

Strategic Vision

Wealth Management



SEPTEMBER / OCTOBER 2016

PENSION REFORMS

How the lifetime allowance reduction could impact on your retirement savings

INVESTMENT MATTERS POST-BREXIT

Facing new challenges at every turn to meet long-term objectives

EMPTY NEST, EMPTY WALLET

Parents putting financial health at risk to fund university costs

SAVING FOR A RAINY DAY

Understanding why your lifestyle makes it more relevant and real


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Strategic Vision Wealth Management is a trading style of Strategic Vision Wealth Limited which is authorised and regulated by the Financial Conduct Authority.



A low-angle shot of a sailboat's mast and sails against a bright, hazy sunset sky. The sun is visible as a bright orb behind the rigging, creating a lens flare effect. The water below is a deep blue with white foam from the boat's wake.

COULD YOUR MONEY WORK HARDER?

*We focus on achieving and maintaining
a thorough understanding of your
financial needs and aspirations.*

We believe passionately that the best service is provided through personal, face-to-face advice. Our range of services is extensive, supported by a distinctive approach to investment management, enabling you to create financial plans that can adapt to your changing needs and circumstances.

**CONTACT US TO DISCUSS
YOUR REQUIREMENTS.**

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Welcome to our latest issue. We hope you enjoy reading this issue as we approach the run-up to another year end and those long hot summer days start to become a distant memory. For many of us, our thoughts are turned to another year that has flown past – and when we talk about financial planning, it is time that is the enemy.

Going back a little further, the Government has introduced some major and comprehensive reforms to the pension rules over the previous few years. One important change, which may have been overlooked by some savers, is the reduction of the lifetime allowance that applies to pension savings. The lifetime allowance is the total amount you can hold within all your pensions without incurring an additional tax charge. Turn to page 08 to read the full article.

We are now living in a more uncertain world, and for many investors they are facing new challenges at every turn. As correlations between asset classes rise, the right strategy is crucial to preserve capital when markets are falling. Add to this the result of the European Union (EU) referendum, which came as a shock to financial markets, on page 06 we consider what you can do to manage your investments in current markets.

From the old adage of saving for a rainy day to planning for a comfortable retirement, before you can actually define your investing goals you need to ask yourself what you want to achieve. While reviewing what fund or tax regime, pension, or investment is best is a necessary part of the financial planning process, it's crucial to understand what these mean to you – and your lifestyle makes it more relevant and real. Turn to page 11 to find out more.

The full list of the articles featured in this issue appears on page 03 and opposite.

To discuss any of the articles featured in this issue, please contact us.



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SAVVY INVESTORS

Time to get wrapped up? How to shelter income and capital gains

FOR LONG-TERM INVESTORS, INDIVIDUAL SAVINGS ACCOUNTS (ISAS) ARE A VERY TAX-EFFICIENT WRAPPER THAT CAN HOLD CASH SAVINGS AS WELL AS INVESTMENTS IN STOCKS AND SHARES. SAVVY INVESTORS ARE ALSO ABLE TO SHELTER INCOME AND CAPITAL GAINS.

The limit on how much can be saved in an ISA each year has doubled since 2009; you can add up to £15,240 to an ISA in the 2016/17 tax year. Cash that you withdraw from a flexible ISA can be replaced during the same tax year without counting towards your annual ISA allowance, which is known as 'ISA flexibility'. What sets ISAs apart from other savings and investment accounts is that any interest on cash savings, gains from investments or income from dividends are tax-efficient, and you don't have to declare ISAs on your tax return.

ADDED ADVANTAGE

Because of their tax benefits, ISAs can help your savings and investments grow faster over time. Investing your ISA in stocks and shares has the added advantage of helping safeguard you from a potential Capital Gains Tax (CGT) bill in the future. CGT is a tax on the gain you make when you sell or dispose of assets such as investments. It is currently charged at 20% for higher-rate taxpayers on gains made that exceed the yearly tax-free allowance. Currently, the CGT allowance is £11,100.

ADDITIONAL ALLOWANCE

Rules on ISA death benefits introduced in April 2015 allow for the transfer of an extra ISA allowance to the deceased's spouse if they passed away on or after 3 December 2014. The surviving spouse can use an additional allowance, which is equal to the value of their partner's ISA savings, as well as enjoying their own usual yearly allowance. An additional permitted subscription (APS) can be used for up to three years from death.

INHERITANCE TAX

You don't inherit the actual assets of the ISA. The deceased's ISA assets are distributed according to the terms of the will or intestacy rules, and any Inheritance Tax liability will remain. No actual funds are transferred, and the extra allowance can be made up from your own assets. Also, as well as being married or in a registered civil

partnership with the ISA holder, you need to have been living together – if you were separated, either under a court order, Deed of Separation or any other situation that was likely to become permanent, you can't use the additional allowance.

COMPOUNDING EFFECT

Long-term investors that can afford to invest at the start of the tax year rather than at the last minute not only gain a year's performance, but these extra gains will be reinvested in the market until they need the money. Over time, the effect of compounding can be significant. The more you invest, the greater the potential impact of early investing. Likewise, the longer you are investing for, the larger the compounding effect. Also, investing early in the tax year to benefit from compounding is most pertinent not only for those saving for retirement but also for parents investing for their children's future through dedicated Junior ISAs (JISA). ◀

BUILDING A LONG-TERM INVESTMENT STRATEGY

If you are unsure about the suitability of your investments, you should always obtain professional financial advice. For the effects of compounding to work requires two things: the re-investment of earnings, and time. The more time you give your investments, the more you are able to accelerate the income potential of your original investment, which takes the pressure off of you. To discover how we can help you build a long-term strategy for your investments, please contact us – we look forward to hearing from you.

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INVESTMENT MATTERS POST-BREXIT

*Facing new challenges at every turn to
meet long-term objectives*

WE ARE NOW LIVING IN A MORE UNCERTAIN WORLD. AS CORRELATIONS
BETWEEN ASSET CLASSES RISE, THE RIGHT STRATEGY IS CRUCIAL TO
PRESERVE CAPITAL WHEN MARKETS ARE FALLING.



In addition, the result of the European Union (EU) referendum came as a shock to financial markets, and there is likely to be fallout from this historic event for some time. Many investors are now facing new challenges at every turn. So what can you do to manage your investments in current markets?

MARKET CONDITIONS

With heightened volatility looking as though it could be with us for some time, much will depend on what happens politically and how central banks respond over the coming months. Political uncertainty is likely to continue for some time, particularly in the UK, but also in Europe and further afield. This could affect economies globally, with the UK potentially going into recession by next year.

BETTER EQUIPPED

On a more positive note, the banking sectors globally are more stable than they were back in 2008, with governments and central bank policies being more supportive. Bank capital levels are substantially higher than they were in 2007/08, and UK and European banks are much better equipped to weather volatility.

INVESTMENT STRATEGY

It's important not to react out of panic and where possible to remain calm and take a long-term view. Taking a step back from the short-term noise, thinking about why you invested in the first place and making sure those reasons haven't changed are essential before making any decisions about implementing changes to your current investment strategy.

ROUNDED APPROACH

Successful investment requires the navigation of complex market forces, taking into account economic, political and behavioural factors (as well as company financials). So it's well-advised to take a rounded approach. The single most important thing you can do to mitigate risk is to diversify your portfolio. You may already have different types of investments across different countries, and if that is the case you should be well diversified, with someone making the day-to-day investment decisions for you.

INVESTMENT REASONS

If you actively manage your own investments, you'll probably want to make sure your choices still meet your needs and your original reasons for investing are still valid.



