money matters

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A game of two halves?

2022 is a rollercoaster for investors

The world's share markets had a bad first half of 2022, but for once the UK performance was better than many.

The first six months of the year was a disappointing one for many investors. The S&P 500, the leading US market indicator, had its worst first six months since 1970.

To be fair, it was a tumultuous first half:

- After years of quietly treading water, inflation took centre stage. In the UK the annual CPI rate jumped from 5.4% at the end of 2021 to 9.1% by May 2022, with the Bank of England forecasting a peak later this year of above 11%. In the US, the corresponding move was from 7.0% to 8.6%, while Eurozone CPI echoed the UK's, rising from 5.0% to 8.6% by June. Even Japan, a land famed for years of deflation, was experiencing 2.5% inflation by May.

- Short term interest rates were raised in response to inflation. The Bank of England increased rates by 0.25% at each of its four meetings in the first half of the year, while the US Federal Reserve did not start raising rates until March but ended June with an overall increase of 1.5%. The European Central Bank remained with a zero rate but said it would make an increase in July.

- Long term interest rates also jumped. In the US, the yield on the 10-year government bond doubled, from 1.51% to 3.02%, while the UK 10-year gilt rates more than doubled, from under 1% to about 2.25%. However, in this instance the most dramatic change was in the Eurozone. Having spent most of 2019 and all of 2020 in negative territory, the German 10-year government bond rate went from a -0.18% to +1.37% over the first six months of 2022.

- On 24 February Russia invaded Ukraine. The initial expectations of a short campaign proved wide of the mark and as fighting has dragged on, the impact on world energy markets has grown. The Brent crude oil price ended June 41% higher (in $ terms) than at the end of December. That rise has been exacerbated in the UK by a 10% fall in the pound against the still mighty US dollar.

Index	2022 H1 Change
FTSE 100	-2.9%
FTSE 250	-20.5%
Dow Jones Industrial	-15.3%
Standard & Poor's 500	-20.6%
Nikkei 225	-8.3%
Euro Stoxx 50 (€)	-19.6%
Shanghai Composite	-6.6%
MSCI Emerging Markets (£)	-9.4%

Source: UKinvesting.com

The outlook for the second half of 2022 is for further increases in short term interest rates, but beyond that nothing is certain – some are already claiming to see a turn in inflation on the horizon. The one source of solace is that if you are investing money into the markets now, in most instances you will be getting much better value than six months ago.

Flaming June sees interest rates flare

June was a month for rising interest rates on both sides of the Atlantic.

June was a notable month for interest rates:

- Firstly, the US central bank, the Federal Reserve (the Fed) increased its main interest rate by 0.75% to 1.50%–1.75%. It was the third consecutive meeting at which the Fed had raised rates and the bank made clear it would not be the last. The Fed's rate setters published a set of projections that showed expectations for a 3.4% rate by the end of year.

- A day later it was the turn of the UK central bank, the Bank of England, to increase its rate for the fifth consecutive meeting. The Bank was less aggressive than the Fed, taking its rate up by 0.25% to 1.25%.

The Bank of England was also more circumspect about future increases but suggested that further inflation was likely, potentially entailing further 'actions' from them.

The actions of both central banks were driven by the same factor – surging inflation. In May, US CPI inflation was 8.6%, while in the UK it was 9.1%, both four-decade highs. The Bank expects UK inflation to be 'slightly over 11%' by October, when the next adjustment to the utility price cap takes effect. Perhaps wisely, the Fed does not project CPI inflation.

Signs you are really ready to retire

No one-size fits all answer to this question

When is the right time to retire? There's no one-size-fits-all answer to this question – it depends on your personal circumstances. However, there are a few things to consider that may help you decide when the right time for you is.

For example, think about your financial situation. Do you have enough saved up to support yourself in retirement? If not, you may need to work longer to ensure a comfortable retirement.

Your health is another important factor to consider. If you're in good health, you may be able to enjoy a longer retirement. However, if you have health problems, you may want to retire sooner so that you can enjoy your retirement while you're still healthy enough to do so.

You should also consider your personal preferences. Do you enjoy your job? If not, you may be ready to retire sooner. On the other hand, if you love your job, you may want to keep working even after you reach retirement age. There's no wrong answer when it comes to deciding when to retire. It's a personal decision that depends on your unique circumstances. However, considering factors like your financial situation, health and personal preferences can help you decide when the right time for you is.

What impact could inflation have on your plans?

When it comes to retirement planning, inflation is one of the most important factors to consider.

