# Investment News

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# Investing for the long term – lessons from the past

**The emergence of COVID-19 brought a rapid end to the drawn-out recovery of major stock markets from the share price lows associated with the financial crisis a decade ago. When the scale of the threat to lives and livelihoods became apparent, market analysts and investors reassessed the global economic outlook and corporate prospects; they didn't like what they saw and a wave of selling followed, with inevitable consequences. Most share prices, and thus stock indices, were impacted.**

Market analysts and investors aren't infallible, but when something like COVID-19 strikes they get nervous because closed borders, flight bans and lockdowns can pose a threat even to large companies, especially in exposed sectors. Axed dividends and distressed rights issues are anathema to the jittery; and the largest blue-chip companies aren't immune. Little wonder then that the 100 shares comprising the UK's blue-chip share index, the FTSE 100, rapidly lost about one-third of their combined value before regaining some composure.

## Lessons from history

Created in 1984 with a starting level of 1,000 points to provide a wider index of leading shares quoted in London, the FTSE 100 largely superseded the narrower Financial Times 30-share index launched in 1935. As a barometer of economic outlook and corporate prospects, the FTSE 100 has gauged a few storms over the past 36 years. A chart of its progress reveals a plethora of spikes and dips, the starkest of which can be associated with key events in recent financial history.

Chart: **FTSE 100 from inception to March 2020**
https://tradingeconomics.com/united-kingdom/stock-market
Not the first FTSE 100 dip

After its launch on 3 January 1984, the FT's new share index only slipped very briefly below 1,000 points that year. It then made progress, sometimes faltering, to hit 2,000 points by March 1987, by then buoyed by the effect of the previous October's 'Big Bang' modernisation of the London Stock Exchange's trading structure. Six months of further upticks followed and the index broke through 2,350 in early October 1987. It would be two years before that level was attained again.

On 19 October 1987, the Monday after The Great Storm ravaged Southern England, global stock markets suffered a crash so severe that the day became known as Black Monday. A tsunami of selling, much of it blamed on new-fangled computer-program trading, rapidly took the FTSE 100 down to around 1,600, starting with an 11% drop on the Monday and 12% the next day.

## The ascent of the 1990s

Share-price recovery was slow, hampered by a short UK recession in 1991-92 caused in part by high interest rates and an over-valued pound associated with efforts to keep sterling within Europe's exchange rate mechanism. After Chancellor Norman Lamont took sterling out of the ERM in September 1992, having spent billions and upped base rate to 15% trying to stay in, the index gained about 14% in six months.

As 1994 dawned, a decade on from its launch, the FTSE 100 stood at around 3,400; although then, as now, changes had been made to its constituent shares as companies' respective market capitalisations waxed and waned. Concerns about the economy and tax plans dampened sentiment and the index fell below 3,000 during the first half of 1994 before starting a five-year ascent to break the 6,000 barrier in the summer of 1998. After a 500% rise in 14 years, what came next for the FTSE 100?

## A 1,000-point drop

High interest rates and other threats to UK economic growth and even talk of an impending recession brought a 1,000-point drop in the FTSE 100 in the autumn of 1998, almost all of it recovered by the year-end. General bullishness continued through 1999, which ended with the index nudging 7,000. As the year 2000 unfolded, a combination of overvaluation, epitomised by the rapidly inflating 'dotcom bubble', and a global economic slowdown brought further investor jitters.

The bull market had marched the FTSE 100 up the hill; the ensuing three-year bear market marched it back down again to around 3,600 in the spring of 2003. The index would take another five years to climb back above 6,500, where it was delicately poised for the next big shock: the 2008 collapse of US investment bank Lehman Brothers and the cascade of failures prompting what became known simply as 'the global financial crisis'. By March 2009, the index was down around 3,500 again.

