Financial Viewpoint

Prosperity Financial Services Ltd

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What's stopping you from saving?
Three ways to combat the reluctance to save money.

Risk vs reward
An important factor to consider when designing an investment strategy.

Are you thinking of downsizing?
Almost half of empty nesters have no plans to downsize, even though it could free up equity.

Developed vs emerging markets
Investors typically fall into one of these two categories, but what's the difference?

Savers in the dark about their pension
How to plan for a more comfortable retirement.

Protection in trust
How to make sure your policy pays out on time, to the people you want to benefit from it.

The search for a reliable retirement income
Generating investment income in a low interest environment.

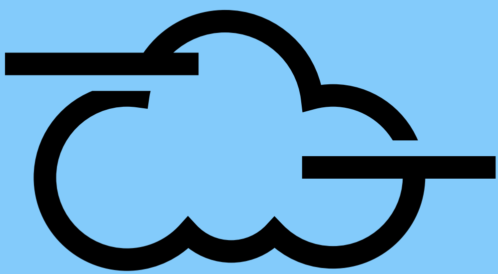
What’s stopping you from saving?

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

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

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

Please talk to us to find out more.



Start early!

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

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

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

Swap instant gratification for longer-term satisfaction

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

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

Don’t bury your head in the sand

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

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

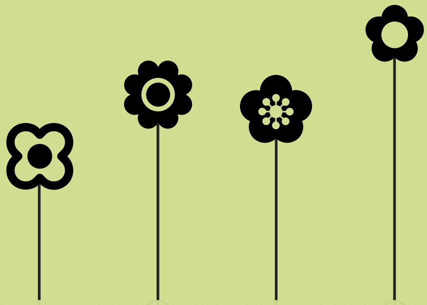
1. What are your investment objectives?
2. What level of risk are you prepared to accept and what potential level of loss can your finances tolerate?
3. Which types of investments we think you should consider in light of your objectives and risk profile?
4. What the most tax-efficient way of holding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

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

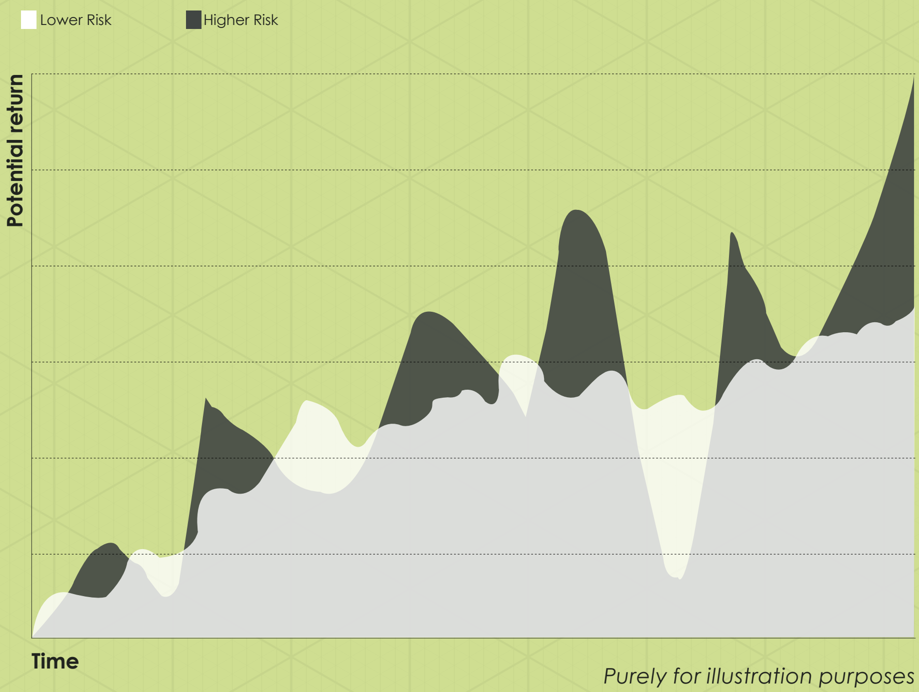
Risk vs reward

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

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



Higher vs Lower Risk Investments



Purely for illustration purposes

Factors in determining risk

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

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

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

Can you afford to take a risk?
If your investments dropped in the short term, do you have the time to wait for them to recover?

Can you afford not to take a risk?
Leaving all your money on deposit may carry minimal risk, but you may miss out on higher potential returns and possibly see the spending power of that money fall due to inflation.

What's your appetite for risk?

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

Devising an appropriate investment strategy

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

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

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

Talk to us

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

Need advice?

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

Talk to us for expert advice.

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OW1628 Exp. 27/09/2019

Are you thinking of downsizing?

According to a survey by Lloyds Bank, 45 per cent of empty nesters have no plans to downsize, despite the potential windfall moving to a smaller place could create.

For these empty nesters then, life seems pretty comfortable, but their new-found wellbeing could be at risk if a study by the London School of Economics (LSE) is anything to go by.

