2plan®
wealth management

financial Newsletter

Edition 29 – Winter 2018

What is the British Pound worth vs. Euro?

What is the British Pound worth vs. Dollar?

FTSE 100 Chart

KEY FACTS & FIGURES – The UK Economy		
BoE Base Rate	0.75%	October 2018
Unemployment	4%	August 2018
Inflation (CPI)	2.2%	September 2018

Agenda

Base rate

The Bank of England's Monetary Policy Committee voted to keep the base rate at 0.75%.

UK economic outlook

- UK gross domestic product (GDP) grew by 0.6% in Quarter 3 2018.
- Quarterly GDP growth was driven mainly by the services sector, although the construction sector also had a notable positive contribution.
- The services sector grew by 0.4% in Quarter 3 2018, slightly lower than the 0.6% seen in Quarter 2.
- Construction saw its highest quarterly growth since Quarter 1 2017, after a weak start to 2018.

Inflation

- The Consumer Prices Index including owner occupiers' housing costs (CPIH) 12-month inflation rate was 2.2% in September 2018, down from 2.4% in August 2018.
- The largest downward contribution came from food and non-alcoholic beverages where prices fell between August and September 2018 but rose between the same two months a year ago.
- Other large downward contributions came from transport, recreation and culture, and clothing.
- Partially offsetting upward contributions came from increases to electricity and gas prices.
- The Consumer Prices Index (CPI) 12-month rate was 2.4% in September 2018, down from 2.7% in August 2018.

UK unemployment

- Estimates from the Labour Force Survey show that, between March to May 2018 and June to August 2018, the number of people in work was little changed, the number of unemployed people decreased but the number of people aged from 16 to 64 years not working and not seeking or available to work (economically inactive) increased.
- There were 32.39 million people in work, little changed compared with March to May 2018 but 289,000 more than for a year earlier.
- The employment rate (the proportion of people aged from 16 to 64 years who were in work) was 75.5%, lower than for March to May 2018 (75.7%) but higher than for a year earlier (75.1%).
- There were 1.36 million unemployed people (people not in work but seeking and available to work), 47,000 fewer than for March to May 2018 and 79,000 fewer than for a year earlier.
- The unemployment rate (the number of unemployed people as a proportion of all employed and unemployed people) was 4.0%; it has not been lower since December 1974 to February 1975.

Investing in retirement: 3 ways to target a rising income

Having carefully squirrelled money away for your retirement, you may have reached a stage where you now want to transform those savings into income.

Rather than sporadically dipping in to your account, you might instead direct your investments towards delivering a regular income stream. Provided you can accept some level of risk, there is a range of investments that can perform this role.

It could also prove a more sustainable strategy to draw a "natural income" from your portfolio. This is where you might look to enjoy the income that your investments generate in perpetuity without selling them down. Left intact, your investments can be there to draw upon as and when you need them, perhaps to cover potentially unexpected costs or to fund gifts to loved ones or good causes.

Why pursue a rising income?

To maintain your standard of living in retirement, your income needs to keep pace with inflation – the rate at which the price of goods and services is rising. This can be especially hard when inflation is higher than interest rates.

A range of investments can deliver an income that rises in with inflation, or even outpaces it, if they are successful. Conversely if they do poorly, the income they spin out could fall.

There is typically a trade-off between the security of income from investments and their potential growth in income. Importantly, income from investing can never be guaranteed and you could lose some, or even all, of the money you invest.

While there is a wide breadth of investments that have the potential to provide an income that rises over the long run, here's how the three main asset classes could play a part.

Dividends, coupons and rent

- **Company shares** Companies can share profits with their shareholders through cash distributions known as dividends.

  Some companies, or rather their management, are committed to raising their dividends year after year. Of course, if profits fall they may be forced to cut their payout or suspend them altogether.

  Nonetheless, if a company is committed to paying a regular and rising dividend stream, it could be understood to reflect a focus on profitable growth. Dividends can therefore help ensure a company grows in a sustainable fashion, while rewarding long-term investors.

  Not only can successful approaches to dividend investing deliver a rising income, but they can also offer the potential for meaningful capital growth. If a company has the discipline and profitability to pay a growing dividend, we might expect their share prices to rise over time.

- **Bonds** When you invest in bonds, you should receive regular income payments over the life of the bond, known as coupons, from the government or company that issued it.

