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?

Advice matters
A high-level look at the financial planning requirements you might need through life.

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.

Long-term investors needn't fear volatility
Short-term movements in stock markets are part and parcel of investing.

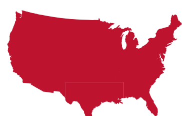
What's stopping you from saving?
Three ways to combat the reluctance to save money.

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.

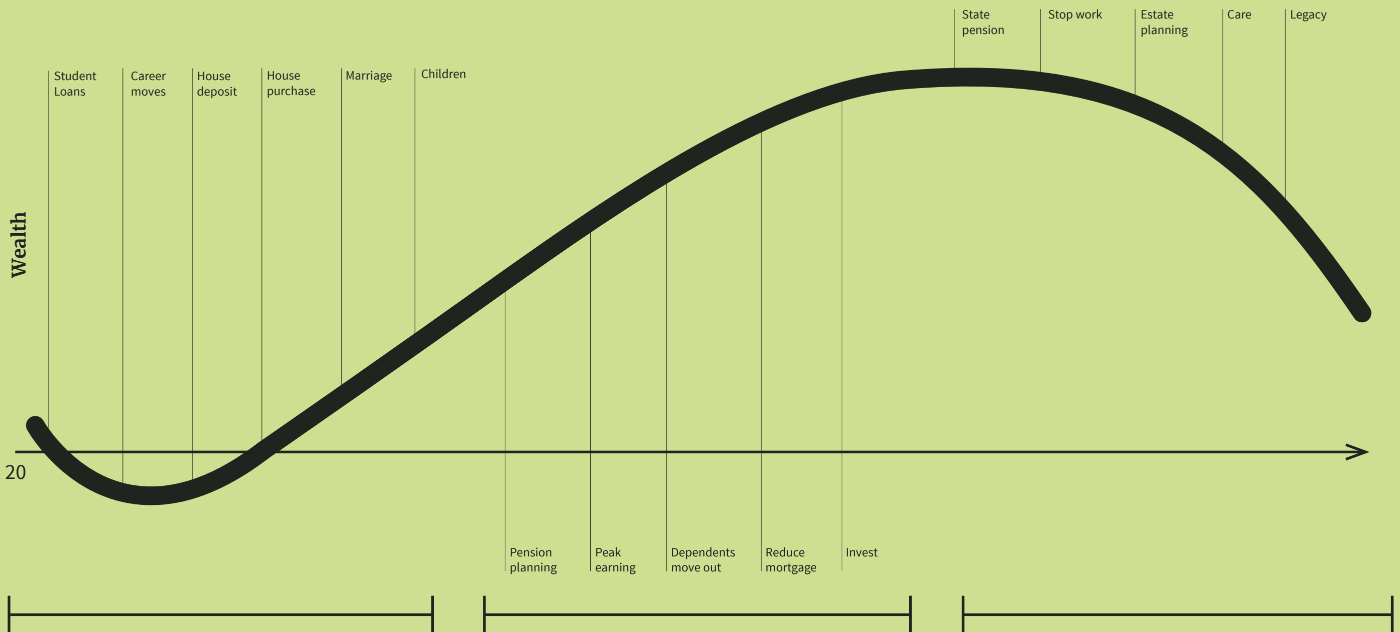
For guidance on which type of portfolio matches your needs, please get in touch.

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.

Advice matters - whatever stage in life you're at

The financial products and services we need to navigate through life will change with our circumstances. In the early years, our financial needs are likely to be more straightforward, getting increasingly complex as we grow older and experience more of life's rich tapestry.

We can provide high-quality financial advice whatever your circumstances. Please talk to us to find out more.



20 - 30's: From single and sorted to settling down

Ah, those carefree days of being young, free and single; possibly still enjoying student life (albeit probably with a loan), starting an apprenticeship, or moving onto and along the career ladder.

Our financial needs at this point might be fairly basic: an inflation-beating savings plan for those starting to think about homeownership, income protection for the workers. If budget allows you might even think about cover that helps to pay the bills in the event of an accident or illness. And when you meet someone and start a family, or take on your first mortgage, the need for protection insurance becomes essential.

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

40 - 50's: Accumulating wealth and paying off debts

For most of us, financial wellbeing will depend on whatever it is we do to earn money. At this stage in life, as well as securing good living standards while we're working, it's important to think carefully about putting some of our income aside for the future.

