Viewpoint

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2018 Q2 report
The key geopolitical and economic events from the first half of the year.

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

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

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

The cost of retirement
How much money will you need to see you through?

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

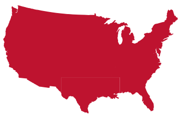
Barriers to protection
Three reasons why the UK population remains hugely under-insured.

2018 Q2 Report

We've scoured the global news headlines to recap the most significant geopolitical and economic events which took place in the second quarter of 2018, as Donald Trump's unconventional approach to foreign policy sent mixed signals to the financial markets.

UK

Brexit dominated the political agenda in the UK throughout the quarter. Prime Minister Theresa May struggled to come up with a customs deal which would not only satisfy the European Union but would also be acceptable to Tory MPs on both sides of the debate. However, Parliament narrowly passed the EU Withdrawal Bill in June after Mrs May overcame challenges from the House of Lords and the House of Commons. Against this backdrop, the Bank of England decided not to raise interest rates, although a six-to-three split on the Monetary Policy Committee signalled the likelihood of a hike in August – something that was indeed realised.



US

Despite seeming unlikely in the preceding months Donald Trump became the first US President to meet with a North Korean leader when he travelled to Singapore in June for a historic summit with Kim Jong Un. The summit represented an important step in the thawing of relations between the two countries, although it failed to deliver any concrete outcomes. Meanwhile, the Federal Reserve – the most advanced of the world's central banks in the monetary tightening cycle – raised interest rates for the second time in 2018 and hinted at two more hikes over the next six months.

Asia

Trade tensions continued between China and the US, despite appearing to ease in April as President Xi Jinping offered foreign companies, including the finance and automotive industries, greater access to Chinese markets. Two rounds of talks failed to produce any tangible results, so Donald Trump followed through on his pledge to impose tariffs on Chinese goods. China responded in kind. In other Asian news, the Bank of Japan decided to scrap its goal of raising inflation to 2% by the end of the first quarter of 2020.

Europe

The US also introduced tariffs on European steel imports and the EU countered by imposing levies of its own on a range of American goods including motorbikes and whiskey. Turning to economics, the European Central Bank (ECB) decided to leave interest rates unchanged at its April meeting and announced it would scale back its monthly bond-buying programme after September 2018 and end it completely in December.

Latin America

Amid economic reforms, in May Argentina's central bank raised interest rates three times in eight days to 40%, as it attempted to support the peso and bring down inflation. Elsewhere, populist candidate Andrés Manuel Lopez Obrador topped the polls ahead of presidential elections in Mexico, and the US imposed new sanctions on Venezuela banning the purchase of debt owed to the government and state-run oil company PDVSA.

If you are concerned about how global events can impact your investment portfolio, please get in touch.

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.

