moneyworks

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The road to recovery

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Window of opportunity

The government has introduced a stamp duty holiday until next Spring – so is this the right time to move home?

Protecting what's yours

The pandemic has caused us all to reassess our priorities, treasure the people who matter to us most and re-evaluate how we can best look after them.

Finding the right investment approach

The coronavirus market volatility has thrown into focus a familiar discussion about whether to invest in active or passive funds.

anderson sinclair & co LLP

The essential consumer guide to making your money work harder.

Welcome

Six months after the world went into coronavirus meltdown, the true impact the pandemic has had on the global economy is still only starting to emerge.

Jobs have been lost, savings have been ravaged and the financial future for many remains as uncertain and unsettled as it did when we first went into lockdown.

It is a scenario nobody could ever have envisaged and one that has forced us to re-address our finances and priorities like never before.

But while it has been a bleak outlook for many it doesn't necessarily mean all is lost and there are a number of opportunities now available to help the UK economy get back on its feet.

One such opportunity arose after the government introduced a stamp duty holiday on all house purchases worth under £500,000 until next Spring.,

At his emergency mini budget in July, Chancellor Rishi Sunak said nearly nine out of 10 people buying a house this year will avoid paying any stamp duty, but what impact will this have on the housing market and is now really the right time to move home?

The inevitable market volatility that followed the outbreak and the impact this has had on people's investments has turned the spotlight on whether now is the time to invest in active or passive funds and in this issue we ask is it better to trust your money with a fund manager who actively makes expert decisions or should you invest into a passive fund, which is set up to track a market?

Finally, we look at how the pandemic has forced us all us to reassess our priorities and why there has been a surge in people looking to make Wills, take out new insurance cover and protect the people who matter to us most.

In such uncertain times, it is vital not to make knee-jerk reactions and seeking financial advice will help ensure you are in the strongest position based on your individual circumstances.

Wishing you all the best,.

The **moneyworks** team

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The News in Brief

A round up of the current financial stories.

Ethically rewarding

In these socially conscious times, investing into ethical funds can be a positive way of doing even more to help make the world a better place. And it can also be more financially rewarding.

July 2020 research from Moneyfacts found 140 ethical unit trusts had grown by an average of just over 4% over the past 12 months (up to 1 July 2020). In contrast, funds that don't fit the ethical category fell by an average of 1.5% over the same period.

This trend is mirrored over the longer-term as well. Over the past five years, ethical investments grew by an average of 41% – out-performing non-ethical funds, which gained 32%.

https://bit.ly/3fBnDd3 (Moneyfacts)

UK one of the worst countries in Europe to retire

A June 2020 study by Blacktower Financial Management Group has assessed which European countries are best and worst to retire this year. And, sadly, the UK doesn't score brilliantly.

The research ranked the UK 25th out of the 37 nations it looked at. They assessed a range of key factors, including each country's crime rates, cost of living, life expectancy, property prices and population age. This placed Finland as the best European country to retire. Ukraine was ranked the worst.

The UK was rated 17th when the same study was carried out a year earlier.

https://bit.ly/3ki8b9h (Express)
https://bit.ly/31u7BfW (Blacktower FM)

The inheritance battle

The number of high court battles over receiving an inheritance is at an all-time high, according to Ministry of Justice data. These disputes relate to people trying to claim a bigger share of a deceased's estate, with the number of high court cases rising by 47% in 2019 compared to a year before.

The importance of receiving a large inheritance is weighing on a lot of people's minds, separate research from Hargreaves Lansdown has found. 17% of adults anticipate inheriting a significant sum, with nearly two-thirds of them relying on it for future financial needs.

Yet the Resolution Foundation believes people are likely to receive an inheritance later in life – adding that people who are aged 20-35 now will, on average, have to wait until they're 61.

https://bit.ly/31qTecj (This is Money)
https://bit.ly/2C4JsUL (IBB Law)

Millions of people push saving into a pension down the to-do list

The shifting financial priorities of the coronavirus have caused some three million people to reduce or completely stop paying into a pension, according to June 2020 research by Scottish Widows.