  Most bonds normally pay a fixed coupon that is agreed when the bond is first issued. However, where coupons are fixed in value for the life of the bond – often several years – the real value of this income could be reduced by inflation.

  Investing in inflation-linked bonds can mitigate this risk. By linking coupons to general price increases, the income will rise in line with inflation, so you should be left no worse off – unless, of course, the bond issuer fails to keep up with payments (an unavoidable risk for bond investors).

  If inflation falls, however, so would the income from inflation-linked bonds, in contrast to bonds whose coupons are fixed. If inflation falls, protection from it rising can therefore come at a price.

- **Property** When you invest in commercial property, your income ultimately comes from the rent paid by tenants of the offices or shops you essentially own a part of.

  Like flats or homes, commercial property will generally be rented out for fixed periods of time, typically several years. So long as tenants meet their obligations and the property remains occupied, a regular rental income will be paid to the landlord for the life of the lease. At the end of this term, rent will be reviewed.

  So long as a landlord can raise rents over the long run, they will be able to deliver rising levels of income for their investors. Moreover, it follows that if a rising income can be generated from a property, its capital value might also be expected to rise.

Going down the fund route

Professionally managed funds, which combine a range of assets into a single investment, will aim to achieve a specific objective that could resonate closely with your own personal investment goals.

Fund managers will aim to achieve their objective – which could be to deliver a regular and rising income to their investors – over a given period by selecting and managing a combination of assets. When funds generate income from their investments, that income will be paid out to you on a regular basis – annually, quarterly or even monthly, depending on the fund – if you choose to own income shares.

While each fund may aim to achieve its objective in any market condition, there can be no guarantee since the value of investments, and the income from them, will fluctuate over time. As with any investment, you may not get back the original amount you invest.

The views expressed in this document should not be taken as a recommendation, advice or forecast. If you're at all unsure about the suitability of any investment, please speak to your 2plan wealth management financial adviser.

For explanations of investment terms used in this article, please visit: *www.mandg.co.uk/investor/help-centre/glossary/*

Author: Adam Palin, Head of Direct Consumer Engagement Marketing

Asset allocation can smooth the bumpy road

As 2018 comes to a close, we look back on what has been an uncharacteristically volatile time for some markets when compared to the past decade. This is a result of multiple factors, one being because central banks are starting to return to more normal conditions by withdrawing their super-charged stimulus. Other influences adding uncertainty into markets have been the trade war escalation, rising interest rates in the US, UK political uncertainty and a number of emerging market currencies collapsing sparking concern.

We believe risks in the market are fairly evenly balanced with strong global growth, falling unemployment and solid company earnings having a positive effect. However we are conscious that investment returns may continue to vary from one asset class to the next and the difference between asset classes could continue to widen.

This potential for more dispersed performance emphasises one of the key benefits of diversifying across a range of markets and asset classes. Understandably for any investor, volatility creates nervousness. In particular passive investors may feel worried as the purpose of passive funds is to track the returns of the markets, both on the upside and the down.

However, one of the reasons that passive investing may have become increasingly popular in recent years could be the growing recognition that asset allocation is more important than individual security selection. Asset allocation is the most crucial part of the portfolio construction process.

Asset allocation is king

Asset allocation refers to the decision of how much capital to invest and where, for example in stocks vs. bonds, in US vs. European equities, how much to keep in cash and how much to invest and everything in between. Having the right balance—the optimal asset allocation—is what keeps you diversified in the market.

Many studies have evidenced asset allocation is by far the biggest driver of returns. One such study* attributed that over 90% of long-term returns came from decisions about a portfolio's asset allocation rather than picking the right time to invest or selecting which stocks to buy. This research shows that investors who maintain a suitable asset allocation tend to succeed over the longterm.

Selecting the right mix

One of the major aims of asset allocation is to construct a portfolio of investments that don't all behave in exactly the same way. So while one part of your investment portfolio could be falling in value, the others may be flat or rising to balance it out. This differentiation in returns, or low-correlation mix, offers some protection against all assets heading south at the same time. Therefore, taking an asset allocation approach can help to even out the damage inflicted by downturns, recessions or just routine fluctuations in specific markets.

