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FINANCIAL **FOCUS**

FEATURES

JANUARY - 2021

ETHICAL INVESTING

BANK OF MUM AND DAD

HOUSE PRICE GROWTH

TAX FEARS TRIGGER INSOLVENCIES

Financial New Year Resolutions

Over half of people over 45 say they don't set a new year's resolution. But small changes today could make all the difference to your future. Here are three common goals for people at different stages of their saving and investing journey and how you can make them work for you too.

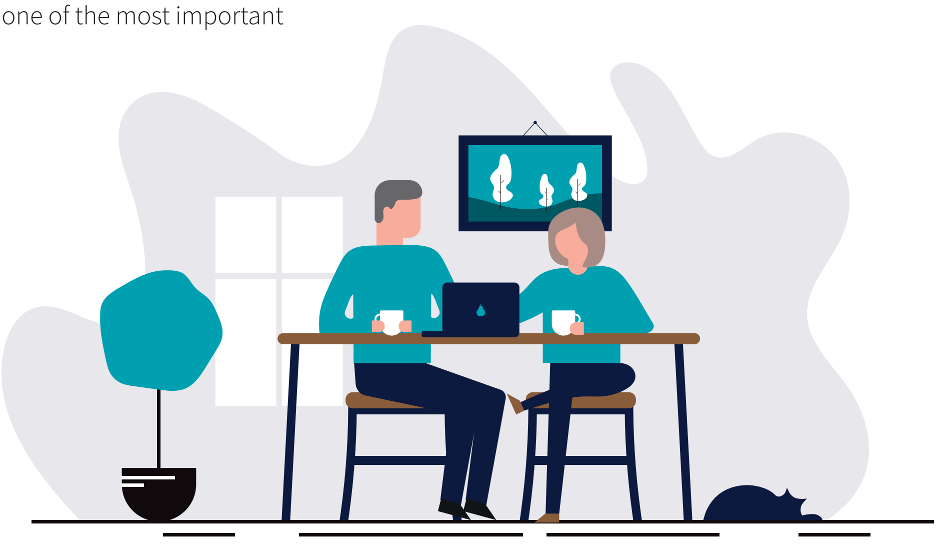
1. A new saver's starting point – clear debts, then build savings, then invest: The fourth most popular New Year's resolution is to save more money. It's a great goal, but don't stuff that cash under your mattress. How you save is important. For example, small debts like overdrafts can carry hefty fees and interest rates. It's usually a good idea to pay these off before building your cash pot. When you're in a position to start saving, you'll want to start on an emergency fund. An emergency fund should be in cash savings you can access easily. It's there to cover unexpected costs like a broken boiler or car repairs or a short-term loss of income. Three to six months' worth of essential expenses is usually a good place to start, but you might want more depending on your circumstances. If you're in or close to retirement, it's usually best to have closer to 1-3 years' worth of expenses. Once your high-interest debts are paid and you have rainy day savings to fall back on, think about dividing your money into pots. Experts suggest a 'Goldilocks' approach to saving in the form of short, medium and long-term goals with pots to go alongside them.

2. Make your long-term savings work harder: How often have you heard "if you just gave up your daily coffee you'll have…"? But having financial stability and resilience doesn't always mean giving up on the things you love. If you know that your morning coffee usually costs £2.50 per day, set up a monthly standing order to a savings account that matches the amount. Think about investing that money for the long-term (5 years or more) in something like a Stocks and Shares ISA or a pension. When you invest, you need to be comfortable with the value of your investments going down, as well as up. Unlike cash, you could get back less than you started with.

3. Make better investment decisions: Spreading your money, diversifying, is one of the most important things when investing. Lots of us know we should do it, but how do you know you're diverse enough? Start by checking you have the right mix of investments in your portfolio. Spreading your money across different assets and markets.

Here's a checklist to help you make sure you're on the right track. Check:

- The types of investments you own – do you own some shares and bonds?
- The variety of sectors you own, like technology or retail
- The countries or regions you're investing across



Interested in using your money as a force for good through ethical investing?

The coronavirus pandemic accelerated a lot of trends last year, be they the increase in online shopping or, the focus of this article, the adoption of Environment, Social and Governance (known as ESG) and ethical investing. Whether this has been due to the superior performance of ESG 'Leaders' vs ESG 'Laggards' (those that fell behind) in the sell off in markets at the start of the pandemic or investee reappraisal of what is important to them, the appetite for ESG and ethical investing is definitely here to stay.