This amounts to one in 10 working adults – roughly a quarter of whom admit they have done so because they are concerned about paying for essentials like food and energy. One in five said they have seen their income fall because of the pandemic.

The problem is even greater amongst self-employed people. Two out of every five have seen a drop in their income during lockdown, prompting one in five to suspend or reduce their pension contributions.

https://bit.ly/2PvU4z2 (Money Observer)

Your home may be repossessed if you do not keep up repayments on your mortgage.

Window of opportunity

The government has introduced a stamp duty holiday until next Spring – so is this the right time to move home?

The housing market was one of the first areas to reopen from the coronavirus lockdown, but it remains a challenging time to buy a home. Mortgage lenders have taken a more cautious approach, especially for those people who have smaller deposits.[1] Millions of people remain furloughed, which also makes it harder to find a lender who will accept a mortgage application.[2]

Yet there is hope that housing market activity will pick up significantly over the coming months after the government announced in July it is suspending stamp duty on all house purchases worth under £500,000 until next Spring. The chancellor Rishi Sunak added, "Nearly nine out of 10 people buying a main home this year will pay no stamp duty at all."

Stamp duty is a tax people usually have to pay when buying a home for over £125,000. The tax is 2% on the property value between £125,000 and £250,000, and 5% on property worth £250,000 to £550,000. So if you were buying a home worth £300,000, for example, you'd have to pay out £15,000 in stamp duty.

Buyer's market

Not surprisingly, the stamp duty holiday has been greeted positively by would-be homebuyers. The property website Rightmove has reported a record number of visits[3] and in London, house sales have rocketed by 27%.[4]

The fact the stamp duty holiday is until 31 March 2021 is leading to a lot of people changing their intentions. For example, if you were planning to move home in the near future, this might be a reason to speed up your plans so you can save money. As a result, we are likely to see a lot more properties coming on to the market.

Such an influx can have positive and negative implications. If you're ready to take that next step on the property ladder, more choice means there's a greater chance of finding a home you really want. As you don't need to worry about paying stamp duty, it might also mean you can afford something a little more expensive than you planned or are able to use the money saved to pay for home improvements.

Tread carefully

But there are potential pitfalls too. Critics of the government's initiative have suggested it will lead to house prices being over-inflated during this window.[5] If prices do prove artificially high, they could collapse when stamp duty is reintroduced. So you could end up getting less value for money, which could cause issues in the long run.

There is no question that the stamp duty holiday is a welcome boost for a lot of people in a position to move, but it always pays to make careful decisions. This includes finding a suitable mortgage deal for your needs.

If you're looking to move home, an expert adviser can help you to consider your situation and use their extensive knowledge of the mortgage market to present you with suitable options.

Your home may be repossessed if you do not keep up repayments on your mortgage.

[1] https://bit.ly/2C3ULMV (The Guardian)
[2] https://bit.ly/3kjdy87 (The Mortgage Hut)
[3] https://bit.ly/3fzRulW (Homes & Property)
[4] https://bit.ly/3iiKBrh (City A.M.)
[5] https://bit.ly/33t7tjA (Unbiased)

The road to recovery

The uncertainty caused by the coronavirus will continue for some time yet, but there are signs of progress.

"We're past the peak and we're on the downward slope." Those were the words of Prime Minister Boris Johnson, about the coronavirus health crisis. He was speaking at the end of April[1] – a month where the UK economy experienced a record fall of 20.4%[2], as measured by Gross Domestic Product (GDP).

The UK has subsequently moved slowly out of full lockdown and back towards normality. GDP has been low, but positive at least.[3] Markets – which endured heavy falls in March and April – ticked upwards again over the second quarter of 2020.[4]

It has been an incredibly testing period for all of us, but as more industries reopen, the worst appears to be behind us.

Where do we go from here?

