DBL asset management

Benchmark

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Planning your finances when inflation is soaring

Spring 2022

a fresh approach to a **financially independent lifestyle**

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Introduction

After two long years of lockdowns and Covid restrictions, it seems that life is finally returning to normal. We are able to see our loved ones, enjoy our favourite activities, travel freely, and plan ahead with a degree of confidence.

That means now is the perfect time to make sure your money is working for you, particularly as the current tax year is about to end. So, in this latest Benchmark release, we discuss how to make the most of your tax allowances, such as using your ISA allowance, taking steps to reduce your Inheritance Tax bill and topping up your pension contributions and your children's savings.

Of course, we cannot talk about planning your finances, without addressing the current cost of living crisis, which looks set to get worse before it gets better. We cover how to plan your finances when inflation is soaring and what steps the Chancellor is taking to ease the pressure on households across the country. We look at what is likely to happen to interest rates during 2022, as well as how the pandemic has prompted many people to look at changing careers and what this means for employers.

If you have any questions about these issues or your financial planning in general, please do not hesitate to get in touch. Your future remains our primary focus. We are here to help. As always, I wish you and your families all the best.

With kind regards,

Dacre Staines

Planning your finances when inflation is soaring

Inflation reached a high of 5.4 per cent in December 2021, the highest level in thirty years, and the Bank of England has predicted it will increase to 7.25 per cent by April.

With soaring energy bills and ever-increasing grocery prices, we are all feeling that life is getting more expensive.

In an effort to curb the effects of inflation, the Bank has raised its interest rates from 0.25 per cent to 0.5 per cent. As the saying goes, bad for borrowers, good for savers.

So what steps should you take to future-proof your finances?

Be smart with your savings

Carefully consider your savings. WIth interest rates having been so low for so long, there has been little incentive to switch saving accounts. You will have been getting a very low interest rate on any cash ISAs you have, so now is the time to try to find the best deals. The higher inflation rate, should feed into the higher savings rate, but it is not automatic, so do your research. Challenger banks and building societies, offer some of the best returns, but these deals do not stay available for long so act quickly to secure them.

Invest intelligently

A survey by MoneyBox found that, although a third of Britons said they wanted to make their money work harder this year, they did not know how to go about it. In a group of two thousand UK adults, more than half (fifty-two per cent) had never put their money into anything other than a regular savings account or a cash ISA.

Seek advice and set clear goals. If you can put your money away for a longer period, such as five years or more, the stock market is a good option for inflation-beating returns, as you have time to ride out the waves.

Make sure you have built up a cash buffer for emergencies, and stick to the basic principles of investing, by building a well-diversified portfolio, and having your money in a range of different assets. Do not panic if there are little dips in performance. Remember, you are playing the long game to grow your money.

Keep your borrowing in check

High interest rates are particularly damaging if you have high borrowings. If the card companies have to pay more to borrow, you can be sure they will pass this on to their customers. So review your credit card spending and try to control your debts by settling your balances.

Provided you have a good credit rating, you could consider switching to a card with a zero percent balance transfer, and commit to paying off the balance, before the interest becomes payable.

Manage your mortgage

One of your greatest outgoings is likely to be your mortgage. Sadly, higher interest rates will feed into higher mortgage costs. This will be particularly significant on a tracker mortgage, so if that applies to you, or your current fixed deal is coming to an end, explore the latest fixed-rate mortgages. If you can change without penalties, see whether a switch would be sensible in the current climate.

Be wise with your pension planning

The impact of inflation, will depend where you are with regards to retirement.

If you are still working, continue to save regularly into your pension. Over the long run, your investment returns should beat any period of high inflation.

If you were thinking of retiring, you may have to put your plans on hold for a little longer, or delay drawing money from your pension for a while.

If you have already retired, now that the earnings element has been scrapped from the triple lock, the state pension will increase in line with inflation as from April 2022. Defined benefit pensions are also inflation linked. With a defined contribution pension, you will need to check the money you are withdrawing, is not reducing the size of your fund too quickly. Stay invested if possible, so your savings can still grow, and keep diversified.

