P&P FINANCIAL
CARE CONSULTANCY LTD

Field View House, 72 High Street, Winterbourne, South Glos. BS36 1JQ
T: 01608 652565 M: 07980 221236 E: info@pandpifa.co.uk W: www.pandpifa.co.uk

Your Wealth Autumn 2020

Inside this issue

In the news
Be on your best investor behaviour
Dividend cuts – a prudent measure?
100-word briefing: role of the FCA
ESG – investor interest piqued?
Safeguarding large balances
An uncertain recovery for the global economy

Farewell cash – my old friend

Without doubt, the pandemic has accelerated the trend toward a cashless society, with both credit and debit card usage soaring and *"sorry, we don't accept cash"* becoming a well-versed refrain in shops, as fears increased that handling cash could accelerate the spread of the virus. The maximum contactless spend was increased from £30 to £45 on 1 April to facilitate this.

Recent data shows that 66% of Mastercard transactions in the UK are now contactless and 45% of people responding say that they have used cash less during the crisis[1].

Predictions of the death of cash can't solely be attributed to the pandemic, however. Debates encompassing a cashless society certainly pre-date lockdown, with trends such as online and mobile banking, the rise of contactless payments and the withdrawal of cash machines being features of modern society for a while.

However, it seems cash is still a necessity for 25 million people[2]. So, although cash usage is reducing, it will be vital to maintain access to cash for certain groups of society, including the elderly. A 100% cashless society assumes that every person has the means, technological know-how and ability to pay by card for every transaction, but we're not there yet.

[1]Mastercard, 2020, [2]Age UK, 2020

COVID – a true black swan event?

The severity of the impact of the pandemic on economies and societies around the globe has been overwhelming; it seems not one person has been free of its force. However, critics are unrelenting in their claims that the ramifications could (and should) have been anticipated. Does this make COVID-19 qualify as a 'black swan' event?

As devised by financial theorist and writer Nassim Nicholas Taleb, the expression 'black swan' denotes any event that is extremely rare, has a severe impact and cannot be predicted, although after the event, people will rationalise it as predictable. The term is based on an ancient saying that assumed black swans do not exist.

Black swans of the past

By way of example, the history pages contain a number of black swan events such as the Spanish flu outbreak (1918), 'Black Monday' (1987), the 9/11 terrorist attacks (2001), the dotcom bubble (bursting 2001), the SARS outbreak (2003) and the global financial crisis (2008).

Textbook case?

Although COVID may present as a textbook case, some commentators are arguing that it fails to constitute a black swan event. Rare? Maybe. Severe impact? Absolutely. Unpredictable? Perhaps not.

Back to the history books. They teach us that major outbreaks of infectious diseases do occur. In addition, Barack Obama, Bill Gates, George W. Bush – and Nassim Nicholas Taleb – have all delivered ominous warnings about what could happen if we failed to prepare for future pandemics. Based on this, is it plausible to say the coronavirus pandemic was entirely unpredictable?

A fine line?

Those who say it does qualify as a black swan have signposted the exceptional brutality and rapidity with which the virus spread and impacted financial markets. One financial commentator added: *"It has been incredibly fast-paced... The speed and ferocity has been utterly breathtaking."*

Conversely, Taleb advocates that the virus does not fit his description. You can't dispute that it has had a major impact on the global economy and people's lives, but there are also multiple examples of severe global outbreaks, including SARS, Ebola, and the H1N1 influenza pandemic – from the 21st century alone.

Be prepared

Whether the pandemic qualifies as a black swan event or not, history has taught us that black swans come along every so often and are an inevitable part of life for long-term investors. You can rely on us for expert advice and guidance to navigate the road ahead, and to ensure your finances are as well prepared as possible for all eventualities.

sample

The value of investments and income from them may go down. You may not get back the original amount invested.

In the news

Private pension age set to increase

After years of speculation, the government have confirmed that the private pension age will rise from 55 to 57 in 2028. So, those retiring in future will have to wait a couple of extra years before accessing their pension.

CGT – fit for purpose?

Rishi Sunak commissioned a review of Capital Gains Tax during the summer, to find out whether the current system is fit for purpose and to identify simplification opportunities. The Office of Tax Simplification (OTS) published a call for evidence and an online survey. The OTS commented, there have been, *'several changes to CGT'* over the last ten years and that it *'may be helpful to consider the tax again in the current climate.'* They will investigate the applicable rates, reliefs, exemptions, allowances and overall scope of the tax. We will update you on any developments.

Fund inflows on the up

Although March saw the highest ever monthly outflow from retail funds, in Q2 UK savers invested more in the quarter than they did in the whole of 2019. Data shows that £11.2bn was invested in funds such as unit trusts and open-ended investment companies during the quarter, compared with £9.8bn in 2019[3].

