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YOUR
FINANCE MATTERS

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Investment focus for the new year

By any comparison, the past 12 months have been tough for investors with a series of shocks impacting markets and, as 2023 dawns, uncertainties remain. One constant on the investment horizon, though, is the requirement to be strategic with your portfolio. A sound strategy based on careful planning; making purposeful decisions, based on thorough research and reliable processes, will stand you in good stead.

Last year saw markets struggle with bouts of volatility as a combination of high inflation, rising interest rates and the war in Ukraine brought about challenging headwinds and markets sought a stable footing. As a result, fund inflows slowed while cash as a percentage of investors' portfolios rose, prompting warnings that investors need to be aware of limitations to the Financial Services Compensation Scheme (FSCS) for cash balances.

Identifying opportunities

With large amounts of money on the sidelines, using our knowledge, we aim to identify opportunities and position portfolios to benefit from recession-resistant companies in which we have conviction. Those who still have the capacity to invest should consider adding back to their portfolios in order to take advantage of any potential low valuations.

Battling inflation

Investors also need to be aware of the erosive impact of inflation on cash-based savings. In the current economic climate, anyone holding a significant proportion of their assets in cash, even with savings rates improving, will inevitably see the value of their wealth decline in real terms. In essence, equities offer a better potential defence in the battle with inflation.

Trust in our process

Experienced investor or not, staying calm during periods of market turmoil is never easy but adapting your mindset and focusing on investment strategy rather than market sentiment is vital. Investing in the stock market does clearly involve a level of risk but the adoption of a carefully considered strategy based on sound financial planning principles undoubtedly offers investors the best chance of success.

Tax year end reminder

As the end of the tax year approaches, a prime consideration should be how external factors such as reduced or frozen allowances, together with high inflation, could impact your finances and what action you need to take before 5 April 2023.

If you are affected by the impending changes to Dividend Tax or Capital Gains Tax (CGT) announced in the Autumn Statement, have you considered investing up to £20,000 this tax year in a stocks and shares Individual Savings Account (ISA)? From April 2023, the Dividend Allowance will be cut from £2,000 to £1,000 and then fall further to £500 from April 2024. In addition, the annual CGT exemption will fall from £12,300 to £6,000 next year and then to £3,000 the following year. Dividends received on shares within an ISA are tax free and won't impact your Dividend Allowance. Also, any profit you make when selling investments in your stocks and shares ISA is free of CGT.

And don't forget your pension

Both the Annual Allowance and Lifetime Allowance are frozen, at £40,000 and £1,073,100 respectively. As these allowances haven't increased with inflation, it effectively means those saving to the maximum extent possible with tax concessions can save less in real terms each year.

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In the news

Women hold their nerve

Recent research[1] reveals women are more likely to hold their nerve and avoid crystallising a loss when the market dips. Almost half of men (48%) have sold investments at a loss when they've dropped in value, in an attempt to stem their losses, while just 38% of women have done the same. Such impatience could prove to be costly. The research estimates (based on £10,000 invested in 1992, adding 10% of average salary and reinvesting dividends until 2022) that the real cost of *'impatient'* investing over 30 years could amount to nearly £200,000!

Where is the best place to retire?

Retiring abroad is a much-desired goal for many, particularly for an improved lifestyle. Croatia currently tops the list of the best countries to retire in, due to a better cost of living when compared with the UK – rent costs and the price of day-to-day living is nearly half that versus the UK[2]. Croatia also scores highly due to the ease of getting there from the UK, with relatively cheap average flight costs meaning that friends and family can visit and flying back to the UK is also convenient. (Relocation to some countries may mean forgoing future annual increases to State Pension).