IF YOU ACTIVELY MANAGE YOUR OWN INVESTMENTS, YOU'LL PROBABLY WANT TO MAKE SURE YOUR CHOICES STILL MEET YOUR NEEDS AND YOUR ORIGINAL REASONS FOR INVESTING ARE STILL VALID. YOU SHOULD ALSO CONSIDER TAKING PROFESSIONAL FINANCIAL ADVICE.

You should also consider taking professional financial advice. Some of the questions you might want to ask are: are you suitably diversified to help shelter your money from significant volatility? If you're invested in a riskier single asset class or region, did you deliberately take this approach? Is it still right for you in the current market environment?

3 TIPS TO MAXIMISE YOUR INVESTMENT RETURNS

1. Consider investing in a wider range of asset classes
2. Be more adventurous with your strategic position
3. Take a more flexible approach to different opportunities

RETIREMENT MATTERS

If you're still some years from retirement, your pension investments will have time to recover from any short-term losses. Even if you're near retirement or are already retired and relying on your investments for income, you shouldn't panic. There are things you could do to help shelter yourself from market volatility.

If you're approaching retirement, the most important thing to do is make sure you're in investments that will get your money to where it needs to be by the time you retire –

whether that's purchasing an annuity, taking it all out as a lump sum, or keeping it invested and taking a flexible income.

If you're already retired, there are also ways to help protect your money, not just from market volatility but throughout your retirement. ◀

HELPING YOU TO MEET YOUR LONG-TERM COMMITMENTS

With persistently low inflation, ultra-low interest rates, low growth and low returns, some investors may not be feeling the reward potential that heightened risk brings. In a low-yield environment, how can you meet your long-term objectives? To discuss the options available to you, please contact us to discuss your requirements.

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PENSION REFORMS

How the lifetime allowance reduction could impact on your retirement savings

THE GOVERNMENT HAS INTRODUCED COMPREHENSIVE REFORMS TO THE PENSION RULES OVER THE PREVIOUS FEW YEARS. ONE IMPORTANT CHANGE, WHICH MAY HAVE BEEN OVERLOOKED BY SOME SAVERS, IS THE REDUCTION OF THE LIFETIME ALLOWANCE THAT APPLIES TO PENSION SAVINGS. THE LIFETIME ALLOWANCE IS THE TOTAL AMOUNT YOU CAN HOLD WITHIN ALL YOUR PENSIONS WITHOUT INCURRING AN ADDITIONAL TAX CHARGE WHEN YOU EXTRACT MONEY FROM THE POT.

INFLATIONARY INCREASES

The Government has indicated that this allowance will increase each year in line with inflation (CPI) but only from 6 April 2018. It was reduced from £1.25m down to £1m from 6 April 2016. If you have more than £1m in your pension pot or are likely to do so at retirement, you can apply to protect it against reductions to the lifetime allowance.

TAKING ACTION

While some people may not be affected by the lifetime allowance, it's important to take action if the value of your pension benefits are approaching, or are above, the lifetime allowance. As pensions are a long-term commitment, what might appear modest today could exceed the lifetime allowance by the time you want to take your benefits.

TAX CONSEQUENCES

Exceeding the lifetime allowance could have significant tax consequences, for example, any lump sum withdrawals you take from the excess amount within your pension are taxed at 55%, and if you retain the excess amount within your pension fund a 25% tax charge is made (and any income taken from the fund will be taxed at your marginal rate of Income Tax).

FIXED PROTECTION

If you could be affected by the reduction in the lifetime allowance, there are some actions you

could take to help protect yourself from this potential tax charge. However, if you have accrued pension benefits since 6 April 2016, fixed protection will not be available, so you should obtain professional financial advice to look at the options available to you.

TAKING BENEFITS

If you are already taking benefits from a pension, this will also impact your lifetime allowance. It is important to note that the allowance applies to the value of your pension when you eventually come to draw money from it (and not the value on 6 April 2016). This means that even if your pensions are currently worth well short of the new £1m limit, you could still be affected by the reduction and may need to take action now, even if you think the reduction does not currently really affect you.

HIGH EARNERS

Another pension change which came into effect from 6 April 2016 is a reduction to the annual pension contribution allowance (the amount you can pay into your pension pot each year) for high earners. The allowance of £40,000 will reduce by £1 for every £2 of income received above £150,000 (the threshold for the additional rate of Income Tax). The reduction is limited to £30,000, meaning anyone with income of £210,000 or more will have



a £10,000 annual contribution allowance. Bear in mind that 'income' for this purpose includes employer pension contributions. ◀

ARE YOU IN DANGER OF BREACHING THE ALLOWANCE?

While £1m may sound like a generous sum, it is surprisingly easy to breach this limit, meaning that you could be subjected to a tax bill of up to 55% on some of your pension pot. Whether you're a saver in the middle of your working life or nearing retirement, it's crucial you know if you're in danger of breaching the allowance. If you have any concerns and would like to discuss your situation, please contact us.

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS. THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION, WHICH ARE SUBJECT TO CHANGE IN THE FUTURE.

FINANCIALLY EXPOSED

Do you have a financial plan in place to help protect your home?

TAKING OUT A MORTGAGE IS THE BIGGEST FINANCIAL COMMITMENT MANY OF US WILL EVER MAKE, AND HAVING A FINANCIAL PLAN IN PLACE WILL HELP PROTECT YOUR HOME IN THE EVENT THAT YOU CAN'T WORK DUE TO ILLNESS OR ILL HEALTH, OR EVEN YOUR PREMATURE DEATH.

NO LIFE COVER

So it's concerning to see that half (50%) of the UK's mortgage holders have no life cover in place, meaning that 8.2 million^[1] people are leaving themselves and their families financially exposed if the unforeseen were to happen.

Scottish Widows' latest protection research also shows that only a fifth (20%) of the UK's mortgage holders have a critical illness policy, leaving many more millions at risk of financial hardship or losing their home if they were to become seriously ill.

income if their partner was unable to work also admit that they'd rely on state benefits to ensure they could manage financially. Changes to Support for Mortgage Interest, which is the only safety net in place for many families if they were unable to pay their mortgage, mean that people now have to wait 39 weeks before receiving this benefit instead of the previous 13 weeks, which could be too late for many if they have no other protection in place. ◀

ARE YOU PUTTING YOURSELF AND YOUR FAMILY AT SIGNIFICANT RISK?

None of us want to think about the worst, but these findings show that there are an alarming number of mortgage holders who are putting themselves at significant risk by failing to arrange cover for the unexpected. Many people believe that they'll be able to rely on the state if the unforeseen happens, but recent cuts to welfare benefits are exacerbating their vulnerability. To review your protection requirements, please contact us – don't leave it to chance.

UNABLE TO WORK

A third (33%) admit that if they or their partner were unable to work for six months or longer due to ill health or personal injury, they'd be unable to live on a single income. And more than two fifths (43%) of those who couldn't cope with a single wage say they would resort to dipping into their savings in order to survive.

Yet 43% say their savings would last for no more than a couple of months, and 15% don't even know how much they have, meaning they could be relying on backup which doesn't actually exist.

MORTGAGE ARREARS

Just under a quarter (23%) could only afford to pay household bills for a maximum of three months if they or their partner were unable to work, and 23% could make a maximum of just three monthly mortgage payments. Another 15% admit they're not actually sure how long they'd be able to cope with their mortgage payments.

Welfare reforms make the case for financial protection all the more pressing. A quarter (25%) of mortgage holders who say they'd be unable to live on a single

Source data:

[1] Calculation: YouGov sample of 5,161 respondents, 1,682 of whom are mortgage holders, which equates to 32.6% of the population. Using ONS population data – 50.5 million adults in UK – 32.6% of 50.5 million is 16.46 million. 50% of UK adults don't have life insurance, and this equates to 8.23 million people.