Generally speaking, and subject to investment performance and charges, the earlier you start saving and the more you save, the better shape your financial assets are likely to be in when you need to draw on them. But deciding on the right investment strategy is complicated because of the various factors that can influence it.
For instance:

- your investment objectives - what do you want from your money?
- the level of risk you're prepared to accept and the potential level of loss your finances can tolerate
- the types of investments you should consider in view of your objectives and risk profile
- the tax-efficiency when it comes to holding these investments
- the ongoing management of your investment

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

Over 60: Taking your pension; enjoying retirement

When the time comes to draw money from your pension, you'll need to decide how and from where.

Self-evidently, the greater the value of your investment, the better the prospect of a financially-rewarding retirement. But the more investments you have, the more important it will be to think very carefully about where you take money from when the time comes, and how you continue to manage your money throughout your retirement.

It's also wise to make sure your estate is in good order for any potential beneficiaries. Successful estate planning is all about helping to control the amount of tax you pay on the wealth you create and there are a number of key areas to consider as part of this:

- A will
- Lifetime gifts
- Trusts
- Use of exemptions and reliefs
- Tailored investment products
- Pension arrangements
- Life assurance

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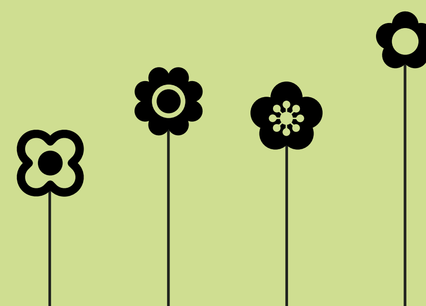
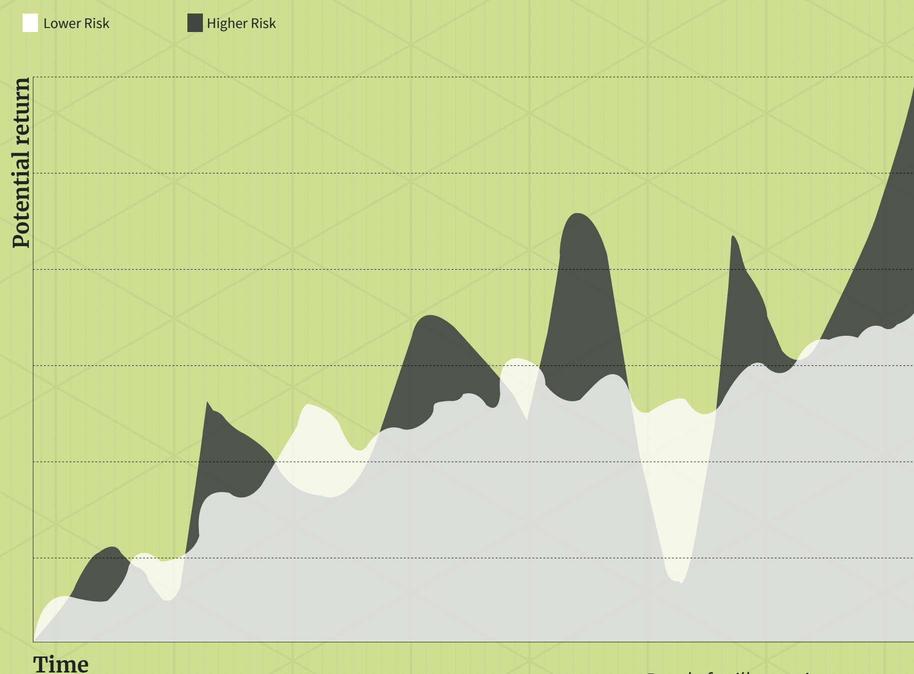
OW1473 Exp. 11/07/19

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.





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

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.

Long-term investors needn't fear volatility

You may have read in the press that markets have been particularly volatile in 2018. But what does this mean for your investments?

While stories about stock market falls are guaranteed to make headlines, the subsequent rebounds in prices get less coverage; and that's when the best investors can often make their money. While the great financial crisis of 2008 and the stock market lows of March 2009 are still fresh in many people's memories, it's worth noting that an investment then in global stocks would have grown more than twofold more than a decade down the line*.

