Summer 2023

wealth matters.

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clarity in hazy times.

David Cassidy, CEO

"Since our last newsletter, central banks across the globe have continued to increase interest rates in response to rising inflation.

In this environment, we are aware that some clients have had it suggested to them by a bank or building society that a "cash ISA" is a much safer option to a stocks and shares ISA, especially now that on the one hand interest rates have been rising whilst on the other equity markets have been volatile.

Whist there is no denying that investing in equity markets is risky, it is obviously more so if one has only a short-term time horizon for investing – as history is littered with periods where equity markets have fallen sharply for a couple of weeks.

In comparison, while one may currently consider cash to be a safe investment, there is actually a far greater chance of its value being eroded by inflation as there are currently no cash ISAs offering to pay interest anywhere close to the current inflation rate of 6.8%. This basically means that one would lose money in a cash ISA – and we don't believe this is likely to change.

We discuss this in more detail on pages 2-4 but in short, whilst setbacks tend to happen too quickly to ignore, progress often happens too slowly to notice... and progress is being made in controlling inflation, which in turn will see interest rates start to fall...and equity markets start to rise... we've seen it all before...

The path for equity markets can be prone to periods of fits and starts – and following the initial recovery in markets following the coronavirus induced falls, we appreciate there is a feeling of malaise as equity markets, while volatile, have essentially traded sideways - and we believe history will show that this is an opportune time to be investing.

As always, we remain vigilant in analysing economic data and company announcements. We will also continue to keep you up to date on the Investment Management Team's views via our regular market updates.

If you have any questions or concerns, our dedicated Personal Financial Coaches are here to help. They are available to answer any queries you may have and can arrange a review with your Adviser if required. Please do not hesitate to get in touch.

Thank you for your continued trust."

Best wishes,

cash or equities? how to protect your wealth against inflation.

The Bank of England base rate reached a low of 0.1% in March 2020 and then started its upward trajectory in December 2021. As central banks around the world started on a course of monetary policy tightening, savings rates are now at levels not seen for many years. In the aftermath of a turbulent year for bonds and equities in 2022, is now the right time to consider cash as a viable option? Or is it a reckless caution to try and protect your wealth by investing in cash, while allowing inflation to destroy it?

Up until the global financial crisis, cash had a good track record versus inflation. Nominal interest rates, less inflation, produced 'real' returns on many deposits. But by 2008, when the financial crisis struck, central banks embarked on a strategy of loosening monetary policy (lowering interest rates) and the biggest ever programme of quantitative easing (buying back government debt which raised bond prices, reduced yields, and provided liquidity to the banking sector). With interest rates on deposits then below inflation, cash not only earned low 'nominal' interest but in 'real' terms, the value of cash was then negative and was being eroded year on year.

The end of Covid-19 and the resulting supply issues saw rising inflation in 2021, which was then exacerbated by the start of the war in Ukraine in 2022, resulting in further shortages of commodities (grain, oil and gas), pushing prices up further – leading to the current cost of living crisis. In an attempt to control runaway inflation, central banks turned their policies on their head and began an aggressive cycle of interest rate hikes. This sounds like good news for cash savers, but the reality is less than positive.

Chart 1 below shows relative performance of cash as measured by the Bank of England base rate versus inflation (Consumer Prices Index – CPI) since July 2000. It shows real returns on cash until September 2008 before turning negative, apart from a short period in 2015/16. The worst relative performance was seen last year when rate hikes lagged well behind rampant inflation.