Scottish Widows' protection research is based on a survey carried out online by YouGov, who interviewed a total of 5,161 adults between 28 January and 4 February 2016.

TIME IS OF THE ESSENCE

Start thinking about preparing for any big events as soon as you can

NONE OF US KNOW EXACTLY WHAT LIFE'S GOT IN STORE FOR US, BUT WE KNOW THAT THERE ARE A HANDFUL OF MAJOR EVENTS THAT WE'RE QUITE LIKELY TO ENCOUNTER AT SOME STAGE. THESE INCLUDE SOME OF THE GREAT MILESTONES OF LIFE, SUCH AS BUYING A PROPERTY, GETTING MARRIED, STARTING A FAMILY, BUYING A HOLIDAY HOME OR PLANNING FOR RETIREMENT.

It's essential to start thinking about preparing for any big events as soon as you can. Often this means saving for major expenses that may not yet be in sight but which we know are awaiting us just over the horizon.

READILY ACCESSIBLE SAVINGS

Before you start investing for the medium to long term, initially it's important to keep three to six months' worth of living expenses in a readily accessible cash savings account – don't invest that money! Don't invest any money that you may need to access in a hurry in the event of a short-term emergency.

By investing in stocks and shares, you'll gain access to potential returns that saving in cash alone cannot offer. Of course, there is an inherent risk that some or all investments may not keep pace with cash or may even go

down in value, but real risk should be seen as the permanent – not temporary – loss of capital. Saving in cash carries its own risks when low interest rates fail to keep pace with price inflation.

TEMPORARY MARKET SENTIMENT

While investors must accept the short-term fluctuations of markets, those investing for the long-term are usually in a position to ignore day-to-day gyrations in asset values. Over the long run, asset prices follow their fundamental values – either up or down – rather than being affected by temporary market sentiment.

Timing the right moment to enter the market is notoriously difficult. While you may have a lump sum that you'd like to invest, implementing a regime of regular investment might be a lower-risk approach, even though you might forgo the

opportunity to invest your money at the bottom of the market when an asset is at its cheapest.

TIMING THE MARKET

Investing regularly reduces the danger of making a one-off investment at the top of a market cycle before asset values fall. At some points, you may have to pay more than if you had made a lump sum investment, but at others you could pay less – unless of course the price of the asset rises (or falls) each and every month onward. By keeping to a regime of regular investment, the emphasis shifts away from timing the market to time *in* the market.

POUND-COST AVERAGING

You also benefit from 'pound-cost averaging' by investing the same amount each month, perhaps through Direct Debit. When the price of an asset is high, you will buy less of it, and when the price is low you will buy more.

The effect of 'pound-cost averaging' means that, on average, the price paid is lower than the average asset price over the period. There is no guarantee that pound-cost averaging



will result in better returns than lump sum investing, but it can help smooth the ups and downs of market volatility.

GENERATING EXTRA RETURNS

The earlier you commit to investing an affordable monthly amount, the longer your money can work in the market. Reinvested gains can themselves generate extra returns, creating the effect of compounding, which, in a growing market, is larger the longer money is invested.

It follows that the nearer to the time when you plan to realise your investments, the less time your money will have remaining to achieve compounded returns. It is worth bearing this in mind when regularly reviewing your investments, which themselves should be updated to take account of any changes in your circumstances or priorities.

PERCENTAGE OF YOUR SALARY

Much as your pension contributions (when a percentage of your salary) will automatically rise in line with any salary increases, it could be worth applying the same principle to the amount you regularly invest. Increasing your Direct Debits will help to ensure your investments can continue to keep pace with your long-term goals.

Failing to increase your regular investment contributions means that, over time, their real value – and the quantity of assets they will buy – will normally fall. To improve the chance of your investments growing over time to meet your future financial goals, make sure you review your monthly contributions regularly so they don't fall behind both inflation and your means. ◀

PRESERVING AND GROWING YOUR WEALTH OVER TIME

By understanding your financial goals, we can proactively advise you on the most appropriate approach to help preserve and grow your wealth over time. Please contact us to review your unique situation.

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SAVING FOR A RAINY DAY

Understanding why your lifestyle makes it more relevant and real

FROM THE OLD ADAGE OF SAVING FOR A RAINY DAY TO PLANNING FOR A COMFORTABLE RETIREMENT, BEFORE YOU CAN ACTUALLY DEFINE YOUR INVESTING GOALS YOU NEED TO ASK YOURSELF WHAT YOU WANT TO ACHIEVE.

While deciding on the best fund, tax regime, pension or investment is a necessary part of the financial planning process, it's crucial to understand what these mean to you – and your lifestyle makes it more relevant and real.

TIME HORIZON

The minimum time horizon for all types of investing should be at least five years, and whatever your personal investment goal may be it is important to consider the time horizon at the outset, as this will impact the type of investments you should consider to help achieve your goals.

To make this a reality, you need to ask yourself three main questions: 'What resources are available to me now?', 'What resources will I have in the future?', and 'What will I need to have to achieve my goals?'

WEALTH CREATION

Setting investment goals simply means deciding what you want to do or achieve in a certain timeframe. Setting meaningful financial goals is the basis towards achieving your financial freedom. Goal setting plays such an important and integral part of the wealth creation journey.

Some people may spend a considerable amount of energy and time focusing on their financial situation, but the majority won't have specific financial goals. They may have heard about the importance of goals but probably haven't spent the small amount of time required to really focus on the specifics.

LOGICAL PROCESS

Goal setting is a logical process and can be done in whatever way works best for you. It may sound obvious, but initially write down your goals. Whether you use paper and pencil or your smartphone or tablet to record your thoughts, it is vital to make sure you write your goals down so that you can review them at a later time.

It also makes sense to revisit your goals at regular intervals to account for any changes to your personal circumstances, for example, the arrival of a new member of the family.

ENSURE YOUR GOALS ARE:

- **Specific** – make each goal clear and specific
- **Measurable** – frame each goal so that you know when you have achieved it
- **Achievable** – you need to be able to take practical actions to achieve a goal
- **Realistic** – a goal must be relevant and realistic
- **Timely** – you should assign a timeframe to each goal so you can track progress and achievement

DESIRED LIFESTYLE

So first you need to identify what your desired lifestyle is, then establish how to achieve that plan and maintain the desired lifestyle. It's important to think beyond where you are today and look to the future and visualise the possibilities of living without any financial worries.

This might mean outlining all the things you want to do in the future, without the risk of leaving it too late or dying with too much. To achieve this, you need to structure your affairs today to provide for the income you'll eventually need while investing in a way that helps to retain the purchasing power of your capital. ◀

ONGOING ADVICE

Working through this process of setting financial goals will help you to define the life you want, and with our ongoing advice we will make the recommendations to show you what can be done to ensure that you live your desired lifestyle. If it's been a while since you took a close look at your financial plans and goals and you would like to review your situation, please contact us.



UNCHARTED TERRITORY

*Importance of not losing sight of your
long-term savings goals*

THE UK IS ENTERING UNCHARTED TERRITORY AFTER THE EU REFERENDUM, BUT WITH RELATIVELY FEW UNRETIRED PEOPLE BEYOND THE AGE OF 55 HAVING STARTED THEIR RETIREMENT PLANNING IT IS IMPORTANT NOT TO LOSE SIGHT OF YOUR LONG-TERM SAVINGS GOALS. CHANGING SOCIAL, POLITICAL AND DEMOGRAPHIC FACTORS MEAN THAT THE OUTLOOK FOR RETIREMENT FINANCES IN THE UK IS CONSTANTLY EVOLVING.

