Hawsons Wealth Management
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Hawsons Wealth Management Newsletter

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Market Outlook

Market Outlook The Consumer Prices Index including owner occupiers' housing costs (CPIH) rose by 4.6% in the 12 months to November 2021, down from 3.8% in the 12 months to August.

• Bank of England Official Base Rate 0.25%
• FTSE 100 last 3 months performance 3.2%
• FTSE All Share last 3 months performance 1.6%
• Money supermarket best online access instant savings account 0.65% / 1 year fixed online ISA 0.85%.

Twenty Twenty Gone

Twenty twenty one may be “almost” gone, but a quick check in our rear view mirrors will help us realise it won’t be forgotten easily!

Over the last twelve months a series of key events have had a major impact on our work as your advisers. There have been some dynamic changes to the investment landscape largely as a result of the pandemic, but despite the global turmoil we have witnessed, investment markets have remained strong with some of them reaching all-time highs. There have also been new initiatives and legislation which aim to tackle some long-standing issues with regard to effective Financial Planning. As ever, we are here to help and support you.

In this newsletter, we are taking a deeper dive into some key areas. Natasha Fathers reports on the changes in Long Term Care legislation (the care reforms) and how we can help you ensure you are prepared to meet your potential needs. Matthew Whittam explores the factors driving the evolution of investing and James Gee Pemberton analyses the use of “alternative investments” in diversified portfolios which make the case for “breaking with tradition”.
In February 2022 we are delighted to be continuing our programme of financial planning seminars, so look out for your invitation to attend which we will be issuing in January.

The Hawsons Wealth Management Team hope you and your families enjoy the upcoming festive season safely and with a little more freedom than we all had last year!

Care reforms

September 7th 2021 saw the announcement of the adult social care reforms. The government made the decision to raise taxes in order to specifically support this sector. As a later life adviser this is something that has been on the agenda with clients and their families for many years. Since the finding of the Dilnot Commission was published way back in July 2011, changes to the system are long awaited.

The headliner is to be the introduction of a UK-wide 1.25 per cent Health and Social Care Levy (the Levy) and the revenue raised will go directly to support the NHS and equivalent bodies across the UK. The plan is to initially introduce this within National Insurance Contributions until 2023 when national insurance will reduce and a completely separate payment will be factored in. Utilising national insurance means this will capture contributions nationwide as opposed to taxes alone.

The term adult social care covers a range of services which include social work and personal care. Household costs such as food and utilities are deemed not to be covered as part of this levy.

In addition to this, from October 2023 and implemented under the current legislation of the 2014 Care Act, the government plans to introduce a £86,000 cap on the amount that an adult will have to contribute to their own care during their lifetime. There are also plans to amend the lower and upper limits where some or all of the costs are met by the government.

Planning for later life is a fundamental part of the advice we give at Hawsons Wealth Management. As an independent firm, our advice ranges from long term care planning, inheritance tax planning and later life lending. Clients seeking advice in this area commonly want to pass their wealth onto future generations but also make sure they have what they need for their lifetime. We can assist in giving some clarity though our cashflow forecasting service. Every family situation is unique and many clients faced with these decisions do tend to be more vulnerable either due to circumstances such as their age, health or lack of financial experience. There are many considerations that we take as advisers to these families and we always encourage these discussions to involve the wider members/beneficiaries.

Protecting vulnerable customers is also a key focus of the Financial Conduct Authority (FCA). Another 2021 announcement on this increasingly important topic came in February from the FCA in the form of their FG/21/1 guidance. This was aimed at the fair treatment of vulnerable customers across the industry.

If you, a family member or friend is facing financial decisions later on in life, we have specially qualified advisers who can assist you. If you are concerned about the cost implications of the new '*Levy*', we recommend speaking to one of our advisers about *salary sacrifice* which may assist in reducing the net effect of this, on you.

You are welcome to come and talk to us. We hold initial, no obligation meetings, at our own costs.

Factors driving the evolution of investing

The environment and climate change has been a hot topic over the last few years. In 2021, more than ever before, environmental and socially responsible issues are at the forefront of the investment landscape. Whilst the practice of ESG Investing has been around since the 1960's it certainly something that as advisers, we talk about more than ever.

In October and November 2021 Glasgow hosted the UN Climate Change conference better known as "COP26" COP stands for Conference of the Parties, and was attended by countries that signed the United Nations Framework Convention on Climate Change (UNFCCC) - a treaty agreed in 1994. This was the 26th conference hence the title of "COP 26"

Prior to the conference the UN released the following goals that COP26 needed to achieve.

1. Secure global net zero by mid-century and keep 1.5 degrees within reach

Countries are being asked to come forward with ambitious 2030 emissions reductions targets that align with reaching net zero by the middle of the century.

To deliver on these stretching targets, countries will need to:

- accelerate the phase-out of coal
- curtail deforestation
- speed up the switch to electric vehicles
- encourage investment in renewables.

2. Adapt to protect communities and natural habitats

The climate is already changing and it will continue to change even as we reduce emissions, with devastating effects.

At COP26 we need to work together to enable and encourage countries affected by climate change to:

- protect and restore ecosystems
- build defences, warning systems and resilient infrastructure and agriculture to avoid loss of homes, livelihoods and even lives

3. Mobilise finance

To deliver on our first two goals, developed countries must make good on their promise to mobilise at least $100bn in climate finance per year by 2020.

