# PROTECT & GROW

SUMMER 2020 | ISSUE 03

## TIME IN, **NOT TIMING**

Covid-19: What it means for your wealth

## ALSO INSIDE THIS ISSUE



KINGSWOOD
PROTECT AND GROW YOUR WEALTH

# TIME IS A GREAT HEALER

## KEY TAKE-AWAYS FROM THE CURRENT CRISIS

Richard and Paul write later in this edition about the historical context of this crisis. For me, there are two key takeaways: first, almost all market downturns fade into insignificance in the long run, even if at the time they may feel unprecedented and game changing. Second, it is dangerous to sell out of markets completely, even for very short periods of time.

Both considerations have framed the way we have positioned portfolios during the crisis. This year's sell-off in global equities was one of the sharpest ever, with markets falling over 30% in little more than 30 days. The temptation at the time, with panic in the air and forecasts of the economic downturn becoming more extreme by the day, was to hit the sell button.

Instead, we held our nerve. We went into the crisis broadly neutral on equities. By that, we mean the allocations to equities were in line with the weightings we deem appropriate in the long term for each risk profile. When market declines left portfolios underweight, we took advantage of the lower prices to top up our positions and return to a neutral position.

**Unprecedented stimulus**

Markets typically see sizeable increases in the early stages of a recovery from a bear market, and it is essential not to miss these gains. This time has proven no exception. In fact, the rebound from the lows on 23 March has been one of the swiftest ever – just like the sell-off before it.

Global equities are now up over 25% from their lows, recovering more than half their losses. The rebound is down to two main factors: the massive fiscal and monetary stimulus now put in place around the world, and the recent peak in infection rates in many countries which is leading to the easing of lockdown restrictions.

Both developments are undoubted good news and reason for the markets to become more cheery. However, we are sceptical that they justify quite such a fast rebound. Unprecedented stimulus has been put in place only because of the unprecedented severity of the downturn.

**Reduced exposure**

Markets seem now to be assuming that there will be a V-shaped recovery with economies rebounding quickly. But this seems unlikely. Lockdowns will be relaxed only cautiously, and will only be sustained if there is no secondary spike in infections. Social distancing also looks set to remain in place at least until year-end, which will prevent some sectors from returning to any semblance of normality any time soon.

In short, we believe it is quite likely over coming weeks or months that the market could fall back again, albeit not to their March lows, before seeing further sustained gains. We have therefore recently reduced some of our exposure to UK small and mid-cap stocks, leaving us with a small equity underweight.

Recoveries are usually led by small and mid-cap stocks and the more cyclical sectors. But this time, it is much less clear this will be the case as it hard to believe there won't be significant scars from the brutal downturn in activity. We believe quality stocks with strong balance sheets should fare well in what will remain quite a challenging environment. When we reinvest the cash we have recently raised, we plan to reinvest in this area.

**Importance of diversification**

One lesson to be drawn from this crisis is the importance of diversification. Bonds, and indeed gold and alternatives, are an essential part of most portfolios because of the protection they can provide in serious sell-offs. But diversifying one's equity exposure is also critical.

UK equities, particularly FTSE 100 companies, have a high proportion of their earnings coming from overseas. But this does not remove the need for a sizeable exposure to international stock markets. Year-to-date, for example, international equities have held up much better in sterling terms than UK equities, falling 7% compared with 19% for the FT All Share. Currently, the UK comprises 35% of our equity holdings.

**Wild-card for markets**

We also believe it is important not just to allocate to individual equity regions but also to specific themes. Even in times such as these, some areas can prosper. We have had specific allocations to companies focused on technology and artificial intelligence for a number of years, and they have held up very well in the sell-off. Looking forward, the new normal looks certain to continue to favour such areas.

At the end of the day, while Covid-19 has left portfolios nursing losses, the damage has been contained by appropriate diversification. Although coronavirus clearly remains something of a wild-card for markets near term, we strongly believe it remains appropriate to retain a sizeable exposure to equities. Indeed, over the next year or two, we expect portfolios to regain their recent losses and more.

**Rupert Thompson**
Chief Investment Officer

# WELCOME

**Welcome to our latest issue of Protect & Grow.** It has been a very challenging time for many of our clients, their families, their employees and the wider business community.

During this difficult time, we hope you're staying safe. The ongoing news of the impact of the coronavirus pandemic and how it is affecting everyone is a huge concern for us all. Understandably, people are worried about the general economic outlook and their own personal finances. At the time of writing, we are expecting news on the easing of the lockdown restrictions; whilst we may be living in a 'new normal' for a period of time, our focus on long-term financial plans and investment strategies does not change.

At Kingswood, we have stuck to our course in terms of what we are doing for our clients, for our staff and long-term strategy. We have not furloughed staff, and our business has been running as normal from remote locations. We are continuing to grow and have just announced the next milestone in our ambition to become a global wealth manager with a US acquisition, adding 180 advisers and $2 billion of assets to our business.

Our staff have done an incredible job in these difficult circumstances, and we have tried to keep the balance right between providing information and updates by telephone, virtual meetings and through investment conference calls. Our staff have also contributed to the amazing work of the NHS and to our key workers by each donating a day's pay to charities that benefit them.

The Government's actions to help businesses and households manage the short-term economic disruption, such as interest rate cuts and rescue packages, have been positively received, but the intended consequences are yet to materialise. With that is mind, we dedicate this issue to what the pandemic means in terms of your investments, family finances and long-term plans. Events like these also remind us of some of the things that we may prefer not to think about – Wills and life insurance – and we reiterate the importance of having these in place.