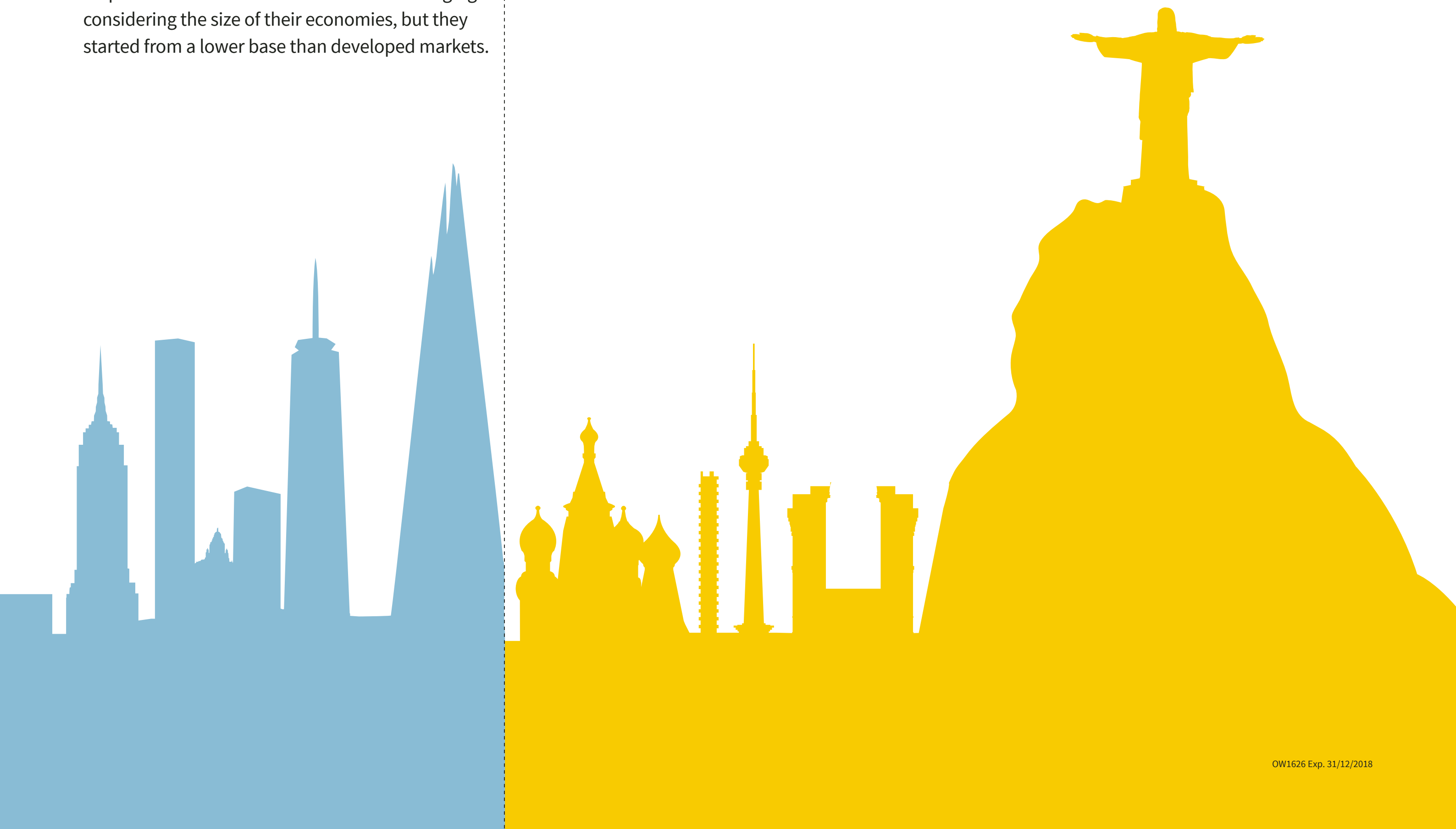
Should you invest in EMs?

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.