Market bumps are normal

Markets are unpredictable and it will always be difficult to foresee what will happen in the future. But we believe the bumpy ride is here to stay over the coming months. So to help our portfolios weather the market conditions, we will continue to adopt the principles of diversification across asset classes, currencies, regions and investment managers.

It may be wise not to take a short-term outlook and avoid overreacting to immediate stock market moves. Right now investors can see that the market is struggling, but most believe that given time it will bounce back. In fact, many see this as a buying opportunity.

We believe that asset allocation can help to smooth out the returns in a multi-asset portfolio. A well-constructed portfolio, designed around your time frame and keeping your portfolio diversified could be a prudent way to weather the current uncertainty.

Author: Alex Burn, Investment Manager

*study, Gary P. Brinson, Brian D. Singer, and Gilbert L Beebower

Looking after you and your family

In many ways, mental health is just like physical health: everybody has it, we need to take care of it and should we suffer a mental health issue, it's all too often compounded by a financial health impact.

Good mental health means being generally able to think, feel and react in the ways that we need and want to live our lives. But when someone goes through a period of poor mental health, they might find that thinking, feeling, reacting and importantly, decision making becomes difficult or even impossible to cope with. This can feel just as bad as a physical illness, leaving them incredibly vulnerable.

Mental health problems affect around one in four people of all ages in any given year[1]. They range from common problems, such as depression and anxiety to rarer problems such as schizophrenia and bipolar disorder.

Experiencing a mental health issue is often upsetting, confusing and frightening – particularly at first. However, in reality, mental health issues are a common human experience, and are often compounded by physical, relationship and financial health problems being experienced. So, what about mental health and financial protection insurance?

Financial protection solutions such as life insurance and critical illness insurance are designed to, and do, provide essential financial assistance should the worst happen. But what if your protection plan also supported you and your immediate family when you weren't making a claim?

Many providers now recognise that an insurance pay-out can really help to ease the financial burden at a time of family bereavement or critical illness diagnosis, but you or your immediate family members might need more than just financial support.

Protection plans increasingly now include physical and mental health helplines, medical second opinions, bereavement counselling, signposting to charities and agencies, plus a range of services that can be provided through experienced and specialist personal nurse advisers. These personal nurse adviser services are becoming more important and valuable given the increasing strain on our NHS, Social Care and Mental Health services.

That's why all Scottish Widows Protect policies come with access to the Scottish Widows Care support service, from the day the policy starts. You can access support at any time during the life of your plan, even if you're not making a critical illness or life insurance claim. The service is there whenever you need it. Not only can you use Scottish Widows Care but we make it available to your partner and children too. You can even use the support service for existing conditions.

This service is provided in partnership with RedArc through a team of Personal Nurse Advisers. Everyone who uses Scottish Widows Care is assigned a dedicated Personal Nurse Adviser who will provide practical advice and emotional support during times of difficulty such as the loss of a loved one, being diagnosed with a serious illness, mental health concerns, long-term elderly care and many more.

All Personal Nurse Advisers are highly experienced registered nurses with a wide range of general and specialised medical knowledge, including mental health. They'll offer tailored support specific to you and your family's individual circumstances. Support could be anything from explaining medical terminology, to helping you understand available treatment options such as:

- Assessing and providing appropriate mental health therapies such as counselling, psychotherapy, CBT and many more
- Providing resources such as relaxation and mindfulness apps to help manage mental wellbeing
- Arranging a second medical opinion
- Organising oncology nursing support following a cancer diagnosis
- Arranging face-to-face bereavement counselling
- Directing you to specialist therapies to manage an injury.

The nurse adviser-patient relationship will continue for as long as you feel you need support, whether that's a matter of months or even years.

Speak to your 2plan Financial Adviser today about protection and how tangible benefits like Scottish Widows Care can help look after you and your family.

Source
[1]. MIND, October 2018.

Over 43? Five common pension myths you shouldn't believe

People often worry that they won't have enough to live on when they retire, but daily life can often get in the way of taking regular action.

Are you put off contributing to your pension by some of the financial myths about pensions and investments? Contributing to a pension is one of the best financial decisions you can make.

Today, we'll dispel five common pension myths.

Myth
Cash is safe

Lots of people avoid investing in the stock market because of the fear of losing money. That's why Cash ISAs have, until recently, proved more popular than stocks and shares ISAs. While it's true that cash is 'safer' than shares, because it doesn't go up and down in value very much, that's not the only measure of safety. If you want to protect your money in real terms, then cash could be said to be one of the least safe options. This is because of inflation.