During these challenging times, there has also been an increase in the number of fraudulent scams. Individuals are at increased risk of being exposed to financial scams – including those involving phishing emails and cold calls – in an attempt to obtain personal or sensitive information. Be extra vigilant, and do not respond to any correspondence which you are unsure about – letters, emails, phone calls, text messages, etc.

As the COVID-19 pandemic continues, some people may fear how they will manage financially through this crisis. Please do not hesitate to contact your adviser who is well placed to discuss your position and why it is important to stay the course, especially in times of uncertainty.

**Leigh Philpot** - Head of Wealth
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# INSIDE THIS ISSUE

# AND NOW FOR SOMETHING COMPLETELY DIFFERENT

## WHY THE CORONAVIRUS RECESSION CANNOT BE A COSTLESS EVENT

When I first came into the City in the late 1970s, the reverberations of the 1973–74 stock market crisis were still echoing around financial markets and within the walls of investment firms. In the UK, although not described using these words, it had most certainly been regarded as an existential crisis for the investment industry. The recovery was dramatic and gained momentum with the change in government in 1979.

The 1980s were also not without their moments. The Falklands War threatened to disturb market equanimity but was eventually negotiated without causing noticeable disruption. But later in the decade, in what forever will be associated in the minds of UK investors with an un-forecast hurricane, world equity markets experienced a dramatic and equally unpredicted crisis of confidence. This culminated on Monday 19 October 1987, 'Black Monday', with market indices recording some of the largest ever one-day declines. For many of us involved in markets, this was a shocking and formative moment. Now, it hardly shows up on a chart.

Since then, we have had other market crises – some wreaking more enduring damage than others. In the UK, the 1992 exit from the Exchange Rate Mechanism of the European Monetary System, following a period of recession, was initially greeted with alarm, although it subsequently led a sustained phase of strong growth and excellent stock market returns. The Asian debt crisis followed towards the end of the decade. This provoked fears of a global financial meltdown, an outcome averted by co-ordinated policy action.

**Heavy losses to absorb**

By the end of the 1990s, we were into the era of the 'tech bubble', which was associated with a surge in productivity. The bubble burst as the new Millennium dawned. Again, policy-makers were seen as saving the day, although for investors – especially those with a heavy weighting in the so-called 'TMT' stocks (Technology, Media and Telecoms) – there were some heavy losses to absorb.

And then, of course, there was the Global Financial Crisis, a moment that was very definitely regarded as an existential threat to the global financial system. It prompted co-ordinated policy intervention around the world on a scale never before contemplated, most of which has yet to be unwound.

**Blind-sided by COVID-19**

What is different about the current crisis of confidence in markets and those which have preceded is that this one has been brought about by events outside our immediate control. Looking back at previous slowdowns, recessions and stock markets slumps, it is not hard to identify the causes and what could have been done differently to avert or at least mitigate the problems. In fact, in one sense or another, almost all previous crises have reflected boom and bust policy management.

**"WHEN I FIRST CAME INTO THE CITY IN THE LATE 1970S, THE REVERBERATIONS OF THE 1973–74 STOCK MARKET CRISIS WERE STILL ECHOING AROUND FINANCIAL MARKETS AND WITHIN THE WALLS OF INVESTMENT FIRMS."**

This is different. To be sure, there were some underlying issues that still needed to be understood and tackled (low productivity growth, for instance). It is also true that growth in developed economies was already slowing and

that we had specific concerns in the UK related to potential disruption from leaving the EU. Nonetheless, in economics terms, we were blind-sided by COVID-19. Every economic and market crisis has its own particular characteristics. Even so, there is normally a preceding tension that indicates that something is about to break. (It is to our discredit that these are often ignored when they should allow policy makers to begin making preparations or taking avoidance actions.) On this occasion, the forewarning was momentary.

While a global pandemic has long been an acknowledged threat, it seems that it was one that prompted more activity amongst movie makers than within the keeps of our policy institutions. This is not something I find particularly surprising, albeit there have been instances of potential pandemics in our recent past. Of course we could have been better prepared, and no doubt there will be many a report produced in the future that will tell us so. Equally, even with inadequate preparations, we could have responded quicker and better.

**Necessary level of background activity**

Nevertheless, in terms of protecting the economy, I think the Government has done a reasonable job. In particular, the Chancellor responded quickly and aggressively. The aim has been to maintain a necessary level of background activity while putting the non-essential and vulnerable parts of the economy into suspended animation. By definition, this cannot be complete; there are bound to be numerous glitches and instances where businesses and households seem to fall through the gaps. No amount of disaster planning could have prevented this. But I would credit HM Treasury with being flexible and responsive. It has many critics, but few of those have suggested viable alternative courses of action (or, for that matter, any degree of unanimity in their criticisms).

What markets, economists and policy makers are trying to do now is assess how a recovery in activity may begin to become manifest. Even before lockdown restrictions have been eased, the economy is showing a natural tendency towards reviving. Nonetheless, significant damage has already been done to business models in most areas of the economy, with size not necessarily offering any defence. Meanwhile, there have been as many shapes suggested for a recovery as letters of the alphabet – and more.