[1]Alliance Trust, 2022, [2]Penfold, 2022

Global economic growth 2023

The International Monetary Fund (IMF)[3] has predicted a challenging 2023, reducing growth expectations and forecasting economic contraction in a third of the world, in its latest World Economic Outlook entitled *'Countering the Cost-of-Living Crisis.'*

With the cost-of-living crisis *'tightening financial conditions in most regions'*, the outlook suggests that in order to restore price stability, monetary policy should stay the course and fiscal policy should aim to alleviate pressures *'while maintaining a sufficiently tight stance.'*

The global growth rate for 2023 has been revised down from previous expectations to 2.7%. This reflects *'significant slowdowns'* for the largest economies as America's gross domestic product (GDP) contracted in the first half of 2022, followed by the Euro area's contraction in the second half of last year, and prolonged COVID-19 outbreaks and lockdowns in China. Closer to home, the IMF predict growth of 3.6% in 2022 and 0.3% in 2023 for the UK.

[3]IMF, 2022

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Dividend update

According to the latest Dividend Monitor[4], driven by sterling weakness, 2022 headline payouts are expected to rise to £97.4bn, up 11.0% on an adjusted basis, with underlying dividends expected to rise 13.4% to £87.2bn. The provisional forecast for UK dividends in 2023 anticipates a slight drop in headline dividends but modest underlying growth.

Looking ahead, Ian Stokes, Managing Director of Corporate Markets UK and Europe at Link Group commented, *"For 2023, we expect a further reduction in mining dividends and likely lower one-off special dividends but outside the mining sector there is still room for payouts to rise, even with a weakening economy. Our provisional 2023 forecast suggests a slight drop in headline dividends to £96bn and a slight increase in the underlying total to £89bn. This implies no change in our expectation that UK payouts will only regain their pre-pandemic highs some time in 2025."*

[4]Link Group, 2022

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Giving your children a helping hand

With the current generation of graduates typically leaving university with a mountain of debt, it is perhaps unsurprising that so many parents are now looking to ease the burden by investing on their children's behalf.

University challenge
Government statistics show the average debt accumulated by a university student is currently around £45,000. Thankfully, graduates only start repayments when their earnings hit a certain threshold and, at the moment, loans are written off after 30 years however much debt remains. As a result, some students will never pay back their loans in full.

Increasing debt burden
Many students, though, do repay a significant amount of their debt, and recent reforms to the loans system means many more will do so in the future – government forecasts suggest that, from next year, over half of students will repay their loans in full. This inevitably places an even greater burden on future graduates' shoulders, both as they enter the world of work and, potentially, throughout their entire careers.

Saving for their future
Most parents are keen to help their children fund university and many do so by investing on their behalf through a stocks and shares Junior ISA (JISA). While there are risks with stock market investments, historically they have performed better than cash-based savings and consistently delivered above-inflation returns. The annual JISA allowance is currently £9,000 per child which, for anyone who starts saving early, can grow to a sizeable tax-free lump sum. Smaller amounts can mount up too, particularly when combined with contributions from other family members.

Peace of mind
Investing on a child's behalf can make a huge difference to their future, whether they decide to go to university or put the money towards something else. It also provides parents with the comfort of knowing they are giving their children the best possible start to adult life.