Be strict with your budgeting

At a time of high inflation, it is more important than ever to keep control of your outgoings.

Draw up a budget and stick to it. You may want to use an app like Money Dashboard, or Snoop to help, or alternatively just write everything down in an Excel spreadsheet.

Make sure you know what you need to cover your direct debits each month. Assess what are essentials, non-essentials and luxuries, and be strict with yourself if you need to cut back.

Energy bills are going to skyrocket, when the new energy price cap comes into force in April. Experts recommend waiting until then before considering switching, as you will be able to compare your price on the new cap, with the cheapest fixed deals available.

A change of measurement

Thanks to the food writer, Jack Monroe, the Office for National Statistics has agreed to change the way inflation is measured, so that it better reflects the real cost of living for families. She highlighted the fact, that some price hikes were as much as 344 per cent on a bag of rice.

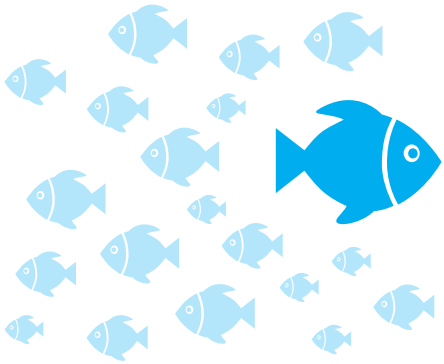
As a result, the organisation announced that it will transform the way it tracks prices, increasing the number of price points analysed, to understand the true impact of inflation on different households.

Your personal inflation rate

Everyone has their own personal inflation rate, depending on what proportion of their income they spend on particular items. Some people will spend more on gas and electricity, and some more on petrol, for example, so everyone will be affected differently by the increases.

Take time to consider your own circumstances and plan your finances strategically. That way, you will be in a position to best protect yourself from the damaging effects of inflation.

Seven in ten of us want a career change: where does that leave employers?



There is no doubt at all that the pandemic, and the measures taken to counteract it, has impacted people's mental health. That is true not just in the UK, but around the world, and with the threat of yet another wave this winter, the situation could well get worse before it gets better.

Unsurprisingly, many people used lockdown to re-evaluate what they wanted from their life and their work. Last summer, the Independent reported that half the workforce in the UK was considering a change of job, with the medical profession, teaching and landscape gardening top of the wish list. The general feeling was that 'life was too short' to be doing a job people didn't like.

It would be easy to dismiss that, as an initial reaction to the pandemic and lockdown. By early 2021, however, even more people were looking to change jobs, with the website Totaljobs.com reporting that more than seventy per cent of people wanted a change of direction. Flexible working, the option of being able to work from home and working for a company that 'shared my values', were all high on the list of boxes to be ticked.

So far, so understandable. But if we look at the situation from an employer's point of view it is very worrying. 'The war for talent', has almost become a cliché among HR professionals, and employers are going further and further to recruit and retain the best people.

One UK company, London stockbroker Finncapp, is set to offer the ultimate employee perk from next year, in a bid to counter staff burnout. The company will offer unlimited holiday, with staff having to take a minimum of four weeks leave, plus 'two or three days' every quarter. Unlimited paid leave has to date, largely been the preserve of US tech companies, but it is gradually starting to appear in the UK.

One of the early pioneers of the practice, was Netflix (named one of the world's best employers by Forbes), with staff allowed to take as much holiday as they want. Days off are not tracked, it is purely down to individual employees.

In theory, the practice should work well, but in practice many firms have found that staff actually took less time off. As Rishi Sunak recently commented, the people who tend to get promoted, are the ones that are in the office.

