Q3 Summer Newsletter

Your Finance Matters

Inside this issue...

COVID:
Changing the way we invest

Social media and the younger investor

Growing optimism for a Great British summer

and more...

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Inside this issue...

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.

Growing optimism for a Great British summer

Although the weather may have a different opinion, there does seem to be a growing sense that 2021 will prove to be a Great British summer. Staycations are all booked; a packed sporting schedule featuring the Olympics, The Open, the British Grand Prix and test cricket awaits, and the Proms are set to make a welcome return for the musically minded.

Improving financial confidence
Recent weeks have also witnessed a notable rise in financial optimism amongst UK consumers buoyed by the lifting of lockdown restrictions and the continuing success of the NHS vaccination programme, though variants of concern have cast a shadow. While some people have seen their jobs and finances severely damaged by the pandemic, the labour market has remained remarkably resilient with the help of the furlough scheme and there are clear signs of a potentially strong economic rebound on the horizon.

Spend, spend, spend?
In addition, many people have witnessed a substantial reduction in their outgoings over the past year, with commuting, childcare and entertainment costs all falling considerably for the typical household. As a result, a significant proportion of the consumer base are sitting on relatively large sums of money and, while some are likely to continue saving, others will undoubtedly be looking to make up for lost time by increasing spending on meals out, shopping trips and holidays.

Challenges vary by age
Unsurprisingly, the experiences and challenges faced by younger and older members of society have differed starkly during the pandemic. While the health crisis certainly put the over-80s most at risk, the financial fallout has hit younger generations the hardest. For instance, research shows 18 to 24-year-olds are more likely to say they are struggling financially and express worries about money. In contrast, those in retirement are the most likely to feel financially secure.

Your financial wellbeing
Whatever impact the pandemic has had on your finances, we are here to help. We can help keep your financial affairs in good order, giving you even more time to enjoy the Great British summer!

Summer may be here but what about the LTA freeze?

The sun may be shining (if the Great British summer permits!) but the Lifetime certainly here.

The pension LTA has been frozen at its current level of £1,073,100 until April 2026. So essentially, the total amount you can hold in your pension without being taxed on withdrawals is static for the next few years, which means that a growing number of people may need to start considering a wider range of savings options for retirement, in order to avoid a potential tax bill. Tax is currently payable at 55% on everything over the limit if you take the money as a lump sum, or 25% if you take the money in another way, such as drawdown or through an annuity. If you're nearing the LTA, and an increasing number of people will be in this situation due to the big freeze, it's worth considering additional options available to complement saving for retirement.

There are a whole host of scenarios and outcomes depending on your personal circumstances. The calculations around pensions and the LTA can be very complex. So careful consideration of your options is essential before making any decisions.