There is set to be a real balancing act over the next few months. Everyone is desperate to get back to normality, but countries like the US – where coronavirus cases spiked again – offer a cautionary tale about rushing things through.

The government's furlough scheme has gone some way to protecting the UK through lockdown, as it's allowed more companies to keep people employed. The UK rate of unemployment was 3.9% in early July.[5] That's a lot lower than the US unemployment rate of 11.1%[6] – a country with no furlough scheme.

Yet the clock is ticking. The government announced it will end the furlough scheme after October.[7] If businesses continue to struggle because of the effects of remaining lockdown restrictions, they might face some tough decisions and unemployment is expected to rise during the second half of 2020.[8]

Uncertain outlook

Economists have been busy debating what shape economic recovery will take, usually putting forward different scenarios as letters. The most optimistic, for example, is a V-shaped recovery. Where the economy very quickly returns to where it was at the start of 2020. Other possibilities include a U-shape (where the downturn continues for longer) or W-shape (where we go up for a bit, but then down again before eventually recovering).

No one knows for sure and with so much uncertainty, it seems likely there will be short-term market volatility. When it comes to your investments, that might leave you worried about what your options are but this is not the time to make knee-jerk reactions – or lose sight of your goals.

The famous saying goes that past performance is not a guide to future returns. Yet history shows markets should eventually recover. If you have long-term financial goals, developing and sticking to a long-term investment strategy could deliver rewards.

For this reason, now could be a really good time to speak to a financial adviser. Markets are lower than they were, which also means it's cheaper to invest now. By reviewing your plans with an expert, you can benefit from advice that's personal to your situation.

The value of your investment can go down as well as up and you may not get back the full amount invested. Investments do not include the same security of capital which is afforded with a deposit account.

[1] https://cnb.cx/2C2HiVu (CNBC)
[2] https://bit.ly/3ifl9BA (The Guardian)
[3] https://bit.ly/3icUeHS (The Guardian)
[4] https://bit.ly/33EUf34 (London Stock Exchange)
[5] https://bit.ly/2DqEmmj (The Guardian)
[6] https://bit.ly/31q5Ksv (BLS)
[7] https://bit.ly/30yChh1 (GOV UK)
[8] https://bit.ly/3fAOEgA (The Guardian)

Protecting what's yours

The pandemic has caused us all to reassess our priorities, treasure the people who matter to us most and re-evaluate how we can best look after them.

The coronavirus pandemic has not been good for our mental wellbeing. At the very start of lockdown, 49.6% of British adults reported high anxiety.[1] There were lots of different reasons why people have felt worried over the past few months and this includes thinking about their loved ones.

Legal firms across the UK have reported significant increases in enquiries about Wills.[2] There's also been a rise in interest about taking protection insurance, at least at the beginning of the pandemic, with some companies reporting up to four times the number of enquires they'd usually receive.[3]

The pandemic has demonstrated we don't always know what's around the corner. But what can help our wellbeing is to put plans in place for events we hope will never happen to us, at least for some time.

Planning for the unexpected

There's a wide range of protection plans you can put in place that would help you or loved ones if something unexpected was to occur. They're not easy things to think about, even in more normal times, but preparing now could prove valuable.

Take having a Will in place for example. Despite the reported rush of enquires earlier this year, the reality is that just 40% of UK adults have one, according to Royal London[4] and even amongst people past retirement age, one in three haven't set out their wishes.

A Will outlines what you want to happen to your estate after you pass away. Having clear instructions reduces the risk of family arguments and ensures the people you want to benefit don't lose out.

Another area to consider is life insurance. This provides financial cover when you die, or if you were diagnosed with a terminal illness. Life insurance would pay loved ones either a lump sum of money, or series of regular payments.

But it's not just thinking about the extreme of what happens when you're no longer around. If you're working now, having income protection can mean you would have cover if you or your partner were unable to work for a sustained period. Perhaps because of a serious illness or injury.