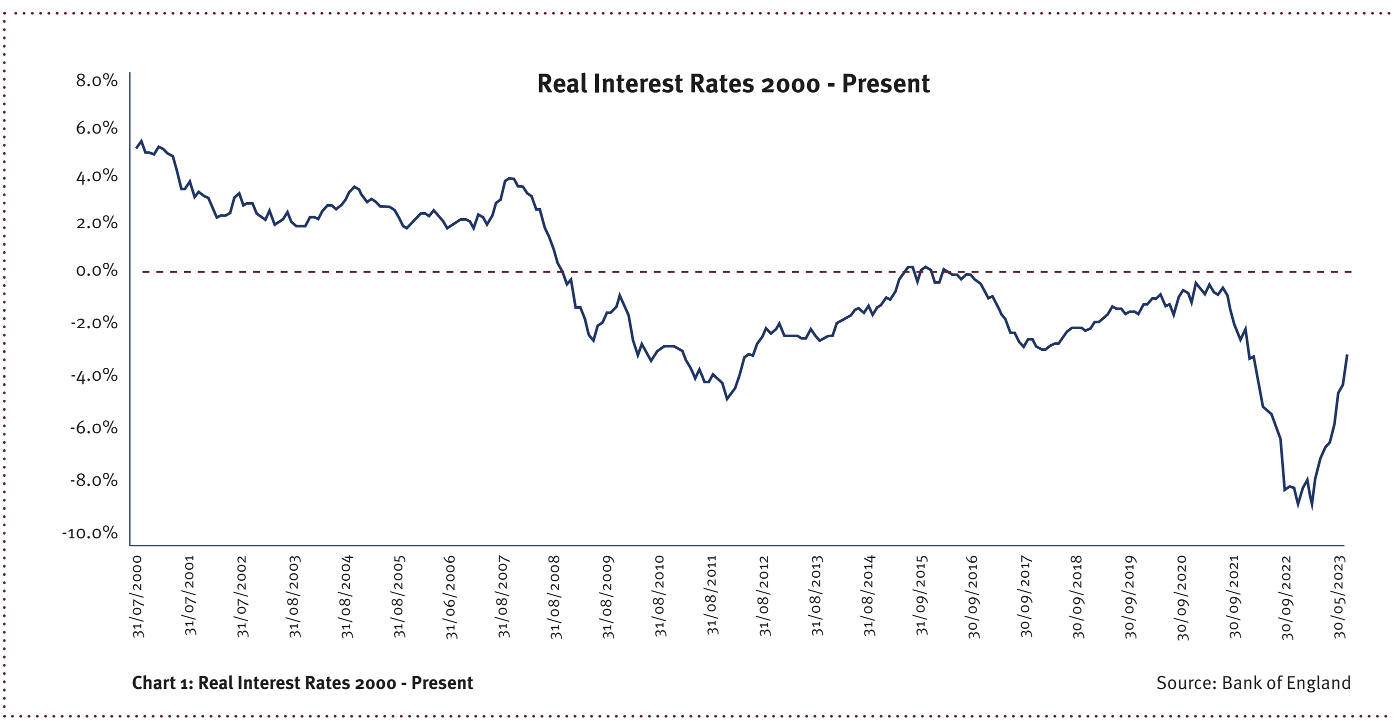

Chart 1: Real Interest Rates 2000 - Present

Source: Bank of England

continued on page 3.