## Long term trend

It was a long haul back from there for the FTSE 100 but, after gyrations associated with various stages of the Brexit process, the start of 2020 saw it comfortably above 7,000. News of a new virus outbreak in an unfamiliar Chinese city seemed at first like a distant threat. As the outbreak turned into a pandemic, global markets faltered again and the FTSE 100 headed below 5,000 before recovering some of the loss. COVID-19 has brought a reset of the blue-chip barometer, the FTSE 100 index.

Despite a variety of market shocks and rebounds, the index still has a long term growth trend. It is important to remember that some market volatility is inevitable; markets will always move up and down. As an investor, putting any short-term market volatility into historical context is useful.

Financial advice and regular reviews are essential to help position your portfolio in line with your objectives and attitude to risk, and to develop a well-defined investment plan, tailored to your objectives and risk profile.

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.

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# Juggling the Jargon

Are you aggravated by financial acronyms? You're not alone! Do you sometimes feel as though acronyms are taking over the English language? Since the advent of 'texting' we have prioritised speed over spelling and grammar.

Of course, there are other situations where the need to convey time-critical information makes the use of acronyms helpful. For example, the military and emergency services use them frequently when out in the field, to deliver safety-critical and location-precise information, without risk of misunderstanding. To do our job properly, we need to communicate information in such a way that it is clearly understood by our clients. Advice that is not understood is not advice – and acronyms don't help.

## Are you DB or DC?

The language of the pensions and investment industry is riddled with acronyms – to the point where it becomes like a secret code, designed to baffle anyone without years of industry knowledge. Do you need to know whether you can make AVCs to your SIPPs before you reach NRA or do you just want to know whether you should be adding to your pension pot from your own pocket before you retire? Are you aware of the differences between a DC (Defined Contribution) and a DB (Defined Benefit) pension scheme? A DC pension scheme is based on how much has been contributed to your pension pot and the growth of that money over time, a DB plan is set up by an employer and offers you a set benefit each year after you retire.

## G&T Anyone?

The latest 'new kid on the block', Responsible Investment, brings a whole new set of acronyms and code words. Overseen by the UN-backed PRI (Principles for Responsible Investment), the concept of sustainability hinges on whether an investment takes ESG (Environmental, Social and Governance) issues into account. Sometimes you begin to wonder whether new acronyms are being invented just for the sake of it. At the extreme end of responsible investing is 'impact investing' which is designed to deliver a measurable social or environmental benefit. The Global Impact Investing Network (GIIN, pronounced 'gin') is complemented by an associated membership organisation called Toniic.

## Talking Plain English

We are great fans of plain English. We recognise that if people are to take informed decisions about their financial futures, then they need to understand the options properly and that means we need to take time to talk them through those options clearly and without resorting to confusing financial jargon. We take pride in communicating in plain English, keeping our customers informed with product information, news updates and publications that are – as far as humanly possible – acronym free. You can rely on us to stay on your wavelength and talk in plain English.

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# Tax-efficient investing across the ages

As investors progress through the various stages of life, their investment priorities as well as their financial goals will inevitably change. However, whatever life stage you are at, it's always important to take advantage of any tax-efficient investment opportunities available to you.

## Generation Alpha

The principal tax-wrapper available to the youngest generation (new-borns to 18-year-olds) is a Junior ISA (Individual Savings Account). Changes announced in the Spring Budget mean parents, grandparents and family friends can invest up to £9,000 a year in a Junior ISA from 6 April 2020, with the proceeds free from dividend, income and capital gains tax. Another tax-efficient investment option for Generation Alpha is a junior pension which allows a maximum contribution of £2,880 per year – equivalent to investing £3,600 when topped up by government tax relief.

## Generation Z

This cohort includes 11 to 23-year-olds, with younger members still being eligible for both a Junior ISA and junior pension. Older Generation Z could also open an adult ISA and those in paid employment will be eligible for a workplace pension. Another opportunity open to older members of this group is a Lifetime ISA, which allows adults under the age of 40 to invest up to £4,000 a year to fund the purchase of a fi st home or for retirement, with government adding a 25% bonus up to a maximum of £1,000 per year.