My view is that the recovery will be quirky. In some areas, it will be swift; in others, stuttering. In some, it may initially seem negligible; in yet others, surprising. Tom Lehrer, a great protest singer of the 1950s and '60s, once suggested, 'Life is like a sewer: what you get out of it depends on what you put into it.' I am not so sure that what emerges from the coronavirus recession will look exactly like what went into it. For a time, at least, the process of globalisation will be curtailed, and there is a risk of a reversion to protectionism. Within the domestic economy, work patterns are likely to shift, but I think recovery may also be accompanied by improved trends in productivity. It is also going to be important to be cognisant of changes in household behaviour. These may be short-lived, of course, but they may also become more deep-rooted.

**Future growth prospects**

The most important feature of the response by companies, households and governments is going to be flexibility. The more that is shown, the better and more resilient will be our future growth. I am by nature an optimist, and I have huge faith in our ability to adapt to and emerge from adverse circumstances. On this occasion, inevitably, we are more than usually nervous, because the cause of the crisis puts it outside our immediate ken, and we have nothing in recent history that helps with making an assessment of what an economic recovery may look like. Uncertainty is debilitating but needs to be balanced against our inherent optimism. This suggests that markets may remain volatile. However, I remain very positive about future growth prospects.

My biggest concern is with the debt that is currently being accumulated. Even if the recovery were to be perfectly V-shaped, the coronavirus recession cannot be a costless event. We have lost output and assets, some permanently. And the Government has taken direct and indirect responsibility for supporting businesses and households through increased borrowing. When we borrow, we are, in effect, drawing down on future expected income. This must have a cost. While there may not be an immediate reckoning, at some stage we will have to decide when and how the cost is to be defrayed.

**Richard Jeffrey**

Chair of Kingswood Investment Committee

# HOW SECURE IS THE FUTURE OF YOUR FAMILY OR BUSINESS?

## PROJECTING OURSELVES INTO THE FUTURE TO SEE WHAT'S AROUND THE NEXT BEND IS NOT AN EASY THING TO DO

Given the current situation during this difficult and unsettling time with coronavirus (COVID-19), it's important to think about how secure the future of your family or business would be in the event that you were no longer around. Understandably, we would rather not dwell on such a scenario, but this crisis has highlighted the importance of protecting the things that really matter – like our loved ones, home, lifestyle and business – in case the unexpected happens.

The outbreak of the coronavirus may mean you have concerns about your life insurance and whether you're covered. If you have life insurance to provide for those left behind, or to cover business loans after your death, it's important to keep paying the premiums, even if you're tempted to put it on hold to cut costs. You could lose your cover and may struggle to find the same level of cover if you start another policy later on.

**Full replacement value**

For many of us, projecting ourselves into the future to see what's around the next bend is not an easy thing to do. However, without thinking, we insure our cars, homes and even our mobile phones – so it goes without saying that you should also be insured for your full replacement value to ensure that your loved ones and business are financially catered for in the event of your unexpected death. Making sure that you have the correct type and level of life insurance in place will help you to financially protect them.

Life insurance provides a safety net. Ultimately, it offers reassurance that your family and business would be protected financially should the worst happen. We never know what life has in store for us, as we've seen in recent weeks with the outbreak of COVID-19, so it's important to get the right life insurance policy. A good place to start is to ask yourself three questions: What do I need to protect? How much cover do I need? How long will I need the cover for?

**Ask yourself**

- Who are your financial dependents – your husband or wife, registered civil partner, children, brother, sister or parents?
- What kind of financial support does your family have now?
- What kind financial support will your family need in the future?
- What kind of costs will need to be covered, such as household bills, living expenses, mortgage payments, educational costs, debts or loans, or funeral costs?
- What amount of outstanding business loans do I have now?

**Financial safety net**

It may be the case that not everyone needs life insurance. However, if your spouse and children, partner, other relatives or business depend on you to cover the mortgage, other living and lifestyle expenses, or business loans, then it will be something you should consider. Putting in place the correct level of life insurance will make sure they're taken care of financially.

That's why obtaining the right professional financial advice and knowing which products to choose – including the most suitable sum assured, premium, terms and payment provisions – is essential.

**No one-size-fits-all solution**

There is no one-size-fits-all solution, and the amount of cover – as well as how long it lasts for – will vary from person to person. Even if you consider that currently you have sufficient life insurance, you may need more later on if your circumstances change. If you don't update your policy as key events happen throughout your life, you may risk being seriously under-insured.

As you reach different stages in your life, the need for protection will inevitably change. How much life insurance you need really depends on your circumstances – for example, whether you have a mortgage, you're single or have children, or you have business loans that you are liable to pay.

**DON'T LEAVE IT TO CHANCE**

Since the outbreak of COVID-19, some insurers are restricting cover for new applicants and have introduced new questions to their application forms. This has been done in order to establish and manage the insurance risks it poses. Planning for a time when you're no longer around may seem daunting, but it doesn't have to be. Don't leave it to chance – speak to us for more information.

# WHAT ARE YOU WAITING FOR?

## COVID-19 PANDEMIC HAS MADE MORE PEOPLE THINK ABOUT JUST HOW CRUCIAL IT IS TO MAKE A WILL

Since the outbreak of coronavirus (COVID-19), the number of people seeking to write new Wills has risen by over 30%, according to The Law Society. Understandably, the current situation is causing angst among people, particularly elderly and vulnerable clients who have been self-isolating. It's estimated that more than half of British adults have not made a Will.

