Harroldfs
FINANCIAL SERVICES

SQ2 House, 240b Lichfield Road, Four Oaks,
Sutton Coldfield, West Midlands, B74 2UD
t 07976 507785
e ben@harroldfs.co.uk
w www.harroldfs.co.uk

YOUR FINANCE MATTERS

Issue 16 Q3 2020

Building financial resilience

Protecting your investment portfolio

Keep your retirement plans on track

REASSURANCE FOR SAVERS

KNOW YOUR NUMBERS THIS TAX YEAR

ESTATE PLANNING – PROTECTING YOUR FAMILY'S FINANCIAL FUTURE

INSIDE *THIS ISSUE*

BUILDING FINANCIAL RESILIENCE

One notable theme evident throughout the coronavirus lockdown has been 'back to basics' with people displaying an increased appetite for the simpler things in life. While not everyone has fully embraced Tom and Barbara's 'Good Life' philosophy, home baking, gardening and knitting have all enjoyed a notable renaissance.

Lockdown lessons

Back to basics has also become a key personal finance theme. The economic impact of the pandemic has clearly resulted in many people's finances becoming severely stretched. As a result, a significant proportion of consumers have sought to change their financial habits by reducing expenses and becoming more mindful spenders.

Dealing with debt

While good budgeting skills have become a necessity, it's also important not to ignore debt. Many have benefited from mortgage and other debt payment breaks, but these will not last forever. Going forward it's vital to keep up with repayments or, if you are struggling, consult a debt adviser. When it comes to lingering debt, the worst thing anyone can do is nothing.

Financial fragility

Sadly, for some people, the pandemic has highlighted the fragile nature of their financial safety net. The last few decades have seen the burden of responsibility increasingly shift from state to individual, which has increased the importance of protection products in order to maintain both your and your family's financial security in uncertain times.

Rainy day funds

The pandemic has also highlighted the need for emergency savings. If you don't have any, regular savings schemes can be a particularly good way to accumulate rainy day funds. If you do have savings, make sure you shop around for the best available rates rather than leaving funds stagnating in poorly paying accounts.

Long-term goals

Although it's extremely easy to focus solely on short-term financial needs, it's also important not to lose sight of other financial goals. While finding money to fund longer-term plans such as retirement savings can be difficult, the cost of delay can ultimately prove even more expensive.

Help at hand

The last few months have shown we never really know what's around the corner and also demonstrated the importance of being financially prepared for what may lie ahead. If you need assistance strengthening your financial resilience, please get in touch.

Unclaimed pension pots top £19.4bn

Research[1] has shown that because only 1 in 25 people consider telling their pension provider when they move home, around 1.6 million pension pots totalling £19.4bn – the equivalent of nearly £13,000 per pension pot – have gone unclaimed. Estimates from the government suggest that there will be as many as 50 million dormant and lost pensions by 2050. In 2017, over 375,000 attempts were made to contact customers, leading to £1bn in assets being reunited with them.

Temper your income expectations as dividend drought descends

The economic shock from COVID-19 has provided a blow to income investors, with 45% of UK companies cutting dividends this year and more expected to follow suit as the year progresses. Forecasts suggest over £52bn in company dividends are at risk in the UK this year[2]. The data highlights the biggest impacted sector is banks, while defensive dividends are more likely to be safe, such as food retail, healthcare, drink and tobacco, and basic consumer goods.

In addition, in May, the Treasury announced that companies borrowing over £50m through the Coronavirus Large Business Interruption Loan Scheme would be subject to restrictions, including a ban on dividend payments to shareholders, except where they were previously agreed, adding a further potential dampener on investors' income expectations this year.

[1]ABI, 2020
[2]Link Assets, 2020

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

Know your numbers this tax year

It's well worth being aware of the tax allowances and exemptions available in 2020–21 to be able to maximise them for your own individual financial planning. Here are a few figures worth knowing:

Personal taxation

The National Insurance threshold is now £9,500. The Personal Allowance remains at £12,500, while the £50,000 higher-rate threshold remains unchanged in parts of the UK where Income Tax is not devolved.

Pensions

A major attraction of paying into a pension is the tax relief available: 20% for basic rate taxpayers, 40% for higher rate and 45% for additional rate taxpayers.