Worryingly, barely one in three (36%) unretired over-55s had started their retirement planning during Q2 2016 – the lowest percentage since Aviva's Real Retirement Report began tracking this data two years ago, the latest report reveals.

The report, which has tracked personal finances among over-55s before, at and during retirement since 2010, also shows an income dip and rising uncertainty over the economy in Q2 ahead of the UK's vote on its European Union (EU) membership.

INCOME AND SAVINGS

The typical over-55s' (median) monthly income has risen by 11% over the last three years from £1,212 in Q2 2013 to £1,341 in Q2 2016. However, the latest quarterly figure was down from £1,382 in Q1 and £1,419 in Q4 2015.

The dip corresponds with a fall in the percentage of over-55s receiving an income from investments and savings: falling to 25% in Q2 2016, down from 29% a year earlier.

Q2 2016 also saw the highest proportion (12%) of over-55s with no non-pension savings and investments in almost three years. Over-55s' typical savings and investments pot fell for a second successive quarter to reach £12,590.

However, there was a rise in the percentage of over-55s whose savings included a tax-free lump sum from their pension savings. This increased to 16% – the highest level since tracking the data started in Q2 2014 – and is likely to be influenced by the launch of 'pension freedoms' in April 2015.

With incomes and savings squeezed in Q2, monthly spending dropped to £774 – the lowest seen since Q3 2014 (£754).

PLANNING FOR RETIREMENT

When asked whether they had started planning for retirement, just 36% of unretired

over-55s had done so in Q2 – the lowest percentage in two years since tracking this data began. While 41% had thought about it but not taken any action, almost one in four (23%) had not even thought about it yet.

Asked to identify the most important personal choices or decisions they face to ensure a happy retirement, the most common response from unretired over-55s was making the most of their retirement finances so they have enough money to fund the remainder of their life (63%). This was more likely to be singled out as an important personal choice than maintaining their health once they retire (59%) and deciding whether to stay in their current home or move to a new property (31%).

Among those who had already retired in Q2 2016, one in four (25%) said budgeting their money has been the most difficult aspect of their retirement so far, making it their most common concern.

Mirroring over-55s' general concerns about making their money last in retirement, 13% who are yet to retire feel more anxious about this as a direct result of the 'pension freedoms' launched in April 2015, up from 10% a year ago.

There is also uncertainty about their options as a direct result of the new pension rules: just 12% feel their retirement plans might be affected by the extra flexibility offered by the pension freedoms, yet almost a third (32%) don't know.

CONFIDENCE IN THE UK ECONOMY

The tracking data shows just 29% of over-55s felt confidence in the UK economy during the first half of 2016 (Q1 and Q2) ahead of the referendum on the UK's European Union (EU) membership, down from 36% in Q4 2015.

There was also growing concern over the threat of rising inflation and the state of the economy, with 28% registering this as a risk to their living standards over the next five years, compared with 22% in Q1 2016.

A separate poll that took place after the 'Leave' announcement found that the percentage of over-55s concerned about their future finances rose to one in four (25%), compared to one in five (19%) before the referendum. ◀

ONE OF LIFE'S CERTAINTIES

Deciding how to make the most of our finances so we have enough money to last in retirement, and then budgeting effectively, are consistently picked out as the most important challenges we face in later life. It means the importance of saving for the future remains one of life's certainties. To ensure that you are fully informed about your situation, please contact us to discuss your requirements.

Source data:

The Real Retirement Report is designed and produced by Aviva in consultation with ICM Research and Instinctif Partners. The Real Retirement tracking series referenced within this report has been running since 2010 and totals 24,791 interviews among the population over the age of 55 years, including 1,193 in May 2016 for the latest wave of tracking data (Q2 2016).

This edition's spotlight on over-45 homeowners examines data from 1,127 owner-occupiers or mortgaged owners in this age bracket, who were interviewed at the same time. For the tracker, a further poll of 737 over-55s was carried out one week after the UK's referendum decision on its EU membership to see how confidence in people's financial futures was affected by the vote to leave.



WHAT NEXT

POST-BREXIT?

Economic and financial outlook

AS A RESULT OF THE UK VOTING FOR BREXIT (APART FROM THE POLITICAL TURMOIL), STERLING HAS DROPPED SIGNIFICANTLY AGAINST THE US DOLLAR AND THE JAPANESE YEN – THE NEW SAFE HAVEN CURRENCY IT SEEMS. WE HAVE A NEW PRIME MINISTER AND CABINET AND A CLEAR STATEMENT FROM THE NEW CHANCELLOR OF THE EXCHEQUER THAT THERE WILL BE NO ‘EMERGENCY BUDGET’. THE NORMAL AUTUMN STATEMENT AND SPRING BUDGET PROCESS WILL BE FOLLOWED.

RESTORING FISCAL STABILITY

As to what the Autumn Statement and Spring Budget will deliver, we can't yet know. We have, however, had the pre- and post-vote prediction by the past Chancellor of a tough Budget with spending cuts and tax increases. The new Chancellor appears committed to ensuring that fiscal stability is restored among post-referendum uncertainty.

In any event, the wisdom of such a Budget has been questioned by more than a few. Earlier in the week of the referendum, before the polls opened, the Treasury published the Government borrowing figures for May, along with an updated estimate for 2015/16 borrowing. Such was the focus on referendum debate, the numbers garnered little attention. However, as consideration turns to the Brexit world, the Treasury's data is a useful starting point to answering the question, ‘What next?’

UK ECONOMIC CONDITIONS

Before the referendum, the Treasury data suggested that previous Chancellor, George Osborne, was not going to hit his 2016/17 borrowing target, regardless of the outcome of the referendum. In the light of this, the new Chancellor looks like he could be facing a difficult Autumn Statement, in part due to cooling UK economic conditions brought about by government-induced Brexit uncertainty.

In relation to tax and financial planning, if, as seems unlikely now, the next Budget is ‘austere’, the past Chancellor (quoting research from the Institute of Fiscal Studies [IFS]) indicated that basic rate tax, higher rate tax and Inheritance Tax may need to rise, each by 2–3%. Some have suggested that an austerity-based Budget might also put the more recent Capital Gains Tax (CGT) rate reductions at risk.

TAX AVOIDANCE MEASURES

Even if the tone of any Budget is stimulative and these tax rises are avoided or diminished, action against aggressive tax avoidance will certainly continue. In relation to tax avoidance by multi-national corporations, it's worth remembering that the so-called ‘Base Erosion and Profit Shifting’ (BEPS) project in relation to tax avoidance is OECD-driven.

It seems that there is considerable post-referendum uncertainty in relation to the future of the considerable and important proposed reform to the taxation of UK resident non-domiciled individuals (non-doms). These include deemed domicile for all taxes after 15 years of UK residence and transparency in relation to Inheritance Tax treatment of UK-sited properties in offshore structures.

PENSION REFORM

In relation to UK pension reform, the cost of pension tax relief is well known to be substantial – in excess of £30bn. No substantial change was made in the previous Budget, but the Lifestyle Individual Savings Account (ISA) may represent some ‘market research’ into a different way of incentivising retirement saving. We also have a new pensions minister, and this may have an impact, but the numbers mean that possible reform cannot be totally written off yet, especially given the outlook for government finances post-referendum. ◀



YOU'VE PROTECTED YOUR MOST VALUABLE ASSETS.

But how financially secure are your dependants?

Timely decisions on how jointly owned assets are held, the mitigation of Inheritance Tax, the preparation of a will and the creation of trusts can all help ensure your dependants are financially secure.