The coronavirus pandemic has made more people think about just how crucial it is to make a Will and ensure it is kept up to date. Everyone should have a Will, but it is even more important if you have children; you own property or have savings, investments, insurance policies; or you own a business. Your Will lets you decide what happens to your money, property and possessions after your death.

**Make sure your wishes are clear**

Making a Will and keeping it up to date is the only way you can ensure that when you die, your wishes are clear. If you die with no valid Will in England or Wales, the law will decide who gets what. If you have no living family members, all your property and possessions will go to the Crown.

If you make a Will, you can also make sure you don't pay more Inheritance Tax than you legally need to. It's an essential part of your financial planning. Not only does it set out your wishes, but die without a Will, and your estate will generally be divided according to the rules of intestacy, which may not reflect your wishes. Without one, the state directs who inherits, so your loved ones, relatives, friends and favourite charities may get nothing.

**Cohabitants**

It is particularly important to make a Will if you are not married or are not in a registered civil partnership (a legal arrangement that gives same-sex partners the same status as a married couple). This is because the law does not automatically recognise cohabitants (partners who live together) as having the same rights as husbands, wives and registered civil partners. As a result, even if you've lived together for many years, your cohabitant may be left with nothing if you have not made a Will.

A Will is also vital if you have children or dependents who may not be able to care for themselves. Without a Will, there could be uncertainty about who will look after or provide for them if you die.

**Peace of mind**

No one likes to think about it, but death is the one certainty that we all face. Planning ahead can give you the peace of mind that your loved ones can cope financially without you, and at a difficult time it helps remove the stress that monetary worries can bring. Planning your finances in advance should help you to ensure that when you die, everything you own goes where you want it to. Making a Will is the first step in ensuring that your estate is shared out exactly as you want it to be.

If you leave everything to your spouse or registered civil partner, there'll be no Inheritance Tax to pay, because they are classed as an exempt beneficiary. Or you may decide to use your tax-free allowance to give some of your estate to someone else or to a family trust. Scottish law on inheritance differs from English law.

**Passing on your estate**

Executors are the people you name in your Will to carry out your wishes after you die. They will be responsible for all aspects of winding up your affairs after you've passed away, such as arranging your funeral, notifying people and organisations that you've died, collating information about your assets and liabilities, dealing with any tax bills, paying debts and distributing your estate to your chosen beneficiaries.

You can make all types of different gifts in your Will – these are called 'legacies'. For example, you may want to give an item of sentimental value to a particular person, or perhaps a fixed cash amount to a friend or favourite charity. You can then decide who you would like to receive the rest of your estate and in what proportions. Once you've made your Will, it is important to keep it in a safe place and tell your executor, close friend or relative where it is.

**REVIEW YOUR WILL**

It is advisable to review your Will every five years and after any major change in your life, such as getting separated, married or divorced, having a child or moving house. Any change must be by Codicil (an addition, amendment or supplement to a Will) or by making a new Will. Please contact us to find out more.

# COVID-19 EFFECTS ON RETIREMENT PLANNING

## REMEMBER THAT PENSION SAVINGS ARE FOR THE LONG TERM

The coronavirus (COVID-19) is having a widespread impact across all aspects of financial life, including retirement plans. The current global stock market turbulence, as a consequence of COVID-19, will no doubt be concerning for individuals whose pension savings are invested partly or fully during these volatile market conditions.

However, making decisions based on what's happening in the short term can be a risky thing to do. It might be tempting, for example, to move all your investments into cash or other lower-risk investments for a while – but in doing that, you might miss out on the point when the value goes back up, so you could lose out in the long term.

**Time for markets to recover**

It's really important to remember that pension savings are for the long term. If you're young and currently paying into a workplace pension, then there is time for your pension pot to achieve growth over the long term and recover from the fluctuations currently being experienced in the stock markets. You shouldn't be too concerned, as you have many years ahead of you, and this will provide time for markets to recover before you take your pension income.

If you're older and closer to retirement, you may have seen your funds 'lifestyled'. This means your pension will have been moved into predominantly less risky funds and invested in 'safer' places such as in cash, gilts or bonds, which are lower risk and usually offer a fixed rate of return. The older you get, the more schemes tend to choose to invest in such assets to limit investment risk. However, not all pension schemes offer automatic lifestyling.

**Annuities**

If you're about to retire and were planning to buy an annuity, in March, the Bank of England cut the base rate twice in just over a week in a further emergency response to the coronavirus pandemic, reducing it from 0.25% to 0.1%. This has meant annuity rates have also fallen. An annuity is a type of retirement income product that you buy with some or all of your pension pot. It pays a regular retirement income either for life or for a set period.

If you are thinking of securing an income by

> **DRAWDOWN IS A WAY OF TAKING MONEY OUT OF YOUR PENSION TO LIVE ON DURING RETIREMENT. YOU HAVE TO BE AGED 55 OR OVER AND HAVE A DEFINED CONTRIBUTION PENSION TO ACCESS YOUR MONEY IN THIS WAY.**

purchasing an annuity, the recent volatility shows the importance of gradually reducing the risk in your portfolio as you approach your expected annuity purchase date. Doing this provides greater certainty over the secured income you can expect to generate from your fund.

**Drawdown**
If we continue to see a protracted period of negative investment returns, and you're already using drawdown or plan to move into drawdown soon, you might also want to avoid taking out any more than you need to while fund values remain depressed. The more you can leave invested, the more you will benefit over time once there is a recovery.

