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IS THERE ANY METHOD TO THE MARKET'S MADNESS?

The world economy is set to see the largest contraction since the Second World War

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IS THERE ANY METHOD TO THE **MARKET'S MADNESS?**

THE WORLD ECONOMY IS SET TO SEE THE LARGEST CONTRACTION SINCE THE SECOND WORLD WAR

'Unprecedented' has been the most over-used phrase to describe this year's events. 'Mystifying', however, might be the word a man from Mars would use to describe some of this year's market moves.

The world economy is set to see the largest contraction since the Second World War and the UK the largest fall in economic activity since the Great Frost of 1706. Yet equity markets have now recovered almost all of their collapse in February/ March. Just as the sharpness of the drop was almost without precedent, so too is the speed of the subsequent recovery.

Highest valuation

Global equities are in fact now trading at their highest valuation in close to twenty years. Given the value of a company ultimately depends on its earnings, this looks very odd at first sight given earnings are being hammered by the economic downturn. At the same time, because equities have rebounded as confidence has improved, gold (the classic safe haven in times of panic) has continued its upward march and is now up 25% year to date.

This again does not seem to make much sense. If that isn't enough, UK gilt yields have turned negative even though the Government is set to run a budget deficit this year of close to 20% of GDP, the largest since the Second World War.

Is there method behind this apparent market madness? Or are equities, government bonds, gold and indeed the real world all operating in their parallel universes oblivious to each other's reality?

Markets are always forward looking

The starting point in reconciling these seemingly irreconcilable moves is to realise that markets are always forward looking. UK GDP may have fallen a massive 25% in March and April, but it has already started to recover. The economic downturn may be one of the sharpest ever but should also be one of the shortest ever.

Investors already have their eyes firmly focused on the forthcoming rebound in corporate earnings, rather than the collapse currently being reported for the second quarter. Indeed, the consensus expects all of this year's sharp drop in earnings to be recaptured next year. But even if one takes into account such a fast rebound, which is far from guaranteed, the price-earnings ratio is still at a twenty-year high.

With the economic outlook looking pretty uncertain and hostage to developments regarding COVID-19 – be it good or bad – this doesn't make much sense until you take into account what has happened to interest rates. The Bank of England and the US Federal Reserve both slashed rates to close to zero earlier this year.

No alternative to equities

The lower the interest rate, the greater the current value of a company's future earnings stream, because of the lower discount rate and the higher the price/earnings ratio that is justified. Super low rates are also boosting equity valuations in a more straightforward manner. They mean government bonds are likely to see zero or even negative returns going forward, while the returns from corporate bonds should also be decidedly limited. Prospective returns for equities, by contrast, look significantly higher in the medium term.

For investors looking for income, the same holds true. UK bank rate and the 10-year UK gilt yield are both a mere 0.1%, and UK corporate bonds are yielding only 1.5%. By contrast, the dividend yield on UK equities should still be some 3–3.5%, even though dividend payments have been cut heavily this year. In a nutshell, for many investors looking for a half decent return – whether they have a focus on income or capital gain – there is really no alternative to equities, and valuations are being bid up as a result.

Higher than normal equity valuations are therefore justified. That said, it is unclear they should be quite as high as they now are. Equities very much seem to be assuming a smooth return to economic normality. This leaves markets vulnerable, at least near term, to a correction if the recovery should be called into question.

The current super-easy monetary policy also explains the apparent paradox of the UK Government being able to borrow money at a record low rate of interest at the same time as its borrowing needs have surged. In some cases, investors are actually now paying, rather than being paid, for the privilege of lending to the Government.

Obvious port of call

Issuance of government debt may have soared, but interest rates are rock bottom and central banks have been buying up the lion's share of this debt, minimising the reliance on private investors. Central banks have also made it clear that they have no intention of raising interest rates any time soon. This has also helped keep a lid on government borrowing costs and should continue to do so even if inflation does start to pick up as looks likely. Government bond yields look set to remain low for the foreseeable future – just not quite as low as they are now.

The continued strength of the gold price is also explicable by super-low rates. Government bonds, rather than gold, used to be an obvious port of call to provide some protection in portfolios in the event of a major sell-off in risky assets. Now, however, the scope for yields to fall any further is minimal and the ability for bonds to provide such protection much reduced. Furthermore, with government bonds now yielding virtually nothing, the fact that gold pays no income is no longer a particular disadvantage.