> ...the JISA is a great way of building up funds for your child

The Annual Allowance for pensions remains at £40,000. It will begin to taper for those who have an income above £240,000 (the £200,000 allowance plus the £40,000 you can save into a pension). This means that for every £2 of adjusted income above £240,000, the Annual Allowance for that year reduces by £1. The minimum Annual Allowance has reduced from £10,000 to £4,000.

The Lifetime Allowance – the maximum amount you can have in a pension over a lifetime – has increased to £1,073,100.

Since 6 April, the new single-tier State Pension has risen to £175.20 per week and the older basic State Pension increased to £134.25 per week.

Savings landscape

The annual amount you can save into a JISA (Junior Individual Savings Account) or Child Trust Fund has increased substantially, from £4,368 to £9,000. The ISA (Individual Savings Account) allowance, including the Lifetime ISA allowance if used, remains unchanged at £20,000. ISAs represent a tax-efficient way of saving or investing and the JISA is a great way of building up funds for your child.

Inheritance Tax (IHT)

The current IHT nil-rate threshold is £325,000 for individuals and £650,000 for a married couple or civil partners. Beyond these thresholds, IHT is usually payable at a rate of 40%. The main residence nil-rate band, which applies if you want to pass your main residence to a direct descendant, has increased to £175,000 for individuals and £350,000 for a married couple or civil partners.

Planning pays

Whilst tax-efficiency can play a vital part in successful saving and investing, it's important not to make it the sole driver of your savings or investment decisions, or to steer you away from achieving your core goals.

We can advise you on the sensible steps to reduce the amount of tax you pay, safeguarding your wealth for the future.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

TIMING PAYS OFF FOR THE EARLY BIRD ISA INVESTOR

Early tax year ISA investors could be thousands of pounds better off, according to research[3] looking at the investing habits of hypothetical ISA investors over the last 10 and 20 years.

The study concludes that if you were an 'Early Shirley' and invested your full ISA allowance on 6 April for the past 20 tax years, you would be nearly £12,000 better off now than 'Last Minute Lara' – someone who had waited to invest on the last day of each tax year.

With not everyone able to afford the full ISA investment in one lump sum, investing like 'Monthly Monty', who drip-feeds money into an ISA with a monthly savings plan, would achieve better returns than investing it all at the last minute. By splitting your annual ISA allowance into 12 monthly investments your investment would have grown to £296,247 – still £7,496 more than if you had waited until the last minute.

[3]Fidelity International, April 2020

Reassurance for savers

In the spring, a surge was reported in the number of people enquiring about and opening savings accounts, as they sought to secure the best rates, before interest rate cuts fed through to savings rates and to benefit from a secure home for their money.

For UK savers, the Financial Services Compensation Scheme (FSCS) can provide a safeguard adding a valuable level of reassurance. If you have any money in an account with a UK-authorised bank, building society or credit union that fails, the FSCS will compensate you:

- up to £85,000 per eligible person, per bank, building society or credit union
- up to £170,000 for joint accounts.

You do not need to take any action, the FSCS will automatically compensate you.

Attention to detail

The cover applies to the total sum of money held but because some banks share a banking licence, this will affect how much of your money is protected. If you hold over £85,000, it needs to be spread across different banks that don't share a licence to benefit from full FSCS protection. If you hold multiple accounts with banks that share the same banking licence, anything you hold over £85,000 will not be protected.

We can help you keep on top of your cash balances.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

Spreading risk has always made sense

Almost exactly 50 years ago, a company few people had previously heard of was hitting the headlines as the price of its shares went stratospheric. A few months later it came back to earth with a crash. Fortunes were made and lost after mining company Poseidon announced the discovery of new nickel ore reserves in Western Australia just as world nickel prices hit a new high.

Poseidon misadventure

Poseidon shares had been trading at A$0.80 in the second half of 1969 when they took off. The price climbed relentlessly for weeks as investors claimed their piece of the action. One day in February 1970, the shares touched A$280.00. Then the profit-taking began and the share price crashed. Nickel prices later dropped back and the Poseidon nickel ore was low quality; receivership ensued in 1974.