Here are a few examples of how costs have gone up since ISAs were introduced in 1999 compared with today:

	Cost in 1999	Cost in 2018	% increase
Average house	£70,010	£118, 664	70%
Average car	£12,750	£20,273	59%
Petrol per litre	77 pence	£1.23	60%
Car insurance	£214.90	£690.35	321%

If your investment hasn't grown by more than rising prices, then you simply won't be able to afford to buy as much.

Below you can see what you might have got if you'd invested in either a Cash or Stocks and Shares ISA. We can see that the Cash ISA grew by 66%, the stocks and shares ISA by 163%. Because inflation went up by 70%, you'd have lost money in real terms if you'd invested in a Cash ISA. Looking at the table above, you'd be able to afford to buy a car and petrol, but you'd struggle to afford to insure it.

£3,000 invested in an ISA in April 1999 would have grown to the following in June 2018 *			
Cash ISA	£3,000	£4,967	66%
Stocks and Shares ISA	£3,000	£7,887	163%

Myth
Property is better than a pension

People often think that buy-to-let is the best way to save for retirement, but the danger is that this strategy puts all your eggs in one basket; and that's a big risk to take with your retirement.

While the property boom in the eighties resulted in a lot of wealth for the older generation, this generation hasn't been quite as fortunate. After recent changes to the law, the tax treatment on a buy-to-let has become very off-putting for many. Combined with stamp duty (which is even more in Scotland), capital gains tax, income tax (also higher for certain brackets in Scotland) and expensive maintenance bills and council tax, property is a costly investment.

Meanwhile, you'll get tax relief on whatever you put in to your workplace pension. This effectively reduces how much income tax you pay and boosts what goes into your pension.

This information is based on our understanding of current, taxation law and HMRC practice, which may change. The value of any tax relief depends on your individual circumstances.

Myth
It's too late to start a pension at 50

Don't believe the hype – it's never too late to start a pension.

Even at 50, if you're a high earner, according to The Telegraph, it's possible to amass around £750,000 in a pension pot by the time you are 67. And, even if you're on a more modest wage, you could save a significant amount. That said, the earlier you start the better.

Myth
8% is enough to save for a pension

If you want to retire on a pension that's somewhere near two-thirds of your final salary, you should aim to save 15% of your salary each year, with 12% as a minimum.

And the earlier you start the better. It's possible to build a pension late on in life, but the magic of compound interest (where you get interest-on-interest on your money) means you have the best chance of meeting your goals if you start young, preferably as soon as you start your first job.

Myth
The State Pension is enough to live on

The full new State Pension is just £164.35 per week (gov.co.uk, 2018) and that's the maximum entitlement. Gaps in your national insurance record may mean that you get less. You can check the amount of State Pension you're entitled to and when you'll get it, on the Government website.

According to our research (January 2018), a person on the UK average salary (of £28,600) now needs to build up a pension pot of over £300,000 to be able to maintain their current lifestyle in retirement. Based on this calculation, it means that the State Pension would need to be topped up by £809 per month from private and workplace pensions to hit this goal.

For someone earning £13,000, a pension pot of £65,300 is needed to maintain their current lifestyle. And, last year, we found that the average income people hoped for in retirement was £32,270, which would require a pot of £745,500. The average UK pension pot is just under £50,000.

In our research, seven out of eight people aged 55-64 told us that they have pension savings, which is great news. However, only 17% of the people we spoke to, (close to one in five), told us that they have more than £300,000 in pensions.

The key here is that, if you'd like to maintain your current lifestyle in retirement, you'll have to pay for a big chunk of it yourself.

There are a number of places to find further information about pensions. Pension Wise, a free and impartial service from the Government is a good place to start. If you're in any doubt about creating a plan for your retirement savings, we suggest that you speak to a financial adviser.

The value of an investment can fall as well as rise and isn't guaranteed. You could get back less than you invest. This article is based on our understanding of the current and historical position of the market(s) and shouldn't be interpreted as recommendations or advice.

Information correct as at August 2018.