The bottom line is that markets are not as mad as they first look. Still, while there may be some method to their madness, this is a long way from saying they are behaving entirely rationally.

Rupert Thompson
Chief Investment Officer

WELCOME

Welcome to our latest issue of Protect & Grow. Welcome to our latest issue of Protect & Grow. A return to how life was at the start of 2020 is some way off. Even now that lockdown restrictions are starting to be eased, coronavirus (COVID-19) will continue to affect our lives in many ways.

'Unprecedented' has been the most over-used phrase to describe this year's events. 'Mystifying', however, might be the word a man from Mars would use to describe some of this year's market moves. The world economy is set to see the largest contraction since the Second World War and the UK the largest fall in economic activity since the Great Frost of 1706. Yet equity markets have now recovered almost all of their collapse in February/March. Just as the sharpness of the drop was almost without precedent, so too is the speed of the subsequent recovery. Find out more on page 02.

Diversity is a hot topic at the moment, and rightly so. It is crucial for many aspects of life, from society to your vegetable intake, and of course it applies to your investments too. In fact, it is so important that diversification is a key input at all levels of the investment process here at Kingswood. It allows us to ensure that your portfolio has the optimum balance of risk and return. This allows your portfolio to grow over time whilst also ensuring you can sleep at night. Turn to page 07 to read the full article.

The coronavirus crisis has drastically changed all aspects of life as we know it, but it has also brought a sharper focus on money, particularly on how prepared we are to weather unexpected financial events. We hope you find this issue useful, and if you require any further help or guidance, please do not hesitate to contact us.

A full list of the articles featured in this issue appears opposite.

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THE NATIONAL DEBT

WHY FINANCIAL MARKETS MUST NEVER BE TAKEN FOR GRANTED

“The National Debt is a very good thing and it would be dangerous to pay it off for fear of Political Economy” (from 1066 and All That: A Memorable History of England by W.C. Sellar & R.J. Yeatman)…discuss!

The peak to trough decline in economic activity during the Global Financial Crisis (GFC) just over a decade ago was 7%. During the coronavirus shutdown, official monthly data suggested that the fall was a gigantic 26%. Not only that, but during the GFC, the decline was over the course of 13 months, while the more recent slump in activity took just two months.

The Government is hoping that its attempts to put the economy into a state of suspended animation during the current crisis will lead to an almost equally rapid rebound in activity that will take us back to previous peak levels of output much faster that after the more-prolonged attrition of the GFC. Then, it took almost four years from the trough of the recession to re-attain previous peak activity levels. The hopes are that the timespan this time will be considerably shorter. Most economists agree that it will, and the Bank of England has suggested that even now the recovery has been sharper than it anticipated. It is early days.

Debt is now our ally

The initial shape of the road back to normality was always certain to be ‘V-shaped’. What is less certain is what will happen later. Even if there are no secondary coronavirus outbreaks that cause localised or more widespread shutdowns, I suspect that we will experience a phase when the economy seems to stutter – possibly coinciding with the moment at which the UK formally leaves the EU.

It is interesting to contrast the role that debt has played during the two crises. Prior to the GFC, there had been a rapid rise in private sector debt in many advanced economies, including our own – a build up that was more or less ignored by negligent central banks that had become fixated with inflation targeting. As the crisis developed, government budget deficits soared, causing alarm that surging public sector indebtedness would undermine economic recovery. Debt was very definitely regarded as the villain of the piece. Not this time. Debt is now our ally – a new-found friend that will help us negotiate what would otherwise have been a much rockier path.

Can this really be true? Can the Government really borrow the vast amounts required to furlough around a quarter of the workforce on 80% of normal salaries without there being any negative consequences? And can the Government now embark on what seems like a huge spending spree with impunity? There are those who argue this is possible because, unlike normal individuals, governments do not have a finite lifetime and can, therefore, take on additional debt without the constraint that it will have to be repaid within a certain amount of time. I think this argument is flawed at a number of levels.

Inevitable consequence

When we borrow, we bring forward future income normally to finance an increase in current consumption or investment. The hope is always that improvements in future finances will make it relatively straightforward to repay the debt. At a national level, increased borrowing means that we are raising spending power within the economy at a faster rate that national income or output. The inevitable consequence of this is a rise in the trade deficit.