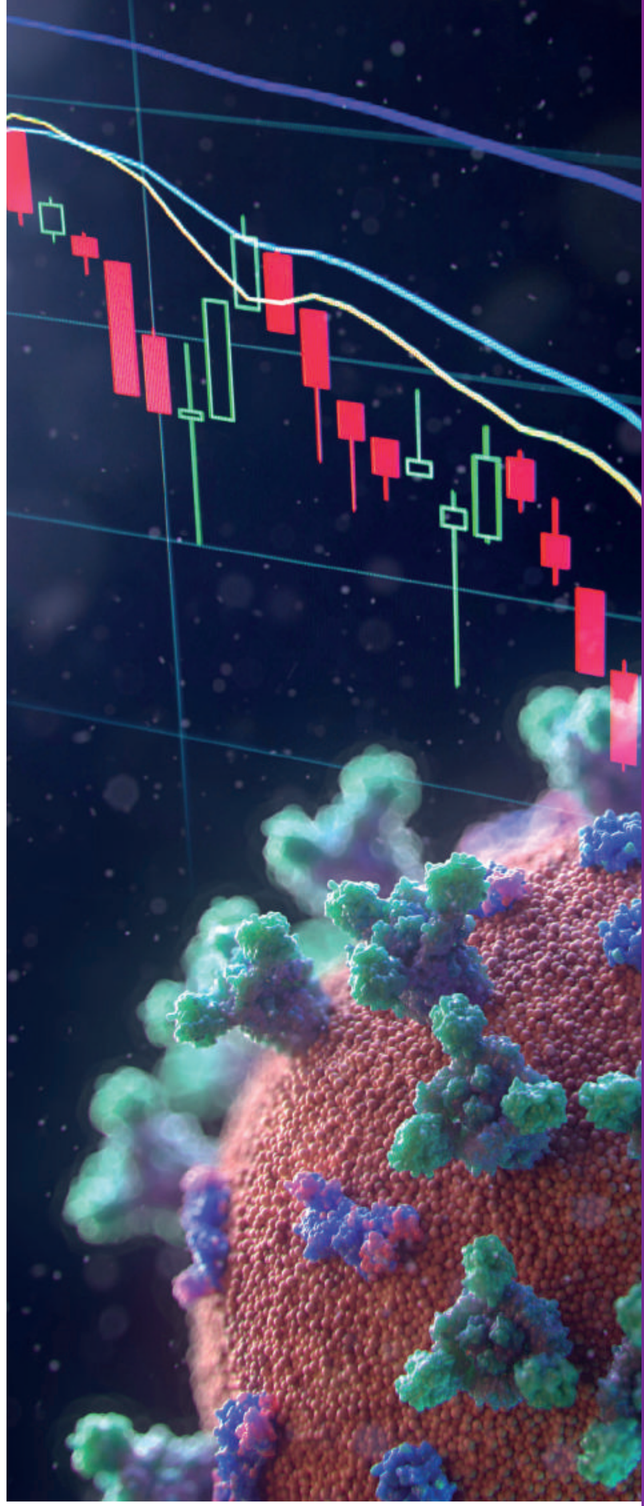
COVID: Changing the way we invest

While 'Keep Calm and Carry On' has perhaps been the most apt mantra for investors over the past year, the pandemic has clearly had a profound impact on the investment landscape. The global spread of the virus has prompted a seismic shift in public behaviour and investors need to consider the implications of these changes when evaluating future prospective investment opportunities.

Socioeconomic trends
Although in many ways the pandemic has actually slowed down the pace of our daily lives, it has also dramatically accelerated a number of socioeconomic trends that have been bubbling away for years. Perhaps the most obvious example of this relates to the world of work, with the shift to increasingly flexible working practices that had been evident for the last few decades, suddenly receiving a turbo boost over the last year.

Digitalisation
Another key trend accentuated by the pandemic has been the increased focus on digitalisation. The massive growth in e-commerce, for instance, has resulted in those businesses with superior online offerings gaining greater competitive advantage. Noticeably, the shift to online shopping has been evident across the age range, as older consumers most at risk from the virus increasingly turned to e-commerce in order to avoid leaving home.

Socially responsible investing
While the concept of ethical investing has been around for decades, the pandemic has reinforced the immediate importance of sustainability and corporate governance issues. During a difficult year, greater focus has perhaps inevitably been placed on 'wellbeing' and how businesses treat both their employees and suppliers. As a result, sustainability and governance issues have been propelled up the corporate agenda.



Dividend decline slowing

From Q2 2020 to Q1 2021, the pandemic cost investors almost £45bn in lost dividends. After such a tumultuous year,
the good news is that the latest UK Dividend Monitor highlights that in Q1 this year, dividends fell at their slowest rate since the beginning of the pandemic. In a positive sign, half of UK companies either restarted, increased or maintained their dividends in Q1, compared with a third of firms doing so in the previous quarter. For 2021, expectations are that underlying dividends will rise by 5.6% year-on-year to £66.4bn.

The report outlines that banking dividends are returning at low levels and 'there are positive signs from miners, insurance, and media companies.' Managing Director of Corporate Markets EMEA, part of Link Group, Ian Stokes, commented, "During the pandemic, many companies that had been over distributing, permanently reset their dividends to more sustainable levels. Most of these now hope to grow their dividends from this lower base. For others the effect of the cuts is more transitory so they will bounce back quickly."