Boomerang offspring

The LSE study is based on findings from people over 50 from 17 European countries taken between 2007 and 2015. It suggests the boomerang population is growing because of the increasing costs of housing and rising job insecurity causing kids to return 'home' as adults.

About a quarter of young adults in the UK now live with their parents, and in many cases, will be a source of emotional and practical support for their parents. But it's clear from the study that some empty nesters view the return of their kids as hampering the exciting new stage of life they had just started to enjoy; creating stress and conflict in the family home and making downsizing seem a more attractive option.

The benefits of downsizing

It could be a more attractive option too when you consider a potential windfall of up to £110,000 for the 55 per cent in Lloyds Bank's survey who did choose to downsize. This is typically the equity released from moving to a smaller property and something that makes a nice lump sum to top up the pension pot or indulge in a long-dreamed-of holiday of a lifetime.

And if you are thinking of downsizing, you don't necessarily have to compromise on space. You could find a cheaper property that's as big as your previous home by:

- Finding a property in a less expensive location
- Avoiding a property in the catchment area of a sought-after school
- Buying a 'fixer upper' to work on in retirement
- Looking for property at auction

If your kids have flown the nest and you're thinking of downsizing, we can explore your options and discuss changes to your financial plan that can help to make more of your new circumstances.

Developed vs emerging markets

The most popular markets among investors typically fall into one of two categories – developed or emerging. There's no universal definition for either category, but MSCI, a research firm which provides many of the indices used by investment funds as benchmarks, classifies countries according to three main criteria: economic development, liquidity and market accessibility.

To put this into context, developed markets are economically advanced and have active and easily accessible capital markets. On the other hand, emerging markets (EMs) tend to experience fast growth, but their capital markets are less mature and may be harder to access.

MSCI classifies the US and Canada, most Western European and Scandinavian countries alongside Australia, New Zealand, Japan, Hong Kong and Singapore as developed markets. There are too many EMs to list individually, although the BRICS – Brazil, Russia, India, China and South Africa – rank among the fastest growing. It might come as a surprise to see China and India listed as emerging considering the size of their economies, but they started from a lower base than developed markets.

A new dawn

Traditionally, EMs have been associated with commodities such as oil and precious metals, but these days they are home to global leaders in several industries. Companies like Tencent and Alibaba are not household names yet, but they are the Chinese equivalent of the West's big tech players, and they serve a growing consumer sector in China's middle class.

In fact, demographics are working in favour of EMs as a whole. According to the Organisation for Economic Cooperation and Development (OECD), most of the global growth in the middle class over the next 12 years will come in EMs. An expanding middle class leads to greater consumption and domestic demand; two of the key driving forces behind economic development.

It is also worth noting that many EMs are undertaking structural reforms which should help to stabilise their economies. For instance, in 2016 India removed from circulation its two highest denominated currency notes to reduce tax evasion.

Should you invest in EMs?

When deciding whether to invest in developed or emerging markets, investors must weigh up risk against reward. The risk of investing in EMs tends to be higher, due to geopolitical instability and less transparent capital markets, but so are the potential returns that could be earned in rapidly-expanding countries.

In general, EMs are suitable for long-term investors who can cope with occasional market turbulence. This principle is reflected in our investment propositions; the auto-rebalancing Graphene model portfolios and our actively-managed Omnis Managed Portfolio Service. In both cases, EM assets account for roughly 15% of the adventurous portfolios and 10% of the balanced portfolios, while the cautious portfolios hold little or none.

For guidance on which type of portfolio matches your needs, please get in touch.

Remember, the value of your investment can fall as well as rise, no matter where you invest. You may not get back the amount you originally invested. The returns on overseas investments may also be affected by currency fluctuations.

OW1626 Exp. 31/12/2018

Savers in the dark about their pension

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

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

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

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

Take control of your spending – and saving

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

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

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

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

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

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

Protection in trust

Taking out a Life Insurance policy gives you valuable peace of mind; you know you've helped protect your family against financial hardship, should the worst happen. But how can you make sure your policy will pay out quickly, to those who'll need it most, if you weren't around? The answer might be to write your policy in trust.

What is a 'trust'?

A trust is a legal document that allows you to specify what will happen to your money after your death. If your life insurance policy is written in trust, any payout will go to the trustees you've chosen, who will then ensure the funds are distributed to the people you'd like to benefit from the policy (the beneficiaries).

According to research by Legal & General, however, it seems there is a significant lack of awareness around the benefits of placing live cover in trust. In fact, their survey found that 82% of people questioned had assets they wanted to bequeath to their loved ones, but two fifths were unfamiliar with the process.

Why is a trust so important?

A trust provides control…
Every year, many people die without having put their life insurance policy in trust. As a consequence, the payouts become subject to the delays caused by the processing of a Will and, where there is no Will, the complex laws of intestacy come into play. This could mean the benefits of the policy will form part of your estate, which may not go to the people of your choosing. With your life insurance in trust, you can specify who you want the beneficiaries to be. This is especially important if you are unmarried or in a civil partnership.

