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YOUR FINANCE *MATTERS*

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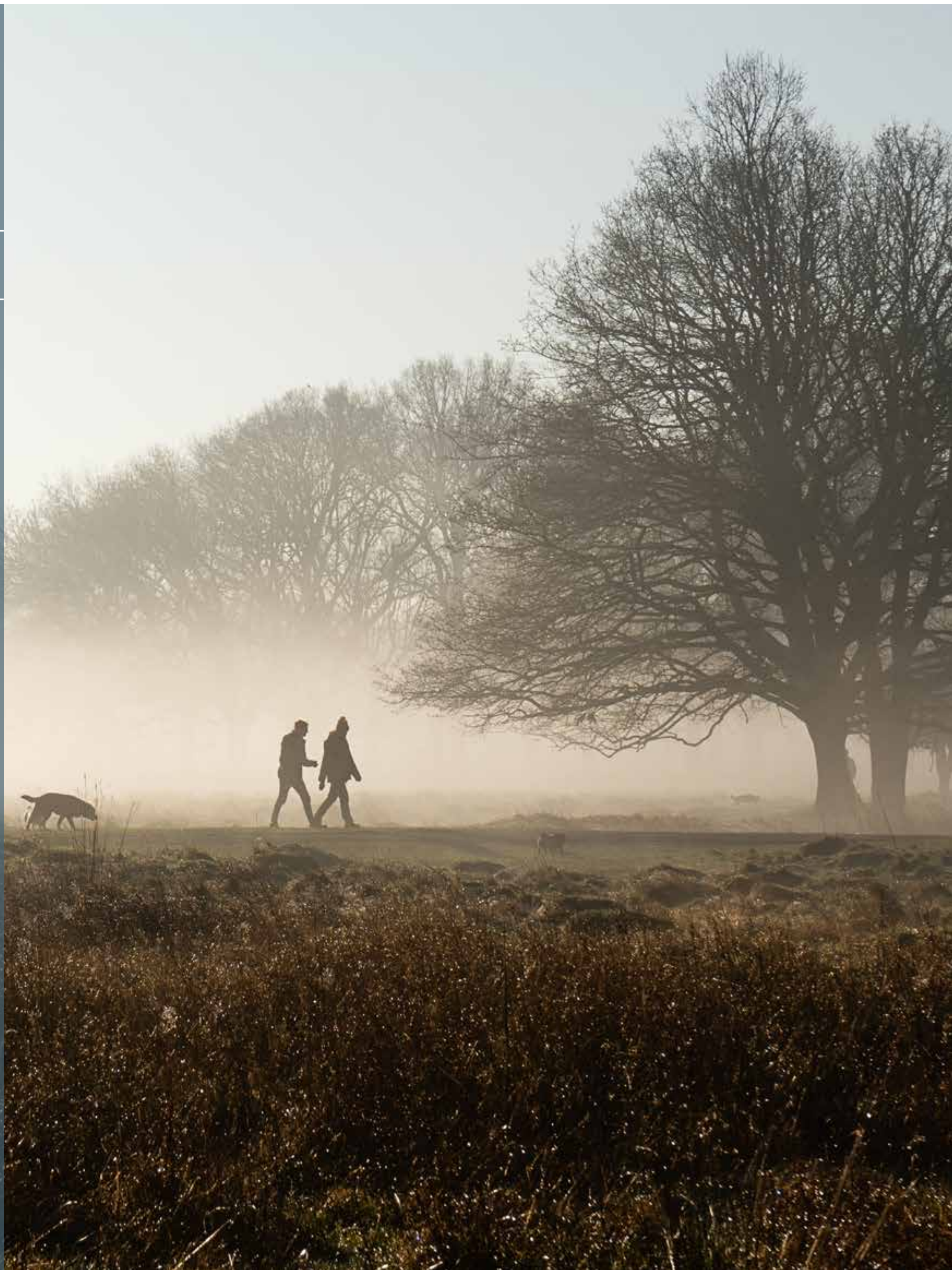
Great expectations
for the year ahead