Within the industry there has been the introduction of formal Ethical Investing qualifications, such as the CFA Certificate in ESG Investing. A number of Smith & Pinching staff have attained this qualification. Whilst comparisons between different fund managers in the Ethical investing space remains difficult, we are not waiting for everyone to fall in line with common terminology and disclosures but rather seeking to engage will all the funds in the ethical model ranges to seek their views across the spectrum of ESG investing issues and opportunities.

I've written ESG many times, but not explained what this means or how it relates to investments.

E, S and G are three broad groups of risk and opportunities when investing. Environment looks at the impact a company has on the environment. These are things like; greenhouse gas emissions, deforestation, pollution and waste. Social looks at the company's relationships with its employees, vendors and consumers. Social factors include a company's health and safety record, product liability, consumer protection and employment standards. Some other social factors have been bought to the fore in the last few years have been the MeToo movement and BlackLivesMatter. Finally, Governance, the way in which a company is managed, including the taxation and reporting methods as well as diversity of boards and management.

Ethical investing has existed in one form or another for decades. For much of this time many investors felt that to invest in an ethical manner you would sacrifice investment returns. At Smith & Pinching we have been managing our Ethical model range for over a decade and can attest to this not being the case. We have witnessed strong investment returns across our Ethical model range.

If you would like to know more about our ethical model range please contact your S&P adviser.

Bank of mum and dad tightens lending

House buying funds supplied by the Bank of Mum and Dad has dropped dramatically over the last two years, shows government data. In 2019/20, the English Housing Survey describes 28% of first-time buyers as having received finance from family and friends to help with their purchase. This is down from 39% in 2018/19. Experts say there is reason to believe that this figure will decrease further. Funding from the Bank of Mum and Dad could dry up even faster now that parents and grandparents have to think more carefully as to whether they can afford to plunder their own finances to help their children onto the property ladder. It means the vast majority of people who buy a home of their own have to do so under their own steam, and with an average deposit of £42,433, that's an awful lot to ask – especially when those who are privately renting while they save for a place of their own spend almost a third of their income on rent.

The data shows that mortgage holder spend 18% of their income on their loan, whereas renters spent 32% of their income on keeping a roof over their head. Almost half of households have no savings (45%) but this is particularly acute among renters. Three in five private renters have no savings at all. This means not only do they have nothing to fall back on in a crisis, but that they aren't getting any closer to owning a property of their own.

House price growth at six year high

UK house prices climbed 7.5% in 2020, the highest growth rate for six years, building society Nationwide found. Prices ended the year 5.3% above the level prevailing in March, a resilience that seemed unlikely at the start of the pandemic, it said. Housing demand has been buoyed by a raft of policy measures and changing preferences due to the pandemic. House prices were 0.8% higher in December than November, with the average property valued at £230,920. The outlook remains highly uncertain though.

Much will depend on how the pandemic and the measures to contain it evolve as well as the efficacy of policy measures implemented to limit the damage to the wider economy, including a possible extension to the Stamp Duty holiday.

The current Stamp Duty time limit is creating a false horizon, which will see prices rise even higher in the first quarter of next year, most commentators believe. Though rising unemployment levels are an obvious threat to property values, demand should remain relatively strong as it still costs less to own than to rent and money is about as cheap as it gets.

Predictions are that during 2021 people will continue to change their living arrangements as companies adapt their remote working policies on a more formal basis. However, housing market activity is likely to slow in the coming quarters, perhaps sharply, if the labour market weakens as most analysts expect, especially if the Stamp Duty holiday is not extended.

Tax fears trigger insolvencies

A flood of businesses are voluntarily closing down due to the economic uncertainty around covid-19 and fears over a possible increase in capital gains tax (CGT), according to analysis by Price Bailey.

In Q3 2020 - 3,126 businesses voluntarily appointed liquidators, a 52% increase on Q3 2019, when 2,058 businesses voluntarily appointed liquidators. The number of voluntary liquidations in Q3 2020 represents the highest Q3 total on record. Price Bailey said that it has seen a surge in enquiries from business owners in the past quarter looking to close down their businesses in an orderly way and take cash out. In many cases, however, business owners are acting in haste and could take more cash via a trade sale or management buy-out.

The firm points out there has been speculation that CGT will be increased to a maximum rate of 40% as the Chancellor looks to shore up the public finances in the wake of the coronavirus pandemic.