That might be an extreme example with those kinds of returns never guaranteed, and those who try to second-guess markets or try to time when to invest their wealth often get it wrong. However, it does go some way to illustrate the benefits of investing over a long-term time horizon and riding through the peaks and troughs of market movements.

Investing for the long term

Indeed, the investment propositions we can recommend to you (our Graphene models and the Omnis Managed Portfolio Service), are designed specifically with a long-term investment in mind - a minimum of at least five to seven years.

The portfolios are also designed depending on your specific attitude to risk and aim to deliver lower volatility than the wider stock market; dampening extreme spikes in prices. How do we do this? The key is what we call 'asset allocation'. This is smoothing out returns through diversification across different investment types, from stocks to bonds, and alternative types of investments, such as property or natural resources like oil or precious metals.

Volatility in markets has many varied causes; from political shifts and central bank actions through to modern media, for example tweets from world leaders like Donald Trump. Rather than focus solely on these, often random factors, the Omnis fund managers responsible for your investment are looking at specifics that determine the real value of stocks and shares, and overarching thematic trends, such as long-term changes in demographics or spending habits across the globe.

Embracing volatility

The key takeaway here is that short-term movements in stock markets, as sharp as they may be, are part and parcel of investing, and volatility is often welcomed by professional investors looking for new opportunities to put money to work. Those with their wealth in well-managed and well-diversified portfolios should, in most cases, have little to fear as long as they follow their adviser's recommendations in investing over a sensible timeframe and their investments correctly reflect their attitude to risk and capacity for loss.

*MSCI World Diversified Financials Index

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

Past performance is not a reliable indicator of future performance and should not be relied upon.

If you'd like to know more about our approach to wealth management, please get in touch.

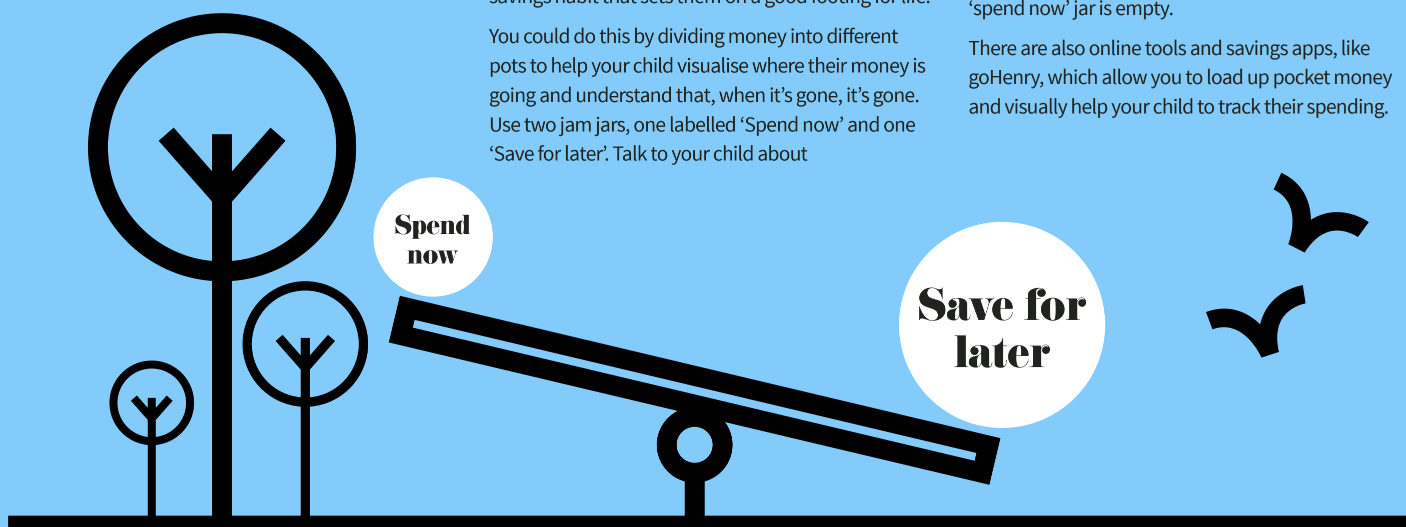
What's stopping you from saving?

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.

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