Author: Kate Smith, Head of Pensions, Aegon UK

* Aegon using data from Morningstar Direct. The figures are in pounds sterling. We used the Inter Continental Exchange (ICE) Bank of America Merrill Lynch (BofAML) 1Month Deposit Bid Rate Average in pounds sterling as a proxy for cash, and the FTSE All Share Index to simulate stocks and shares returns. We have used the UK Retail Price Index to represent inflation. The figures are gross of tax and, as these are market indices, they don't take charges into account, which would reduce the returns shown. Please be aware that these figures are simulated and are just for illustration purposes. Past performance is no guarantee of future returns and the value of investments can go down as well as up. You could end up with less than you invested.

At Aegon it's our mission to help the UK achieve a lifetime of financial security. We've led the way in innovation that can make people's financial assets work smarter as well as harder. From online technology that gives one-stop access to a universe of investment opportunity – to retirement products that make wealth planning simple, easy and fulfilling – we're dedicated to getting people closer to their financial goals every day. Visit www.aegon.co.uk or speak to your 2plan adviser to find out more.

Should I invest in a stocks and shares ISA to save up a lump sum?

You want to save a chunk of money – let's say £10,000 – and the interest on your current account won't cut it. Should you invest in a stocks and shares ISA, and what are you other options?

You're looking to save up a sum of money. This could be to go towards a deposit for a home, to help fund your child's university fees or to pay for a trip of a lifetime.

There is no single preferred approach to saving up this amount, as it will depend on your ideal timeframe, your current financial situation… and even your age.

Before you start…

There are one or two considerations before you begin saving towards your goal: do you have any existing debts (outside of a mortgage), and do you have any current savings in case of an emergency?

You should pay off any credit card or store card debts before you start saving. This is because the interest rate on this debt will likely exceed any returns you make by saving, certainly in the short term. So try to be rid of this first.

It can also be helpful to build up an emergency fund before you start saving towards a particular goal. This will help cover any unforeseeable expenses, such as your dishwasher or boiler packing in, or your car failing its MOT.

The Money Advice Service – a free service set up by the government – recommends having three months' essential outgoings available in an instant access savings account*.

1.OK, ready to go…

When would you like your money? Your answer to this question should determine the savings path you take and whether you invest or not.

If you want to achieve your goal within the next five years, investing probably isn't the way to go. This is because, as we shall come to, investing comes with an element of risk and the chance the value of your investments could fall (and grow), so the shorter time frame you have, the less time your money has to recover.

You may wish to consider a savings account or cash ISA. How long would it take you? Well, from a standing start, and assuming you won't be accessing your savings until you've reached your target, you would save £10,000 by setting aside £300 per month in a savings account paying 1.3% annual interest in 33 months**. Please pay attention to all product terms and conditions.

But what if you have a longer-term timeframe in mind? Inflation – the rate at which prices go up - means that saving for a term of five years or longer isn't best suited to cash ISAs.

For instance, if inflation is 2.5%, then in 10 years' time £10,000 will only buy the same as £7,810 today***.

Over the long-term, investing in a stocks and shares ISA has the potential to outperform savings, and, as with cash ISAs, you can currently invest up to £20,000 in each tax year.

If you are under 40 and saving specifically for a deposit for your first home, a Lifetime ISA, which currently has a £4,000 annual limit, may be worth considering.

Everyone has an annual ISA limit which, for the 2017/18 tax year, is £20,000. This includes contributions to Stocks & Shares ISAs, Cash ISAs and a Lifetime ISA.

2.Investing in stocks and shares

The value of your investment in stocks and shares can rise and fall and you may not get back what you invested but, by giving your money as long as possible to grow – and ideally a minimum of five years – you'll be in a position to ride out any falls in the market.

And just as there are different ways to invest your money, there are also different options when it comes to stocks and shares.

Choosing where to put your money can be daunting, which is why Zurich has developed five funds – called Horizon Multi-Asset funds – which can be accessed through a Zurich Stocks and Shares ISA.

Selecting the right fund for you will depend on your investment needs and what is called your 'attitude to risk'.

For instance, if you want to take a minimal risk, which means the likelihood of your money losing value is low but so is your potential for growth, you can invest in the Zurich Horizon Multi-Asset Fund I, as this invests a smaller portion of your money in stocks and shares.

On the other hand, you may wish to go for the Zurich Horizon Multi-Asset Fund IV, which invests more in stocks and shares and therefore the chance of growth (and loss) is increased.