Fast-forward 20 years and a new 'rising star' of the stock market burned out. A minor fashion house called Polly Peck had been acquired by new owners in 1980 and used as a vehicle for ventures in Northern Cyprus. A series of deals in the 1980s brought such growth that the company's shares entered the FTSE 100. In September 1990, Polly Peck shares were suspended amid fraud allegations.

FOMO frenzy – 300 years ago!

The loss suffered by many investors in Poseidon or Polly Peck was a painful lesson about impossible returns and concentration of risk. There had been plenty of previous warnings, right back to the South Sea Bubble in 1720, about blindly following the herd in a FOMO frenzy. Speculative investment has always had particular risk attached and that is all the greater if it is not diversified.

The value of diversifying your portfolio with collective investments

As a general principle, any investment in shares needs to be spread around, so that if one share price slumps badly it only affects a proportion of your overall portfolio. For many investors, a sound way to achieve a spread of risk is through collective investment schemes with risk profiles aligned to suit their needs. We can advise on the investment strategies and products most appropriate for your objectives and needs.

Speculative investment has always had particular risk attached and that is all the greater if it is not diversified

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

KEEP YOUR RETIREMENT PLANS ON TRACK

The COVID-19 pandemic is having a widespread impact on all aspects of our finances, including retirement planning. However, while recent stock market volatility undoubtedly poses a challenge, particularly for those close to retirement, it is important not to allow the outbreak to derail your plans.

A resilient retirement plan

One thing the pandemic has vividly highlighted is the importance of developing a resilient retirement plan. Although market turbulence will impact all pension holders, those with a clearly defined, carefully considered plan will inevitably be in much better shape to weather market volatility. For instance, as they approach retirement, an increasing proportion of their pension fund will be 'lifestyled', meaning it shifts to 'safer' havens such as cash, gilts or bonds, thereby limiting their overall level of investment risk.

Stay the course

At times like these, it is also vitally important to remember pension savings are designed for the long term. This means that, particularly in the case of younger investors, there should be plenty of time for markets to recover and pension pots to achieve growth aspirations before retirement income is required.

In addition, making decisions based on short-term economic upheaval can be extremely risky, with the potential to lock in losses following declines in investment values. Historically the best strategy is therefore generally to be patient, resist the urge to sell and stick to a long-term investing philosophy.

For those closer to retirement, now is a good time to take stock of your full complement of retirement resources before making any decisions, this will involve reviewing your pensions, and any other savings and investments. We can review your level of income and whether this has been adversely impacted by, for example, reduced savings rates or cut dividends.

Making your pension last

Another factor that could impact pension holders' response to the pandemic relates to staggered retirement. As a result of increased longevity, a greater proportion of the population now withdraw more gradually from work, as retirees find an optimum work-life balance that accommodates their specific needs. This trend clearly provides for greater flexibility with part-time work enabling many pensioners to preserve retirement funds into later life – an increasingly popular choicefor many.

Advice increasingly essential

Perhaps unsurprisingly given the heightened economic uncertainty, the past few months have seen a sharp rise in demand for professional financial advice. Indeed, it has never been more important for people to obtain sound advice in order to ensure their retirement plans remain firmly on track.

We're here to help

So, if you are concerned about the impact of coronavirus on your plans, talk to us. We will help you see the bigger picture, weigh up all your options and make a balanced assessment of risks tailored specifically to your individual needs.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

Maintaining your protection cover is vitally important

Financial hardship can strike when we least expect it, showing the importance of having protection cover in place as a safety net.

A recent YouGov[4] survey about the pandemic revealed that nearly a third (32%) of Britons fear for their future. Payouts from life insurance, critical illness and income protection can help lessen the blow of unexpected events. Data from the Association of British Insurers shows that more than £5.7bn was paid out in protection claims in 2019. If you are reviewing your finances to try and reduce outgoings, think twice before cancelling any existing protection policies – this could prove to be a false economy. Critical illness and income protection policies can be a lifeline if you were to lose your job or become ill for an extended period, so should certainly not be on the list of expenditure to cut.

Rest assured we are here to help. If you have any questions about existing protection policies or you are considering new ones – please get in touch, we can help ensure your protection needs are covered.