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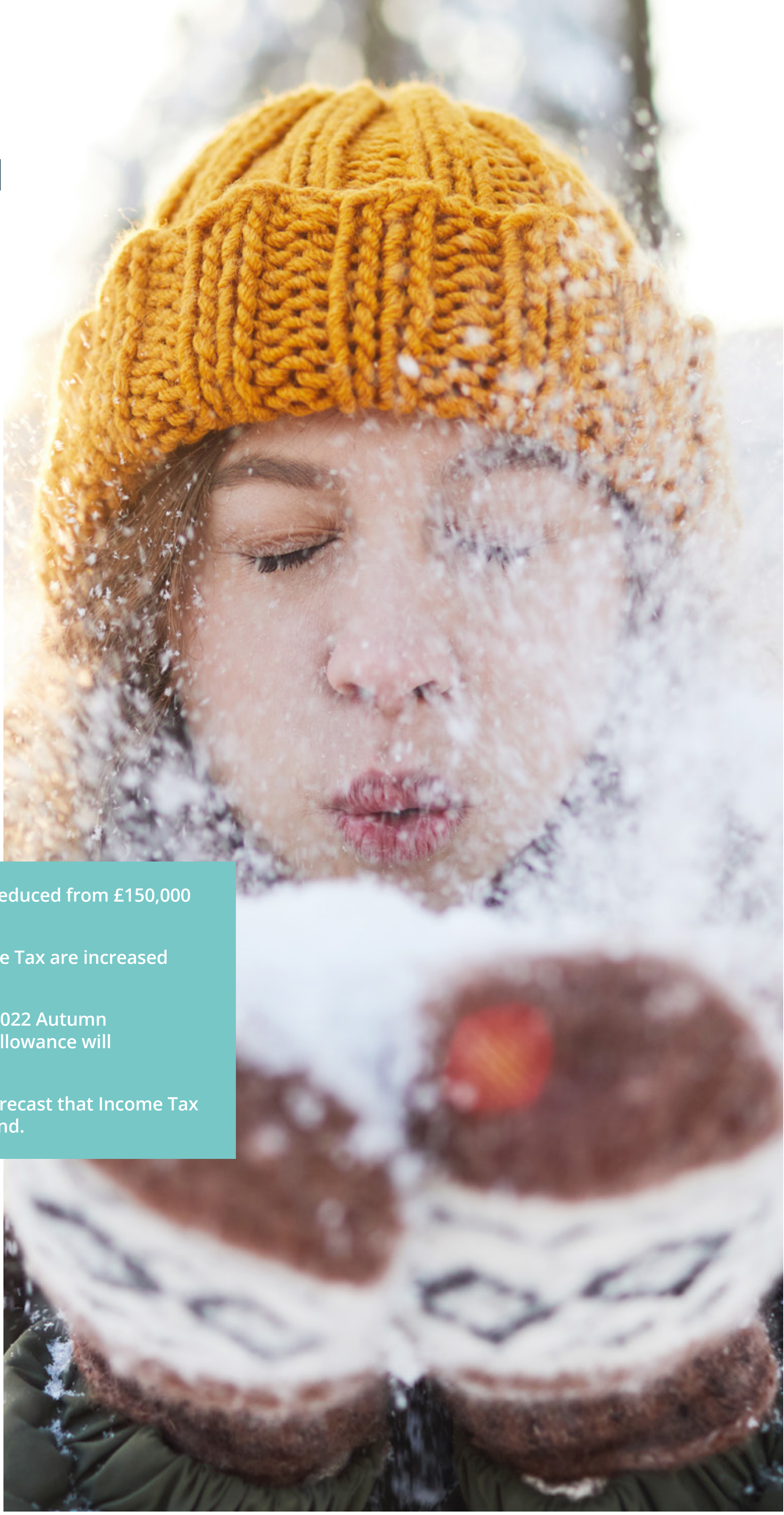
Take control now to beat the tax chill

Following his controversial *'stealth tax'* Statement in November, the Chancellor made a raft of key personal taxation and pension announcements.



The government pledged its commitment to the pensions Triple Lock, which will increase the State Pension in line with September's Consumer Prices Index (CPI) rate of 10.1%. This means that the value of the basic State Pension will increase in April 2023 from £141.85 per week to £156.20 per week, while the full new State Pension will rise from £185.15 to £203.85 per week.

Then came some 'stealth' announcements set to pull people into paying higher rates of tax, more people paying IHT, a cut to tax-free earnings from dividends and a reduction in CGT allowances.

In addition to the Dividend Allowance and CGT allowance reductions (as per *'Tax year end reminder'* article) and IHT freeze (see page 7), other key personal tax announcements from the Scottish Budget included:

- The Top Rate Income Tax threshold is reduced from £150,000 to £125,140 from 6 April 2023
- The Higher Rate and Top Rate of Income Tax are increased to 42% and 47% respectively
- The UK Government confirmed in the 2022 Autumn Statement that the UK-wide Personal Allowance will remain frozen at £12,570
- The Scottish Fiscal Commission have forecast that Income Tax will raise £15,810m in 2023-24 in Scotland.