Rise of the
'Late Financial Bloomers'

Consider
all the variables

Be pension prepared
in 2022



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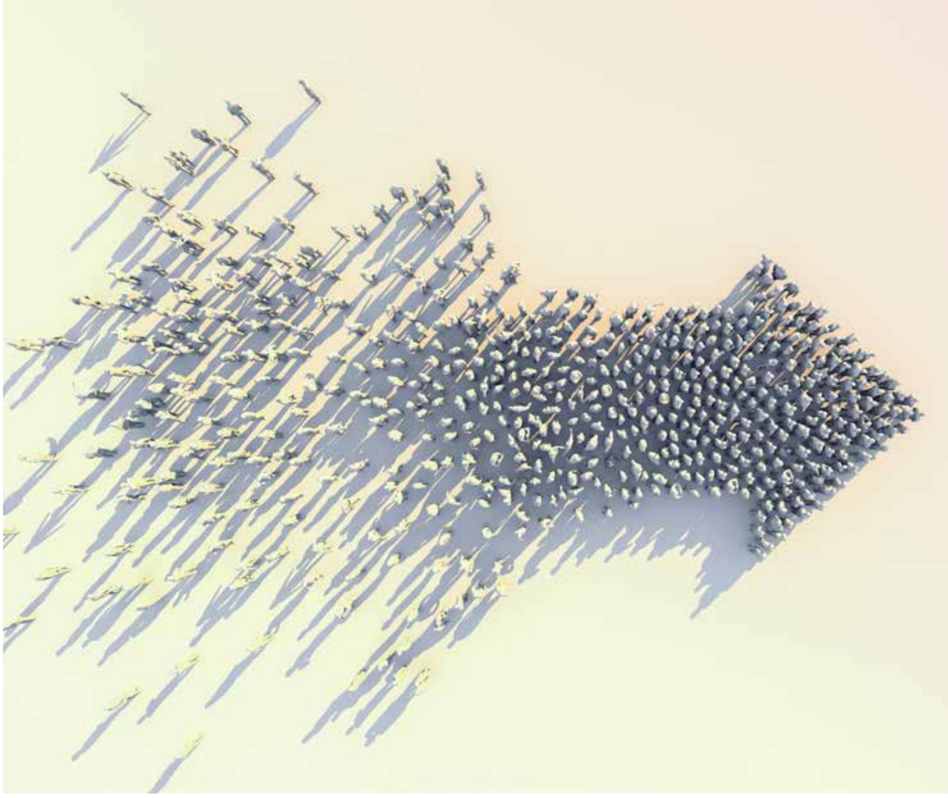

Great expectations for the year ahead

Given the challenges of the past two years we could be forgiven for focusing on life's trials and tribulations as a new year dawns. However, while concerns about supply chain disruption and rising inflation may be disconcerting for investors, all the signs are that the coming 12 months will be a time of opportunity as well as risk, as we move towards a post-pandemic future.

Recovery continues

In its final 2021 assessment of economic prospects, the International Monetary Fund (IMF) predicted a continuation of the global recovery in 2022, with the world economy forecast to grow by 4.9% this year. The international soothsayer did, however, acknowledge that the degree of uncertainty surrounding future prospects has risen with policy choices becoming more difficult and increasingly complex.

Inflation-proof your wealth

In particular, concerns surrounding global supply chain issues and rising inflation have created a policy dilemma for central banks. These twin concerns have also heightened the need for investors to employ careful and considered strategic thinking in order to reposition their portfolios to take advantage of new growth opportunities while ensuring their wealth is inflation proofed.

