WEALTH MANAGEMENT ALERT

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Are your clients' portfolios aligned with the new investment landscape?

The last decade, 2010-2020, could be seen as a bumpy one for investors. It started with the financial crisis, during which banks were bailed out and interest rates fell to all-time lows. It continued with a certain amount of volatility, driven in part by the election of President Trump, and ended with much of the world's economy shut down due to COVID-19.

It may therefore come as a surprise to some clients that during this time equities around the world have risen to all-time highs. However, it is important to understand that by the end of the decade the investment landscape had shifted significantly. The funds that were delivering good returns at the beginning of the decade are not necessarily those that are delivering good returns now. What does this mean for clients' investments, whether held in pensions, ISAs, investment bonds or as direct holdings?

In a word (or two), it depends. Good fund managers have managed this transition well others less well. While it is usually advisable to hold investments for the medium-to-long term, say five-to-ten years, as there is a cost attached to switching funds, clients who have not reviewed their investment portfolios for a year or more should do so now, preferably by consulting an independent financial adviser, such as ourselves.

What has changed?

Quite a few things, actually. For a start, the economy became global, in part because technology has become an intrinsic part of everyday life, for individuals and businesses, for better and for worse. And much of it can be deployed globally. It is therefore no surprise that funds focusing on global investments have produced attractive returns over the past decade*. A diversified portfolio should probably include some exposure to global funds. However, UK investors with money in global funds need to understand that their returns are likely to be affected, negatively

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Remind clients the Child Trust Funds are maturing

We recommend reminding clients with children who have turned 18 since last September that their child's Child Trust Fund (CTFs) has now matured and the child is therefore able to access their savings.

It is important that the now adult teenager instructs the provider of their fund either to cash in their nest egg or transfer it into an adult ISA. If they don't give instructions the provider will put the money into a 'protected account' where it will earn next-to-no interest until they receive instructions.

While the young adult might be tempted to spend the money, this is a good opportunity to get them interested in long-term investing. According to the Office for National Statistic, the average amount in a CTF at maturity is £650. However, if the teenager is lucky enough for their account to have been topped up they could find that they are sitting on £20,000 or more.

While the teenager may be more interested in non-fungible tokens or opening a Robinhood account, transferring this money into an adult ISA having consulted an independent financial adviser could be a more sensible option. By doing this, the money would retain its tax-free status, with any additional gains and income available to take tax-free. The nest egg could form the basis of a diversified investment portfolio with the potential to grow over the medium-to-long term, perhaps one day to be used as the deposit on a first home. The parents could consider contributing to the ISA, within the usual annual limits.

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and positively, by currency fluctuations. As ever, it is important to take independent financial advice before investing.

Secondly, many UK companies – and their share prices – were impacted by the uncertainty surrounding the BREXIT deal and continue to experience difficulties as they get to grips with the new rules. In some instances these difficulties have been compounded by COVID-19 restrictions. Companies operating purely in the domestic market have not faced these difficulties. Many have responded quickly to COVID-19, adapting their business model accordingly. They innovated to keep food and goods flowing, developed vaccines in record time and, remarkably, to tackle climate change. UK-focused funds are generally the starting point for clients building an investment portfolio, but clearly choosing a suitable fund is essential. While most people think of FTSE 100 companies, over the last decade UK smaller and medium companies have produced higher returns*, reflecting the fact that smaller companies tend to be more nimble than big corporates when it comes to adapting their business model.

The last ten years haven't been as successful for everyone. Energy and commodity funds have fared less well since 2010, although some say that this is about to change.

Don't try to time the market

This brings us on to the next issue. Good investing is about picking good companies – it's not about timing the markets. With share prices close to all-time highs, some clients might be reluctant to invest now. However, savings in cash are being eroded by inflation and it is generally accepted that over the longer-term putting money in a suitable, diversified investment portfolio is likely to produce better returns than cash savings accounts. Picking good companies requires extensive knowledge and research, which is why most people leave this to the experts and put their money in investment funds.

Choosing investment funds

Picking funds to invest in right now is difficult. Clients need to choose ones that are aligned with the current investment landscape and with their investment objectives and attitude to risk – and these are not necessarily the ones that have performed well over the past five or ten years. They also need to diversify, for instance between sectors and geographical areas. Finally, clients mustn't expect a fund manager to do well in every market condition. Yet with a suitably diversified portfolio of investment funds they will be positioned to benefit from potential gains over the next decade.

Expert independent investment advice for your clients

We are experienced, independent financial advisers. We specialise in working closely with accountants in order to provide independent financial advice to people with complex financial affairs, such as business owners, the self-employed, people whose income is irregular and those who have accrued considerable assets, whether via businesses, investments, property or inherited.

Not taking independent financial advice could prove costly for clients in many ways.

To discuss how we could work together to help your clients make the most of their finances please contact me.

Email Mark Dallas, Managing Director, LighthouseCarrwood Limited at mark.dallas @lighthousegroup.plc.uk.

* Citywire Fund Insider.

Sustainable investing goes mainstream

Ethical and 'green' investment funds have been around a while and, although popular with some investors, have until recently mainly remained on the fringe. This has now changed. Over the past few years the number of funds focusing on environmental, social and governance (ESG) has increased significantly, as has the amount of money investors have placed in ESG funds. As a result, making investment choices based on ethics no longer necessarily involves compromising on long-term performance, as has been demonstrated over the last year or so.

A shift in definition has also helped. It is now not so much about avoiding the so-called 'sin' stocks such as tobacco, arms manufacturing and gambling. Rather it is about backing companies that may be able to help solve come of the biggest challenges the world currently faces, notably reducing the impact of climate change.

Clients wanting to make 'sustainable' investments need to do their research – or preferably take independent financial advice before investing. Some funds specialise in certain aspects of sustainability, for instance, green energy, some have a global approach, while some focus on companies positioned to do good and others exclude companies that they consider to be harmful.

The value of your investments can go down as well as up, so you could get back less than you invested. 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. Tax advice which contains no investment element is not regulated by the Financial Conduct Authority. Enterprise Investment Schemes (EIS) invest in assets that are high risk and can be difficult to sell such as shares in unlisted companies. The value of the investment and the income from it can fall as well as rise and investors may not get back what they originally invested, even taking into account the tax benefits.