A trust means your life insurance policy won't attract Inheritance Tax…
A life insurance policy that has been 'written in trust' does not form part of your legal estate and is not subject to Inheritance Tax. This allows the entire policy payout to go to the people you intended to benefit from it.

Your beneficiaries will have the money more quickly…
Using a trust should help ensure that the money paid out from your life insurance can be paid to the people of your choice quicker, without waiting for lengthy legal processes, such as probate. This can be a welcome relief for those left behind during what is likely to be a very stressful time.

Setting up a trust

Trusts are usually easy to set up, but it's important to select the right type of trust and complete the documentation carefully. That's where we come in.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

The Financial Conduct Authority does not regulate Trust Advice.

If you're thinking of putting a life policy in trust, please talk to us first. We can tell you if it's the right choice for you, which type of trust is most appropriate for your circumstance - and help you put the trust in place.

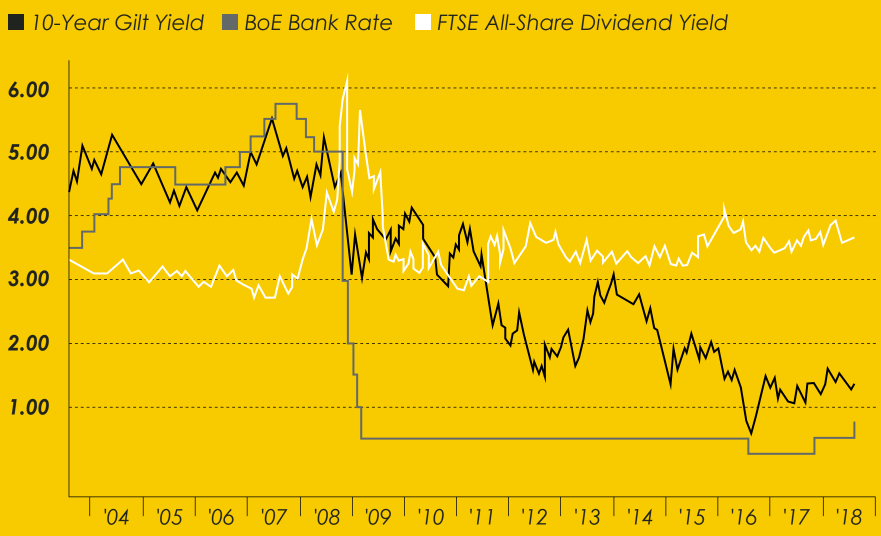
To find out more about the investment and income solutions we can offer, please get in touch.

The search for a reliable retirement income

It's been over three years since the April 2015 pensions changes which scrapped compulsory annuities and gave pensioners greater choice over how to take their retirement income.

This historic change to UK pension legislation opened up a range of investment opportunities for pensioners. With increased control of their pension, investors can seek to position their portfolios to deliver the income required, while retaining – and perhaps even growing – their invested capital.

UK interest rates, gilt yields and dividend yields (%)



Source: *Bloomberg Finance L.P*

You should not use past performance as a reliable indicator of future performance. It should not be the main or sole reason for making an investment decision. The value of investments and any income from them can fall as well as rise. You may not get back the amount you originally invested.

Generating income in a low interest rate environment

While the changes offer many opportunities, generating investment income remains difficult – particularly in view of low interest rates.

As the chart shows, the Bank of England's target interest rate had been stuck at 0.5% for more than eight years. It was cut to 0.25% in August 2016, then increased to 0.5% in November 2017, then 0.75% in August 2018. Meanwhile, the income that can be earned through holding UK government bonds – a traditional staple instrument of low-risk, income-focused investment portfolios – has shrunk from over 5% before the 2008 financial crisis, to 1.3% in August 2018.

Equity markets risk income stability

The chart also shows that the dividend income available on UK equities has risen somewhat, making them an attractive proposition for many investors.

However, income-seekers should be wary of rushing headlong into equities in search of the returns that have been eroded in other asset classes. Investing in equities comes with a degree of risk, particularly for those relying on their investment portfolio for their means of living.

Should equity markets suffer a setback, retirees may find their pension fund reduced in size and incapable of generating the necessary income.

Taking a diversified approach

A robust income strategy should not be overly reliant on a single asset class. But making a decision on which asset class to hold is tricky – the top performer changes regularly and the returns can be volatile.

Investors who are over-committed to one asset class run the risk of disproportionate losses should that asset class underperform.

An alternative approach is to take a much wider view and consider other potential sources of income from a broader range of asset classes and capital structures, across many different countries and regions.

Taking a more diversified approach means that a drop in the value of one asset may then be offset by increases in other asset classes, leading to smoother overall performance – and a potentially more stable source of retirement income.

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