After all, if prices are rising faster than your investment returns, you could end up struggling to make ends meet in retirement. If you have a fixed income in retirement, rising prices can quickly start to eat into your savings. This is because your income won't keep pace with inflation, meaning you'll have less purchasing power over time.

Inflation can also cause your living expenses to go up, and this can lead to a reduction in your standard of living. Clearly, too, high inflation can make it harder to save enough for retirement because you'll need to invest more money to keep up with rising prices and it can impact on your future retirement lifestyle.

What is your retirement timeline?

Your retirement timeline is the amount of time from now until you retire. This can be different for everyone, depending on when you plan to retire and how much money you have invested. If you are close to retirement, it is important to start thinking about your timeline so that you can make the most of your time and money.

There are a few things to consider when creating your retirement timeline, such as: When do you want to retire? How much money do you need to save? What kind of lifestyle do you want in retirement?

Answering these questions will help you create a retirement timeline that works for you. It is important to remember that retirement planning is an ongoing process, so you may need to adjust your timeline as you get closer to retirement. If you are still early in your career, you may not have given much thought to your retirement timeline. However, it is never too early to start planning for the future. By creating a retirement timeline now, you can ensure that you are on track to meet your goals.

Could "Retirement Cash Flow Modelling" help you?

You may be wondering if you have enough money to last through your retirement years.

One way to find out is to create a retirement cash flow model. A retirement cash flow model shows how much income you can expect to receive from various sources, such as state benefits, pensions and investments. It also takes into account your estimated expenses, such as healthcare and housing costs.

Creating a cash flow model will help you understand whether your current retirement savings are on track to meet your needs.

It can also give you a better idea of how much you may need to invest in order to maintain your desired lifestyle in retirement. You can use it to test different scenarios and make adjustments to your retirement plans as needed. This will give you a clearer picture of your financial future and help you make more informed decisions about your retirement plans.

Are you sitting on too much cash savings?

You may have heard that cash is king but when it comes to retirement planning is this really true? If you're sitting on too much cash for your retirement planning purposes, it could be impacted by the effects of rising inflation.

While inflation can be mild in some years, over time it can have a significant impact on the purchasing power of your money as we've seen over recent months. As such, it's important to consider how inflation may impact on your retirement plans and make adjustments accordingly.

One way to help offset the effects of inflation is to invest in assets that have the potential to appreciate in value over time and grow along with the cost of living. By investing in a diversified portfolio and including assets that can keep pace with inflation, you can help ensure that your retirement savings will last as long as you need them.

What is your attitude to investment risk?

When it comes to investing, there is always some element of risk involved, so it's important to understand your own attitude towards risk before making any investment decisions. Some people are more comfortable with higher levels of risk, knowing they could potentially make higher returns.

Others prefer to remain more cautious, even if that means sacrificing some potential upside.

There is no right or wrong answer when it comes to investment risk. It's all about understanding your own tolerance for risk and making investment decisions accordingly. Once you have a better understanding of your own risk profile, you'll be in a better position to make informed investment decisions with a view to ensuring that the income derived from that portfolio can at least keep pace with inflation.

Let us keep your retirement goals on track

When it comes to your retirement, inflation is one of the biggest factors you have to consider.

There is no 'one solution' but forward planning with expert professional financial advice can ensure you make the most of your hard-earned money.

To find out more or to discuss your situation, please contact us.

Cost of living double jeapardy

Midlifers set to be impacted twice

As the cost of living crisis continues to rise, midlifers are set to be impacted particularly hard. This is because many midlifers are still paying off mortgages and other debts, while also trying to support their families. This means that they often have less disposable income than younger people.

In addition, midlifers are more likely to face redundancy or early retirement, which can make it even harder to make ends meet. And, with life expectancy increasing, midlifers are also likely to need to pay for more health care and other costs in their later years.

Financial responsibility could rise

According to new analysis, the financial responsibility of people in midlife (40 to 60 years old) could rise significantly in 2022 [1].

Midlifers who provide financial support to adult loved ones (17%) could be impacted twice by the cost of living crisis, due to increases in their own household bills and those of the adult loved ones they support.

Households are likely to see their income affected by a minimum of £1,200 this year due to tax rises and soaring energy bills [2], which could see midlifer households' essential bills increase by at least 10% (from £12,457 a year to £13,657[3]). This is on top of the £3,577 that midlifers already provide in financial support to their adult loved ones.

Steepest levels of support

The effect could be a particular problem for people aged 40 to 44 years old, who face the steepest levels of support. Despite the fact that their household income is at its highest point (£38,956 on average), their outgoings (£13,491) and non-mortgage debt (£19,149) combined with their financial support for loved ones (£4,195) are the highest of any other group in midlife.