Beware investment scams

Although the spectre of rising inflation is expected to see central banks tighten monetary policy as the year progresses, deposit-based savings rates are forecast to remain at historically low levels. Such meagre returns have prompted many savers to shift their money into investments, with research[1] suggesting over half of all adults have done so. This move though has raised concerns that unrealistically high return expectations could leave some investors susceptible to investment scams.

Advice remains key

While the coming year is sure to present ongoing challenges for investors, the key to successful investing will remain the adoption of a carefully considered strategy based on sound financial planning principles. Attractive investment opportunities are likely to present as 2022 unfolds and, with our help and careful repositioning of your portfolio, you should be able to make the most of these as and when they arise.

[1]Aegon, 2021

Climate disclosures – high on corporate agendas in 2022

To protect investors from greenwashing, the IMF is urging regulators to do more to prevent financial companies from making misleading claims concerning their environmental credentials – *'Proper regulatory oversight and verification mechanisms are essential to avoid greenwashing.'* Achieving the scale of expansion needed to meet the goal of reducing worldwide carbon emissions to net zero by 2050 will demand that investors properly understand how their money is used.

The UK's largest companies will be required to make climate-related financial disclosures from April this year. Firms with a turnover in excess of £500m and at least 500 employees are expected to publish the climate-related risks they face. On behalf of the first G20 country to make this compulsory, Economic Secretary to the Treasury, John Glen commented, *"These requirements will not only help tackle greenwashing but also enable investors and businesses to align their long-term strategies with the UK's net-zero commitments."*

Disclosure requirements will be aligned to the Task Force on Climate-Related Financial Disclosures, which is backed by over 1,000 global financial institutions, and is responsible for $194trn of assets. The new rules mean companies will need to *"focus on the effects of climate change on their business"* and communicate to investors how these are being managed, according to Chief Executive of the Investment Association, Chris Cummings.

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What's on your playlist this year?

Over the years, several studies have proven that investors can enter emotional relationships with the stocks in which they invest. Research has reinforced the concept that equity prices are not only driven by analysis of a company's prospects but also by external factors which can directly impact investor mood. For example, correlation has been found between improved stock market performance on sunny days or poor performance after a country loses a crucial football match.

One recent study introduces a novel measure of investor sentiment, which it suggests captures actual sentiment rather than shocks to sentiment[2]. A significant correlation has been determined across 40 national stock markets between weekly equity returns and the emotional content of that week's top 200 songs on Spotify. The findings suggest that stock markets perform better when a country is listening to happier songs!

'In our main findings, we document a positive and significant relation between music sentiment and contemporaneous market returns, controlling for world market returns, seasonality's (sic) and macroeconomic variables. Music sentiment also predicts increases in net mutual fund flows and absolute sentiment precedes a rise in stock market volatility. Our study provides evidence that the actual sentiment of a country's citizens significantly affects asset prices.'

Whatever's on your playlist in 2022, you can rely on us to take the emotion out of your investment decisions.

Global attitude to risk variance

Affluent to ultra-high-net-worth UK investors are more conservative than their international counterparts, according to new research[3]. Over half (54%) of UK respondents rated themselves as conservative in their approach to risk, with the lowest percentage of any nation surveyed (10%) saying they take an aggressive approach. In stark contrast, almost half of Chinese respondents rated themselves aggressive in their approach to risk, with just 19% conservative. Possibly reinforcing the lower risk, long-term mindset, the main reason for two-thirds (66%) of UK respondents for investing and saving is for their retirement, with 35% citing future healthcare costs and entrepreneurial activities (17%).

Leave the relief

Recent data analysis[4] has highlighted that over 1.5 million of the UK's highest earners failed to claim an estimated £810m in tax relief in the 2018/19 tax year, totalling around £2.5bn between 2016/17 and 2018/19. Higher rate taxpayers benefit from 40% tax relief, yet eight in ten didn't use their Self-Assessment tax return to claim it; similarly, over half (53%) of additional rate taxpayers failed to claim the 45% tax relief for which they are eligible.