With an increasing number of people likely to be impacted by these changes, we can't stress enough the importance of tax year end planning. Although some of these changes don't come in with immediate effect, it is vital to ensure you are in the best place possible to take advantage of any allowances, exemptions and reliefs available this year and to prepare for the changes that come in over the next few years. With plenty to consider and factor into your financial plan, valuable financial advice remains central to achieving your goals and aspirations.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated. The Financial Conduct Authority (FCA) does not regulate Will writing, tax and trust advice and certain forms of estate planning.

It pays to think about estate planning

Inheritance Tax (IHT) is once again in the spotlight following the Chancellor's decision to freeze IHT thresholds for a further two years until April 2028. Extending the frozen thresholds, together with rising house prices and soaring inflation mean that more estates are likely to be affected.

IHT receipts on an upwards trend
The latest IHT figures released in October make interesting reading. Total HM Revenue and Customs (HMRC) receipts for April 2022 to September 2022 were £3.5bn, £0.4bn higher than in the same period last year.

Not just a tax on the very wealthy
IHT is a tax payable on all your assets when you die and potentially on some gifts you make during your lifetime. If the estate is liable for IHT, it is usually payable at 40%. These days, you don't have to be hugely wealthy to be affected by IHT – the hated tax can cost your estate thousands of pounds when you die.

A reminder of the thresholds
An individual's current threshold, or nil-rate band, is **£325,000**. A couple (married or civil partners) has **£650,000**. Any unused nil-rate band can be passed to the surviving spouse or civil partner on death.

In 2017 the government introduced an additional nil-rate band when a residence is passed on death to a direct descendant. The main residence nil-rate band is **£175,000** and when added to the existing threshold of **£325,000** could potentially give an overall allowance for individuals of **£500,000**.

To reduce the amount of IHT payable, many families consider giving assets away during their lifetime. Some gifts will be automatically free from IHT; for example, **£3,000** each financial year, certain wedding gifts and gifts to charities.

Getting the right balance between gifting money during your lifetime and ensuring you have enough for your future years requires careful planning. Expert planning can legitimately mitigate IHT, meaning you can pass on assets to your family as you'd intended.

Time for a retirement reboot?

Nowadays there are more choices open to you than ever before. This means there are more things you need to consider and have a plan for, like how to manage your finances to provide the income you'll need to live on, how you'll transition into full retirement and what lifestyle you want to enjoy in your later years.

We're all leading busy lives and with cost-of-living financial pressures intensifying, it's understandable if retirement plans have been placed on the back burner. If you are keen to revisit your plans and get them back on track so you can relax and fully enjoy your retirement years, the new year is the perfect time to act, so please do get in touch.

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In other news

Child Trust Fund – on your radar?

HMRC has reminded teenagers and people in their twenties to claim their matured Child Trust Fund (CTF) savings. CTFs are long-term savings accounts set up for every child born between 1 September 2002 and 2 January 2011. The government provided an initial deposit of at least £250 to open the account and encourage future saving. An estimated 6.3 million CTF accounts were set up throughout the duration of the scheme, containing about £9bn. You can continue to add up to £9,000 a year to an existing CTF until age 18. The last CTFs will mature in 2029. To trace a CTF visit www.gov.uk/child-trust-funds/find-a-child-trust-fund.

Women are still financially less secure

According to a recent government research paper[5] women are far less positive about their financial future than men. Just one in five (20%) women feel positive, compared to more than a third (35%) of men, while only 13% of women are confident that they have enough saved towards retirement, compared to 27% of men. Former Pensions Minister Baroness Ros Altmann said, *"It's alarming that... the gender savings and pension gap remains, and women are still not confident that they have saved enough for retirement."*

[5]Cushon, 2022

FCA issues *'magic'* scam alert

The Financial Conduct Authority (FCA) has warned pension holders to beware of scammers' *'magic tricks'* as research shows the economic squeeze is encouraging more people to withdraw pension savings.