## Millennials

Buying a home will inevitably be a key financial oal for members of this group (24 to 39-year-olds), which means a Lifetime ISA is usually an investment priority. While extra commitments mean cash is not always plentiful at this stage of life, if possible, Millennials should also direct regular amounts, large or small, into an adult ISA in order to take advantage of the overall £20,000 annual allowance. Making additional pension contributions can also be an effective tax-efficient savings trategy for this group.

## Generation X

Members of this cohort, aged between 40 and 55, will often be at the peak of their earning prowess. Financial demands also tend to reduce at this life stage which means Generation X often have the resources to maximise ISA investments. With retirement looming, members of this group are also generally keen to boost pension savings, particularly higher rate taxpayers who qualify for extra tax relief on contributions.

## Baby Boomers

This group includes 56 to 74-year-olds and maximising pension contributions is likely to be a key tax-efficient in estment strategy for its pre-retired members. Baby Boomers will also be able to take advantage of the 25% tax-free lump sum they can withdraw under the pension freedoms rules. Cash ISAs are also likely to feature more prominently for members of this group, particularly those who are retired.

OW2688 EXP 05.04.21

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

# The university challenge for students and parents

**Sending your child off to university may empty the nest and result in lower utility and food bills at home, but these small economies pale into insignificance compared with the full cost of supporting a child through tertiary education, possibly in a distant city.**

The debate about the fairness, or otherwise, of saddling a young person with the burden of a five-figure debt in exchange for a bachelor's degree rumbles on. Running up an overdraft has always been a feature of student life, but in 2019 the average student debt on completion of study was £35,950.

## Tuition fees only cover tuition

After tuition fees (at up to £9,250 per year), the biggest costs of going to university are – of course – the essentials: accommodation, food, books and travel costs. Unlike tuition fees, these costs aren't covered by the student loan – although a maintenance loan is available on a means-tested basis.

In university cities, the provision of student accommodation is big business, with universities having invested heavily in the provision of top-class halls of residence and many private landlords having converted former family homes into houses of multiple occupation (HMOs), so that each room can be rented out for maximum return. Students may also be faced with high travel costs as UK rail fares are currently estimated to be five times higher than in the rest of Europe, meaning the 30% discount offered by the 16 - 25 railcard is small comfort.

## Bank of Mum & Dad

A 2019 Which? survey of 800 parents of current or prospective university students revealed that more than half of them were surprised by the costs involved with supporting their children. A third of respondents reported having to dip into their savings to help with rent and food costs, and one in four parents said that they were cutting back on their own spending, including forgoing holidays, home improvements or new car purchases, to be able to help. A further six percent of those surveyed had resorted to taking on a second job.

## Reduce stress, both now and in the future

Do you worry about your income and how you and your family would cope if anything happened to you? Are you ever concerned that you might struggle to keep a roof over your head? One way to rid yourself of these niggling worries is to take out protection cover. With only 44% of 18 to 35-year-olds saying they could cope for more than three months on their savings if they lost their income due to illness or injury, it's more essential than ever to plan for these eventualities.

## Financial planning makes sense

Wherever possible, planning ahead to cover university costs makes sense. Ideally, this should be from birth, but the sooner the better. The longer the timescale, the more scope there is for investments to grow. There are plenty of options to consider and it may be wise to involve wider family, such as grandparents, in the planning.

Investing in a Junior ISA (JISA) every year is one option. The 2020–21 annual limit is £9,000 per child, which can produce a useful sum, accessible on the child reaching 18.

Above all, it's important to take expert advice, rather than attempting a DIY solution. Contact us for advice on JISAs and other savings and investment products, to enable family members to help with university and life beyond, whilst also providing for their own future needs.

*The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.*

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