**CONTACT US TO DISCUSS HOW TO SAFEGUARD YOUR
DEPENDANTS, WEALTH AND ASSETS – DON'T LEAVE IT
UNTIL IT'S TOO LATE.**



PENSIONERS FINANCIALLY 'RELIANT ON OTHERS'

New research outlines typical financial situations

A SMALL NUMBER OF PENSIONERS ARE RELYING ON LOVED ONES TO HELP THEM FINANCIALLY DURING RETIREMENT, AND THOSE APPROACHING RETIREMENT SEEM TO BE IN AN EVEN WORSE SITUATION. YET EQUALLY WORRYING IS THAT PEOPLE ARE ALSO FAR MORE LIKELY TO TAKE FINANCIAL ADVICE ABOUT RETIREMENT FROM FRIENDS THAN FROM A PROFESSIONAL, WITH MORE THAN A MILLION PENSIONERS^[1] FINANCIALLY RELIANT ON FRIENDS AND FAMILY, AND THE NEXT GENERATION EVEN MORE STRETCHED, ACCORDING TO THE LATEST RESEARCH FROM LV=.

The annual State of Retirement report shows that one in ten pensioners are reliant to some degree on friends and family for financial assistance^[2]. While this suggests the vast majority are able to remain financially independent in retirement, worryingly those due to retire within the next ten years are almost three times as likely to be in this situation (27%).

GETTING MORE FROM YOUR MONEY

At the same time, there is a general trend of people turning to their nearest and dearest for advice about their finances rather than professionals. Six in ten (60%) existing pensioners took financial advice from non-professional sources – such as friends and family – and three quarters (72%) of those approaching retirement plan to do the same. Only a quarter (25%) of over-50s have taken, or plan to take, professional advice about their retirement, despite the fact that this could help them get more from their money.

Reforms to the pension system in recent years have increased choice and made it even more important that people are able to access this support. More than four in ten (45%) people approaching retirement say the reforms are too difficult to understand without professional help.

FINANCIAL ADVICE WORTH THE MONEY

Those who do take regulated advice certainly see the value in it, as over the last two years the number of those approaching or at retirement who felt financial advice was 'worth the money' has nearly doubled^[3].

The research outlines nine common 'states' – or typical financial situations – retirees fall into, including the one in ten who are 'Reliant on Others'. The remaining eight states are:



SIX IN TEN (60%) EXISTING PENSIONERS TOOK FINANCIAL ADVICE FROM NON-PROFESSIONAL SOURCES – SUCH AS FRIENDS AND FAMILY – AND THREE QUARTERS (72%) OF THOSE APPROACHING RETIREMENT PLAN TO DO THE SAME.

Source data:

The State of Retirement research was conducted by Opinimum Research from 10–14 March 2016 and 20–22 May 2016. The total sample size was 1,523 UK adults over 50. The research was conducted online, and results have been weighted to nationally representative criteria.

PROPERTY PENSIONERS (22% OF OVER-65s AND LIKELY TO INCREASE IN FUTURE)

These retirees rely on some value from their property to help fund their retirement – primarily through downsizing, relocating or equity release – and, for some, this is their primary asset.

GREY-COLLAR WORKERS (8% OF OVER-65s AND LIKELY TO INCREASE IN FUTURE)

This segment describes those who choose to carry on working after typical retirement age (65) either through choice or necessity. The good news is that for most, this is a choice, with the majority (87%) of those working at retirement age doing so because they want to.

OVERWHELMED (19% OF OVER-65s AND FUTURE CHANGE UNCLEAR)

This group relates to those confused by the number of options available to them, undoubtedly influenced by the range of choices opened up by the recent pension freedoms.

SECOND HOMEOWNERS (7% OF OVER-65s AND FUTURE CHANGE UNCLEAR)

These people have second properties either as an investment or means of income, allowing them to be able to live comfortably in retirement.

FALLING SHORT (24% OF OVER-65s AND LIKELY TO INCREASE IN FUTURE)

These retirees worry that their savings and/or pension won't last their full retirement or allow them to have a comfortable lifestyle in their later years.

PENSION INVESTORS (9% OF OVER-65s AND LIKELY TO DECREASE IN FUTURE)

Having left work, this segment uses some of their new free time to make active decisions about their pension resources and reinvest to continue to grow their reserves.

STATE PENSIONERS (43% OF OVER-65s AND LIKELY TO DECREASE IN FUTURE)

This is the most common of the states of retirement, where the state pension provides the majority of retirement income, often supplemented by personal pensions. This segment is also the most likely to worry about having enough money in their retirement years or look to other sources for income, such as part-time work.

DEFINED AND REFINED (24% OF OVER-65s AND LIKELY TO DECREASE IN FUTURE)

These people are retired on a healthy defined benefit pension, which provides a fixed income for life, allowing them to have a high standard of living in retirement. ◀

PROFESSIONAL RETIREMENT PLANNING ADVICE

Given the increasing complexities we now have to face regarding pensions, and with the economic impact of leaving the European Union still unknown, there's never been a more important time to obtain professional advice about retirement planning. If you have any concerns or questions about your retirement plans, please contact us – we look forward to hearing from you.

The Nine States of Retirement

FCA behavioural segmentation of UK consumers currently breaks down retirees into two groups – essentially the well-off (Retired with Resources) and those who are struggling (Retired on a Budget). This year, LV's State of Retirement research was used to expand on this work by broadening out these segments – an exercise aimed at delivering greater insight and understanding of the typical scenarios that people in the UK find themselves when hitting retirement.

[1] According to the Pensions Policy Institute, there are 12,312,000 people at retirement age or older.

10% of this is 1.2 million.

[2] Of all those retired, 10% relied regularly, from time to time or on rare occasions for financial assistance from friends and family.

This figure rose to 28% for those within ten years of retirement.

[3] In 2014, 12% of over 50s felt that advice was worth paying for.

In 2016, this had risen to 20%, nearly twice that of two years prior.

'IT WON'T HAPPEN TO ME'

Britons not planning financially for long-term sickness

ONLY ONE IN FIVE UK PEOPLE HAVE INCOME PROTECTION COVER IN THE EVENT OF BECOMING TOO ILL OR DISABLED TO WORK ACCORDING TO RESEARCH PUBLISHED BY INSURER ZURICH. THIS IS DESPITE THE FACT THAT AS MANY AS 42% HAVE EXPERIENCED INCOME LOSS IN THEIR WORKING LIVES DUE TO SERIOUS ILLNESS. THE FINDINGS INDICATE THAT PEOPLE STILL HAVE AN 'IT WON'T HAPPEN TO ME' ATTITUDE DESPITE HAVING SUFFERED THE CONSEQUENCES FIRST-HAND.

RAISE AWARENESS

Only 19% of respondents claim to have a good knowledge of income protection products, suggesting that more needs to be done to raise awareness of the product's benefit, including swift access to rehabilitation as well as financial support. This lack of understanding also seems to extend to price, with many overestimating how much cover costs. Over a quarter of respondents said they would be willing to spend 5% of their income on it, though such cover can be bought for significantly less.

In the absence of cover, just under half of respondents (47%) expect to rely on savings should the worst happen. Though just under a quarter (23%) also report having savings to last them just one month in such a scenario, while 21% say they have enough to last them up to three months.

WELFARE SYSTEM

This picture emerges as the welfare system faces austerity measures with expansion of the Government's Work Capability Assessment programme to review the eligibility of a further 1.5 million people already receiving Incapacity Benefit.

Unsurprisingly, over half (56%) of respondents' preference would be for the Government to cover income loss in the event of illness, followed by their employer for 37%. Nearly half (47%) of UK respondents also reported being willing to accept a better benefits package including income protection benefits rather than higher wages, suggesting a greater role for employers in helping to protect their employees' financial well-being.