Now consider what would happen if all countries (or just developed nations) were to do this. There would be burgeoning excess demand, huge world trade imbalance, and almost certainly rising global inflation. Inevitably, the system would implode. So the UK might get away with a strategy of rapidly rising national debt if everyone else does not do likewise. However, this can be only a very short-term solution in any circumstance.

Consider the situation in which a country adopts a long-term plan that is based on rising national debt levels. Every year, debt increases as a percentage of national income, and every year domestic spending increases faster than output. A government would have to maintain an extraordinarily and almost inconceivably high level of faith in its strategy for this not to cause a crisis of confidence in financial markets. Such a crisis of confidence would emerge in

the form of much higher borrowing costs, a slump in the value of the currency, higher short-term interest rates and escalating inflation. The higher cost of government borrowing would not just be on new debt, but also on debt previously taken out that had to be refinanced. Thus, the burden of borrowing in previous years would have to be financed out of the incomes of current and future generations of workers.

Swift return to fiscal responsibility

The apologists for such a debt-based strategy have one last trick up the sleeve: inflation, itself. Inflation, they say, would boost current incomes, thereby reducing the real burden of debt on the economy. For those individuals with debt, this seems quite an attractive proposition. However, inflation is pernicious and can have a devastating impact on people whose incomes and/or assets are not inflation-linked. Furthermore, the tolerance of inflation by monetary and fiscal authorities often leads to an escalating problem that eventually requires very harsh measures to bring it under control.

So, what should the Government be doing now? Limited and short-term recourse to debt is certainly not unwarranted, and I support the Treasury's various actions in trying to underpin the economy through the coronavirus crisis. Indeed, I would go further and say that the Treasury has acted with uncharacteristic speed and dexterity. But a swift return to fiscal responsibility is important if this government is not to put a heavy burden on the incomes of future generations.

> **CAN THIS REALLY BE TRUE? CAN THE GOVERNMENT REALLY BORROW THE VAST AMOUNTS REQUIRED TO FURLOUGH AROUND A QUARTER OF THE WORKFORCE ON 80% OF NORMAL SALARIES WITHOUT THERE BEING ANY NEGATIVE CONSEQUENCES?**

Treading carefully

The current very low rates at which the Gvernment can borrow look alluring, but there are rocks just below the waterline, and the Chancellor and Prime Minister must not allow themselves to be lured by Siren voices. Borrowing costs are low currently because the UK has convinced investors (both domestic and international) that it will maintain a sustainable long-term profile for government spending and borrowing.

In addition, demand for government debt has been boosted artificially by quantitative easing – a process through which central banks inject cash into the economy by buying mainly government bonds. This also seems like a panacea, but in my view has failed to generate the stimulus to investment and growth that monetary authorities previously promised.

Financial markets are fickle and must never be taken for granted. Just at the moment you think they have become your best friend, they can become an angry foe. So the Government would be well advised to tread carefully when putting together its spending strategy for future years.

Richard Jeffrey
Investment Committee Chair

HOW SUSTAINABLE IS YOUR PORTFOLIO?

INCREASED INVESTOR FOCUS ON ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

Environmental, social, and governance (ESG) issues continue to be a priority for many investors. Your values define you. But do your investments reflect who you are?

Increasingly, investors are urging companies to build ESG considerations into their long-term strategy, bringing it up during engagements and using shareholder proposals to force companies to take action. Investing sustainably means putting your money to work on issues including adapting to and mitigating climate change, improving working conditions and diversity, and tackling inequality.

Policy of engagement

Recent research has identified that nearly three quarters of women aged 40 and over would divest their pension from companies with poor pay practices, led by 74% of female 'Boomers'[1]. A majority of men of the same age group agree but younger women are split 50:50.

By contrast, many Millennials want to divest their pensions from the fossil fuels industry. Half (49%) of all age groups prefer a policy of engagement before divestment.

Generational differences

Revealing clear and generational differences, the findings highlight a strong contrast between the relative importance of ESG issues to older generations and the views of younger people, who are more focused on climate issues.

Millennials were more likely than any other generation to want to reduce their exposure to the fossil fuel industry, despite any potential consequences. Even if there was a resulting performance impact, 45% of Millennials would opt to divest their pension from fossil fuels. This compares to 30% of Generation X, while Baby Boomers (at just 23%) were half as likely as Millennials to divest from fossil fuels regardless of the investment outcome.