Social media and the younger investor

The Financial Conduct Authority (FCA) is concerned about the influence social media is having on younger investors, who it believes are taking on significant financial risks.

This younger, more diverse group of investors, it said, is highly reliant on social media platforms such as YouTube, Instagram and TikTok for investment tips and advice, but lacks the knowledge and understanding required to make informed choices.

High confidence, low resilience
The FCA expressed concerns that these investors are putting their money into riskier products, despite a 'striking' lack of awareness of the hazards associated with investing. Shockingly, 45% did not associate 'losing some money' as a potential risk.

They also showed low levels of financial resilience, with research showing that a significant loss could have a fundamental impact on the lifestyles of 59% of inexperienced investors.

Ask yourself five questions
A 'digital disruption' campaign has been launched by the FCA to make investors aware of the risks, by encouraging them to ask five questions:

1. Am I comfortable with the level of risk?
2. Do I fully understand the investment being offered to me?
3. Am I protected if things go wrong?
4. Are my investments regulated?
5. Should I get financial advice?

Don't risk jeopardising your financial future
We can help develop an investment plan suited to your long-term goals and risk profile.

Fewer savers losing track of pensions

Key findings from a recent survey show that almost three quarters of people (73%) have multiple pension pots. The number of people in this group who have lost track of one or all of their pensions has reduced slightly from 21% in 2016 to 17% today. Good news? Yes, but this still means that around 6.4 million people seem to have lost track of some of their retirement savings! Reasons cited include losing paperwork, not informing their pension provider when they move, or the pension company has been taken over or rebranded. Almost half of people (48%) knew to use the Pension Tracing Service from the DWP or to contact their previous employer(s) (42%) to find a lost pension.

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Taking the emotion (and colour!) out of investment decisions

The psychology of investing is fascinating. There are so many behavioural traps that investors may find themselves falling into as markets fluctuate and knee jerk reactions take hold. The anchoring trap is a prime example, where investors over rely on their perceptions of an investment which may be totally incorrect, rather than being flexible in their thinking and responsive to new data.

Separating emotions from investment selection and market reaction is indeed a whole different challenge. Managing impulses as markets and stocks fluctuate, and grossly underestimating risks associated with investments, are just a couple of reasons why investors sometimes make suboptimal decisions based on emotion, which can result in financial loss.

Red rag to a bull
Another added complication has been highlighted by an interesting new study which shows that financial information presented in red tends to make people more pessimistic about the market than the same facts presented in blue or black. It seems that using the colour red to represent financial data influences individuals' risk preferences, expectations of future stock returns and trading decisions, effects not present in those who are colour blind, and they're muted in China, where red represents prosperity. Assistant Professor of Finance at the University of Kansas, William Bazley, who undertook the research, commented on the findings, "The use of colour could lead to investors avoiding the platform or delaying important financial decisions, which could have deleterious long-term consequences. In Western cultures, conditioning of red colour and experiences start in early schooling as students receive feedback regarding academic errors in red. Red is associated with alarms and stop signs that convey danger and command enhanced attention."

On our best behaviour
The good news is that you can avoid these potential pitfalls. You can rely on us to take the time to understand your objectives, apply a rigorous process and advise you on the strategies and products most appropriate for you.

Financial advice is key
If you're concerned about your finances or need help with basic financial topics, we aren't here to judge. We're on hand with simple, jargon-free advice that will provide you with the confidence and understanding you need to take control of your finances once and for all.

A word of advice...
Addressing the raft of amateur investors who started trading during the pandemic, renowned investor and US business tycoon Warren Buffett said at an annual shareholder meeting in May, "I do not think the average person can pick stocks," adding to other pearls of wisdom he has imparted over the years!
"Rule No. 1: Never lose money. Rule No. 2: Never forget rule No.1" and "If you aren't thinking about owning a stock for 10 years, don't even think about owning it for 10 minutes."