Drawdown is a way of taking money out of your pension to live on during retirement. You have to be aged 55 or over and have a defined contribution pension to access your money in this way. You keep your pension savings invested when you reach retirement and take money out of (or 'drawdown' from) your pension pot. Since your money stays invested – and it's usually in the stock market – there is the risk that your fund may fall in value. The upside is that investment growth can provide higher returns and see your pot continue to increase in value.

**Contributions**
If you are still in the process of saving for your retirement (and if appropriate), now might be a good time to consider increasing your pension contributions if you can. Even though your strategy may depend on the movement of the markets, increases in contributions over the long term can make a difference to your eventual retirement pot value, if it coincides with the market recovery.

Again, there is no need to panic – at this stage, we do not know what the long-term implications of coronavirus will be. We can help you see the bigger picture, weigh all your options and take a balanced assessment of your risks.

**Staggered**
New research[1] has revealed how many pensioners are opting for a staggered retirement and working part-time before giving up work completely to make sure their pensions last the rest of their lives. With people living longer, and with the added prospect of health care costs in later life, retirees increasingly understand the benefits of having a larger pension pot in later life.

Of those who haven't accessed their pension pot, half (51%) say it is because they are still working, while more than a quarter (25%) of people in their 60s say it is because they want their pensions to last as long as possible.

Of course, retirees who haven't accessed their pension pot must have alternative sources of income. When asked about their income, nearly half (47%) said they take an income from cash savings (47%), others rely on their spouse or partner's income (35%) or the State Pension (22%), while 12% rely on income from property investments (12%).

**PROFESSIONAL FINANCIAL ADVICE COUNTS**
If you're about to retire, the amount of exposure you have will reflect both your attitude to investment risk and the time you have until retirement. Most importantly, before taking any major decisions relating to your pension, take the time to get professional financial advice.

**Source data:**
*[1] LV= survey of more than 1,000 adults aged over 50 with defined contributions – 25 February 2020*

*A PENSION IS A LONG-TERM INVESTMENT.*

*THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.*

*PENSIONS ARE NOT NORMALLY ACCESSIBLE UNTIL AGE 55. YOUR PENSION INCOME COULD ALSO BE AFFECTED BY INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS. THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION, WHICH ARE SUBJECT TO CHANGE IN THE FUTURE.*

*THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.*

*PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.*

# TIME IN, NOT TIMING

## THE INCREASE OF RISK PROFILING

As humans, we are (mostly) wired to have a greater aversion to losses than desire for gains. Put more simply, we feel greater pain when registering losses than gains. This is the primary reason for the increase in risk profiling. Historically, you would have had a conversation with your Wealth Planner and a 'feel' for the level of risk you were willing to take would be established. This is now a much more robust process. However, when we see sharp market falls, even this more rigorous process is questioned.

During the past 50 years, global stock markets have seen major bear markets (greater than a 20% fall) on no less than eight times. Kicking off the drawdowns was the OPEC Oil Price Shock in the early 70s, a drawdown of just over 46%. The 1980's had two major events, with Black Monday being the most often quoted, despite being one of the smaller falls (-23%).

**Greater falls**

Moving into more recent history, The Dot Com Bubble -49% and the Global Financial Crisis -59% saw much greater falls than any of the above. In what has often been quoted as one of the longest bull runs in history, we have also had two major pull backs – the European Crisis (-24%) and the Oil Price collapse (the previous one -20%). The Covid 19 falls, using the same peak to trough methodology, were -34%. Of course, we are not out of the woods yet, and we may indeed see some further falls, which is why we have positioned portfolios slightly more defensively.

Therefore the question remains: if there is the possibility of further falls, should we take all risk out of our portfolios? The simple answer to this is no. Were we to break down the falls in equity markets into specific types, we would have three: structural, cyclical and event driven. Our analysis of these three types of bear market suggests that the current falls are event (Covid-19) driven and that the recovery from event driven falls are often much faster than structural or cyclical.

This leads me onto the title of this note. What is more important, timing the market – i.e. being able to move swiftly in and out of risk assets – or time in the market, a buy and hold strategy within a given risk profile?

**Right strategy**

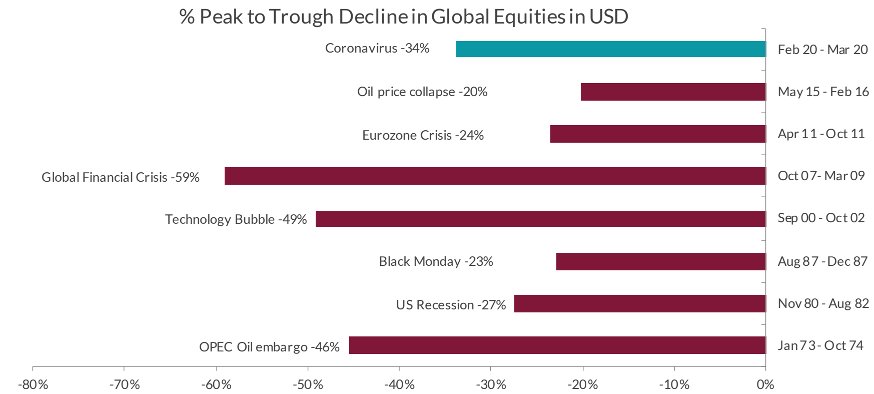
Here, there is some strong evidence that holding one's nerve, whilst incredibly difficult, has always proven to be the right strategy. A study from Schroders highlights this perfectly. A £1,000 investment in 1989 invested in the FTSE 100 would by January 2020 have been worth £13,485. Conversely, if one had been unfortunate enough to have missed the best 30 days of returns over that same period, the return would have been £2,958 – a difference of £10,527.