[4]YouGov, 2020

Financial hardship can strike when we least expect it

PENSIONS WITHDRAWALS – CONSIDER YOUR OPTIONS

The latest data[5] on flexible payments from pensions shows that in Q1 2020, almost £2.5bn was withdrawn from pensions – a 19% increase on Q1 2019 withdrawals, and the highest recorded Q1 of any year since pensions freedoms began.

Although the average amount withdrawn per person was £7,100 (down 3% from Q1 2019 £7,300), the total value of flexible withdrawals from pensions since flexibility changes in 2015 has now exceeded £35bn.

Make the right decision
Before taking any action, it is sensible to consider all your options. Pensions are designed to provide you with an income throughout your retirement. Taking out more money than you need to, or starting sooner, will mean you have less to live off in the future.

[5]HMRC, Apr 2020

Global economy braced

The pandemic has inflicted enormous human costs right across the globe. The worldwide response, which has involved governments imposing a range of lockdown measures, will inevitably have a huge impact on global economic activity.

Contraction across Europe

The release of first quarter GDP data provided a foretaste of the economic damage the pandemic is set to wreak. In the UK, for example, output fell by 2% across the first three months of 2020, with the economy shrinking by a staggering 5.8% in March alone.

Data for the 19-country Eurozone showed an even larger decline, with output across the bloc falling by a record 3.8% in the January–March period. France and Italy both plunged into recession, with quarterly contractions of 5.8% and 4.7%, respectively, while the German economy also slipped into recession with first quarter GDP down 2.2%.

US and Japan economies shrinking

According to preliminary estimates, the US economy shrank at an annualised rate of 4.8% in the first quarter, ending a record streak of expansion stretching back to 2014. And the Japanese economy, which was already struggling following a sales tax hike last October, also fell, contracting at an annualised rate of 3.4% in the opening three months of 2020.

China's economy also reeling

The growth rate in China fell sharply as well, with the world's second-largest economy shrinking at an annualised rate of 6.8% during the first quarter. The Chinese authorities have now abandoned setting a growth target, which may be an acknowledgement of the challenges facing its struggling economy amid heightened international hostilities due to the COVID-19 fallout.

'Sharpest downturn since 1930s'

Continuing uncertainties surrounding the future spread of COVID-19 and the likelihood of developing a successful vaccine obviously make it difficult to predict the future path of the global economy. However, the International Monetary Fund's (IMF) latest assessment suggests we are facing the steepest economic downturn since the Great Depression.

Potential rebound?

While the IMF has stressed that its predictions are marked by *'a higher-than-usual degree of uncertainty'*, it is forecasting a rebound next year with the global economy expected to grow[6] at a rate of 5.4% as activity normalises. However, if a second outbreak did occur, that could effectively keep the world in recession for a second consecutive year.

[6]IMF, 2020

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

Estate planning – making plans to protect your family's financial future

In addition to organising your finances to ensure your assets are protected for your loved ones on your death, estate planning also encompasses ensuring you have enough money to live on; it is a tenuous balance for many. A good starting point is obtaining a comprehensive view of your assets, to assess the value of your estate and ensuring you have the right documentation in place, such as Wills, Lasting Powers of Attorney (LPA) and the formation of any relevant trusts.

To establish the value of your estate; calculate the total worth of your assets, including your home, any other property, money and savings, shares and investments, business equity, cars, jewellery and other personal possessions. To determine the value of non-monetary assets, apply a realistic market value. Then deduct debts and liabilities, including any outstanding bills, mortgage debt, loans, credit cards, overdrafts, and funeral expenses.

...ensure your money ends up with the people you want, for the reasons you choose

Wills, trusts and LPA

Once you've valued your estate, outlining a clear plan detailing your wishes about how you want your estate managed upon your death, will ensure that when the person looking after your estate applies for probate they will know what your wishes were. Vital components of successful estate planning include having a valid Will in place and setting up trusts to manage money or other assets on behalf of beneficiaries. There are various types of trusts which provide an alternative to direct inheritance or transfer of certain parts of an estate, giving you control over who receives what and when. Lasting powers of attorney, covering 'health and welfare' and 'property and financial affairs' are worth establishing at an early stage.