Long-COVID pension pot peril

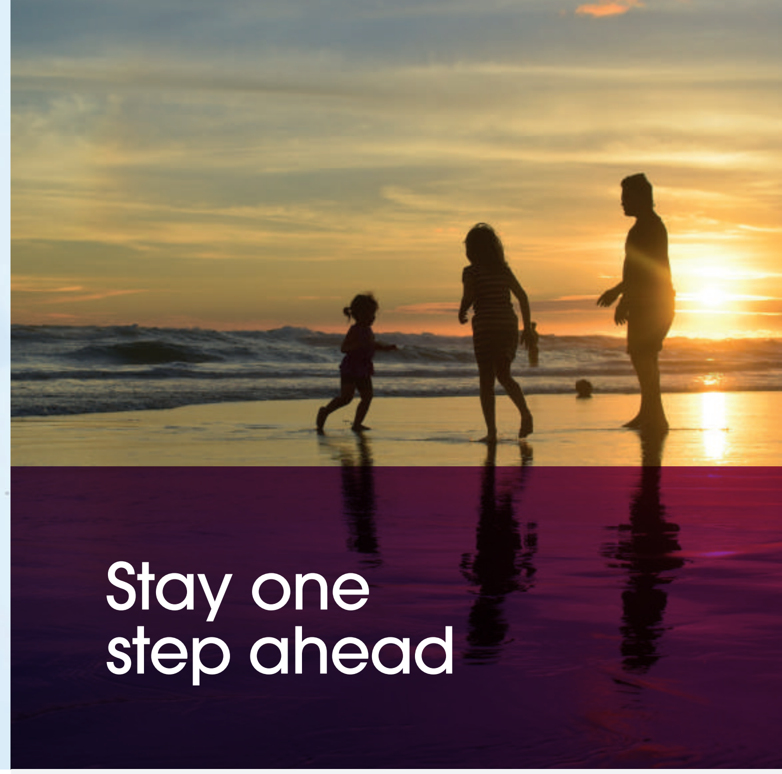
**The pandemic has affected almost everyone in myriad ways, whether medically, socially or financially; its death toll has been appalling and overshadows all other consequences.
The vast majority have fortunately come through the pandemic, but the speed of recovery from its consequences has been variable.**

Medically, many patients have recovered well, but some with prolonged symptoms have been diagnosed with 'long COVID'. It's a similar picture financially, as many people have lost earnings or even their jobs, but economic recovery could help restore their financial health. A minority, however, may suffer the financial equivalent of long COVID.

Insurer and pension provider, Legal & General (L&G) has monitored the financial effects of COVID-19 during the pandemic, particularly the long-term impact on the prospective pension income of workers over 50 and thus closest to retirement. In the early months of the crisis, the picture wasn't too disturbing; last August, only 2% of this group envisaged cutting their pension contributions.

Numbers crunched
Fast-forward eight months to April this year, when L&G research revealed that some 12% of workers over 50 were paying less into their pension pots because COVID-19 had disrupted their finances. This led L&G's number crunchers to work out just how severe the impact could be on the retirements of those one-in-eight (about 1.7 million) 50-plus workforce members.

The message from L&G's figures is simple: anyone, whether over 50 or under, who has economised on pension contributions during the pandemic should restore them as soon as they can. To give L&G the last word, "A 50-year-old opting out of a workplace pension could be £50,000 worse off by the State Pension age of 67 if they never opted back in and continued working full-time throughout."



Stay one step ahead

Nearly a third of homeowners (31%) would only consider purchasing protection insurance if they fell ill – too late to support them financially if they couldn't work.

Other triggers for taking out protection cover include a change in employment status (25%) or having an accident (24%), while 22% say there is no circumstance that would make them consider purchasing a protection product.

Reasons for not taking out cover include:

• Not thinking they need it (28%)

• Believing it to be too expensive (25%)

• Not being able to afford it (22%)

Don't regret it
Unfortunately, once people experience a change in their circumstances, it is often too late to protect themselves. Most protection policies do not offer backdated cover, meaning that homeowners could find themselves in unnecessary financial difficulty as they try to meet their mortgage, bills and other essential payments. And, with the survey also finding that one in seven (14%) people regretted not having financial protection in place that would have supported their mortgage payments in the past, it is clear that many people wish they had better understood the true value of protection.