Investment returns

Including a further 41% of Millennials who would only divest from fossil fuels if it didn't impact investment returns, a combined 86% of Millennials would choose to divest their workplace pension from fossil fuels if it would have no negative impact on their pension.

But several of Britain's top pension funds say they would have lost hundreds of millions of pounds had they sold out of oil and gas stocks in recent years, highlighting a potential cost to scheme members as funds face pressure to help fight global warming.

Workplace pensions

Reuters contacted 47 of Britain's largest pension funds, with 33 saying they were not divesting from fossil fuels. Some highlighted the potential impact on returns and their preference to engage with oil and gas companies as reasons.

Across all age groups, nearly half of all adults (49%) would prefer a policy of engagement to encourage change before divesting. It is also notable that only half of respondents were already aware of the types of investments within their workplace pensions, implying many more may not be aware of possible inconsistencies between these investments and their own beliefs.

INVESTMENTS WITH SOCIAL IMPACT

More and more, investors want to invest sustainably: they want to combine investing for a financial return with a positive contribution to the environment, society or both. At Kingswood Group, we have a wide-range of ESG financial strategies. Whether you're just curious about what options are available to you, or if you're strongly opposed to or for certain investment options, please contact us for further information.

Source data:

[1] Research from Legal & General Investment Management (LGIM) conducted by Watermelon Research (fieldwork): 22–29 October 2019 consisting of 1,000 interviews (online) with UK adults between the ages of 25 and 65, who have a workplace pension and work in the private sector.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS.

ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE VALUE OF INVESTMENTS MAY GO DOWN AS WELL AS UP, AND YOU MAY GET BACK LESS THAN YOU INVESTED.

DIVERSIFICATION IS KEY

ENSURING YOUR PORTFOLIO HAS THE OPTIMUM BALANCE OF RISK AND RETURN

Diversity is a hot topic at the moment, and rightly so. It is crucial for many aspects of life, from society to your vegetable intake, and of course it applies to your investments too. In fact, it is so important that diversification is a key input at all levels of the investment process here at Kingswood. It allows us to ensure that your portfolio has the optimum balance of risk and return. This allows your portfolio to grow over time whilst also ensuring you can sleep at night.

It is often hard to ignore the deluge of stock tips from well-meaning friends, the media and industry professionals, particularly in periods of extreme volatility like the current economic fallout from COVID-19 where no one really knows what will happen in the next 12 months. That is why it is more important than ever to have a diverse portfolio and to remain rational in your investment decision-making.

A clear and disciplined long-term investment strategy is key in order to avoid falling into behavioural finance traps. Unfortunately, many investors fail to maximise their returns by reacting to market events: purchasing risk assets and chasing performance in rising markets and switching to low-risk investments in falling markets when market sentiment is low. This results in underperformance and missed opportunities from trying to time the market – an often costly exercise.

How do we ensure you have a truly diversified portfolio?

From 30,000 feet (top down):
The asset allocation of your portfolio, meaning the top down allocation, involves targeting a blend of equities, fixed income, alternatives and cash. Using capital market analysis, we determine the optimum mix of these assets depending on their return characteristics, correlations and historic volatility, and we tailor it to your investment goals, time horizon and risk tolerance.

Put simply, this means that if one part of your portfolio is falling or experiencing volatility, the other parts should be more stable or even growing. To add a further layer of diversification, we also look at the geography, sector, market cap (large, mid and smaller companies) and style (growth, value, quality and momentum) allocations of your portfolio to spread your risk across the individual assets, ensuring your portfolio can withstand a range of market conditions. We also, on occasion, introduce tactical tilts based on our forecasts.

In the recent market correction, healthcare and technology sectors have proven to be defensive, and US quality growth stocks are near all-time highs while major UK indices are still down 17% (at the time of writing), outlining how different industries and geographies can be impacted by the same global pandemic. Within our bond allocations, we like to ensure that we pick funds with exposure to a variety of credit qualities, maturities and durations which will impact how the portfolio performs in different economic backdrops.

In the weeds (bottom up):
From a bottom up perspective, we aim to further diversify within each type of investment by holding different types of equities and bonds with no holding greater than 10% and no exposure to an investment house greater than 20%. This again avoids over correlation and spreads the individual stock risk. We want exposure to some of the top fund management teams in the industry without leaving clients over exposed. It is important they have a strong performance track record, a rigorous and tested investment process that reduces error and bias, and a fair remuneration structure that does not encourage excessive risk taking.