It is undeniable, that the pandemic has brought changes in working practices, that are not going to go away. Young people entering the workforce, want very different things to their parents' generation. The problems for employers will persist, but so will problems for employees. We are clearly going to see more people changing jobs in the future. They will work for a variety of different employers, and may well have career gaps. That is going to make financial planning, around areas such as pensions and mortgages, more important than ever.

Remember, we are always here to answer your questions, whether that is about your own career and financial planning, or the future careers of your children.

Is Rishi Sunak set to slash taxes?

In the first week of the new year, there was a story that was widely reported in many of the papers. 'More and more people pushed into higher rate tax bracket' ran the headline, with, according to which paper you read, either 1 million, or 1.2 million, more people set to pay the forty per cent rate of tax by 2026.

The story, was based on research carried out by the House of Commons library, with the article published in the Daily Telegraph saying that '1.2m additional workers', would find themselves paying the higher rate of tax, as a result of the Government's decision, to freeze the personal allowance and the higher rate threshold. In addition, almost 1.5 million people, would be brought into paying the basic level of income tax.

The research was commissioned by the Liberal Democrats, who claimed that 'the stealth tax raid', would 'clobber families who are already feeling the pinch.'

Coming on top of stories about likely increases in food, fuel and energy prices, this was hardly the start to the year hard-pressed families needed.

However, perhaps there was some light at the end of the tunnel, because there was another story running over New Year, 'Sunak gears up to slash taxes' was the headline in City AM.

'No surprise there,' the cynical among you might mutter, 'One eye on the leadership, and one eye on the next election.'

It is undoubtedly true, that should the Prime Minister fall under the proverbial bus, the Chancellor, along with Foreign Secretary Liz Truss, would be a leading candidate to replace him. And yes, the next UK General Election will be held in December 2024, or earlier.

Rishi Sunak, has always been a politician who has made a virtue of taking difficult, often painful decisions. Yet, according to City AM, he has told the Treasury to draw up plans, to cut income tax by two pence in the pound and, or alternatively, cut the rate of value added tax. Other plans apparently being considered, include scrapping the forty-five pence in the pound rate of tax, which is payable on earnings over £150,000, reducing inheritance tax and potentially introducing lower rates of tax, for households that use green energy.

Rishi Sunak, says he does not want to be seen as a high tax, high spending Chancellor. At which point, the cynical will point out that politicians are not to be trusted.

Surprisingly, trust in politicians actually increased in 2021, with the annual Ipsos MORI veracity poll (a survey on trust in professions in the UK) for the year, showing that nineteen per cent of the public now say they trust politicians, up from fifteen per cent in 2019. That said, politicians are still positioned towards the bottom of this league table of trustwell, which is headed by nurses and librarians, scoring ninety-four and ninety-three per cent respectively. Who is below politicians? Advertising executives get the wooden spoon in the trust stakes.

What will happen to interest rates in 2022?

As many of our clients will be aware, one of the great worries as the world recovers from the pandemic, is inflation. Late last year, the Bank of England suggested that inflation might reach five per cent in 2022. A week later, the figures for November came out, showing that inflation had already surpassed this figure.

The UK is not alone. In Germany, inflation reached 5.2%, the highest figures since 1992, while in the US it hit 6.8%, a level not seen for forty years.

Traditionally, one of the principal tools used to counter inflation, is interest rates . It follows that in December, the Bank of England responded to the inflationary pressure, by raising rates to 0.25%. It is, though, a delicate balancing act. At roughly the same time as the Bank was raising rates, figures were released showing that the UK economy, had grown by just 0.1% in October last year, with growth for the third quarter of the year, revised down to 1.1% from the previous figure of 1.3%.

With supply chain problems continuing, economic recovery from the pandemic is going to be unpredictable and difficult, and it will not be helped by rising interest rates. Neither will it be helped by rising inflation, which also erodes the real value of clients' savings.

So, what will happen to interest rates in the next twelve months? Some pundits are forecasting that inflation in the UK, could well reach six per cent before it starts to stabilise, so we may see gradual rate rises through the coming year. After all, December's rise was the first time rates have risen in over three years.