Be one step ahead
We can help explain the implications of having no protection insurance for you and your family, and help you find suitable and cost-effective products to protect you financially – before it's too late.

Rising inheritances and deficit may hasten IHT change

'Some economists see tax on transfers of wealth as a way to generate revenue without stifling the economy'

In 2018, Chancellor Philip Hammond asked the Office of Tax Simplification to review Inheritance Tax. However, subsequent events have meant that the tax regime for transfers of wealth between generations has not been revised, though Mr Hammond's next-but- one successor Rishi Sunak could yet dust-off two OTS reports.

A big deficit caused by the pandemic points to unwelcome tax rises. Some economists see tax on transfers of wealth as a way to generate revenue without stifling the economy, whilst also acting to improve social mobility. One influential think-tank recently explored inheritance and inequality.

The Institute for Fiscal Studies' April 2021 paper, 'Inheritance and inequality over the life cycle: what will they mean for younger generations?' identifies trends that could influence policymakers' thinking on taxation of wealth transfer, whether during someone's lifetime or after death.

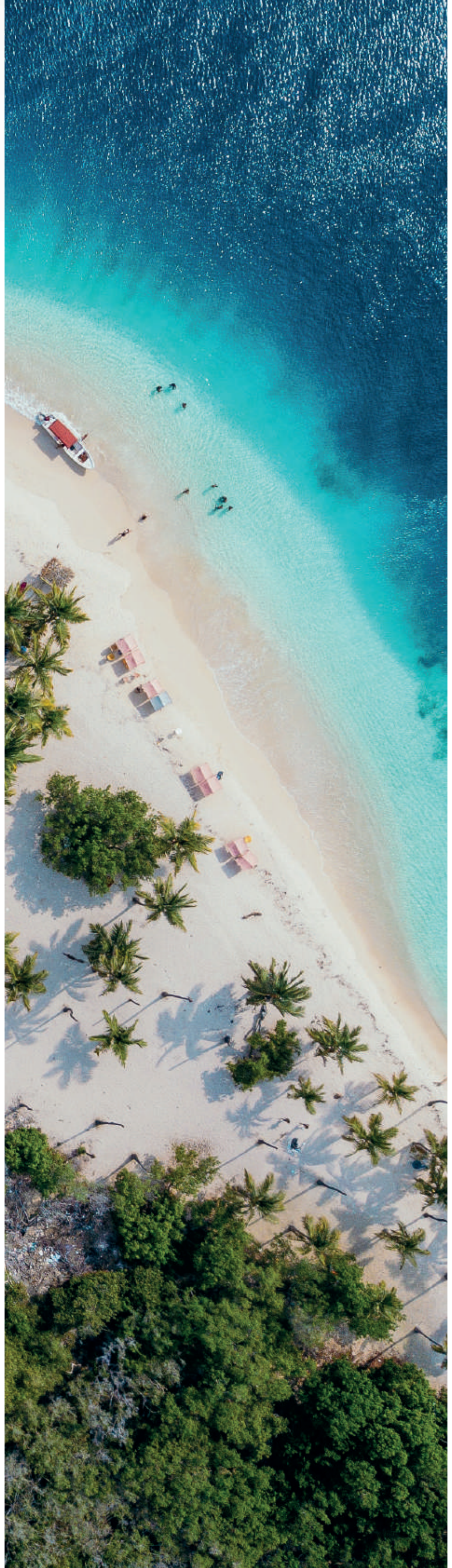
One key finding is that inheritances have formed a rising part of national income for the past five decades.