[2]The London Business School, 2021, [3]Avaloq, 2021, [4]Pension Bee, 2021

Investor income boosted by 'special dividends'

UK dividends climbed to £34.9bn in Q3 2021, an 89% year-on-year rise, according to the latest UK Dividend Monitor[5]. Sizeable one-off special dividends were partially responsible for the increase, a trend expected to be evident in Q4 too; however, the underlying total in Q3, excluding specials, leapt up 52.6% to £27.7bn. In context, this large year-on-year rebound is set against a pandemic-hit Q3 2020, in which dividends halved.

Ian Stokes, Managing Director of Corporate Markets at Link, commented on the data, *"The good news is that we have consistently seen companies deliver more in dividends than we thought likely at the beginning of the year... Companies were progressively less impacted by each lockdown and many of them took action to bolster their balance sheets during 2020... Dividend firepower is now much stronger as a result."*

In reference to the prevalence of special dividends, he continued, *"The boom in special dividends reflects how some companies are making catch-up payments, some are capitalising on very strong demand, and others are seizing the moment to sell assets at a time of high prices and numerous cash-rich potential buyers."*

Although this is good news for income investors, dividend growth may be driven by sectors which might not do as well in the future, which is why it's important to diversify across different sectors.

[5]Link Group, 2021

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Consider all the variables

From many people's perspectives, the Autumn Budget may have left a feeling that nothing much had changed in the world of personal financial planning, as there were no major changes announced to Income Tax, Capital Gains Tax, Inheritance Tax or pensions. However, the key consideration is how outside factors such as higher inflation could affect your finances and what steps you should take before the end of the tax year to make the most of any allowances and exemptions.

Inheritance Tax (IHT)
Official figures from HM Revenue and Customs (HMRC) for April to September 2021 show that IHT receipts totalled £3.1bn, £0.7bn higher than the same period in 2020. With the nil rate band and residence nil rate band now frozen until April 2026 at £325,000 and £175,000 respectively, the importance of effective estate planning shouldn't be overlooked.

Individual Savings Accounts (ISAs)
The annual ISA limit has now been frozen at £20,000 for five years. If the allowance had increased with inflation each year since 2017, it would stand at £21,440 today, sheltering an additional £1,440 from the taxman. JISAs celebrated their tenth birthday in November – the allowance remains at £9,000.

Dividend Tax
The government revealed in September that it would increase Dividend Tax by 1.25 percentage points from 6 April 2022 to help fund health and social care. This means investors will have to pay more on any income from shares held outside ISAs and above the £2,000 Dividend Allowance.

Pensions
The Lifetime Allowance remains at £1,073,100 and the Annual Allowance remains at £40,000. 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.

Variables at play
It's important to be aware of all the variables at play; inflation, interest rates, taxation and frozen allowances all affect your finances. Talk to us for help with your individual circumstances.

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Rise of the 'Late Financial Bloomers'

Research[6] suggests a new group of consumers – Late Financial Bloomers – are set to change the face of retirement.

Marriage and divorce
A series of socioeconomic factors, including later home ownership, are the main drivers behind this shift. Marriage and divorce trends are also key contributors: on average, first marriages now take place four years later than they did 20 years ago; similarly, divorce rates peak 20 years later than they did two decades previously.

Childbirth plays a role too. More women over 40 now give birth each year than those under 20, which means a growing proportion of the population will be supporting children through education later in life rather than focusing on retirement planning.

Plan ahead
Currently, Late Financial Bloomers account for just 6% of retirees, but this figure is set to rise significantly over the next 15 years. This shift towards later financial security means more people will face complex retirement journeys, thereby increasing the need to plan ahead.

[6]Canada Life, 2021

More people will face complex retirement journeys, thereby increasing the need to plan ahead

Tackling pension scams head on

With pension scam losses totalling millions each year, the Financial Conduct Authority (FCA) has reaffirmed its commitment to tackling scams in order to ensure the long-term health of the pensions market.