ScamSmart
Britain's financial watchdog recently launched its latest ScamSmart campaign aiming to give consumers the knowledge and tools to avoid scams. Over 700,000 pension plans were accessed for the first time in 2021-22 and FCA research suggests that number could increase this year, with a quarter of all pension holders considering an early raid due to cost of living pressures. This puts a significant number of people at risk of potential scams.

Pension scam tactics
Scammers typically prey on consumers' misunderstanding of how pensions work and pension pots grow. To help people avoid falling victim, the FCA has compiled a list of common scam techniques which include: high-pressure sales tactics using *'time-limited offers'*; guaranteed higher returns; unusual unregulated investments; arrangements involving several parties; any offer to release pension funds for under-55s.

Distraction techniques
FCA research also highlights consumer vulnerability to some classic *'distraction'* tactics scammers employ. Around 44% of pension holders, for instance, said they would take up the offer of a free pension review, while 46% could be swayed by a scammer providing details of a third party (falsely) vouching for their offer.

Devastating consequences
Mark Steward, FCA Executive Director of Enforcement, is urging consumers to check out the watchdog's ScamSmart website in order to *"avoid being tricked by scammers."* He added, *"Pension scammers are tricking victims with false promises of a better lifestyle in retirement. Like the magician's trick, thousands can disappear in seconds, but this time the consequences can be devastating."*

Trust your instinct
If you ever have any doubts when contacted in relation to your pension, trust your instinct and get in touch with us.

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Family finances: It's good to talk

New research[6] suggests young adults and their parents are becoming increasingly comfortable talking about money matters, which should ensure future generations are much better equipped to tackle their financial affairs.

Breaking the taboo

Historically, intergenerational discussions about finances have too often been viewed as a no-go area, but the research suggests UK families are beginning to open up, with young adults significantly more likely to have talked to their parents about the issue than previous generations. In total, three out of four 18 to 24-year-olds said they spoke with their parents about money matters when they were growing up; this compares to just four in ten over-65s and half of 55 to 64-year-olds.

Reaping the rewards

Experts have long advocated the benefits of families talking openly about financial affairs. Parents who do so are more likely to ensure their children are better prepared to deal with money matters when they reach adulthood, whether in relation to day-to-day spending issues or the need to develop longer-term savings habits.

Young wealth owners

The need for young adults to be financially savvy has perhaps never been greater, with a growing proportion of this generation now owning a considerable amount of wealth. Indeed, estimates[7] suggest the number of UK Millennial and Generation Z millionaires has doubled over the past year and now stands at a record high of 2,000.

Keep talking

An increasing desire for families to discuss financial affairs is definitely a positive trend which should help the next generation realise the value of money and establish good financial habits at a young age. So, keep the conversations going to help secure your children's financial futures.

[6]Royal London, 2022, [7]Bowmore, 2022

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Resolution – review and rebalance

Did you know that during periods of market volatility, portfolio drift can be accelerated, meaning your investments may no longer be aligned with your risk preferences and objectives?

This is why it's good practice to have regular portfolio reviews, in order to implement effective rebalancing if required. Regular reviews are also a great opportunity to make us aware of any changes in your objectives or circumstances. Why not start the new year as you mean to go on? Get in touch.

> During periods of market volatility, portfolio drift can be accelerated

New year prompt to check your protection

The start of a new year is a great opportunity to reassess your finances. In 2023, with difficult economic conditions causing cost-of-living difficulties for many, it is especially important to make sure everything's in order.

Protection is an essential part of long-term financial planning. The right protection for your unique needs is an indispensable safety net against any unexpected downturn in your financial situation.

2023 checklist
Is the level and type of cover you have suitable for your current needs? If your circumstances have changed, it is possible that you might need to update your cover too. We know that soaring prices and bills are making things challenging right now. That's why it is more important than ever to consider the role protection plays in your financial plan. Having the right protection in place provides certainty in the most challenging times.