People in midlife who provide financial support for their loved ones are often called upon to help with the cost of monthly essentials, so are likely to suffer from the rising cost of living twice. As the data shows, this is particularly true for people in their early forties, who have high outgoings and tend to provide a greater degree of financial support.

It's good to talk

The cost of living crisis is putting a significant strain on many household budgets, and is leaving some midlifers struggling to make ends meet. All of this means that you need to be especially careful about how you manage your finances.

To discuss your situation or to find out more, please contact us.

Notes:

[1] Opinium survey of 4,009 UK adults aged between 40 and 60 years old in the UK was conducted between 28 December and 6 January 2021.

[2] Year of the Squeeze, Resolution Foundation.

[3] Average essential outgoings for midlifers were £12,457; an increase of £1,200 as predicted by the Resolution Foundation could see them

Show me the money

How to invest your money and avoid costly mistakes

It's not surprising that the world of investing can seem complex, especially in the current global economic climate.

Investors face an endless supply of market news, many investment choices and often-changing market conditions.

There are a number of key principles that every investor should follow with the aim of building an effective long-term strategy designed to achieve their financial goals.

Heres a run down or the 10 principles that every investor needs to know:

1. Set investment goals

- It's important that you set yourself investment goals – this will help you stay focused and on track to achieving your financial objectives – with a well-structured plan in place, you can confidently stay committed to it.
- There are a number of factors to consider when setting your goals, such as your age, investment timeframe and risk tolerance.

2. Plan on living a long time, and saving more for it

- People aged 65 years in the UK in 2020 can expect to live on average a further 19.7 years for males and 22.0 years for females, projected to rise to 21.9 years for males and 24.1 years for females aged 65 years in 2045 [1].
- Investors should start early, invest with discipline and have a plan for their future.

3. Cash is rarely King, and inflation eats away at your purchasing power

- Cash is a popular asset class, but it's important to remember that it is not always king – inflation can erode the purchasing power of your cash, making it a less attractive option in the long run.
- When inflation is taken into account, cash typically lags behind other asset classes such as stocks and bonds, which can mean that over time, cash will generally be worth less in terms of purchasing power.

4. Start early and re-invest income - compounding works miracles

- Compounding is often called the eighth wonder of the world – by starting to invest early and reinvesting your income, you can take advantage of compounding to build your wealth over time.
- The power of compounding is so great that delaying investing by even just a few years, or choosing not to reinvest income, can make an enormous difference to your eventual returns.

5. Returns and risks generally go hand in hand, so be realistic about your objectives and what you can achieve.

- Of course, you always want to aim for the highest possible return while taking on the least amount of risk. But in reality, there is usually a trade-off involved – the higher the potential return, the higher the risk. And vice versa.
- Therefore, if you want to target a higher level of return, you have to be willing, and able, to tolerate larger swings in the value of your investments along the way.

6. Volatility is normal, so keep your head when all about you are losing theirs.

- Volatility is a normal part of the market, so don't let it rattle you – keep your head when all about you are losing theirs, and remember that the best time to invest is often when others are panicking.
- So don't panic when the markets are down. Instead, stay calm and focused on your long-term goals.

7. Timing the market is diffciult, staying invested matters

- It's no secret that timing the stock market is difficult. In fact, it's often said that trying to time the market is a fool's errand. By staying invested you ensure that you're participating in the long-term growth of the market, which helps to mitigate the effects of volatility.
- Staying invested in the market allows you to take advantage of opportunities as they arise. By staying invested, you'll be in a position to buy when prices are low and sell when prices are high.

8. Diversification works: Don't put all your eggs in one basket

- By spreading your money across different investments, you can minimise your risk and maximise your chances of success.
- Over time, different investments will tend to even out, so the aim is to grow your money even if some investments underperform due to market movements.

9. Review your portfolio

- Reviewing your investment portfolio allows you to monitor your progress and ensure that your investments are performing as expected, giving you the opportunity to make changes to your portfolio if necessary.
- It helps you stay disciplined and focused on your long-term goals.

10. If it seems too good to be true, it usually will be

- Promises of high returns with little or no risk are almost always too good to be true – there are a lot of scams out there, and many people looking to take advantage of unsuspecting investors.
- Before investing, consult with a financial professional to help you understand the risks involved.

What are your long term wealth priorities?

Whatever your long-term wealth priorities, our first investment will always be in understanding your priorities and building a personal relationship with you.