Many businesses owners are currently eligible for Business Asset Disposal Relief, previously known as Entrepreneurs' Relief. This reduces the amount of CGT they are legally required to pay when taking cash out of their businesses to 10%. Many of these business owners are a decade or more before retirement age and their businesses are perfectly viable. Closing them down in many cases will result in job losses, which will have a knock-on effect on the wider economy. There is a large ecosystem of potential buyers with cash to spend, and many of these businesses will have built up intangible value, such as goodwill, which will be lost if they simply cease to trade.

STAFF PROFILE

MATTHEW GODDARD
CHARTERED FINANCIAL PLANNER

Matt began his career in 1997 and is qualified as both a Chartered Financial Planner (Chartered Insurance Institute), and a Chartered Wealth Manager (Chartered Institute for Securities & Investment). Matt is also an Affiliate member of the Society of Trust and Estate Practitioners (STEP).

During school and university holidays, Matt worked in local factories as well as brief stint as a construction labourer, before his first full-time role as a buyer for a regional toy retail group. Matt realised this was not the path for him and, answered an advert in the local paper offering the chance to train to advise clients of a UK Life and Pensions provider, which is how he entered the world of financial planning.

Matt's strength is in building long-term relationships with clients – especially high net worth individuals and families – helping them to identify their lifestyle objectives and goals, and then working with them to achieve these. Matt is also a Certified Money Coach (CMC)® and supports clients in understanding their behaviours and patterns around money and resolving any conflicts caused by these. As a Pension Transfer Specialist, Matt is qualified to advise individuals about transferring from secure occupational pension schemes, into flexible individual plans. This is very relevant for Matt's involvement in the S&P Pension On Divorce Expert team, which requires knowledge and understanding of pensions as well as experience in dealing with people who are experiencing changes in their circumstances.

Outside of work, Matt enjoys spending time with his family and hopes to pursue some hobbies at some point. Matt spends his time supporting his children in their sporting interests, often on cold and wet evenings, and enjoys seeing their determination to improve. Matt also enjoys family holidays both at home and abroad, as well as occasional days at the water's edge with a line, and since lockdown he has become a born again guitar player, an interest not necessarily enjoyed as much by his family.

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GLOBAL VIEW

At the start of 2020, the UK economy looked to be in reasonable shape, with a stable Government following the Conservative majority in December 2019 and other than the uncertainty of Brexit the outlook looked reasonably positive. At that time, the main Global concern was relations between the US and various Middle East countries following an airstrike that killed an Iranian General.

Who would have thought that after three months the Global economy would have shrunk by over 10% and that the oil price futures would be trading at minus 39 dollars a barrel? Middle East worries quickly moved down the list of market drivers and in many ways this typified a year when virtually everything was almost impossible to predict. It was a year of extremes, a year of contrasts and one that whilst initially shocked on the downside but then surprised virtually everyone by the market's ability to bounce back. Obviously this bounce back would not have occurred without the huge Government and Central Bank stimulus, but nonetheless the speed and trajectory of the recovery was stunning.

Whilst certain sectors came out of the crisis well, moves later in the year, with huge rotations of style also showed the benefits of having well diversified and managed portfolios.

The so called "stay at home" basket of stocks that did so well initially then lagged as soon as vaccine announcements became creditable. In many instances these stocks which traded on lofty valuations fell, at a time when other potentially undervalued stocks soared.

Global equities delivered their strongest monthly returns on record in November, posting gains of more than 12 per cent as news of three significant Covid-19 vaccine breakthroughs lifted investor spirits.

Positive results from separate vaccine trials conducted by pharmaceuticals groups Pfizer-BioNTech, Moderna and AstraZeneca raised the prospect of a return to normal economic conditions in 2021 and a strong recovery in corporate profits.

Providing additional fuel to the rally was Joe Biden's victory in the US presidential election. The widely held view is that a Biden administration will adopt a less confrontational approach to international relations and trade, easing conditions for multi-national companies unsettled by the "America first" policies of the Trump White House.

Closer to home, the Brexit deal meant that the UK avoided the worst-case scenario for markets. Whilst share prices and sterling moved in advance of the news, some of the immediate benefit to asset prices had already played out, but there are strong arguments that it could run further.

Looking forward, valuations in many equity markets look undemanding, but sentiment is likely to move quite sharply as investors contend with weighing up the predictable poor current economic data and awful infection numbers with a brighter future potentially on the back of Global vaccine roll outs. It is likely that the Government and Central Bank stimulus will continue, but it will be interesting to see if any of the vast debts built up will be clawed back by tax increases in both the US and UK. It seems likely that any rises will be brought in gradually as evidence suggests moving too quickly could derail recovery.

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