We like the managers we invest in to be emotionally aware, able to continue to learn, and not to be defensive around mistakes. The type of investment vehicle used can also be diversified, such as direct equities or bonds, passive ETFs and funds, or actively managed funds. The latter come in the form of open-ended and closed-ended vehicles which each have their own benefits.

When combined, the top down and bottom up approach forms of portfolio diversification do not make your portfolio immune to systematic risk (caused, for example, by geopolitical issues), but it can help to improve your returns relative to your risk profile over time.

Our integral approach
Lastly, for us, diversification doesn't stop at portfolio analysis. It is a key attribute in the investment decision-making process at Kingswood, namely in the form of diversity of thought. By having a diverse talent pool of skilled investment professionals with a wide range of experiences, backgrounds and specialisms, we believe our investment committees consider a wider range of market and investment viewpoints and avoid group think, which in turn enables us to create portfolios better suited to our diverse client base.

One way in which we do this is by establishing a thematic equity exposure, where we identify key long-term global or industry themes and search for an investable way to express these in client portfolios. This includes investments in: artificial intelligence, environmental change, healthcare, technology, infrastructure, clean water, and frontier markets to name a few. We are interested in companies that will not only survive the next downturn but can continue to grow and gain market share regardless of the economic backdrop.

While research and technical analysis are the bedrock of our investment decision-making process at Kingswood, we believe constructing bespoke portfolios for our clients can be more of an art than a science. And just like an artist's palette, a variety of colours are needed to create a perfect hue, or in our case, a uniquely diversified portfolio.

Eilidh Anderson
Vice President – Investment Management

THINKING AHEAD

HOW OUR RETIREMENT PLANS MAY CHANGE IN RESPONSE TO THE CORONAVIRUS PANDEMIC

The coronavirus (COVID-19) pandemic has touched virtually every part of our lives and is having a widespread impact across all aspects of financial life, including retirement plans.

As a result, a significant number of people aged over 50 and in work are potentially considering delaying retirement (15%) by an average of three years, or will continue working indefinitely on a full or part-time basis (26%), as a direct result of the COVID-19 pandemic, according to new research[1]. The findings also suggest that people, particularly those who have been furloughed or seen a pay decrease, would benefit from a financial review to assess their options before changing their plans.

Delay retirement

Data from the Office for National Statistics currently shows the number of workers aged above 65 years is at a record high of 1.42 million[2]. However, if people change their retirement plans in response to the pandemic, this could increase considerably.

While, on average, those who plan to delay their retirement expect to spend an additional three years in work, 10% admit they could delay their plans by five years or more. These figures are significantly higher for the 26% of over-50s workers who have been furloughed or seen a pay decrease as a result of the pandemic. 19% of these workers will delay, and 38% expect to work indefinitely.

Future plans

Some retirees nearing retirement age might need to be flexible with their plans for the future. It's uncertain just how long it will take for life to return to normal, and while some people may still be able to retire right on schedule amid the COVID-19 crisis, others may need either to postpone retirement or consider retiring early.

As a result, the impact of COVID-19 on stock market performance may also be leading some retirees and those close to retirement to question their investment strategy, but what's the right approach? Understandably, the impulse to react – and to protect what we have – is strong.

WHETHER YOU DECIDE TO POSTPONE RETIREMENT OR RETIRE EARLY DEPENDS ON YOUR SITUATION. IF YOU STILL HAVE A JOB AND YOUR SAVINGS HAVE BEEN IMPACTED OVER THE LAST FEW MONTHS, DELAYING RETIREMENT TO GIVE YOURSELF MORE TIME TO PREPARE MAY BE A BETTER OPTION.

Regular revision

Retirement planning and financial planning, in general, are not 'one-and-done' exercises. It's much better to think of them as fluid and as requiring regular revision. Attempting to time the market and avoid volatility by making dramatic changes to your portfolio can cause harm to your long-term investment results.

With many areas of the global economy coming to an abrupt halt, markets have see-sawed between gains and declines as investors weigh the potential impact of massive stimulus initiatives by governments and central banks.