Of course, it would be incredibly unlucky to have missed each of the 30 best days over that time. So perhaps even more startling is the result of missing just the 10 best days – which often occur very close to significant falls. Here the number is just as startling with the return being £6,947, almost half the value of remaining invested. Whilst it is human nature to focus on the falls we have seen, it is worth noting that we have also seen one of the largest one day rises in the FTSE this year: 9%!

Yes, there will be dark days ahead both from a humanitarian and financial perspective, but we will get through this. We have seen recoveries from every previous crisis, and this one will be no different. Our advice is to remain invested with the level of risk you set out on your journey with us. Despite the recent losses, we continue to believe that we can achieve the long term return guidelines associated with each risk profile we manage.

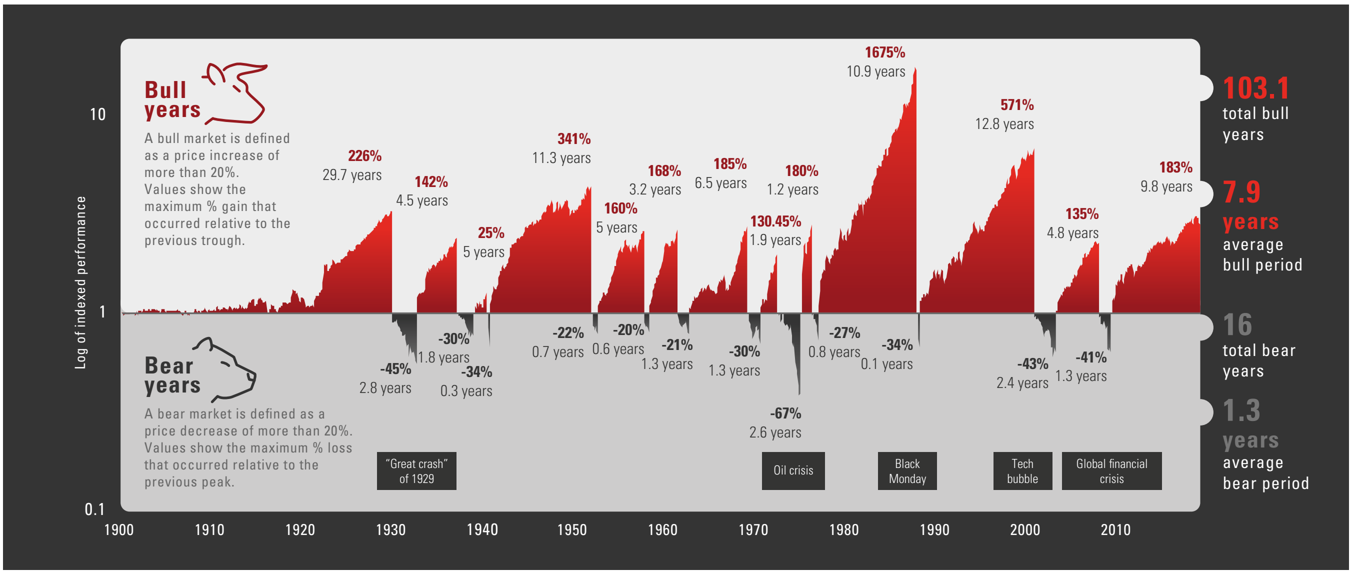
**Paul Surguy**
Head of Investment Management

**Global Bear Markets Compared**




Vanguard

# Bear and bull markets over time (UK)




Notes: Calculations are based on FTSE All Share (GBP Total Return). A bear market is defined as a price decrease of more than 20%. A bull market is defined as a price increase of more than 20%. The plotted areas depict the losses/gains ranging from the minimum following a 20% loss to the respective maximum following a 20% appreciation in the underlying index. Time period: 31 January 1900 to 31 December 2018. Calculations based on monthly data. Logarithmic scale on y axis.
Source: Global Financial Data.
**Past performance is not a reliable indicator of future results. The value of investments, and the income from them may fall or rise and investors may get back less than they invested.**

# INCOME PROTECTION INSURANCE

## HOW WILL YOU PAY THE BILLS IF YOU WERE SICK OR INJURED AND COULDN'T WORK?

There is a growing unease about the economic fallout of coronavirus (COVID-19), with many businesses laying off contractors and putting staff on extended leave, as well as natural worries about contacting the disease.

What this crisis has shown is that being unable to work can quickly turn our world upside down. No one likes to think that something bad will happen to them, but if you can't work due to a serious illness, how would you manage financially? Could you survive on savings or sick pay from work? If not, you may need some other way to keep paying the bills – and income protection insurance is an option to consider.

You might think this may not happen to you, and of course we hope it doesn't, but it's important to recognise that no one is immune to the risk of illness and accidents. No one can guarantee that they will not be the victim of an unfortunate accident or be diagnosed with a serious illness. This won't stop the bills arriving or the mortgage payments from being deducted from your bank account, so forgoing income protection insurance could be tempting fate.