PROTECTION GAP

The income protection gap is a growing challenge, and for a family it can impact on the main breadwinner not being able to work through illness or disability, which can cause devastating financial hardship resulting in the loss of the family home for those worst hit.

As we witness a shift in the burden of responsibility from the state to individuals, people need to take more responsibility to protect themselves and those they love. There are many things to consider when looking to protect your income and should form part of an effective protection planning strategy. ◀

HOW WOULD YOU PAY THE BILLS IF YOU WERE SICK OR ACCIDENTALLY INJURED AND COULDN'T WORK?

We all strive to achieve a standard of living we feel comfortable with. What is less comforting is the thought that if the breadwinner of the family were to fall seriously ill, that standard of living could all but disappear. The first step is to obtain professional financial advice to make sure you find the right solution to ensure this doesn't happen. To look at your options, please contact us.

The background of the advertisement is a composite image. On the left, there is a blue silhouette of a world map. Overlaid on the map and the rest of the background is a financial candlestick chart with various numerical values. A large, semi-transparent dollar sign (\$) is positioned on the left side. The overall color scheme transitions from blue on the left to orange and yellow on the right.

LOOKING FOR AN EXPERT, FLEXIBLE APPROACH TO MANAGING YOUR WEALTH?

*Trust, tax and insurance solutions to ensure
your financial goals can be achieved.*

Whether your wealth comes from building a business, successful investments or family inheritance, robust family and estate planning is essential for protecting your wealth. We'll work to understand your requirements and bring them together as part of a coordinated financial approach.

CONTACT US TO DISCUSS YOUR REQUIREMENTS.

INVESTING DURING MARKET VOLATILITY

Whether seeking income, growth or both, there are some basic rules to follow



VOLATILE FINANCIAL MARKETS ARE AN INEVITABLE PART OF INVESTING. ON A DAY-TO-DAY BASIS, THE SWINGS IN STOCK MARKET PRICES CAN BE SIGNIFICANT. HOWEVER, OVER THE LONGER TERM, THINGS HAVE TENDED TO SMOOTH OUT, WITH DAILY VOLATILITY HAVING A LOWER IMPACT ON OVERALL PORTFOLIOS.

MARKET FLUCTUATIONS

That said, while this has happened in the past, it may not necessarily happen in the future. In the short term, market fluctuations like we've seen recently can be unnerving and make you 'feel' as if you're losing money. That's why it's crucial at times like this that you focus on staying calm and taking a long-term view, avoiding locking in short-term losses, and making sure you're properly diversified.

While it's true that whenever you invest you need to accept that you could get back less than you paid in, worries during turbulent markets can mean it's easy to take a short-term view and effectively cheat yourself out of a potentially better performance. If you can keep your composure and take a long-term view, you're much more likely to meet your all-important financial goals, as these three golden rules highlight.

KEEP CALM AND TAKE A LONG-TERM VIEW

Why is it so important to take a step back and keep the long term front of mind? Does it really make that much difference? 'Yes' is the short answer. Attempting to time the market can be a high-risk approach, especially when compared to making ongoing regular investments. If you think it could be an opportunity to invest while share prices are lower to potentially make higher returns over the long run, just be mindful that prices may fall even further and that past performance isn't a reliable indicator of future returns.

AVOID LOCKING IN SHORT-TERM LOSSES

During market falls, it's quite likely you'll be tempted to sell some of your investments and keep the money somewhere 'safer'. But if you do, it means you're likely to be selling after markets have already fallen – and, crucially, before they rise again. That means you lock in your loss.

Although it's tempting to take your money out when markets fall, it's not normally a good idea. It is also almost impossible to distinguish between a genuine imminent crisis and a mere market wobble over an event that ultimately proves far less serious than anticipated. As a result, investors who spend too much time waiting for the right moment to invest may miss out on many of the gains.

AS EVER, MAKE SURE YOU'RE PROPERLY DIVERSIFIED

A diversified portfolio and a focus on the long term are often better defences than trying to time the market. Periods of market volatility are a valuable reminder of the importance of diversifying – of spreading your money across different types of investments, geographical locations and industries.

If you're investing in only one or two of these, then you're actually exposing yourself to quite a degree of risk. But if you diversify across investments, it can help you achieve a much better balance between risk and return. It's so important that you regularly check where you're invested – across Individual

Savings Accounts, pensions, shares – to make sure you're diversified.

WHAT ABOUT YOUR PENSION SAVINGS?

If you're still some years from retirement, your pension savings will have time to recover from any short-term losses. Even if you're getting nearer retirement or are already retired and relying on your investments for income, you shouldn't panic. There are things you can do to help shelter your pension savings from the worst of any market volatility.

APPROACHING RETIREMENT

If you're getting closer to retirement, make sure you're in investments that will get your money to where it needs to be by the time you retire – whether that's buying an annuity, taking it all out as a lump sum or keeping it invested and taking a flexible income.

MAKE YOUR MONEY LAST YOUR RETIREMENT

If you're already retired, there are ways to help protect your money not just from market volatility but throughout your retirement. ◀

COMPREHENSIVE INVESTMENT SOLUTIONS

Whether you are looking to invest for income, growth or both, we can provide the professional advice, comprehensive investment solutions and ongoing service to help you achieve your financial goals. To find out more information, please contact us.

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS. THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION, WHICH ARE SUBJECT TO CHANGE IN THE FUTURE.

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

A low-angle shot of a sailboat's mast and sails against a bright, hazy sky at sunset. The sun is visible as a bright orb behind the sails, creating a lens flare effect. The boat's white hull and blue deck are visible in the lower left. The water is a deep blue with white foam from the boat's wake.

COULD YOUR MONEY WORK HARDER?

*We focus on achieving and maintaining
a thorough understanding of your
financial needs and aspirations.*

We believe passionately that the best service is provided through personal, face-to-face advice. Our range of services is extensive, supported by a distinctive approach to investment management, enabling you to create financial plans that can adapt to your changing needs and circumstances.

**CONTACT US TO DISCUSS
YOUR REQUIREMENTS.**

ACTIVE OR PASSIVE? THAT IS THE QUESTION

Choosing a management style that's right for you

INVESTORS ARE FACED WITH ONE OF THE MOST BASIC
QUESTIONS: DO YOU WANT TO PUT YOUR MONEY IN
'ACTIVELY' OR 'PASSIVELY' MANAGED FUNDS?

Deciding if you would prefer your investment 'actively' or 'passively' managed is an important consideration and a useful step towards narrowing your choice of funds to invest in. Your first consideration is deciding how you want your investments managed. Are you looking for a fund that will be impacted by an individual fund manager's choice of investments? Or are you more interested in keeping charges lower and prefer one that simply reflects the performance of a major index, such as the FTSE 100?

ACTIVE MANAGEMENT STYLE

Active funds typically have higher annual management charges than passive funds. This reflects the investment managers' potential to outperform the market, and they are managed with the aim of generating returns greater than the relevant markets, as measured by an index – known as its 'benchmark'. The index contains the companies whose shares are being bought and sold daily by the fund. All equities belong to at least one index depending on the location of the company and the type of business.

GOOD STOCK SELECTION

Professional fund managers or investment research teams run active funds, and they make all the investment decisions – like which companies to invest in or when to buy and sell different assets – on your behalf. The manager will pick stocks to buy and then compare the returns that they make against the benchmark. Good stock selection is designed to pick the companies that the fund manager thinks will outperform others within the index.

BEST DIVIDEND PAYMENTS

The manager does not have to buy all the index stocks; only the ones they believe will increase the most in value or, in some cases, pay the best dividends, to give the best overall returns. They have extensive access to research in different markets and sectors and often meet with companies to

analyse and assess their prospects before making a decision to invest. Typically, active fund managers base their stock buying and selling decisions on several factors including market conditions and the political climate, the state of the economy, and company-specific factors (for example, profitability and market share).