Want an idea of what your attitude to risk is? Take a look at our simple risk tool, which will give you an indication.

An increasing number of people are investing for the long-term: HMRC**** figures showed a 33% drop in the amounts being invested in cash ISAs during the 2016-17 tax year, whereas stocks and shares ISAs hit a record high.

3.What now?

If you're thinking of investing in a stocks and shares ISA with the aim of reaching a lump sum goal, Zurich's ISA calculator can help. Have a play to get an idea of how much you might get back if you invest your money in a Zurich Stocks and Shares ISA.

Author: Scott Sinclair, content manager at Zurich UK

Sources:

*https://www.moneyadviceservice.org.uk/en/articles/emergency-savings-how-much-is-enough

**https://www.moneyadviceservice.org.uk/en/tools/savings-calculator/how_long

***https://www.zurich.co.uk/stocks-and-shares-isa/isa-tool (see under important information)

****https://www.gov.uk/government/statistics/number-of-individual-savings-accounts-isas-amounts-subscribed-to-each-component-and-average-subscription#history

Building for tomorrow today…

We all have hopes about what the future may hold for us. Travelling the world, buying an exotic holiday home, or simply retiring early may be what's in the plan. Whatever your aspirations are, it's important to ensure that you're putting enough aside for tomorrow. You may think the State Pension will help you fulfil your dreams, but this may not be the case. It's unlikely to cover more than your basic needs and the age at which you can claim it, is also on the rise.

So how can you ensure you'll be able to tick off all the things on your bucket list in the years ahead?

Sticking to some basic investing principles can really help improve your financial prospects.

1. Setting goals and objectives

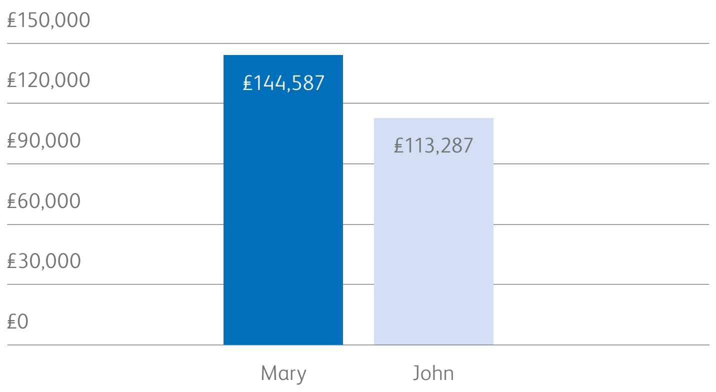
It's important to consider what your financial goals and objectives are. Try to be as precise as possible. If your target is early retirement, for example, exactly when are you hoping to give up work? Prioritising your objectives is essential too – sometimes not all of your goals will be achievable, so it's important to pick out the 'must haves' from the 'nice to haves'. Don't forget, your 2plan adviser is there to help you. They can assess your financial situation and circumstances, looking at where you are now, where you want to be and recommend an appropriate way forward.

2. The earlier you start saving the better

It can be very tempting to put saving off for another day. However, as the following example shows, the cost of delaying can be high:

- Mary begins investing £5,000 a year from the age of 30, returning an assumed 5% per annum, and keeps doing so until age 45. At this point, she decides to stop making any further contributions. However, her investment continues to generate a 5% return each year. Due to the power of compounding, by the time Mary reaches 50, her investment is worth £144,587.
- John doesn't start his investment journey until he is 35. Like Mary, he invests £5,000 a year and achieves a 5% return per annum until he reaches 50. Despite both contributing to their savings for 15 years, John's pot has grown to just £113,287 – £31,300 less than Mary's pot – because he started five years later.

Value of savings fund at age 50



Source: FIL as at October 2018

3. Make sure your investment portfolio is diversified

Whatever your long-term goals may be, ensuring you have a diversified portfolio is one of the soundest investment principles you can follow. This really means not putting all your eggs in one basket. By holding a wide range of different investments, you are not reliant on a single stock, share or fund. If one performs poorly, then you still have others to fall back on. Again, this is where your 2plan adviser can help. They can ensure that you hold a wide spread of investments, which are appropriate for your attitude to risk and capacity for loss.