Cash vs equities

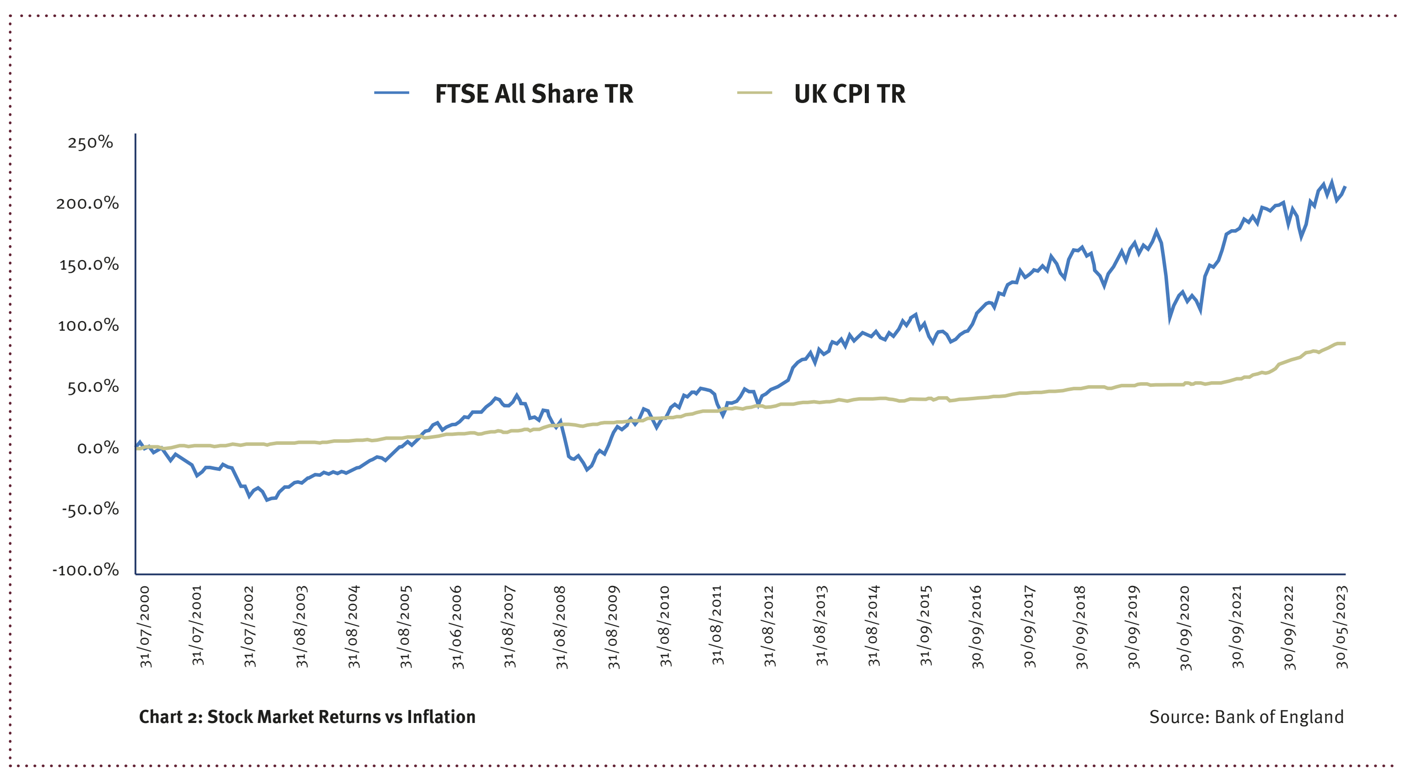

Chart 2: Stock Market Returns vs Inflation Source: Bank of England

To preserve the long-term purchasing power of your wealth, you need to generate returns which are either equal to, or greater than inflation. Equities (shares) are generally regarded as offering the best returns over the medium to longer-term, although they tend to carry more risk. However, when the renowned investor Warren Buffet was asked the question "which investment carries more risk – cash or shares?" he argued in a letter to his shareholders the answer was 'cash, hands down, without a doubt'. The reason behind the response was inflation - inflation is the constant force that erodes purchasing power.

Clearly cash has its place as part of any investment strategy, for example, to meet day-to-day living expenses and known short-term liabilities or spending plans. However, cash should not form a significant proportion of your wealth, or you may risk jeopardising your future goals.

Despite high interest rates being available, inflation is even higher and if you wish to have the opportunity to have returns which exceed price rises, then you must look to non-cash assets. The situation only gets worse the longer investments remain in cash savings that pay negative rates versus price rises.

Shares provide fractional ownership of businesses generating capital growth and dividends. Of course, not all companies are successful, but shares have generally proven to be highly successful in generating returns that exceed inflation, as demonstrated by the long-term returns from stock markets (see **chart 2**). Companies are seen as having built-in defences against inflation, as they can pass increasing costs onto consumers by raising their prices accordingly.

"cash should not form a significant proportion of your wealth, or you may risk jeopardising your future goals."

continued on page 4.

Cash vs equities

In any given period, equities could underperform cash but over the longer-term, equities have significantly outperformed cash. A well-used phrase when investing is, "It is about time in the market, not timing the market" that counts.

For long-term investors, history has shown that the best time to invest is when the headlines are gloomy, and the market is weak and cheap. But it is understandable to feel concern and perhaps nervousness when the economic picture is uncertain, especially given recent market volatility. And yes, no-one can be certain of the future, but getting invested and staying invested gives you the best chance of preserving and growing your wealth through different economic cycles.

Trying to time the market is a risky approach and invariably very difficult to successfully achieve. Even the savviest of investors can get easily caught out - inflation is expected to continue to fall and if it starts to fall more sharply than anticipated and markets react positively, those sitting on cash will miss out on the rally, while seeing the returns on their cash diminish.

That doesn't necessarily mean new money should be invested all in one go, irrespective of short-term views. We believe new money should be carefully drip-fed into the market, allowing us to take advantage of short-term weakness or buying opportunities; or to hold back if we feel it's not the right time to buy a particular geographical area, sector or stock. Typically, new money added to a portfolio would become fully invested over roughly a 90-day period.

Paul Morton, Investment Planning Director

Protect your wealth

Cash and bonds have a place in balancing the risks of a diversified portfolio, but evidence points to equities being the best way to beat inflation over the longer-term. Equities should therefore remain a core component of any investment strategy, but the exposure needs to be consistent with your personal risk profile.

It is also worth noting that just because the Bank of England is increasing interest rates, this doesn't necessarily mean the banks are passing on these increases to all savings accounts. In fact, the Financial Conduct Authority (FCA) has recently told the banks they must 'accelerate' the speed at which they put up rates for depositors. Now may be a good time to check the rates you are receiving on your cash deposits because even the top rates are well below current inflation, and this compounds the problem.

If you have cash reserves beyond those required to meet your short-term needs, now may be a good time to review your position and ensure your overall strategy remains aligned with your goals - consider if you are doing enough to protect your wealth in this high inflation environment.

time for a review?

We understand that many household finances are currently coming under pressure due to the increased cost of living. Inflation can also have an enormous impact on how long retirement savings will last. It is important to review your financial situation and check whether your personal financial plans are on track for the future. This is especially important for anyone thinking of retiring in the next few years.