Finding the right approach

When it comes to insurance products like car, home or travel, the temptation is to find the cheapest deal available on a price comparison website. But with protection cover, it's important to really understand and be familiar with the product you're thinking of taking out. Similarly, a Will – although easy to set up – can be more robust with added care and attention.

This is where speaking to a financial adviser can really help. By taking the time to assess your financial circumstances and future wishes, an adviser will be able to research products that suit your needs. This will put you in a position to make more informed decisions on protecting the future for you and your family.

The Financial Conduct Authority does not regulate Will Writing.

[1] https://bit.ly/2C4zLFH (ONS)
[2] https://bit.ly/2PvwfYg (Independent)
[2] https://bit.ly/30Argfc (Which)
[3] https://bit.ly/3idD0tL (FT Adviser)
[4] https://bit.ly/3ifzwac (Independent)

Finding the right investment approach

The coronavirus market volatility has thrown into focus a familiar discussion about whether to invest in active or passive funds.

It's a debate that has been raging for the best part of 50 years. When it comes to investing your money for the future, is it better to trust your money with a fund manager who actively makes expert decisions or should you invest into a passive fund, which is set up to track a market?

Choosing between active and passive funds is one of the most important investment decisions you can make. Each approach has its own advantages and disadvantages and, in times of market uncertainty, the strength of each approach has come under the spotlight.

What are active and passive funds?

Actively managed funds are run by a manager who makes day-to-day decisions over where to invest. Depending on the mandate of the fund, they have the freedom to choose a wide range of assets, which allows them to take advantage of market opportunities.

Meanwhile passive funds are much more basic. They're set up initially to mirror a particular market or index, meaning the make up of assets is very similar to what appears in that index. The fund isn't changed – at least not day-to-day – and so the performance will track how that market does.

The market downturns like the ones that took place at the start of the coronavirus pandemic are where an active fund manager can earn their crust. They can make changes to reduce the fund's exposure to assets that are falling. So as an investor, you may not feel the full brunt of the fall. A passive fund can't do this.

However, when markets go up, an active fund might struggle to benefit as much as a passive fund.

Value for money

Not unreasonably, an actively managed fund is more expensive to invest into. You're paying a fund manager to look after your money, and in return for those higher charges they will try to out-perform the market over the long-term.

Passives are the cheapest way to invest in the stock market. The costs are lower because there's no day-to-day management needed.

The question is – does an actively managed fund provide high enough returns, over the long-term, to justify the extra cost?

The devil is in the detail, and what we've seen over the falls and rises of 2020 is that some active funds have indeed out-performed passive funds – at least during the downturn period[1].

Yet when markets went back up over quarter two[2], passive investments largely out-performed active funds. This continues a recent trend. Although going all the way back to 1986, there have been periods where actively managed funds have done better than passive.[3]

Exploring what's right for you

When it comes to investing for your future, what matters are your personal circumstances. Many investors opt for a range of both types of funds – as it can provide greater overall balance.

By discussing your plans and long-term needs with a financial adviser, they'll be able to help you devise a strategy that could include one or both types of funds.

The value of your investment can go down as well as up and you may not get back the full amount invested. Investments do not include the same security of capital which is afforded with a deposit account.

[1] https://bit.ly/3fyouuY (Trustnet)
[2] [3] https://bit.ly/2C4AzKJ (Think Advisor)

And finally...

Retirement plans on hold

1.5 million working adults over the age of 50 are delaying their retirement as a direct result of the coronavirus, according to June 2020 research by Legal and General. 26% also expect to keep working on a full or part-time basis for the rest of their lives.

Of those who still intend to eventually retire, the average amount of time they plan to keep on working for is three years. Although 10% of the delayers admit they could have to wait five or more years to retire.

Separate research from Pension Bee suggests people in their 50s lost an average of £20,000 in their pension pot during the coronavirus market falls.

https://bit.ly/3gA9pdQ (Legal & General)
https://bit.ly/3a1uqvg (Express)

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