IHT

Estate planning can reduce the amount of IHT payable, enabling you to pass on assets to your family as intended. For individuals, the current IHT nil-rate threshold is £325,000 and £650,000 for a married couple or civil partners. Any unused portion of the nil-rate band can be passed to a surviving spouse or civil partner on death. Beyond these thresholds, IHT is usually payable at a rate of 40%.

A main residence nil-rate band applies if you want to pass your main residence to a direct descendant. For the current tax year, this allowance is £175,000 for individuals and £350,000 for a married couple or civil partners. Added to the existing threshold of £325,000 this could give rise to an overall IHT allowance of £500,000 for individuals, or £1m for those who are married or in civil partnerships. It is important to note that larger estates will find that residence relief is tapered, reducing by £1 for every £2 by which the net estate's value exceeds £2m.

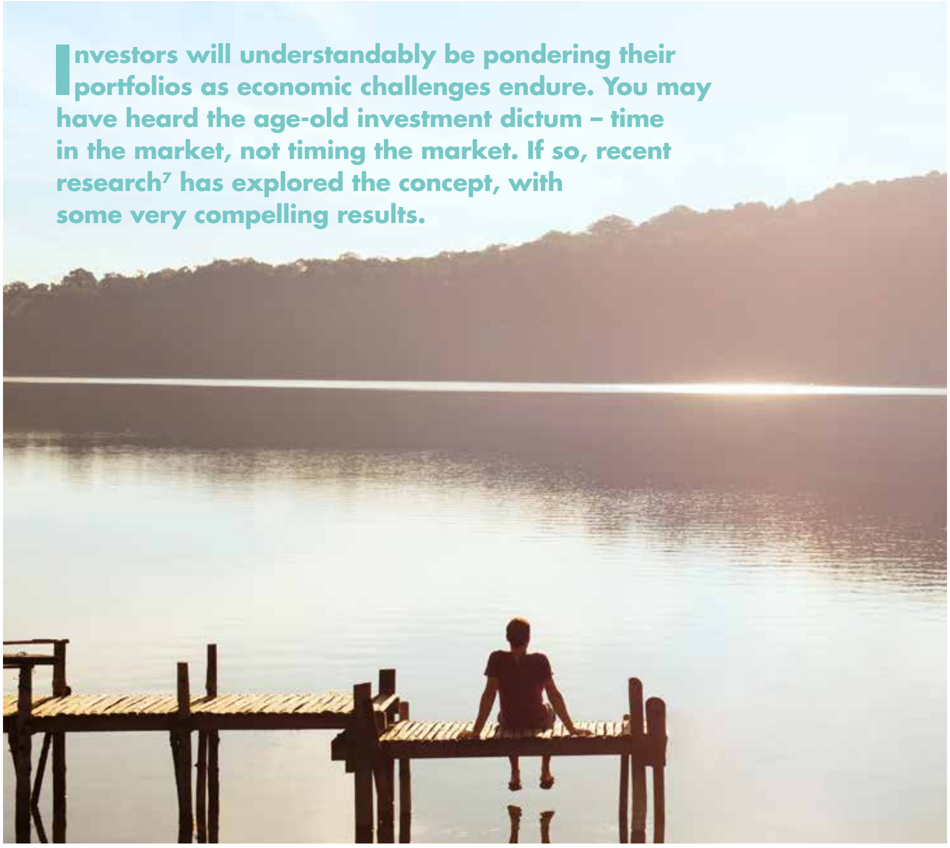
Gifting from surplus income is a simple way of passing money to the next generation. Conditions apply, and advice would be needed to ensure that the gifts are made in the right way.

We can help

We can advise you, to ensure your money ends up with the people you want, for the reasons you choose. We can help you to pass on assets in the most effective way, and work with you to reduce your IHT liability.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

Focus on the horizon



Investors will understandably be pondering their portfolios as economic challenges endure. You may have heard the age-old investment dictum – time in the market, not timing the market. If so, recent research[7] has explored the concept, with some very compelling results.

In March 2000, during the height of the dot-com boom, if an investor made an investment of £1,000 in the average investment company and reinvested the dividends, the original investment would have been worth £3,665 as at 6 April 2020, a return of 267%, (here 'investment company' includes investment trusts and other closed-ended investment companies but excludes venture capital trusts and 3i Group plc.) This 20-year period includes the dot-com crash, the global financial crisis and the more recent COVID-19 related market falls.