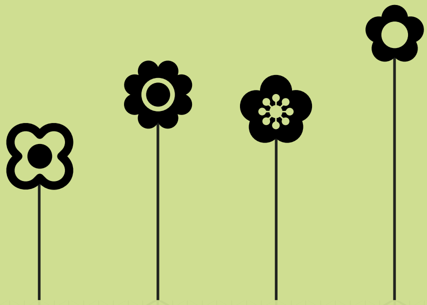


OW1626 Exp. 31/12/2018

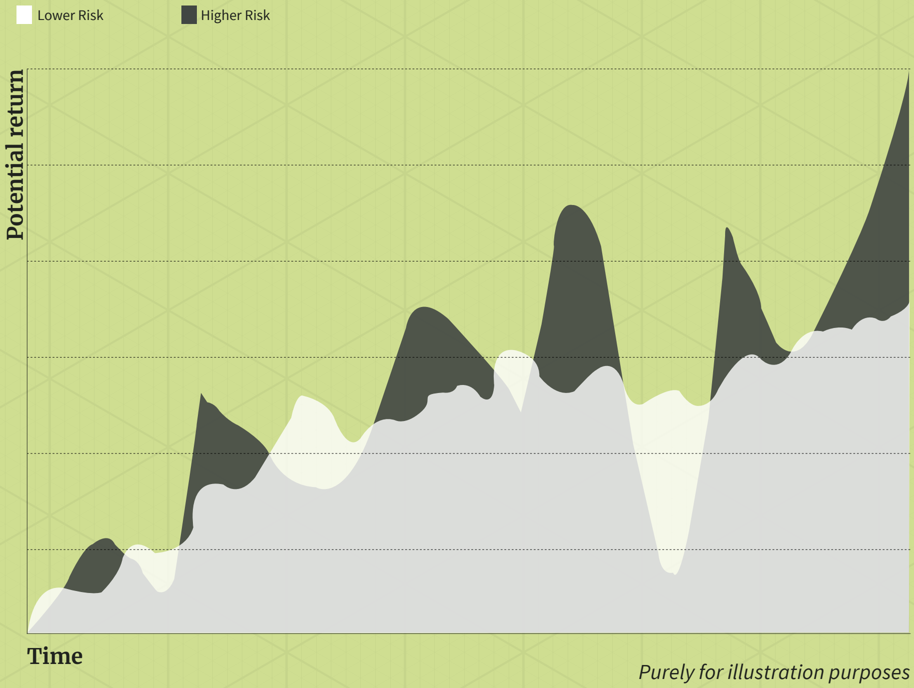
Risk vs reward

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.

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

OW1628 Exp. 27/09/2019

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.

The cost of retirement

How much money do you think you'll need to receive each year of your retirement?

According to the investment manager Schroders, working people in the UK aged 55 and over believe this figure would equate to 66% of their current income, but the reality according to UK retirees is actually 53%.

Despite the 13% shortfall, the majority of retired people (92%) felt their retirement income was sufficient. This may not come as a surprise if we consider they are likely to be part of the baby boomer generation and therefore enjoy significant wealth compared to future generations of retirees who quite possibly won't have the benefit of a final salary pension plan.

It might also be the reason that these pensioners can afford to invest one fifth of their retirement income, with the aim of further improving living standards later in life - putting money away for potential care costs, or perhaps boosting their estate for the benefit of their descendants.

Saving more

The fact remains, however, that expectations can often differ from reality; creating a potential shock in store when you reach retirement. In its report, for instance, Schroders found that while people of working-age might expect to spend 38% on living costs in retirement, the figure is closer to 53%.

It's clear that the more you save, the more comfortable your retirement (subject to the usual investment ups and downs of course). And when it comes to making investment decisions for retirement, advice is key.

Whether you're early on in your career and just starting to think about putting money aside for retirement, or your last day at work is looming and you're preparing for a new phase in life, the investment and savings decisions you make now can make all the difference to how comfortable you are in your retirement.

Talk to us to find out more.

53%

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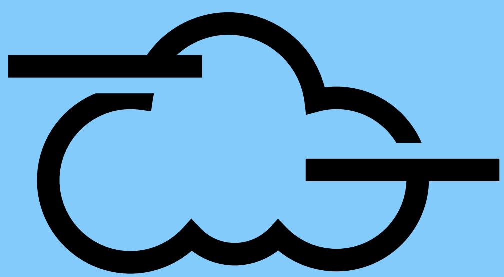
What’s stopping you from saving?

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?

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Barriers to protection

According to an online survey of 2,000 adults by Royal London, half of those surveyed believe life insurance is essential for someone with a mortgage or dependants and yet only 60% of people with a mortgage have life cover.

While 60% of those surveyed with a mortgage have a life insurance policy, just 29% have critical illness cover and 19% have income protection insurance, suggesting that better education is needed to help make people more aware of the benefits of taking out protection.

Overcoming the barriers

The main reasons why people feel they don't need protection:

1. Cost
2. Not seeing the benefit
3. Not trusting that a provider will pay out

We believe some kind of protection insurance should be considered essential for anyone who has a mortgage or people who rely on their income - or both. The financial impact of not having cover could be devastating; think about what would happen in your situation if the main breadwinner was unable to work for a long period of time, or was diagnosed with a critical illness. How would you fund your mortgage payments, keep on top of monthly bills or pay for treatment that isn't available on the NHS?