In a speech to delegates at the Pensions and Lifetime Savings Association, the FCA's Executive Director of Markets Sarah Pritchard said steps have been taken to stop scams reaching consumers, *"We want people to be better protected from the risks of scams and know how to protect themselves against them. Our ScamSmart campaign... gives knowledge and tools to help people protect themselves from scams."*

Simple steps
We can all take simple steps to protect ourselves against potential scams.

These include:

1. Make sure you check who you're dealing with
2. Don't give out personal information you wouldn't share with a stranger
3. Don't feel pressurised into making quick decisions.

Good news – new measures
New regulations came into force on 30 November 2021 to protect pension savers and stop suspicious scam transfers, as pension trustees and scheme managers received new powers to intervene. Previously pension providers were not allowed to refuse to carry out a transfer where the saver has the right to do so, even if they were suspicious, but the new regulations will enable trustees to prevent a transfer request if they see evidence of 'red flags.'

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Protect your retirement from the risk of mental decline

Retirement – that magical time when we can finally live our lifelong dreams. Increased life expectancy means that many of us can now expect a longer retirement, but this comes at a cost: the increasing prevalence of age-related cognitive decline, which could leave us vulnerable to costly financial errors.

According to the Alzheimer's Society[7], there are almost 885,000 people living with dementia in the UK, and estimates suggest that between 5% and 20% of over-65s suffer from mild cognitive impairment (MCI), a condition in which someone has minor problems with cognition, such as memory or thought process.

Protecting your finances

Planning for the possibility of cognitive decline is an essential part of preparing for retirement. Although many people still have the capacity to live independently and make decisions for themselves, MCI has been linked in scientific studies to poorer financial capacity and an increased susceptibility to scams.

Getting the timing right

Over 80% of investors surveyed[8] thought the ideal time to transfer financial control would be 'sometime after they had begun to experience some cognitive decline but before they became completely incapable.' Respondents thought there was a higher than one-in-three chance of a mistimed transfer, partly attributable to a reluctance to relinquish control, which exemplifies the need to start planning sooner rather than later, so that any future transfer takes place on your terms.

Opening up conversations

Although it may feel awkward, preparing for the possibility of cognitive decline requires careful planning, not only having legal documents in place but also starting conversations with your family and those you trust about money and your goals for the future, in advance of its possible onset. This means that everything is out in the open and close connections are more likely to notice if you begin making decisions about your money that appear to contradict your objectives.

We can assist you with planning and in starting these conversations with your family well in advance and help you better plan for the future, giving you a greater sense of ownership and control over your plans.

[7]Alzheimers Society, 2019, [8]Vanguard. 2021

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Scam victims suffer a £9.3bn hit to wellbeing

Scams unfortunately continue to be rife. The financial impacts can be devastating, but a new study has sought to quantify the cost to scam victims' wellbeing. By using a model that allows researchers to value changes in wellbeing in monetary terms, they have calculated the impact of scams on victim wellbeing to be over £9bn a year,[9] a personal cost of £2,509 for each victim, although the impact can be higher for someone hit by online fraud (£3,684). The research suggested scam victims faced a decline in life satisfaction, considerably higher levels of anxiety, lower levels of happiness and in some cases, ill-health after being scammed.

Could we be facing a savings slump?

High inflation is causing everyday living costs to soar, with many savers saying they are rapidly eating into the additional savings they made during lockdown. Little wonder that nearly three-quarters (74%) of UK adults are worried about rising living costs, with 35% saying they feel more anxious about the future than before the pandemic[10]. This percentage increases to 42% for 45 to 54-year-olds.

A significant proportion of adults recently surveyed say they are eating into their lockdown savings fast. In fact, one-fifth say they have already spent their lockdown savings while a further quarter predict their savings will be gone before the year is out. With normal life resuming, the balancing act between spending and saving, particularly for those approaching retirement, is becoming ever more delicate. And, while you're unlikely to save the same amounts now as you were in lockdown, even putting away a more modest sum each month can soon add up.