Be on your best investor behaviour

It's all too easy to let emotions influence investment decisions in times of market volatility. After all, it's human instinct to be responsive, but resisting the urge to take flight can prove rewarding. Take it back a few million years to prehistoric times; the fight or flight reaction meant the difference between life and death, survival depended on decisive action. As an investor, controlling these hard-wired behavioural biases and resisting the urge to panic, can prove beneficial.

In March, as markets reacted to the unfolding pandemic, in just one month, retail investors sold investment funds worth £10bn[3], with many selling as the stock market was falling to its lowest level in eight years. By reacting and choosing this course of action, they missed out on the ensuing market bounce of nearly 30%.

Hindsight is a marvellous thing

Yes it is; but when it comes to investor behaviour, having foresight, i.e. insight gained by looking forward, is far more valuable because markets tend to bounce back over time. Although it obviously can't be guaranteed.

Various factors feed into people's responses to different market occurrences, for example – what your objectives are, your risk tolerance, emotions, preferences, beliefs and past experiences. These can all result in different investor behaviour. Just one chosen scenario, a market fall, can lead to different behaviours: halting investing until markets become more stable, selling in case it's the start of a market decline, or seeing a market correction as an opportunity to invest. Some beliefs may result in successful investment outcomes, others in behavioural biases that are counterproductive and imperil the chance of achieving your financial goals.

Kicking those behavioural biases into touch

We all suffer from some biases, the best mechanism to prevent knee-jerk reactions and defend against the influence of your biases, is to follow a robust, disciplined, well thought-out investment process. Investing with a clear idea of what you want to achieve will determine how we structure your investments. You have a better chance of achieving your goals if you use them to frame all investment decision-making, whether you're building a university fund or your retirement nest egg.

We take the time to understand your objectives, apply a thorough investment process and advise you on the strategy most appropriate for your circumstances.

sample

[3]The Investment Association, 2020

The value of investments and income from them may go down. You may not get back the original amount invested. A pension is a long-term investment. The fund value may fluctuate and can go down. Your eventual income may depend on the size of the fund at retirement, future interest rates and tax legislation.

Dividend cuts – a prudent measure?

It has been a challenging time for UK dividends. In the second quarter of the year, they experienced their biggest quarterly fall on record, declining by 57% (over £22bn). At least 30 companies reduced their dividends, with a further 176 cancelling them entirely.

Despite this, several fund managers regard these measures as a prudent move, as businesses take action to preserve their capital expenditure:

"In ordinary times, a dividend cut is a sign of failure. In these exceptional circumstances, however, it reflects sensible short-term capital allocation."

Martin Cholwill, Royal London

"The pandemic has resulted in a great deal of uncertainty for all businesses. Even those whose trading has been unaffected, have still faced issues with supply chains and distribution networks. So, reducing capital expenditures like dividends is prudent. There have been some big cuts but what is key is what happens over the longer term. Dividends will be back, but for now, balance sheets and liquidity are paramount."

Richard Colwell, Columbia Threadneedle

"The rebasing of dividends across the UK stock market is an opportunity for companies to reallocate capital more sensibly."

Carl Stick, Rathbone Unit Trust Management

100-word briefing: role of the FCA

Created in 2013 alongside the Prudential Regulation Authority, the Financial Conduct Authority is responsible for the conduct regulation, and in many cases also the prudential regulation, of around 60,000 financial firms that include advisers and asset managers. It aims to ensure that markets work properly and competitively, thus helping to protect both the UK financial system and consumers of financial services and products. It applies proportionate attention to issues and firms to reflect the risks they pose, working with consumer, trade and professional bodies as well as other regulators. The FCA's new chief executive Nikhil Rathi will be paid £455,000pa.

ESG – investor interest piqued?

According to recent figures[4], UK-based ESG funds saw record inflows between March and July this year. In July, £362m was invested.

Investing according to environmental, social and governance (ESG) principles has been a fast growth area, but you may be left wondering – what does it all mean? ESG refers to three factors used by investment companies to evaluate corporate behaviour. By assessing these factors, investment companies measure the ethical impact and sustainability of an investment.

- **E**nvironmental criteria – includes waste management, carbon emissions and air/water pollution
- **S**ocial criteria – includes data security, human rights and labour standards
- **G**overnance – includes board diversity, executive remuneration and business ethics.

There used to be a perception with sustainable and ethical investing, that investors were prioritising principles over profit and that investing in this domain was generally considered to be higher risk compared with traditional counterparts. However today, with a wider choice of ESG products to invest in, this style of investing can generate sustainable long-term stable returns. Over the 12 month period to 1 July 2020, a study[5] of 140 ethical unit trusts outlined that those in the ethical category achieved better levels of growth than their non-ethical counterparts, growing by just over 4% compared to a contraction of nearly 1.5% for investments not in the ethical category. Over a five-year time scale, ethical investments achieved just over 41% compared to nearly 32% for those not listed as ethical. Choosing investments based on ESG principles offers no guarantee of performance but, as part of a diversified portfolio, they can allow you to make a positive impact without having to forfeit the prospect of investment return.