Economic uncertainty

The barrage of news is unrelenting. On a daily basis, we hear about more COVID-19 cases, job losses, economic concerns and oil price shocks, to mention just a few. But long-term investing is ultimately about avoiding selling out of the market during periods of economic uncertainty and crystallising losses. Staying invested means you'll be able to benefit from any potential recovery, and it helps to remember that volatility is actually the norm for stock markets.

To give yourself the best chance of achieving your retirement investment goals, the right mix of asset classes is essential. An effective strategic asset allocation is one that takes enough risk to give your portfolio the potential to grow, but not so much that you feel uncomfortable – and therefore more likely to withdraw funds at the wrong moment.

Better option

Whether you decide to postpone retirement or retire early depends on your situation. If you still have a job and your savings have been impacted over the last few months, delaying retirement to give yourself more time to prepare may be a better option.

On the other hand, if you lose your job and don't know when you'll be able to find another one, you might choose to simply retire earlier than you'd planned. If you have plenty of savings set aside, you may be able to enjoy retirement comfortably. Otherwise, you might choose to go back to work in a few years when jobs aren't so scarce to build a stronger retirement fund.

MAKING THE BEST DECISION FOR YOUR SITUATION

Whatever option you choose, make sure you've thought about the advantages and disadvantages so you know you're making the best informed decision for your situation. For further information or to discuss your situation, we're here to help you

Source data:

[1] Opinium Research for Legal & General Retail Retirement ran a series of online interviews among a nationally representative panel of 2,004 over-50s from 15–18 May 2020.

[2] Office for National Statistics, Labour market overview, UK: May 2020

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN. YOUR EVENTUAL INCOME MAY DEPEND UPON THE SIZE OF THE FUND AT RETIREMENT, FUTURE INTEREST RATES AND TAX LEGISLATION.

BUILDING A STRATEGY THAT MEETS YOUR FINANCIAL NEEDS

PREPARING OURSELVES FOR LIFE TO BE REALLY STRANGE FOR SOME TIME

The only constant in life is change, which is why individual financial life planning should not be a one-off exercise. Reviewing your finances regularly is essential if you want to stay on track to meet your financial goals. Making sure your finances are in the best possible shape will also make sure you stay on course to achieving everything you want.

Everyone has been affected by the coronavirus (COVID-19) pandemic and the measures needed to control it. It's likely that coronavirus will loom over us until we have an effective vaccine, so we need to prepare ourselves for life to be really strange for some time.

Changes in your financial circumstances

As situations in our lives change, it's important that our financial plans are updated by carrying out regular reviews. One of the main reasons why you should review your financial plan regularly is to reflect any changes in your financial circumstances, be it internal or external. You'll also have different goals and priorities as you enter different stages of your life. So where are you currently?

Early career

You're likely to be just starting out in your career and might be feeling a little unsure how to implement a budget or manage and maximise your cash flow. A house deposit may be on your horizon, or perhaps you are considering your investment options, but you're just not sure how to get started. It's never too early to start looking at your financial position.

When you first begin earning an income, budgeting is the critical financial skill that you need to master. Developing a suitable budget and building the discipline to live within your income so that you don't fall into a debt trap is key.

Once you learn to contain your expenses to available income, you should start building savings into your budget. The emergency fund will have the first claim on your savings, and this is an urgent and important task.

Initiating some investments for retirement is another key task at this stage, even though the goal may seem too much in the future to be relevant now. Investments for other goals are optional at this stage and can commence once your income and savings stabilise.

Middle-aged

This is the stage that you'll find the most demanding. You're settled in your career, a young family means your expenditure has increased, and you are looking to repay your mortgage fast while also funding your children's education and/or childcare.

Receiving professional financial planning advice will help you manage an increasingly complex budget, as well as looking to ensure your family is protected in the event of something happening to you. Of course, you may also want to know if you can afford an annual holiday to enjoy the family you now have.

Implementing a plan early in this stage will allow you to reap the benefits later on in life, as well as providing security for your family and any other dependents.

EVERYONE HAS BEEN AFFECTED BY THE CORONAVIRUS (COVID-19) PANDEMIC AND THE MEASURES NEEDED TO CONTROL IT. IT'S LIKELY THAT CORONAVIRUS WILL LOOM OVER US UNTIL WE HAVE AN EFFECTIVE VACCINE, SO WE NEED TO PREPARE OURSELVES FOR LIFE TO BE REALLY STRANGE FOR SOME TIME.