Inequality of inheritance The IFS calculates that inheritances for those born in the 1960s will on average equal 9% of their other lifetime income, compared with 16% for those born in the 1980s. If this trend of rising levels of inherited wealth continues, the gap between rich and poor families can only widen; a more stringent version of IHT could mitigate that. A major impact clearly stems from parental wealth. The IFS projects that people within each of the two age groups having parents in the top one fifth on the wealth scale will receive average inheritances that deliver a lifetime income boost of 17% or 29%, respectively, but only 2% or 5% if their parents are in the bottom one-fifth on the wealth scale.

So, the younger group will receive a greater boost from inheritance than the older one and within both groups those with wealthier parents will benefit far more, heightening inequality. With social levelling-up prominent on a financially-stretched government's agenda, IHT changes could prove costly for the better-off. It's sensible to prepare for all scenarios, taking expert advice on strategy.

Multi-jobbers – listen up!

Workers on lower salaries with more than one job are at risk of a poorer retirement, as they miss out on employer pension contributions, a new study has concluded. Excluded from auto enrolment Auto enrolment was introduced to encourage people to save more in their pensions during their working years. Under the scheme, employers are required to open a pension and make contributions on their employees' behalf, unless an employee opts out of contributing. Employees need to earn at least £10,000 a year to be automatically enrolled into a workplace scheme. At present, the total minimum contribution is 8%, with employers contributing a minimum of 3%. If multi-jobbers earn under £10,000 a year in each job they hold, the issue becomes apparent. It is estimated that this could affect more than four million people in the UK. Threshold confusion Interestingly, many workers are unaware that if they have qualifying earnings above £6,240, they can choose to opt in to their company's pension scheme, with the employer legally required to contribute at a rate of 3% of their salary. Those earning under £6,240 can still opt into their company pension, but their employer is not required to contribute. Worryingly, the study found that around one in 20 multi-jobbers, with at least one job paying under the £10,000 threshold, say they have been refused entry into a company pension by their bosses.



Keeping up with the Joneses? Your personal goals matter more

Did the way some people tend to crave and display material success all start with yuppies and Harry Enfield's 'Loadsamoney' character in the 1980s? No, it goes back much further, to 1913, when a New York Globe comic strip 'Keeping Up With the Joneses' first appeared and created an enduring, meaningful expression.

Envy about others' wealth and possessions existed in biblical times; the Tenth Commandment is proof of that. It translates to 'Thou shalt not covet thy neighbour's house… nor any thing that is thy neighbour's.' A TV cartoon about the neighbouring Flintstone and Rubble families is less convincing evidence of materialism in the Stone Age!

A friendly approach

More relevant to the present, is the time two centuries ago when the British class system meant that much of the population led impoverished lives, with poor housing and harsh industrial working conditions, and little opportunity for social mobility. That was when mutual organisations, such as co-operative, friendly and building societies, began improving ordinary families' lives.

In 1820s Lancashire a group of workers formed a sickness and benefits society that later became Shepherds Friendly Society, today a provider of long-term insurance and investment products. As a mutual, owned by its members, a much modernised Shepherds Friendly still espouses the principles of its founding members, broadly advocating thrift and a caring, sharing community.

Pre-pandemic, Shepherd's Friendly ran a survey themed 'Keeping up with the Joneses: Does it make us happy?' Among the 2,000 respondents, 52% admitted comparing their finances to those of friends and family; 30% had been tempted to buy something because people they know had done so; whilst 9% had bought something unaffordable just to impress.

More reassuringly, 'achieving personal goals' was a top-scoring response to a question about feeling successful, whereas the bottom-scorer was 'owning expensive items'. So, maybe lavish expenditure beyond your means will bring less happiness than focusing on your own finances and being realistic about what you can really afford without damaging your long-term financial outlook.