**Cover monthly payments**

Income protection insurance is a long-term insurance policy that provides a monthly payment if you can't work because you're ill or injured, and typically pays out until you can start working again, or until you retire, die or the end of the policy term – whichever is sooner.

**Keep your finances healthy as you recover from illness or injury:**

- Income protection insurance replaces part of your income if you become ill or disabled
- It pays out until you can start working again, or until you retire, die or the end of the policy term – whichever is sooner
- There's a waiting period before the payments start, so you generally set payments to start after your sick pay ends, or after any other insurance stops covering you. The longer you wait, the lower the monthly payments
- It covers most illnesses that leave you unable to work, either in the short or long term (depending on the type of policy and its definition of incapacity)
- You can claim as many times as you need to while the policy is in force

**Generous sickness benefits**

Some people receive generous sickness benefits through their workplace, and these can extend right up until the date upon which they had intended to retire. However, some employees with long-term health problems could find themselves having to rely on the state, which is likely to prove hard.

**Tax-free monthly income**

We're already seeing, as a consequence of COVID-19, how many people are finding it a struggle financially without a regular income. Even if you were ill for only a short period, you could

end up using your savings to pay the bills, but how long would they last? In the event that you suffered from a serious illness, medical condition or accident, you could even find that you are never able to return to work. Few of us could cope financially if we were off work for more than six months. Income protection insurance provides a tax-free monthly income for as long as required, up to your nominated retirement age, should you be unable to work due to long-term sickness or injury.

**Profiting from misfortune**

Income protection insurance aims to put you back to the position you were in before you were unable to work. It does not allow you to make a profit out of your misfortune. So the maximum amount of income you can replace through insurance is broadly the after-tax earnings you have lost, less an adjustment for state benefits you can claim. This is typically translated into a percentage of your salary before tax, but the actual amount will depend on the company that provides your cover.

**Self-employment**

If you are self-employed, then no work is also likely to mean no income. However, depending on what you do, you may have income coming in from earlier work, even if you are ill for several months. Self-employed people can take out individual policies rather than business ones, but you need to ascertain on what basis the insurer will pay out. A typical basis for payment is your pre-tax share of the gross profit, after deduction of trading expenses, in the 12 months immediately prior to the date of your incapacity. Some policies operate an average over the last three years, as they understand that self-employed people often have a fluctuating income.

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**Cost of cover**

The cost of your cover will depend on your occupation, age, state of health and whether or not you smoke. The 'occupation class' is used by insurers to decide whether a policyholder is able to return to work. If a policy will pay out only if a policyholder is unable to work in 'any occupation', it might not pay benefits for long – or indeed at all. The most comprehensive definitions are 'Own Occupation' or 'Suited Occupation'. 'Own Occupation' means you can make a claim if you are unable to perform your own job. However, being covered under 'Any Occupation' means that you have to be unable to perform any job, with equivalent earnings to the job you were doing before not taken into account.

**You can also usually choose for your cover to remain the same (level cover) or increase in line with inflation (inflation-linked cover):**

- Level cover – with this cover, if you made a claim, the monthly income would be fixed at the start of your plan and does not change in the future. You should remember that this means if inflation eventually starts to rise, the buying power of your monthly income payments may be reduced over time
- Inflation-linked cover – with this cover, if you made a claim, the monthly income would go up in line with the Retail Prices Index (RPI)

**When you take out cover, you usually have the choice of:**

- Guaranteed premiums – the premiums remain the same all the way throughout the term of your plan. If you have chosen inflation-linked cover, your premiums and cover will automatically go up each year in line with RPI
- Reviewable premiums – this means the premiums you pay can increase or decrease in the future. The premiums will not typically increase or decrease for the first five years of your plan, but they may do so at any time after that. If your premiums do go up or down, they will not change again for the next 12 months

**Making a claim**

How long you have to wait after making a claim will depend on the waiting period. You can typically choose from between 1, 2, 3, 6, 12 or 24 months. The longer the waiting period you choose, the lower the premium for your cover will be, but you'll have to wait longer after you become unable to work before the payments from the policy are paid to you. Premiums must be paid for the entire term of the plan, including the waiting period.

**INNOVATIVE NEW PRODUCTS**

Depending on your circumstances, it is possible that the payments from the plan may affect any state benefits due to you. This will depend on your individual situation and what state benefits you are claiming or intending to claim. This market is subject to constant change in terms of the innovative new products that are being launched. If you are unsure whether any state benefits you are receiving will be affected, you should seek professional financial advice.

# SELF-EMPLOYMENT INCOME SUPPORT SCHEME

## FINANCIAL SUPPORT FOR THOSE IMPACTED BY CORONAVIRUS

Chancellor of the Exchequer Rishi Sunak unveiled unprecedented government aid for the self-employed. There are around five million people who are self-employed and freelance across the UK, and many will be relieved to hear that financial support is on the way to help those impacted by coronavirus.

**Lost income**

The Self-employment Income Support Scheme (SEISS) will support self-employed individuals (including members of partnerships) who have lost income due to coronavirus (COVID-19). This scheme will allow you to claim a taxable grant worth 80% of your trading profits up to a maximum of £2,500 per month for the next three months. This may be extended if needed.

The Chancellor said it will cover 95% of the self-employed who make most of their money from self-employment.