This approach is likely to be mirrored elsewhere. In the US, for example, the consensus now seems to be, that there will be two or three increases in interest rates next year, as the Federal Reserve looks to keep inflation under control.

The question is whether those increases in interest rates, will be reflected in better rates for savers? The more sceptical among our clients, will expect a repeat of what nearly always seems to happen. Mortgage rates rising almost immediately, rates on savings rising slowly, if at all.

It is important, therefore, that clients keep a sharp eye on their savings, and on the interest rates they are receiving. Inflation of six per cent set against an interest rate of say, 0.25%,or lower, in many cases, will very quickly erode the value of savings held on deposit. It goes without saying, that we are always here if you need any help or advice on savings rates, or any other aspect of your financial planning. We will always check the savings rates our clients are receiving, as part of our regular review process.

How to minimise the risk of suffering from pension shortfalls

Planning for a pension or retirement fund that will keep you afloat, works best as a lifelong undertaking. The reality is, that the majority of people do not think seriously about their retirement, until they begin to approach it. While there is always a way to optimise your situation, at any stage of life, the earlier your financial position is taken seriously the more options you will have.

The research

Standard Life, have released their latest research around budgeting habits and expectations, and the statistics are extremely telling, regarding the widespread potential of pension shortfalls. Their research demonstrates, that a quarter of people aged between fifty-five and sixty-four, who are still in employment, say that they are only budgeting for a retirement income, that lasts ten years at most. When you consider that the average life expectancy is eighty-two years, the risk of shortfall becomes clear. Twelve percent of the same demographic, are only budgeting for a retirement income, to last between one and five years.

When addressing what people believe their retirement income needs to be, the research also showed, that nearly a third of those over the age of fifty-five who are still working, are expecting to require the same amount of money, for each year of their retirement. More than a quarter of this demographic, are simply not sure what their income needs will be, or how they are likely to develop over time.

Retirement costs can be unpredictable

Anyone can be forgiven, for not knowing how much they will need to finance their retirement, without asking for guidance. The unpredictability is down to a number of factors, which differ from person to person. For some, a once in a lifetime travel experience, or large purchase early into their retirement, will mean that their income needs will actually reduce and flatten as time goes on. There is also the possibility of care needs and assisted living costs, contributing to an increase in income requirements in later years.

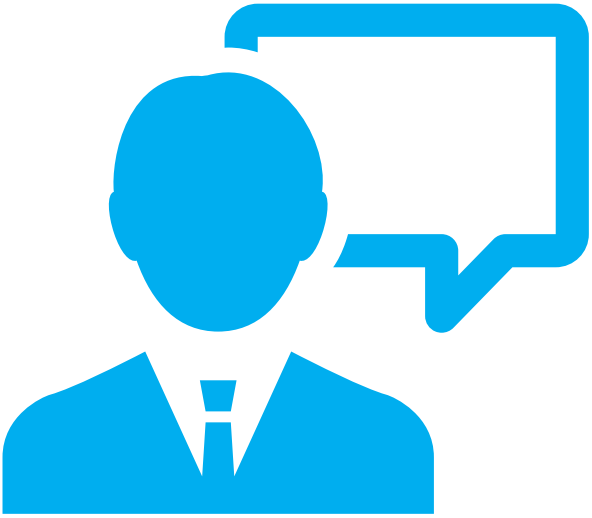
The average life expectancy has been rising steadily, which is great, but it does mean that your retirement fund will need to last throughout that extra time.

What can be done to avoid shortfalls?

As previously mentioned, the earlier you begin thinking about your retirement requirements the better. The act of thinking about how your life and its requirements may change over time, and even how you might want to adapt to that, is a positive step. Understanding your financial situation is always a good thing, and allows you to develop a plan, of how best to use what you have, to enjoy your life in the long term. Interestingly, the research from Standard Life, showed that eighty percent of the over fifty-five demographic, have not yet taken professional financial advice on their retirement income. Moreover, nearly half of those had no intention of doing so in the future.