Pre-retirement

You may now be looking to leave the workforce soon and want to find out if this is financially possible. Your children are now adults and your expenditure has steadied, so you may be starting to look seriously at your ideal retirement lifestyle.

By managing your personal finances prudently so far, this stage of your life will be the golden stage for your finances. Your income is higher and seeing an upward growth trend, while your expenses have stabilised, resulting in growing savings.

Being mindful of expenses is important even at this stage, and the focus of budgeting is to maximise on savings and investments. Managing your investments is critical in this period. Many of your goals are close to being funded, and the investments may need to be rebalanced to reflect this.

Your life and other protection requirements should be updated and aligned to your current and future situation. Now that you have accumulated wealth, it's time to consider how you would like to eventually distribute your estate in the most tax-effective way.

Retirement

You have finally left the workforce and are looking at how to maintain a steady income, discovering what benefits you may be entitled to, and how to maximise these.

Budgeting becomes the focus of finances once again during retirement. The object now is to control expenses to stay within the available income. Managing your investments to generate income and protect it from rising inflation also becomes a primary investment activity at this stage.

Adequate health protection is critical, as health costs can throw your income off the rails. Life insurance may be relevant only if it is required to protect retirement income for your spouse, and debt should not be a big part of your finances at this juncture.

WHAT OPTIONS ARE AVAILABLE TO YOU?

Whether you're looking for advice in relation to saving for retirement, asset allocation, protection or estate planning, we will be able to offer expert advice and help you make the right financial decisions for your own unique situation and goals. Speak to us to see how we can help.

FINANCIAL FALLOUT FROM COVID-19

IMPACT ON THE NATION'S WEALTH AND FINANCIAL SECURITY

It is becoming uncomfortably clear that while not everyone has been physically affected by coronavirus (COVID-19), every single one of us will be impacted financially. During the pandemic, savings and investments have been volatile, as have wages and jobs.

As a result, the virus has affected the majority of people's savings habits according to new research[1]. 6 in 10 savers (59%) have made changes to their monthly savings since the start of the pandemic. Employment status in particular is driving significant differences in savers' actions.

The average increase among those who are saving more is £197, but this is even higher among those in full-time employment. More than 4 in 10 (43%) of those in full-time employment and not furloughed have been able to increase their savings, with the average additional contribution being £216.

Decreased savings

This increase is significant and equivalent to around 10% of average monthly earnings[2]. Young people aged between 18-34 have been disproportionately likely to increase their savings, with an average increase of £218.

By contrast, 3 out of 10 (28%) savers have decreased or stopped saving, with an average cut of £159 per month. The greatest reductions in savings are amongst the self-employed, where over half (53%) have decreased savings by an average of £239, and furloughed workers, where over 4 in 10 (42%) have decreased savings by an average of £176.

"WITH LESS MONEY BEING SPENT ON THE DAILY COMMUTE, LEISURE ACTIVITIES AND EATING OUT, OUR RESEARCH FINDS MANY HAVE TAKEN THE OPPORTUNITY TO INCREASE THEIR MONTHLY SAVINGS BY AN AVERAGE OF £197."

Financial security

While the coronavirus is first and foremost a health crisis, it is also having a big impact on the nation's wealth. The research shows that there is a stark divide between those who have been able to save more because their expenditure in lockdown has reduced and those who have had to cut back or stop regular savings.

If this divide in savings patterns continues for any length of time, it will have a big impact on the future financial security of different groups. For those fortunate enough to have continued in employment, there's been a positive impact on saving.

Sharp contrast

With less money being spent on the daily commute, leisure activities and eating out, our research finds many have taken the opportunity to increase their monthly savings by an average of £197. But in sharp contrast, the self-employed and those employees who have been furloughed are the groups most likely to have reduced or stopped savings.

In these uncertain times, many have no option but to focus on today's challenges. But where possible, putting more aside into savings can help people build up greater financial security for their futures. Before making any major changes to savings, it often pays to seek financial advice.

YOU FINANCIAL WELL-BEING

The coronavirus pandemic has turned many people's emotional and financial lives upside down. Attention is now turning to the economic consequences and the need for greater financial guidance. If you would like to discuss any aspects of your financial well-being, we're here to help support you.

Source data:

[1] Opinium research for Aegon surveyed 2,000 adults between 15 and 19 May 2020

[2] ONS report median weekly earnings as £585 or £2,342 per month – https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours

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