[9]Which?, 2021, [10]Aviva, 2021

Nearly three-quarters (74%) of UK adults are worried about rising living costs

Be pension prepared in 2022

If you have little idea how to prepare for retirement, then join the club. Nearly half (47%) of working age Brits are a bit lost when it comes to their pension savings[11].

Research has also revealed that just 28% feel secure in their understanding of how to manage their pension in the run-up to retirement, while even fewer (27%) have an idea of what a 'good' amount of pension savings is for someone their age.

'On the back foot'

The gender pension gap once again rears its ugly head in the study, with women almost twice as likely (21%) to say they feel completely 'on the back foot' than men (12%). They are also more than twice as likely to lack understanding of how to manage their pension as they approach retirement (34% of women vs 14% of men).

Approach retirement with confidence

Managing Director at Aviva, Mary Harper, commented, *"It's very easy to put thoughts about later life to the back of your mind but investing time in thinking and planning ahead can make a world of difference to your options… evidence suggests that people who access financial advice are, on average, tens of thousands of pounds better off in the long-term."*

We can offer expert advice and guidance to help you manage your pension with confidence.

[11]Aviva, 2021

Nearly half (47%) of working age Brits are a bit lost when it comes to their pension savings

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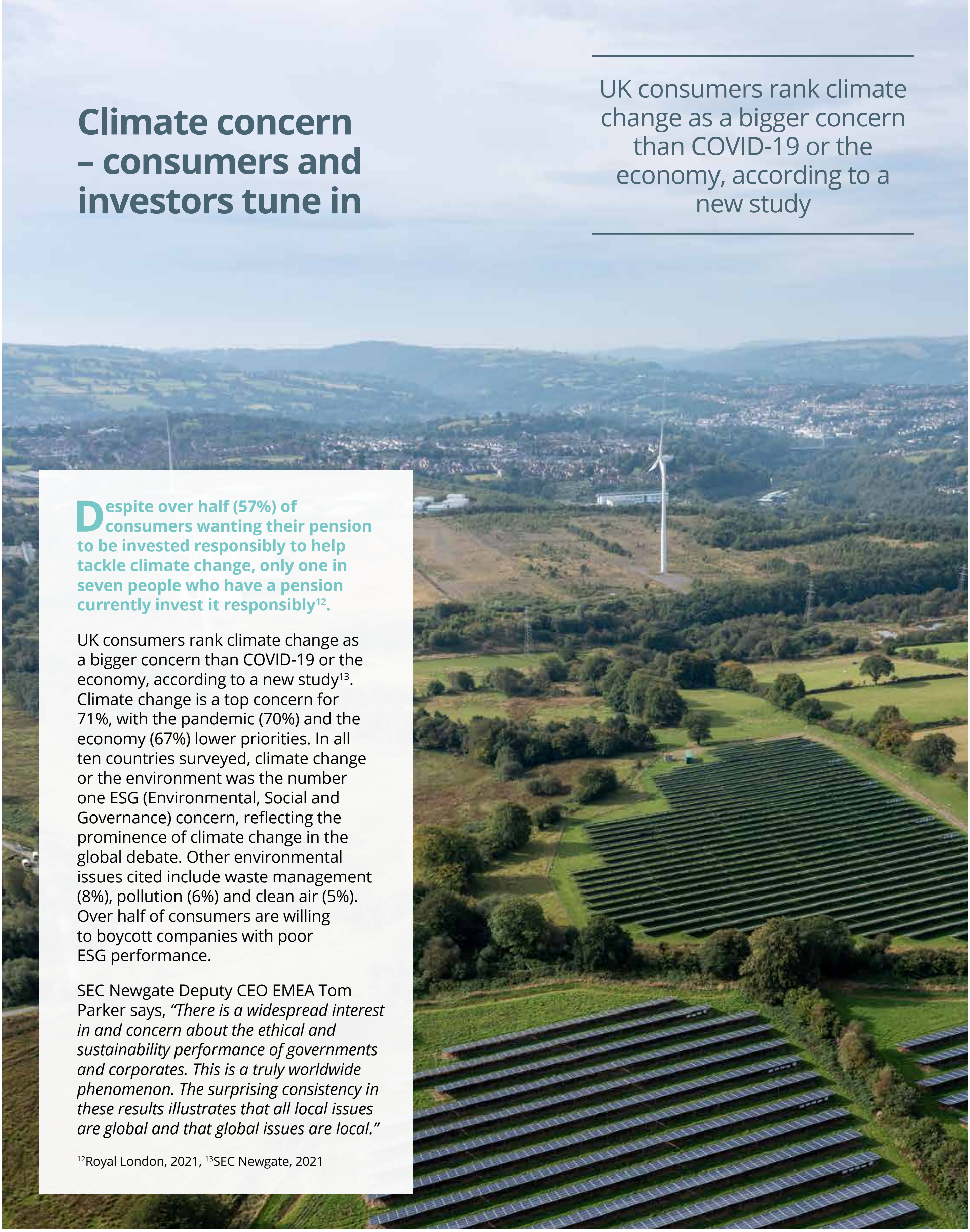
Climate concern – consumers and investors tune in