To discuss your plans or for further information, please contact us.

Note 1. Source Data: The Office for National Statistics (ONS) – Past and projected period and cohort life tables: 2020-based, UK, 1981 to 2070

Recession-proof your finances

10 practical steps to ensure your money is working hard for you

In these uncertain times, it's more important than ever to make sure your finances are in order.

The Bank of England believes that a painful squeeze on our living standards, driven primarily by soaring energy prices, is set to intensify and will push the UK economy into recession later this year.[1]

Making your finances recession-proof is all about taking practical steps to ensure your money is working hard for for you. It is vital to be completely honest with yourself about your financial situation.

By conducting a thorough audit of your finances and gaining a comprehensive understanding of all your incomes and outgoings, this will show you exactly where your cash is going and, most importantly, help you identify problematic spending behaviour.

Here are 10 tips to help you Recession-Proof your finances:

1. Make a budget and stick to it
This will help you keep track of your spending and ensure that you're not overspending.

2. Save, save, save!
Try to put away as much money as you can into a savings account so that you have a cushion in case of tough times.

3. Invest in yourself
Take the time to learn new skills or improve upon existing ones. This will make you more valuable in the job market if you need to make a job or career change.

4. Remove any unnecessary payments
Look at your bank account and remove any pain-free direct debits. Consider if you're currently paying for things you don't really need, for example, subscriptions.

5. Time to switch
Look at energy tariffs, home insurance, car insurance, broadband, TV package, mobile tariff – now might be a good time to switch.

6. Stay disciplined with your debt
Make sure you're making all of your payments on time and in full. This will help you avoid costly late fees and keep your credit in good shape.

7. Pay off high interest
Prioritise any highinterest debt, such as credit card debt, freeing up more money in your budget to cover other expenses if your income decreases.

8. Have an emergency fund
This is a must in case you lose your job or have any unexpected expenses. Try to save up at least between three to six months' worth of living expenses so that your expenditure is covered.

9. Diversify your Income
Don't put all your eggs in one basket. Having multiple streams of income can really help. If one income source starts to dwindle – or gets eliminated completely – this will provide other sources to fall back on.

10. Diversify your investments
In addition to diversifying your income, it's also important to diversify your investments. Review your investment portfolio and make sure your investments are spread across di!erent industries and even different types of asset classes.

Secure your financial future

Following these tips will help you secure your financial future and protect yourself from the e!ects of rising inflation and the cost of living crisis. If you would like to find out more or to discuss your situation, please contact us.

Source data: Note 1. https://www.bankofengland.co.uk/monetarypolicy-report/2022/may-2022

The impact of raising the state pension age

New research shows how the most recent increase in state pension age has hit those affected.

The last change in State pension age (SPA) was phased in between December 2018 and October 2020. Over that period, the SPA for both men and women increased from 65 to 66. The move was controversial, not least because it followed immediately after the previous increase of women's SPA from 60 to 65, which started in 2010.

The financial impact of the SPA increase to 66 has recently been examined by the Institute for Fiscal Studies (IFS), which found:

- Predictably, the greatest impact was that, on average, 65-year-olds lost state pension income worth around £142 per week in 2020/21. Only around 9% of 65-year-olds delayed retirement – and thus maintained earnings – until they reached 66.
- Once all sources of income (including State pensions and investment income) were considered, the move to 66 pushed down the average net income of 65-year-olds by £108 per week.
- The reduction in household income had the most significant effect on lower-income households and caused marked increases in income poverty rates among 65-year-olds. The IFS estimates that the reform caused absolute income poverty rates (after accounting for housing costs) among 65-year-olds to climb to 24%, whereas it would have been about 10%, had SPA been unchanged.
- While 65-year-olds suffered losses, HM Treasury made gains. The combination of reduced payments of State pensions and the higher direct tax payments from those continuing in work boosted the public finances by nearly £5 billion per year. Viewed another way, that is equivalent to almost 5% of public spending on State pensions.

The IFS paper is not just of academic interest, as another change to SPA is imminent. Between April 2026 and April 2028, SPA will gradually rise by another year to age 67. If you were born after 5 April 1960, you will be affected. This time around, the amount of pension loss and Treasury gain will be greater, thanks to the surge in inflation.

In June, the Chief Secretary to the Treasury confirmed, in answer to a written question, that for April 2023 "the Triple Lock will apply for the State pension." Nevertheless, your retirement plans may need a review if you have not allowed for rising SPA (and there is yet another year's increase to come, to 68, currently scheduled for 2037/39).