Commenting on the findings, Annabel Brodie-Smith of the Association of Investment Companies said: *"The bursting of the tech bubble and the global financial crisis saw huge falls in markets… However, investors who were able to stay invested or even invest during the downturn would have been richly rewarded over the long term. No one has a crystal ball, but these returns show the power of long-term investment and why it can often pay to have one eye on your portfolio and the other on the horizon."*

[7]AIC, April 2020

FRAUD GOES VIRAL – IF IT SOUNDS TOO GOOD TO BE TRUE, IT PROBABLY IS

UK fraud prevention groups are warning individuals to be extra vigilant following a huge increase in the number of scams seeking to exploit the pandemic; as these scams increase in sophistication, we are all vulnerable.

Your best tactic is to equip yourself to stay ScamSmart; you can do this through checking the FCA website www.fca.org.uk/scamsmart. Action Fraud[8] revealed there was a massive 400% increase in reporting of scams in March. As scams continue to increase in sophistication it is harder than ever to distinguish them from the real thing.

REMEMBER:

- Reject offers that come out of the blue
- Do not click on links from senders you do not know
- Be wary of deals that sound too good to be true
- Never give out personal details
- Take the time to make checks and seek financial guidance.

Here to help

If you are unsure about any financial opportunities, please contact us first.

[8]Action Fraud, 2020

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

PROTECTING YOUR INVESTMENT PORTFOLIO

The pandemic has placed immense pressure on financial markets across the globe. Markets hate uncertainty and, in recent months, that has been one commodity not in short supply. Heightened volatility, however, does always demonstrate one investment certainty – the importance of portfolio diversification as a means of guarding against market turbulence.

Time to take stock

In uncertain times like these, it's always good to revisit your investment objectives and review your long-term financial goals. In particular, it's worth considering your attitude to risk and whether your current strategy provides sufficient protection to your portfolio. The key is generally to ensure you hold a diverse portfolio with a mix of investments suited to your particular risk appetite.

Benefits of diversification

A balanced portfolio is generally one containing a combination of asset classes, which typically includes equities, bonds, property and cash. Each of these provides differing degrees of risk. So, while equities have the potential to deliver higher returns than bonds, the latter can provide an element of capital preservation when investors turn anxious and become risk averse. Adopting a diversification strategy essentially ensures investors do not put all their eggs in one basket.

Beware over-diversifying

While building diversity into an investment portfolio is undoubtedly important, investors must also guard against over-diversification. This is because holding too many assets can spread your money too thinly and thereby have a detrimental impact on potential returns.

Accept volatility

The coronavirus outbreak has also highlighted another key lesson for investors: acceptance of market volatility. Most people invest for the long term and so need to look beyond short-term volatility. As a result, investors' best policy at the moment might simply be to sit tight, if advised to do so in their specific circumstances.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

IN OTHER NEWS...

Contactless payments the new norm

According to research[9], the pandemic has accelerated the transition to contactless payments, with two thirds (66%) of card transactions in the UK now contactless. The contactless limit was increased from £30 to £45 on 1 April. Almost half (45%) of UK adults – surveyed between 10-12 April – admit their use of cash has decreased throughout the pandemic and 76% of respondents say they will continue using contactless payments after the crisis.

The £20 worth £7.5k

A new polymer £20 note, featuring artist JMW Turner, with the serial number AA01 000010 recently sold for £7,500 at auction, with proceeds going to charity. Listed with a guide price of between £3,000 and £4,000, the note sold for 375 times its face value. When a new note enters circulation, the Queen is gifted the first one, which contains the AA01 000001 serial number. The note ending 000010 is likely to be the lowest numbered note which enters circulation.

LISA withdrawal rules

The government have announced temporary changes to the Lifetime ISA (LISA) withdrawal rules if people want to access their funds earlier. The LISA allows holders to save up to £4,000 a year towards their first home or retirement and provides a 25% cash bonus of up to £1,000 a year on top. Previously, holders were charged 25% of the amount withdrawn if they took cash out before turning 60 or if they were not buying a property. The withdrawal charge has been reduced to 20% between 6 March 2020 and 5 April 2021.

[9]Mastercard, 2020