[4]Reuters, 2020, [5]Moneyfacts, 2020

The value of investments and income from them may go down. You may not get back the original amount invested.

sample

An uncertain recovery for the global economy

The extent of the impact of the pandemic on the global economy became apparent over the summer, following the release of Q2 data. With lockdowns causing acute economic disruption, a series of countries reported record falls in output. Despite this, and although uncertainties are still inflicting economic stress, various economists expect the sharpest declines have passed, but the advancement of recovery is ambiguous.

The UK economy was hit particularly hard; preliminary Q2 gross domestic product (GDP) statistics highlight a 20.4% reduction in output in Q2, the country's largest ever quarterly decline. Meanwhile, Q2 output across the Eurozone contracted 12.1%, with Spain suffering the largest decline, its economy shrinking 18.5%. Estimates for the US suggest the economy shrank at an annualised rate of 32.9% in Q2, the most severe decline since government records began over 70 years ago.

A recovery of sorts?
On home shores, the Office for National Statistics said the decline was concentrated in April at the height of lockdown, which stands to reason. As restrictions eased, the UK economy started to bounce back in June. In China, the world's second-largest economy, recovery seems underway. The economy returned to growth in Q2, growing 3.2%. This follows a historic 6.8% Q1 slump, China's first contraction since at least 1992 when records began.

In a downgrade from previous projections, the International Monetary Fund (IMF) predict the global economy will shrink 4.9% in 2020. This amendment considers the prospect of social distancing restrictions applying for a longer period and the impact on consumer spending as a result. Voluntary social distancing measures adopted by people who are wary of exposing themselves to the risk of infection is also expected to impact.

"There are important downside risks"
It seems inevitable at the moment that these will remain uncertain times. Next year, the IMF forecast the global economy will expand 5.4%; but they emphasise there is a higher-than-usual degree of uncertainty encircling its predictions. Gita Gopinath, IMF Chief Economist added: *"The strength of this recovery is highly uncertain. On the one hand, you could get positive news, you could have better news on vaccines and on treatments and greater policy support, and that can trigger a faster recovery. But on the other hand, there are important downside risks, too, which is that the virus could come back up. You could have financial tightening that could lead to debt distress. So, there are both upsides and downsides."*

Rest assured, we remain on hand to navigate any uncertainty.

Sample

Safeguarding large cash balances

As concerns have intensified over the last few months regarding the stability of financial institutions, the Financial Services Compensation Scheme (FSCS) has taken steps to extend its protection for savers with temporary high cash balances.

In addition to the protection provided for deposits with banks, building societies and credit unions of £85,000 per person, further protection for consumers with temporarily high balances of up to £1m also exists and has been extended due to the pandemic. Having a large balance for a short period of time is inevitable in certain situations, such as a house sale, redundancy, divorce settlement or an insurance payout.

In normal circumstances, these temporary high balances are protected for six months, with the FSCS automatically paying compensation if the financial institution failed. However, from 6 August 2020, the FSCS extended its coverage to 12 months. The scheme will revert to a six-month cover period from 1 February 2021.

This temporary extension addresses consumers' concerns that money could be on deposit for longer, due to a slowdown in the banking system and reduced access to banking services for many people. FSCS Chief Executive Caroline Rainbird commented, *"The coronavirus pandemic has been very worrying for everyone, and people are understandably concerned about the possibility of losing their temporary high balance should their deposit taker fail. The temporary extension of FSCS's protection from six to 12 months will do much to reassure them should the worst happen during these uncertain times."*

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.

It is important to take professional advice before making any decision relating to your personal finances. Information within this document is based on our current understanding and can be subject to change without notice and the accuracy and completeness of the information cannot be guaranteed. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from, taxation are those currently applying or proposed and are subject to change; their value depends on the individual circumstances of the investor. No part of this document may be reproduced in any manner without prior permission. 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. If you withdraw from an investment in the early years, you may not get back the full amount you invested. Changes in the rates of exchange may have an adverse effect on the value or price of an investment in sterling terms if it is denominated in a foreign currency. Information is based on our understanding of taxation legislation and regulations. Any levels and bases of, and reliefs from taxation, are subject to change. Tax treatment is based on individual circumstances and may be subject to change in the future.
P&P Financial Care Consultancy Limited do not hold any responsibility for the accuracy of the information which is provided by TOMD.
P&P Financial Care Consultancy Limited is an appointed representative of The Whitechurch Network Limited which is authorized and regulated by the Financial Conduct Authority.
Registered in England and Wales No.07897683. Registered Office: Penrose House, 67 Hightown Road, Banbury, Oxfordshire OX16 9BE.