MOST PROMISING OPPORTUNITIES

Depending on the fund's objective, an active fund manager may have little or no constraint on their investment choice. Where this is the case, they can select what they consider the most promising opportunities, regardless of industry sector or company size, and aim to maximise gains in rising markets and limit the effects when markets are falling.

PASSIVE MANAGEMENT STYLE

The passive management style of investing is called 'passive investing', also known as 'tracking'. A passive fund is managed with the aim of replicating the performance of a specific index. Passive investment funds track a market and charge less in comparison to an active fund. To track the FTSE 100, for example, an investment manager will aim to invest in the same shares, in the same proportions, as this index.

MATCHING THE INDEX

Passive fund managers won't make any 'active' decisions, as they're only trying to match the index. The fund will generally rise and fall with the index. Typically, the fund will buy all the stocks in, for example, the FTSE 100 in the same proportion they represent in the index. So if Vodafone accounts for 6% of the FTSE 100 Index by value and a smaller company such as Tate & Lyle accounts for 1%, some 6% of fund by value will be in Vodafone shares and 1% by value in Tate & Lyle, and rebalancing will occur to ensure the fund is consistent with the index.

LOWER TRANSACTIONAL COSTS

Passively managed funds perform well when markets rise and poorly when they fall, and they can be less diversified than active funds, as the relevant index may be dominated by just a few large companies. A change in the investment manager should have no impact on its performance, and they generally offer lower annual management charges, with a lower turnover of shares leading to lower transactional costs.

DEGREE OF RISK

It's important to remember that a degree of risk is inherent with any investment, and the potential for greater returns comes with a higher degree of investment risk. While a passive fund is considered to have less investment risk associated with it than an actively managed fund, there are still risks (such as stock market risk) involved. ◀

OBTAIN PROFESSIONAL FINANCIAL ADVICE

As with most investment decisions, there is no right or wrong selection. The choice is down to you, your investment objectives, your attitude to risk and the economic and market environment at the time. If you are unsure about any investment, we always recommend that you always obtain professional financial advice. To discuss your particular situation, please contact us.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

CURRENCY MOVEMENTS

Protecting your portfolio

INVESTORS SHOULD NOT TRY TO PREDICT CURRENCY MOVEMENTS, BUT YOU CAN ACT TO PROTECT YOUR PORTFOLIO. INVESTING IN FOREIGN SECURITIES, WHILE POTENTIALLY A GOOD THING FOR YOUR LONG-TERM PORTFOLIO, MAY CONTINUE TO POSE NEW THREATS FOR INVESTORS.

CURRENCY HEDGING CAN NEVER BE FULLY ACCURATE. IF YOU INVEST IN A HEDGED SHARE CLASS, YOU WILL ONLY MINIMISE YOUR CURRENCY EXPOSURE, NOT REMOVE IT COMPLETELY. ALSO, AS WELL AS AVOIDING THE DOWNSIDE, WHEN YOU INVEST IN A CURRENCY-HEDGED SHARE CLASS, YOU WILL MISS OUT ON ANY POSITIVE RETURNS FROM CURRENCY MOVEMENTS.

As more people broaden their investment portfolios by expanding into foreign stocks and bonds, they must also bear the risk associated with fluctuations in exchange rates. Fluctuations in these currency values, whether the home currency or the foreign currency, can either enhance or reduce the returns associated with foreign investments.

INHERENT INVESTMENT RISKS

Several levels of investment risks are inherent in foreign investing: political risk, local tax implications and exchange rate risk. Exchange rate risk is especially important, because the returns associated with a particular foreign stock must then be converted back into sterling.

PORTFOLIO RISK

The political climate of foreign countries creates portfolio risks because governments and political systems are constantly in flux. This typically has a very direct impact on economic and business sectors. Political risk is considered a type of unsystematic risk associated with specific countries, which can be diversified away by investing in a broad range of countries.

TAXATION

Foreign taxation poses another complication. Just as foreign investors with UK securities are subject to UK government taxes, foreign investors are also taxed on foreign-based securities. Taxes on foreign investments are typically withheld at the source country before an investor can realise any gains. Profits are then taxed again when the investor repatriates the funds.

CURRENCY RISK

Finally, there's currency risk. Fluctuations in the value of currencies can directly

impact foreign investments, and these fluctuations affect the risks of investing in non-UK assets. Sometimes these risks work in your favour, other times they do not. But the reverse is also true: if a foreign stock declines but the value of the home currency strengthens sufficiently, it further dampens the returns of the foreign position.

TO HEDGE, OR NOT TO HEDGE

Investors may reduce the risk of loss from fluctuations in exchange rates by hedging with currency futures. Simply stated, hedging involves taking on one risk to offset another. Some investors may be comfortable with unhedged currency exposure, meaning they are happy to have the opportunity to profit from currency moves in their favour and don't mind risking currency losses.

It's also important to note that, over the long term, currency fluctuations tend to be ironed out, and it is very rare to get the extreme currency movements we have seen recently – things tend to revert to the mean over the long term.

UNDERLYING FUND HOLDINGS

However, if you don't want to take on this currency exposure, you could choose to invest in a currency-hedged share class. In this type of share class, currency fluctuations are lowered by using financial instruments called 'derivatives' so that any future exchange rate movements between the currency used by the investor and that of the underlying fund holdings do not materially affect the level of the fund.

Currency hedging can never be fully accurate. If you invest in a hedged share class, you will only minimise your currency exposure, not remove it completely. Also,

as well as avoiding the downside, when you invest in a currency-hedged share class, you will miss out on any positive returns from currency movements.

OTHER CURRENCY EXPOSURE

Another consideration is where companies generate their revenue. Many companies, particularly the larger ones, are exposed to other currencies, due to the international nature of their operations. So it is important to check whether this is the case for many of the stocks held by a fund in which you are interested. You should also note that currency hedging does not result in any investment management charges to investors, but the fund does bear the costs and expenses of the currency hedging transactions.

Currency risk is a consideration when investing, but one which lessens if invested for the long term. It can be mitigated with the use of a currency-hedged share class but also by ensuring that your portfolio of investments is always diversified, so that you are never over-exposed to any one particular risk. ◀

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FINANCIAL STRIFE

Keeping your investments safe

AFTER NEARLY A DECADE OF LOW INTEREST RATES AND CENTRAL BANKS PUMPING MONEY INTO FINANCIAL MARKETS, TRADITIONAL SAFE HAVEN INVESTMENTS HAVE BECOME EXPENSIVE, SO WHERE COULD INVESTORS LOOK TO KEEP THEIR INVESTMENTS SAFE?

Gold, the US dollar, 'defensive' stocks such as utilities and pharmaceuticals, government bonds, cash – what do they have in common? In times of economic stress and market volatility, they are seen as safe havens for investors.

PRICE FOR PROTECTION

Investors post-Brexit may have increased concerns around a recession in the UK, slowdown in the European and the global economy, a break-up of the EU, and increased global political risk. There is no doubt that these scenarios are all possible, but by seeking traditional safe havens investors are likely to pay a high price for protection.

In the UK, if you want to put your money into a government bond for ten years, the Government will pay you just 79 pence a year for every £100 you lend it, and in Germany investors have to pay the German Government to own its bonds. A German ten-year bond yields -0.2%.

DEFENSIVE STOCKS DRIVERS

We are currently in the second longest stock market bull run in history, and gains have been driven primarily by defensive stocks,

which has arguably made them expensive. It is a high price to pay for the feeling of security. It has happened because in a world of economic uncertainty, the money pumped into financial markets by central banks via quantitative easing (QE) has been invested in the highest-quality assets first.