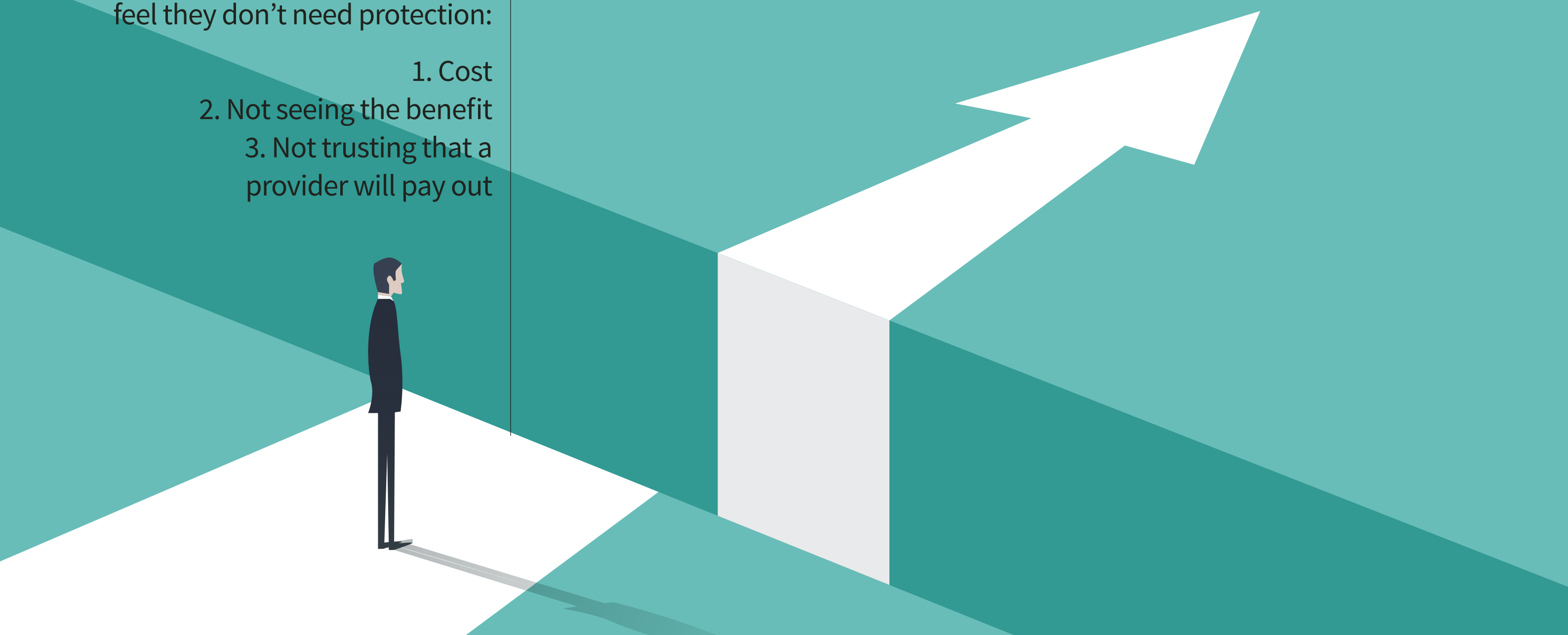
For less than the cost of a daily cup of takeaway coffee* you can protect yourself and your family and help deal with any consequences that could occur from illness, accident, unemployment or death. That's why, when we talk to clients about protection, we talk about value, rather than cost.

If you're concerned you'd be wasting money every month because insurance providers don't pay out, you might be surprised to know that 97.8% of claims were paid in 2017 - a record-breaking £5bn in income protection, critical illness cover and life assurance.

The perceived need for cover across age groups

I don't need life insurance	
18-34 years old	28%
35-54 years old	27%
55+ years old	47%
I don't need critical illness cover	
18-34 years old	34%
35-54 years old	37%
55+ years old	67%
I don't need income protection	
18-34 years old	38%
35-54 years old	49%
55+ years old	83%

Protection insurance can provide a valuable safety net at a time you need it most. Please get in touch and we can discuss how it could benefit you.



***Quote basis:** 35 year-old non-smoker, £250,000 decreasing life assurance and critical illness cover to cover a repayment mortgage, 25 year term, guaranteed premium. Premium of £58.72 per month is equivalent to £1.89 per day based on a 31-day month. Quote sourced via Openwork Select panel of insurers on 15 January 2018. Premiums are subject to an individual's personal circumstances and medical history.*

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