If you would like to start making plans, please contact us to discuss or ask any questions you may have. **Call us on 01423 501 401.**

retiring in turbulent times.

Inflation in the UK is expected to remain high for some time, intensifying the existing cost of living crisis. It is a difficult time for many people, but what about those planning to retire?

Work out 'your' financial plan for retirement

Your expenses are likely to change in retirement, so work out what you think you will need to meet your day-to-day living expenses (such as household bills) and discretionary expenditure (such as holidays and hobbies). Your current outgoings are a good place to start when working this out, but make sure you take rising prices on food and energy etc. into account.

Can you afford to retire?

Many people may be questioning this right now, especially if their pension has fallen in value due to market volatility.

However, it is important to keep in mind that when you retire, you are likely to be paying less income tax, no National Insurance (NI), mortgages and loans may be paid off, you will have no more pension contributions, and any children are likely to be financially independent. With these reductions in costs, the income you need in retirement is likely to be significantly less than you require during your working life.

Pensions are not the only source of income in retirement

The higher cost of living, as well as stock market volatility, means now may not be the best time to start taking money out of your pension. There are many assets such as cash ISAs and general cash savings, which can be used as sources of income instead of your pension.

Consider delaying retirement or working part time

If you are worried about the value of your pension falling due to market volatility, you need to give your pension time to recover, so it may be worth delaying retirement if this is an option for you. You might want to consider making further pension contributions to boost your pot and take advantage of tax relief while you can.

Don't pay unnecessary tax

Usually, only the first 25% of a defined contribution (DC) pension is tax free (the calculation for a defined benefit scheme will be different); the remaining 75% is taxed as earned income. Unfortunately, in recent years many people have found themselves paying more tax than they need to. For example, some people have taken their pension as a cash lump sum, not realising that it made them a higher rate tax payer! You may be better off taking a smaller amount each year from your pension, keeping within your tax bracket, and then to top it up with withdrawals from your ISA, as this is paid tax free.

how much do I need in retirement?

The answer to this question depends on the standard of living you require. The Pensions and Lifetime Savings Association (PLSA) defines a minimum, moderate, and comfortable standard of living below:

Please note: all values stated are approximate figures. Source: Pensions & Lifetime Savings Association - Retirement Living Standards

making the most of tax allowances.

Please see below an outline of some of the main tax rates and allowance for the 2023/24 tax year.

Income tax

Below are the 2023/24 tax rates and bands for England, Wales and Northern Ireland:

Band	Taxable income	Tax rate
Personal allowance*	Up to £12,570	0%
Basic rate	£12,571 to £50,270	20%
Higher rate	£50,271 to £125,140	40%
Additional rate	Over £125,140	45%

*your Personal Allowance may be greater than £12,570 if you claim Marriage Allowance or you are eligible for the Blind Person's Allowance. It can also be reduced for high earners (earning more than £100,000) and is zero if your income is £125,140 or above.

Income tax (Scotland)

The Scottish Government sets its own spending and taxation plans and for 2023/24, the income tax rates and bands are:

Band	Taxable income	Tax rate
Personal allowance*	Up to £12,570	0%
Starter rate	£12,571 to £14,732	19%
Basic rate	£14,733 to £25,688	20%
Intermediate rate	£25,689 to £43,662	21%
Higher rate	£43,663 to £125,140	41%
Top rate	Over £125,140	46%

ISAs

The ISA allowance subscription limit for 2023/24 will remain unchanged at £20,000 and the annual subscription limit for Junior ISAs and Child Trust Funds will remain at £9,000.

Personal savings allowance

This applies to savings income such as interest on savings accounts, gilts or corporate bonds.

Band	Tax free savings income
Basic rate	£1,000
Higher rate	£500
Additional rate	£0

Dividend tax

You only have to pay tax if your dividends exceed the dividend tax allowance in the tax year. This is currently £1,000 and will be cut to just £500 from April 2024.

Band	Tax rate on dividends from your allowance
Basic rate	8.75%
Higher rate	33.75%
Additional rate	39.35%

Capital Gains Tax (CGT)

The Annual Exempt Amount for capital gains tax was cut from £12,300 to £6,000 in April 2023 and will be halved again to £3,000 from April 2024.

Above this, CGT will continue to be paid at 10% (18% for second properties or buy to let) if the chargeable gain fell within an individual's basic rate band. Any gain that is above an individual's basic rate band will be charged at 20% (28% for second properties or buy to let).

regulatory update: FCA consumer duty.

The Financial Conduct Authority (FCA)'s new Consumer Duty came into effect on **31 July 2023**, which aims to provide better protection for consumers.

As a firm regulated by the FCA, we have always adhered to their latest requirements and will continue to do so.

Contact us

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