Saving for private education

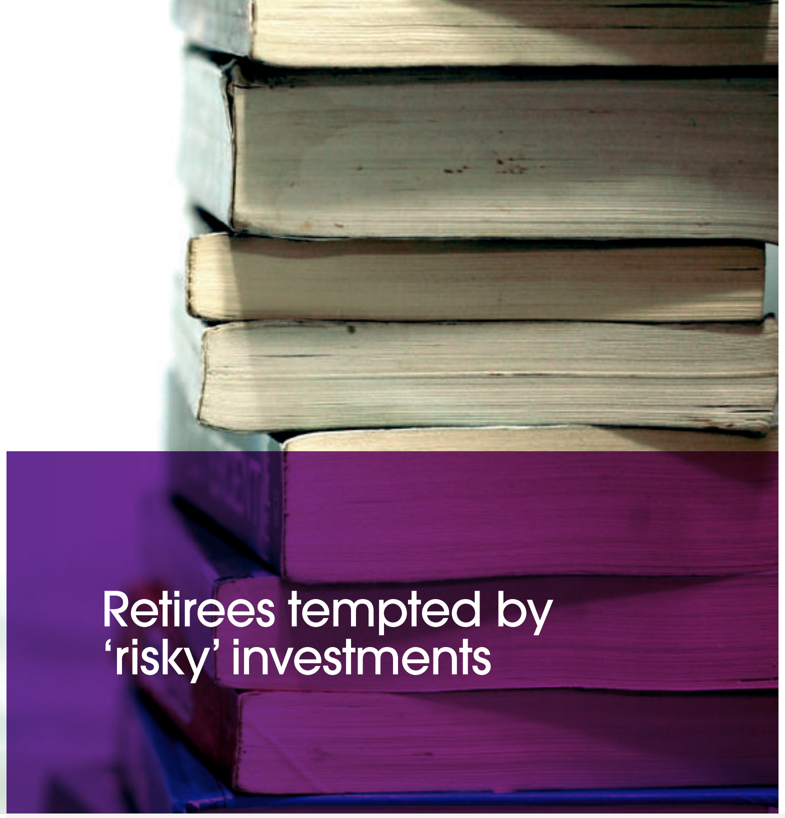
'Starting to save from day one and encouraging family members to contribute to accounts will assist you in accumulating what you need.'

The average termly fee for private schools has reached £12,000 (£36,000 annually) for boarders and £5,064 (£15,191 annually) for day pupils, according to the Independent Schools Council.

Planning for the future It is a big decision to privately educate your child; school fees could easily be a family's largest expense after their home. Starting to save from day one and encouraging family members to contribute to accounts will assist you in accumulating what you need. If you have longer to save, (10+ years) then investing could be a great longer-term option. While there is some risk involved, investments have greater potential to outstrip the returns you would get from a savings account (although this is not guaranteed).

Use your allowances and exemptions
By using their £20,000 annual ISA allowance, parents can invest and pay no tax on their returns, as well as withdraw their money without incurring tax. Meanwhile, grandparents can make use of lifetime gifting, which can have the dual benefit of reducing the value of their estate for Inheritance Tax purposes and seeing their money benefit their grandchildren whilst they are still around. Other ways of funding a private education In some instances, older parents are taking their 25% tax-free lump sum from their pension and using it to fund their offspring's education. If you do this, remember it is important to leave yourself enough for retirement.

However you fund your child's education, it's important to take financial advice to ensure you don't compromise your own financial security. We can help you plan effectively for the years ahead.



Retirees tempted by 'risky' investments

A new study conducted by the Financial Services Compensation Scheme (FSCS) suggests the UK's prolonged low interest environment is encouraging retirees to consider riskier pensions and investment products, which could ultimately result in them losing significant sums of money.

Taking a risk
The FSCS poll of 2,000 retirees aged 55 to 75, found that one in five had been tempted to invest in riskier products than they would normally consider due to the lure of a higher rate of return. Surprisingly, however, the research also found that less than one in eight respondents had consulted a financial adviser in order to explore how they could make their money work harder for them.

Life-changing sums
Commenting on the findings, FSCS Chief Executive Caroline Rainbird, confirmed there had been a rise in the number of people seeking compensation from the scheme. She added, "The real danger is that if consumers choose to put money into high-interest pension and investment products that are not FSCS protected, they could lose life-changing sums of money from their retirement pots if the product provider fails."