UK consumers rank climate change as a bigger concern than COVID-19 or the economy, according to a new study



Despite over half (57%) of consumers wanting their pension to be invested responsibly to help tackle climate change, only one in seven people who have a pension currently invest it responsibly[12].

UK consumers rank climate change as a bigger concern than COVID-19 or the economy, according to a new study[13]. Climate change is a top concern for 71%, with the pandemic (70%) and the economy (67%) lower priorities. In all ten countries surveyed, climate change or the environment was the number one ESG (Environmental, Social and Governance) concern, reflecting the prominence of climate change in the global debate. Other environmental issues cited include waste management (8%), pollution (6%) and clean air (5%). Over half of consumers are willing to boycott companies with poor ESG performance.

SEC Newgate Deputy CEO EMEA Tom Parker says, *"There is a widespread interest in and concern about the ethical and sustainability performance of governments and corporates. This is a truly worldwide phenomenon. The surprising consistency in these results illustrates that all local issues are global and that global issues are local."*

[12]Royal London, 2021, [13]SEC Newgate, 2021

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Lights, camera, action!

Jackie Chan's Stunt Team may be blacklisted by all insurance companies, but for most people life insurance is an easier task to tick off the to do list, no excuses.

With one in three people more likely to buy protection insurance because of experiences during the pandemic[14], the devastating impact of COVID has clearly led many to reassess their priorities. The reassurances provided by protection insurance have seemed more appealing for many amidst the turbulence of the last couple of years (98% of protection claims paid in 2020)[15]. Witnessing the pandemic's impact on the health of others was cited as the main reason people were now more likely to take out protection insurance.

Affordability issues
Perceived cost, however, remains a barrier for some. Indeed, almost a third of people say they haven't taken out protection because they think it would be too expensive.

It's a wrap
Protection is a crucial component of a balanced financial plan and, with policies starting at just a few pounds a month, it is a small price to pay for the peace of mind it provides.

Take action in 2022, to leave those you love protected.

[14]Hymans Robertson, 2021, [15]ABI, 2021

Saving for your child's future

Many parents give their children a flying financial start by saving or investing throughout their childhood. A new survey[16] shows mothers typically take the lead in this area, while cash remains disproportionately popular.

Mum's the word
The research shows responsibility for children's savings is particularly borne by mums: 60% of those actively contributing to a child's savings and investments were found to be women. Researchers noted that this fits a broader theme whereby women tend to connect investing to outcomes for their family more than to their own needs.