Think twice
When assessing your finances, it is important to think carefully about your decisions. As well as leaving you and your loved ones without essential cover, if you cancel your protection now then take out a new policy in the future, it will more likely than not end up costing you more. Think about any other spending that could be cancelled first. Remember that cancelling protection can undermine a carefully constructed financial plan.

Get in touch
If you are thinking about changing your protection in the new year, don't act in haste. Contact us today to see how we can help.

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Take control to improve your wellbeing

With financial concerns at the fore for many people, unfortunately it's no surprise over half of adults have experienced anxiety as a direct result of rising bills, with a quarter suffering with feelings of depression as escalating costs take their toll, according to a new study[8].

Nearly half of adults are staying at home more to save money, in a form of self-imposed financial lockdown, rather than for health reasons. The survey also exposed a deep generational divide, with over three quarters of 25 to 34-year-olds experiencing anxiety over rising bills, compared to 26% of over 65s.

Older generations lend a hand
With financial anxieties more acute for younger people, data shows over 4 million retirees have provided financial support to family and friends (over a six-month period to August 2022), specifically to help with day-to-day costs and bills. On average, those helping their grandchildren gave £15,000; the average amount given overall was £8,400[9].

Lifestyle downsizing
Under 35s have delayed major financial milestones, including moving house or starting a family, effectively putting life events on hold. Over a quarter of young adults (27%) are deferring major purchases like a car or home renovation, 17% are holding off buying a house and one in eight (12%) are even putting off starting a family[10].

"Take back control"
President of the Personal Finance Society, Caroline Stuart commented on the findings, *"British people are struggling to cope not just financially, but mentally with rising bills. More people are experiencing depression and anxiety whilst eating less healthily and going out less. There is now a risk of turning a cost-of-living crisis into a public health crisis too. At a time when anxieties are running high, professional financial planners can help people manage and organise their finances in a way which can weather the storm, ease the burden, take back control of their money and plan for the future."*

As ever, we want to reassure you that we are on hand to support you through any challenges, by taking control and adopting a proactive approach to managing your money. Whether you need help planning your finances or you have loved ones you're in a position to support financially, we can help you. The new year provides the perfect opportunity for us all to stop, step back and take a full review of your long-term financial wellbeing.

[8]Personal Finance Society, 2022, [9]LV=, 2022, [10]Starling Bank, 2022

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Financial fitness: Building retirement resilience

Although there are many challenges on the household finance front at the moment, the start of a new year always provides the perfect opportunity for a financial health check; and a key element of any finance MOT will inevitably be an honest appraisal of your financial fitness for life after work.

Retirement income targets
A good starting point for any retirement health check is to consider the lifestyle you want to enjoy when you retire and how much it will cost to fund that standard of living. Recent research[11] provides an indication of how much retirees typically spend, with a two-person household requiring an annual income of around £28,000 to be *'comfortable'* or £45,000 if they want to include luxuries such as long-haul trips.

Many not saving enough
Worryingly though, a report[12] from The Pensions and Lifetime Savings Association (PLSA) suggests many people are still not saving enough for retirement.

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They estimate that around half of all savers risk missing targets set by the Pensions Commission in 2005, including a significant proportion on average earnings. The report also suggests one in five households risk failing to achieve even a *'minimum'* standard of living in retirement.

'Set and forget'
The introduction of auto enrolment ten years ago did provide a big advance in terms of normalising workplace pension provision. This success, however, has not translated into genuine pension engagement, but rather encouraged a 'set and forget' mentality, with people still often unsure how much they actually need to save; and, for many, relying solely on auto enrolment contributions will not guarantee a comfortable, let alone luxurious, retirement.

We're here for you
Whatever your age, retirement planning needs to be on your financial radar, as starting to save at the earliest opportunity provides the best chance of accumulating a pension pot capable of funding the retirement you deserve. Let's make 2023 the year you get your retirement savings plans firmly on track.

[11]Which?, 2022, [12]PLSA, 2022

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