It goes without saying, that asking for help is a good idea. Seeking professional advice leads to a clear view of your income, savings and assets. Ultimately, this will put you in a better position to lead a financially independent lifestyle of your choosing. There is a comfort in understanding what the future may hold, and having a plan should those things happen.

You may even have more funds to play with than you thought, with a happy retirement closer than you first imagined. At DBL, we have a wealth of experience in these matters, and would be happy to discuss your situation with you. Do get in touch.



Some financial rules are made to be broken

You will have heard lots of wise sayings where your finances are concerned, but there are some instances where traditional rules do not apply. With information bombarding you from all directions, such as newspaper articles, personal finance websites and podcasts, it can be hard to break through the noise and discern what is correct for your situation.

We take a look at some of these so-called rules in more depth and see which ones you can choose to disregard.

Cash is king

Whilst, it is a good idea to keep some cash available for your current needs, it is not the best rule to follow if you want to be fully invested. Admittedly, there are some people who like to have cash at hand, to take advantage of impromptu investment opportunities, but it is exceptionally difficult to time the market successfully and consistently.

A more reliable rule, is that equities perform better than bonds and cash in the long run, so if you keep a large amount of your portfolio in cash, you could be missing out on high returns. It is important to consider the correct asset allocation for you, how easily you need to access your money, your attitude to risk, and the return you are expecting.

You are more likely to maximise your investment returns by being fully invested in a diversified portfolio, across multiple asset classes, rather than storing it all in cash.

Debt is bad

This is a common belief, but in fact it is uncontrolled debt that is bad. Sometimes, a certain amount of planned borrowing can be sensible, especially when interest rates are low, as long as you only ever carry a level of debt that you can comfortably repay.

Think about mortgages, for example. With current mortgage rates at about three per cent, borrowing a modest amount of money could make sense, even if you are able to buy a home in cash, outright. It frees up money for other projects, and prevents you from tying up all your cash in one asset. Similarly, rather than paying off a mortgage, it may be better to retain a small level of borrowing, and invest your money in other assets that generate a return.

As mortgage interest remains tax deductible in most cases, it enables you to reduce your tax liability, and enjoy greater financial flexibility at the same time.

Use multiple financial advisers to enhance diversification

You may think the old adage, two heads are better than one, applies when it comes to financial advice, and decide to use several financial advisers, in an attempt to increase the diversification in your portfolio.

However, while allocating assets across a broad range of funds does enhance diversification, using multiple advisers often just leads to confusion. It is much better if you adopt a unified approach to your financial advice, so that you and your adviser have a clear overview of all your investment activities. That way, you are able to make sure you are on track to meet your objectives. Without such a unified approach, you run the risk of experiencing:

- Tax problems.
- Conflicting strategies.
- Issues with capital gains.

It also means, you could end up paying significantly more in fees overall for little, or no, advantage.

Perhaps it is time, to revisit the rules you are following, and check you are on track to meet your objectives.

The importance of taking a long-term view of the markets

When you think the markets are going to plummet, it is difficult not to make a knee-jerk reaction and want to sell all your shares. As human beings, we are naturally loss averse, so we will not want to see our hard-earned money falling in value. However, it is important to remember that investing is a long game.

Recent events

As the world reopens after two years of Covid-19 restrictions and lockdowns, rising commodity costs are now the issue on everyone's minds, affecting investor and wider consumer confidence alike. At the same time, the UK has been adjusting to the latest changes in customs regulations following its departure from the European Union, which is impacting on confidence in certain industries.

Even though the initial Covid shock has subsided, the stock markets remain volatile, so what should your investment principles be?

Invest rather than speculate

An investor, is someone who is giving their money to a business, whether by buying shares or through a fund. They are happy to have their money tied up for some time, in the hope that the company will use it to grow and generate a profit, which will in turn be paid back to them as a dividend. A speculator, on the other hand, is someone who is only interested in the price today and the price tomorrow.