The survey also highlighted a drop-off in contributions as children get older. While 67% of new parents start saving or investing for their new-borns, this figure falls to 54% by the time children reach secondary-school age.

Cash is king?
The efforts of parents to save for their children is clearly admirable, but it is important to make that money work hard. Most financial products held for children are in cash, with stocks and shares Junior Individual Savings Accounts (JISAs) making up just 3% of all accounts. The JISA recently celebrated its tenth birthday, and the allowance has increased over the years from £3,600 in April 2011 to £9,000 today.

In a high-inflation environment, sticking to cash can limit the impact of parents' saving, as the real value of cash savings is likely to be eroded over time. While not guaranteed, investment products have historically delivered better returns over the long term. It's advisable to consider the options.

[16]Boring Money, 2021

> The real value of cash savings is likely to be eroded over time

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Investment terms trigger emotional response

Jargon is common in the world of investments and pensions, which can make them seem impenetrable and intimidating. If the thought of 'Equities' and 'Investment ISAs' makes your heart race, you're not alone, new research[17] has shown that financial terms really do make people anxious.

Jar-gone
Researchers used a variation of the Emotional Stroop Test, which measures information processing speed when naming the ink colour of different words, to compare response times for neutral words like 'pencil' with investment-specific terms like 'FTSE.'

Nearly two-thirds of participants had slower response times and higher error rates for financial trigger words, suggesting they may be susceptible to a stress response. Additionally, 44.3% experienced an increased heart rate and 11.5% reported breathlessness.

The terms 'Stockbroker', 'Asset Management' and 'Investment Risk' produced three of the slowest reaction times. Other investment-related words like 'Bond Fund' and 'Equities' also took longer than average.

Don't fear 'FTSE'
Stripping back jargon can help people think more clearly about investments and pensions. In supporting research, Barclays found that 71% of respondents don't feel confident enough to invest money in the stock market, with a quarter feeling '*frightened*' by the idea.

Despite these fears, people do want to improve their financial knowledge, with three in five participants keen to learn more about financial terminology. We can relieve the stress of investments and pensions – and take the fear out of financial planning!

[17]Barclays, 2021

Stripping back jargon can help people think more clearly about investments and pensions

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Building financial resilience in the new year

The start of a new year is always the perfect time to take control of your finances and grasp any opportunities that may lie ahead. This year the case is even more compelling with rising inflation and tax increases set to challenge household budgets up and down the country. So now really is the ideal time to quantify your assets and position them appropriately in order to build financial resilience for your future.

Millions set to be worse off

Analysis by the Institute for Fiscal Studies (IFS) shows that living standards are set to stagnate over the next few years. This year specifically, an average middle-income earner will see take-home pay fall by around 1% as soaring household bills and increased tax burden outpace any anticipated rise in wages. Research[18] also highlights the pandemic's impact on finances, with almost 16 million Brits feeling more financially vulnerable than before COVID struck.

Plan for your future

This situation is exacerbated by the fact people typically devote relatively little attention to financial matters. A survey[19], for example, found more than four in ten adults would either struggle to locate and access, or had 'no idea' whatsoever about their pension pots.

Building financial resilience, however, lessens the impact of any unforeseen circumstances and ensures you are prepared for life's key events, such as retirement. It's therefore vital to plan now for the future you deserve.

Inflation-proof your finances

At the moment, inflation and its erosive impact on savings is a key concern for many. This has resulted in savers increasingly switching money from deposit-based accounts into investments, with research[20] suggesting over half of adults have already done so.

Build a diversified portfolio

The spectre of rising inflation certainly means investors need to carefully consider the composition of their portfolios to ensure their money is potentially inflation-proofed. As always, maintaining a diversified range of investments is key, with appropriate portfolio construction enabling successful navigation through any periods of uncertainty.

[18]Royal London, 2021, [19]money.co.uk, 2021, [20]Aegon, 2021

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