**You can apply if you're a self-employed individual or a member of a partnership, and you:**

- Have submitted your Income Tax Self-Assessment tax return for the tax year 2018/19
- Traded in the tax year 2019/20
- Are trading when you apply, or would be except for COVID-19
- Intend to continue to trade in the tax year 2020/21
- Have lost trading/partnership trading profits due to COVID-19

Your self-employed trading profits must also be less than £50,000, and more than half of your income must come from self-employment.

**This is determined by at least one of the following conditions being true:**

- Having trading profits/partnership trading profits in 2018/19 of less than £50,000, and these profits constitute more than half of your total taxable income
- Having average trading profits in 2016/17, 2017/18 and 2018/19 of less than £50,000, and these profits constitute more than half of your average taxable income in the same period

If you started trading between 2016 and 2019, HM Revenue & Customs (HMRC) will only use those years for which you filed a Self-Assessment tax return.

If you have not submitted your Income Tax Self-Assessment tax return for the tax year 2018/19, you must do this by 23 April 2020.

HMRC will use data on 2018/19 returns already submitted to identify those eligible and will risk assess any late returns filed before the 23 April 2020 deadline in the usual way.

**You'll receive a taxable grant which will be 80% of the average profits from the tax years (where applicable):**

- 2016 to 2017
- 2017 to 2018
- 2018 to 2019

**Maximum of £2,500 per month for three months**

To work out the average, HMRC will add together the total trading profit for the three tax years (where applicable), then divide by 3 (where applicable), and use this to calculate a monthly amount. It will be up to a maximum of £2,500 per month for three months. The grant will be paid directly into your bank account in one instalment.

You cannot apply for this scheme – HMRC will contact you if you are eligible and invite you to apply online.

Once HMRC has received your claim and you are eligible for the grant, they will contact you to tell you how much you will get and the payment details. If you claim tax credits, you'll need to include the grant in your claim as income.

"THE SELF-EMPLOYMENT INCOME SUPPORT SCHEME (SEISS) WILL SUPPORT SELF-EMPLOYED INDIVIDUALS (INCLUDING MEMBERS OF PARTNERSHIPS) WHO HAVE LOST INCOME DUE TO CORONAVIRUS (COVID-19)."

**Other help you can get**

**The Government is also providing the following additional help for the self-employed:**

- Deferral of Self-Assessment Income Tax payments due in July 2020 and VAT payments due from 20 March 2020 until 30 June 2020
- Grants for businesses that pay little or no business rates
- Increased amounts of Universal Credit
- Business Interruption Loan Scheme

**Additional help for the self-employed**

Self-employed people can now access Universal Credit up to a level of £94.25 per week. This rate is equivalent to Statutory Sick Pay for employees. The Department for Work and Pensions is increasingly providing advance payments for people who are self-isolating, which 'can be in your account within days', the Chancellor, Rishi Sunak, has announced.

Councils have also been given extra funding to help those most in need, suspending debt collection or helping people pay their rent.

If you are worried about outstanding tax or have financial concerns, 'Time to Pay' arrangements can be agreed with HMRC, which involve pushing back the time period in which you have to pay your tax.

IR35 – which required self-employed contractors working under a company structure such as an LLP to either operate as a sole trader or join the client's payroll – has been suspended until 2021.

# BEWARE OF PENSION FRAUDSTERS

## SAFEGUARD YOUR HARD-EARNED RETIREMENT SAVINGS FROM COVID-19 SCAMMERS

Fraudsters are exploiting fears over the COVID-19 pandemic to target pension savers and investors. The Pensions Regulator, the Financial Conduct Authority (FCA) and the Money and Pensions Service have issued a joint statement urging people not to make rash pension decisions in the wake of the global pandemic, as criminals try to exploit public fears over the market turmoil to dupe victims out of their cash.

Nearly one in ten over-55s fear they have been targeted by suspected scammers since the launch of Pension Freedoms, new research shows[1]. The study found 9% of over-55s say they have been approached about their pension funds by people they now believe to be scammers since the rules came into effect from April 2015.

**Most recent pension fraud data cases**

Offers to unlock or transfer funds are tactics commonly used to defraud people of their retirement savings. Most recent pension fraud data from ActionFraud, the national fraud and cybercrime reporting service, shows 991 cases have been reported since the launch of Pension Freedoms, involving losses of more than £22.687 million.

Some scammers have very convincing websites and other online presence, which make them look like a legitimate company. Always check with the FCA to make sure they're registered. Pension scam victims lose an average of £91,000, according to the FCA and the Pensions Regulator.

**Persuading you to transfer your pension pot**

Scammers will make false claims to gain your trust – for example, claiming they are authorised by the FCA or that they don't have to be FCA-authorised because they aren't providing the advice themselves, or claiming to be acting on the behalf of the FCA or the government service Pension Wise.

Scammers also design attractive offers to persuade you to transfer your pension pot to them (or to release funds from it). It is then often invested in unusual and high-risk investments such as overseas property, renewable energy bonds, forestry or storage units. Alternatively, it could be invested in more conventional products but within an unnecessarily complex structure that hides multiple fees and high charges, or it might even be stolen outright.

**Source data:**
[1] Consumer Intelligence conducted an independent online survey for Prudential between 23 and 25 February 2018 among 1,000 UK adults aged 55+, including those who are working and retired

**DON'T LET A SCAMMER ENJOY YOUR RETIREMENT**

If you're contacted out of the blue about your pension, chances are it's high risk or a scam. Be wary of free pension review offers. A free offer out of the blue from a company you have not dealt with before is probably a scam. Should this happen to you, please contact us.