International financial institutions must play their part and we need to work towards unleashing the trillions in private and public sector finance required to secure global net zero.

Factors driving the evolution of investing (continued)

4. Work together to deliver

We can only rise to the challenges of the climate crisis by working together.

At COP26 we must:

• finalise the Paris Rulebook (the detailed rules that make the Paris Agreement operational)
• accelerate action to tackle the climate crisis through collaboration between governments, businesses and civil society.

(ref: https://ukcop26.org/cop26-goals)

What is ESG Investing?

ESG stands for Environmental, Social, and Governance investing. ESG evaluates how investments or companies in various categories are related to long-term environmental and societal impact. These include 'green' elements such as conservation of natural resources, social factors like inclusivity, and governance considerations regarding how a company is run.

Even prior to COP 26 ESG has been accelerated by the COVID-19 pandemic and increased attention to social and governance issues.

The financial industry is increasingly looking to make it easier to understand how ESG investing is quantified, by using specific measurement criteria to score investments on a consistent scale.

ESG aims to rank investment opportunities with a wide range of sustainability metrics in mind, from green energy initiatives and waste management to fair labour practices, board member diversity, and executive pay.

Over time we are likely to see ESG investing becoming the norm. Companies that meet ESG criteria are now seen as the companies of the future, able to adapt and evolve with the times.

During turbulent markets such as those seen in 2020, ESG funds often performed better than their traditional counterparts.

This shows that now and, in the future, we hopefully should not have to sacrifice performance to be socially responsible and environmentally friendly in our investment choices.

If you would like to know more about investing and ESG choices or to review your own investments, please get in contact with one of our Independent financial advisers.

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Breaking with tradition

For many years the traditional tactical asset allocation used when investing, tended to be stocks and shares, bonds and cash. The common approach of a balanced risk portfolio was to use a 60/40 rule, whereby 60% of the portfolio was in shares and 40% in bonds.

Historically low interest rates, inflation and bear markets have impacted on this popular approach to investing and experts are now saying a well-diversified portfolio must include more asset classes than those mentioned above. We call these Alternative Investments.

So, what are alternative investments? Broadly they are anything other than that of the traditional shares, bonds or cash. They include tangible assets and financial assets, to name a few:

• **Precious Metals** – Gold, silver, platinum and palladium tend to have a low sensitivity to other markets (stocks and shares and commodities)
• **Collectibles** (Art, Wine, Antiques, Coins & Stamps) – Can be hard to value as well as find potential buyers. Higher associated fees and no real return in income or dividends.
• **Physical Property** (Commercial & Residential) – allows investment into this asset class directly and indirectly, without having to be a physical 'landlord'
• **Commodities** – Investment physically or via a vehicle to 'hedge' against price movements. Commodities include crude oil, gas, gold, coffee, corn. The major commodities are crucial raw materials needed by companies in running their business.
• **Private Equity** – Investment into private companies or those not listed on a public exchange (think Dragons Den)

Breaking with tradition (continued)

• **Hedge Funds** – Imagine investment into a cyclical sector such as travel, fund managers may then invest an amount into a non-cyclical sector such as food/ energy companies. If we use COVID as an example where travel ground to a halt, the returns from the non-cyclical stocks would offset some of the losses in the travel sector.
• **Infrastructure** – Roads, railways, power grids, telephone lines. There's always a constant demand for infrastructure assets and services which in the past were funded heavily from the government. This is now in the hands of the private sector with opportunities to invest, ever increasing.
• **Absolute Return Funds** – Aim to deliver positive returns regardless of market conditions using different strategies and vehicles.
• **Structured Products** – These are pre-packaged investments. They produce a pre-defined return based on an underlying asset. This could be an index such as the FTSE All Share. These are complex products where using an institutional investor can really help with liquidity. When a structured product is purchased by an individual investor they are often held until maturity due to the lack of a secondary market for personal investors.

The rationale for using alternative investments is that they typically move in the opposite direction to shares and bonds (they have a low correlation). Certain classes mentioned could perform well in inflationary times (real property, gold, oil), where some traditional asset classes may not. Adding a layer of diversification is always recommended within investment portfolios to manage overall risk.

Dependent on what is held some of these asset classes can be illiquid in nature when compared to more traditional assets. Think - It's much harder to value a 100-year-old bottle of wine and find a buyer than it is to sell 1,000 shares in a large listed company.

Seeking the advice from a professional adviser is always recommended to ensure your investments not only reflect your overall capacity for risk but also sit in line with your own personal views. One thing is for sure, there is plenty of choice nowadays!

Get in touch

Our wealth management experts

Hawsons Wealth Management Limited provides a complete range of financial services for individuals and businesses, including private pension scheme advice, inheritance tax planning, investments advice, help with workplace pensions and auto-enrolment, and independent financial advice in Sheffield, Doncaster, and Northampton.

As fully independent, highly experienced professional advisers we are in the best position to be able to provide a tailored solution for corporate and personal financial services and investment advice, linked with specialist tax planning advice from the experts at Hawsons Chartered Accountants.

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