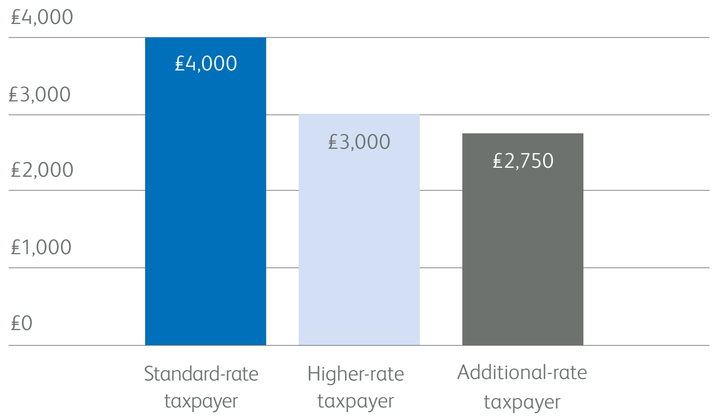
Of course, whatever investments you choose along with your adviser, you should remember that the value of investments can go down as well as up and you may not get back the amount you invest.

4. Make the most of your tax allowances

Investing tax efficiently is a great way to boost your returns – the less you pay in tax, the more your nest egg will ultimately be worth. Pensions, for example, remain one of the best ways to save for your future. This is because you receive tax relief on your contributions, up to your annual allowance (or your earnings if these are lower). If you make contributions to a personal pension the provider will claim and add basic rate tax relief (currently 20%) to your contributions on your behalf. If you pay income tax at a rate above 20%, you can then claim additional relief through your tax return. To illustrate how this benefits savers, the chart below shows the effective cost of a £5,000 pension contribution for basic, higher and additional-rate taxpayers.

In addition to the tax relief on your contributions, your pension pot also grows free from Income and Capital Gains Tax while your money is invested.

Effective cost of a £5,000 pension contribution



Source: FIL as at October 2018. These examples are based on UK tax rates. Rates of tax relief for Scottish Residents may differ to the rest of the UK.

ISAs offer another tax-efficient way to save as, like pensions, your money grows free from Income and Capital Gains Tax over time. Whilst you don't benefit from tax relief on your contribution(s), no income tax is payable on encashment. Finally use of annual personal savings and Capital Gains Tax allowances can also maximise the tax efficiency of your overall financial plan. Simply talk to your 2plan adviser about how to make the most of all these valuable allowances. Please remember though, tax treatment depends on individual circumstances and all tax rules may change in the future.

And, don't forget, it's never too soon to start putting more aside for your future – contact your 2plan adviser today about building a firmer financial base for all your tomorrows.

Author: Lesley Davidson, Associate Director – FundsNetwork Strategic Accounts

The value of investments and the income from them can go down as well as up so you may get back less than you invest. Withdrawals from a pension product will not be possible until you reach age 55. Tax treatment depends on individual circumstances and all tax rules may change in the future. This information is not a personal recommendation for any particular investment. If you are unsure about the suitability of an investment you should speak to an authorised financial adviser. Issued by Financial Administration Services Limited, authorised and regulated by the Financial Conduct Authority. FundsNetwork™ and its logo and F symbol are trademarks of FIL Limited.

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.

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.

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.

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

At 2plan wealth management 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 clients' 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 towards the subject of investment risk.

Talk to us for expert advice.

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

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[1]. 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.

Author: Keith McGuiness

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

[1] http://oecdobserver.org/news/fullstory.php/aid/3681/An_emerging_middle_class.html

Savers in the dark about their pensions

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 out 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[2].

- Take control of your spending
- Create a long-term financial plan
- Explore ways to boost your pension pot
- Monitor the progress of your plan
- When the time comes, know when, and how best, to convert your pension savings into income

We can help you set clear investment goals and plan for a comfortable retirement. Please get in touch to find out how.

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.

Sources:
[1] https://www.moneywise.co.uk/news/2018-07-05/savers-the-dark-about-their-pensions-warns-stark-report Paragraph 1 – 2 above
[2] https://www.moneyobserver.com/news/savers-underestimate-cost-comfortable-retirement

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If you would like to discuss any of these topics in more detail, please feel free to contact me to make an appointment. If you have friends, family members or colleagues who you think would be interested in these topics, please pass this newsletter to them.

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