Beware of the speculative bubble

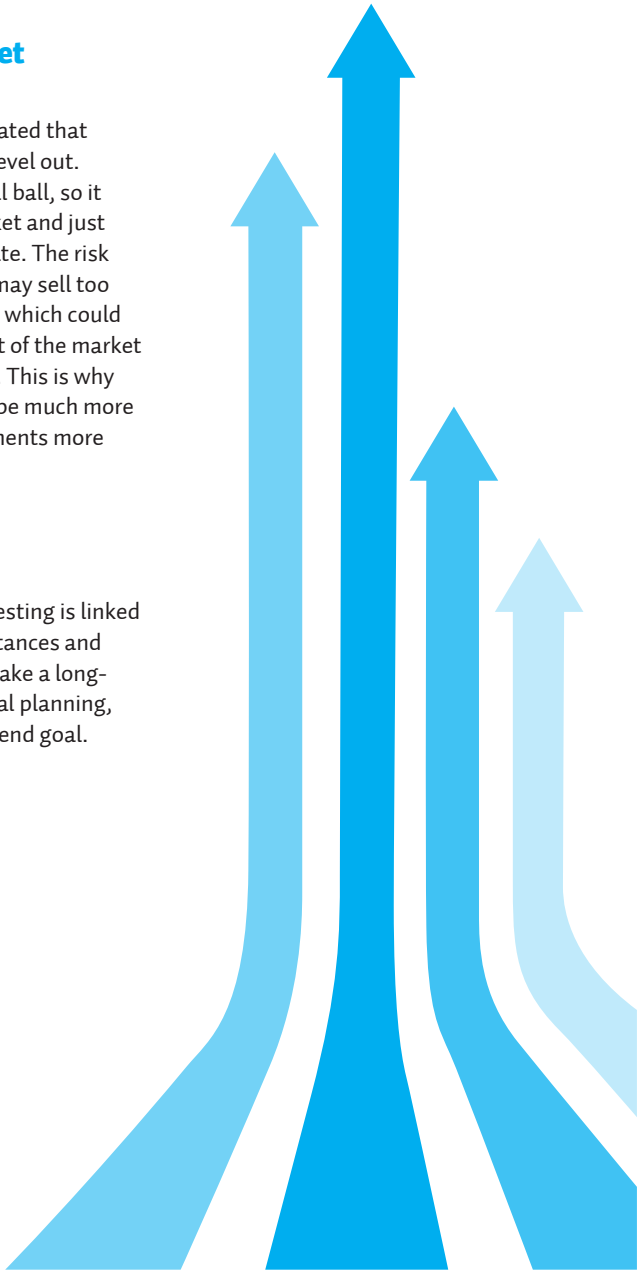
There can often be an explosion of interest in the price of some stocks and shares, fuelled by social media. At such times, it might be tempting to get involved and make a quick profit. Do not be attracted, however, by these speculative bubbles. As more people buy a stock, the price of the share rises, which appears to prove the speculator right. This attracts even more speculators, with the price just getting higher and higher. Unfortunately, the main losers in such a scenario are the last investors to buy the stock. Worried that they will miss out, they buy at the highest price. When they do decide to sell their shares, they often struggle to find a buyer and the value has fallen dramatically.

Why time in the market is important

Recent events have demonstrated that peaks and troughs generally level out. None of us, sadly, has a crystal ball, so it is impossible to time the market and just dip in and out when appropriate. The risk of trying to do so, is that you may sell too early and buy back in too late, which could result in your money being out of the market at the very time that it surges. This is why time in the market is likely to be much more beneficial, giving your investments more time to recover.

Keep focused on your long-term goals

Remember, the reason for investing is linked to your own personal circumstances and objectives. Stay rational and take a long-term approach to your financial planning, always keeping an eye on the end goal.



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