech, fintech, life sciences and clean technology sectors by 2030. The reforms are estimated to provide a £1,000 a year boost in retirement to the typical earner who starts saving at 18.

Mr Hunt stated, *"British pensioners should benefit from British business success. By unlocking investment, we will boost retirement income by over £1,000 a year for a typical earner over the course of their career. This also means more investment in our most promising companies, driving growth in the UK."*

Mansion House Reforms
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'Spot the dog' fund

According to the latest data[8], the number of *'dog'* funds have increased by 27% since February this year, that represents 56 equity investment funds versus 44 earlier in the year, but a reduction on the 86 dog funds identified in January 2022.

A *'dog'* fund is defined as one which has failed to beat its benchmark over three consecutive 12-month periods and has underperformed by 5% or more over that entire three-year period.

Almost three-quarters of the dog funds' total asset value (£32.14bn, up from £4.49bn) can be attributed to the global sector, where the number of dog funds rose from 11 to 24 during the period.

A sense of perspective
We all know that investment performance can be impacted by many factors and as the risk warning says – past performance is no guide to the future. If a fund has found itself in the doghouse it doesn't necessarily mean it should be disposed of immediately. The fund managers are likely to be taking action to improve the performance, perhaps changing managers or redesigning the fund's investment strategy. Sometimes it can be worth retaining a fund while it's undergoing this process. Importantly, knowing why a fund is underperforming will inform the right course of action. That's what we can determine.

Review review review
Trust us to identify any poor performers and advise you whether it's worth sticking with those funds for the time being, or whether it's time to look for other opportunities. There are many factors to consider in addition to fund performance before taking any action, such as your risk attitude, tax position and overall asset allocation, so rely on us to advise the appropriate course of action.

[8]Bestinvest, 2023

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