Importance of advice
The FSCS survey once again vividly highlights the importance of seeking expert financial advice before taking out pensions or investment products. Professional advice provides peace of mind and ensures investors are not taking any undue risks with their hard-earned cash. If you are approaching, or already in retirement, and want to maximise the return on your savings, please get in touch.

In the news

Holiday selfie could invalidate insurance

With travel back on the agenda for many, think twice before posting a holiday selfie on social media. Your insurer may consider this as advertising the fact that you are away from home, leaving your property unoccupied and invalidating your insurance cover. Unfortunately, more and more criminals are using social media posts to identify when a property might be empty.

New record for sustainable funds

Data from industry tracker Morningstar, shows that the year kicked off with continued European interest in sustainable funds, which attracted all-time high inflows of €120bn in Q1 – 18% higher than the previous quarter. Climate funds proved to be the best sellers, with six of them featuring in the top 10. The number of sustainable funds continues to grow at pace, with 111 new sustainable fund launches in the first three months of the year.

Jabbed population more optimistic about finances

People who have already received their COVID-19 vaccination are reported to be more optimistic about their finances than those who are yet to have their jab. As well as giving people a sense that the worst of the pandemic may be over, the jab also seems to be providing people with financial optimism about both their own finances and investing. Nearly half (48%) of those who have had the vaccine believe now is a good time to invest, versus 39% who have not yet received the jab.

Reasons to be cheerful

As the country emerges from lockdown, an increasing sense of optimism seems to have filled the air with a much more familiar feel returning this summer. And there's plenty to look forward to over the coming months, with a host of major sporting events to excite and enthral us, audiences returning to theatres and concert halls across the land, and the rearranged Chelsea Flower Show set to extend summer into late September.

Faster recovery predicted

There also appears to be a similar air of optimism in relation to economic matters, with data across the first half of this year proving to be stronger than analysts had expected. As a result, there now seems to be a good chance that major economies on both sides of the Atlantic will have recovered the lost ground caused by the pandemic before the end of 2021.

Global growth forecasts upgraded

This has led to a string of renowned international forecasting agencies upgrading their global growth projections during the past few months. The UN's mid-2021 'World Economic Situation and Prospects Report', for instance, revealed an annual growth forecast of 5.4% for this year, up significantly from January's 4.7% estimate. This brighter outlook largely reflects the rapid vaccine rollout in a few large economies, principally the US and China, as well as an increase in global trade.

Diverging fortunes

UN economists, however, did warn that inadequate availability of vaccines in many countries was threatening a more broad-based global recovery. The report did strike a note of caution, suggesting that, 'the economic outlook for the countries in South Asia, sub-Saharan Africa and Latin America and the Caribbean remains fragile and uncertain.'

Advice remains paramount

While the outlook has certainly improved significantly across the first half of this year, the UN forecast reinforces how the pandemic continues to create a relatively uncertain economic backdrop. This inevitably means the provision of expert advice is a vital component of investor success. We can help you make the most of any investment opportunities that do arise.

'Secret accounts' slow the probate process

According to the first Bereavement Index from probate software specialist Exizent11, many people fail to put their financial affairs in order before they die, leaving behind a 'financial mess' and a stressful experience for those tasked with administering their estate.

The Index revealed that one in seven (14%) of those tasked with gathering the assets of someone who has recently died weren't aware of all the deceased's bank accounts and assets at the start of the process. In fact, because many people pass away without leaving full details of their financial affairs, over a third (37%) of accounts are only found during the probate process.

Hidden assets

This is likely why nearly nine in 10 recently bereaved respondents said they found the probate process stressful, while one in six said it was 'extremely' stressful. And, where the deceased had 'hidden assets', the respondents were twice as likely to find the process 'extremely' stressful. Worryingly, 40% said it had an impact on their mental health.

Put your affairs in order

For advice on getting your financial affairs in order, to avoid a stressful experience for those left behind, please do get in touch.

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Whateley Wealth Management
3 Parsonage Drive, Cofton Hackett, Birmingham B45 8AS

t. 0121 285 8528
e. info@whateleywm.co.uk
w. whateleywm.co.uk