But paying such a high price for protection in traditional safe havens is a risk in itself. Like buying a house at the top of the market, there is the risk that the price can't go much higher. While traditional safe haven assets may provide some protection for investments in times of economic and financial strife, they all currently carry risk because of their high prices.

TRICKLE-DOWN EFFECT

From there, the slew of central bank money has trickled down the investment pyramid into lower quality assets as investors have gone in search of higher returns.

SAFE HAVEN SEEKERS

Options for safe haven seekers are very limited. Gold remains the ultimate safe haven as it is seen as a store of value. The price tends to rise at times of uncertainty and when there

is a threat of inflation. The search for safe havens may have created other opportunities in an area previously considered risky: cyclical shares (shares where the prices are particularly affected by ups and downs in the overall economy).

If the economy recovers or the fears of investors don't materialise, there is a strong argument that cyclical share prices will rise sharply, and if investors' fears do come true then those cyclical shares don't have too far to fall. They also pay healthy dividends, so they could provide an income greater than is available in more traditional safe havens. ◀

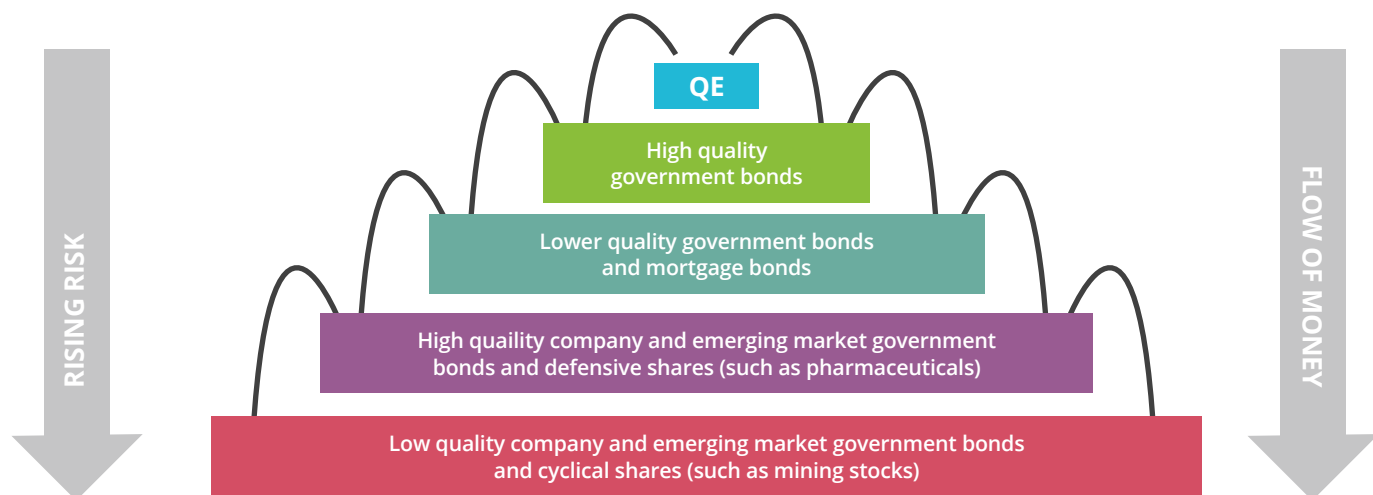
HOW TO SAFEGUARD YOUR INVESTMENTS

Following June's EU referendum and Britain's decision to leave Europe, you may be thinking more about the impact on your personal finances and how to safeguard your investments. Everyone has their own attitude to risk, and it's important to understand yours before making any investments – to discuss how we can help you make the right choices, please contact us.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.



Source: Schroders, for illustrative purposes only

A scenic photograph of a traditional thatched-roof hut built on stilts over clear, turquoise water. The hut has a steep, conical roof made of dried palm fronds. A wooden deck with a railing surrounds the hut, and a set of stairs leads down to the water. The water is crystal clear, showing the sandy bottom and some rocks. The sky is bright blue with a few white clouds. In the background, a small island with green vegetation is visible on the horizon.

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EMPTY NEST, EMPTY WALLET

Parents putting financial health at risk to fund university costs

WHEN IT COMES TO FUNDING A UNIVERSITY EDUCATION, IT IS PARENTS AND GRANDPARENTS WHO TYPICALLY LOOK TO PROVIDE THE MONEY. BUT EVEN THOUGH THIS MAY BE THE CASE, LAST YEAR'S GRADUATES FROM ENGLISH UNIVERSITIES STILL LEFT WITH AN AVERAGE OF £44,000 DEBT (SOURCE: SUTTON TRUST), WITH SOME PARENTS STILL, ON AVERAGE, EXPECTING THEIR CHILDREN TO LEAVE UNIVERSITY WITH £23,000 DEBT.

Students are closer to the mark, predicting an average debt of £35,000. Students expect, on average, to take 17 years to pay off their debt once graduated; research from the Sutton Trust suggests three in four graduates will be paying off student debts into their 50s.

EMPTY NEST, EMPTY WALLET

While a substantial number of parents (61%) seem willing to help with the financial costs of university, rising to 73% for Londoners and a low of 47% in the South West, a significant proportion (78%) of these will be relying on their own cash savings.

Some 62% of parents say they will use a proportion of their cash savings, while 20% will be putting themselves potentially at financial risk, saying they or their child's other parent will use all or most of their cash savings. 9% of parents said they or their child's other parent would take out a bank loan in their own name to help fund their child's university costs – something that seems particularly drastic – and 8% of parents said they would sell shares or other financial investments.

PARENTS OVERESTIMATE AMOUNT NEEDED FOR REGULAR SAVING IN STOCK MARKET

Most parents look to cash savings to fund their children's university costs, and there is a perception that quite large sums of money are required to invest in the stock market.

Parents estimated, on average, that the minimum amount required to invest monthly in an investment saving scheme was £81.51 per month, when in fact the minimum amount required to invest in a children's investment company savings scheme is much less, namely £25. Parents in the 35–44 age bracket overestimated this figure the most (£91.76 per month), and of course it's this group who are likely to have the most time on their side.

The research suggests that many parents massively underestimate the amount of student debt their children will graduate with. Parents are willing to make huge financial sacrifices to help their children through university, and many grandparents are sharing the financial burden.

BANK OF GRANDMA AND GRANDPA

A fifth (20%) of grandparents are contributing or planning to contribute to children's university costs, to the tune of £2,402 on average per year. A quarter (25%) of grandparents are already contributing financially to everyday family expenses, and of these 12% of parents say that their child's grandparents currently contribute financially to holidays, 4% to school fees, and 3% respectively to building projects and childcare, while 2% are contributing to a property deposit.

AN EDUCATION OR A FIRST HOME?

Interestingly, one third of students (33%) said that they had a savings and investment

scheme which their families had 'earmarked' for their future. Half of these (51%) wanted the money to go towards their first property, 44% wanted to spend it on university costs and a free-spirited 16% wanted to spend the money on travelling. ◀

WANT TO ASSESS THE OPTIONS AVAILABLE TO YOU?

Current university students may face leaving with massive debts as well as a degree, but parents can act now to ease the financial burden. It's crucial not to be afraid to seek professional advice. We can assist you to get a clearer idea of the opportunities and drawbacks involved in making further education-related choices. If you would like to assess the options available to you, please contact us for further information.

Source data:

The research was conducted by Opinium from 8–16 June 2016 amongst 1,006 UK parents with children aged 13–18 who are planning to go to, or are already at, university, and 1,014 UK full-time students planning on going to, or currently at, university.

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