better retirement

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NEWSLETTER 07/20

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WHY INVESTING IS LIKE FARMING

There is a time to sow and a time to harvest

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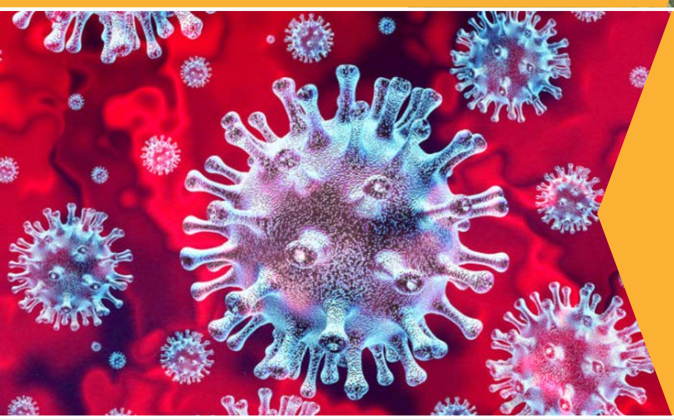
How to manage risk in your retirement

It's not just about investment risk



02

Coronavirus still dominating news

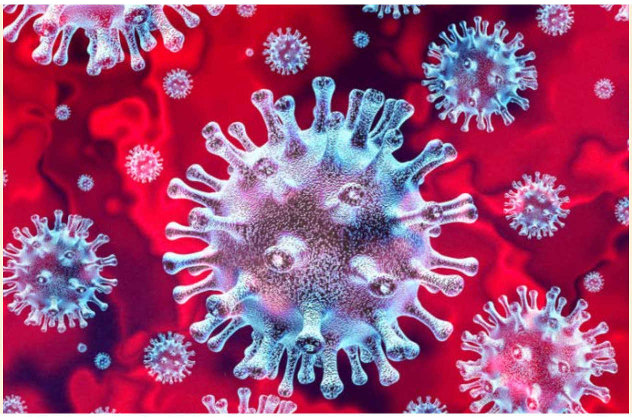
The national crisis is not over but financial markets show signs of recovery

The value of investments and the income derived from them can fall as well as rise. You may not get back what you invest.

This newsletter does not represent personalised advice and readers should seek qualified advice before taking any action.

VIRUS CONTINUES TO DOMINATE

The national crisis is far from being over but markets are showing signs of recovery.



The coronavirus crisis still dominates the news and although lockdown restrictions are being lifted there is no end in sight for this crisis. This means that current uncertainty in the financial markets may continue for many more months or even years.

> "This vindicates our 'don't panic' approach but we are not resting on our laurels as we are reviewing individual portfolios."

Global stock markets have been making steady gains but investors are still experiencing a rollercoaster ride as markets are up and down on a daily basis.

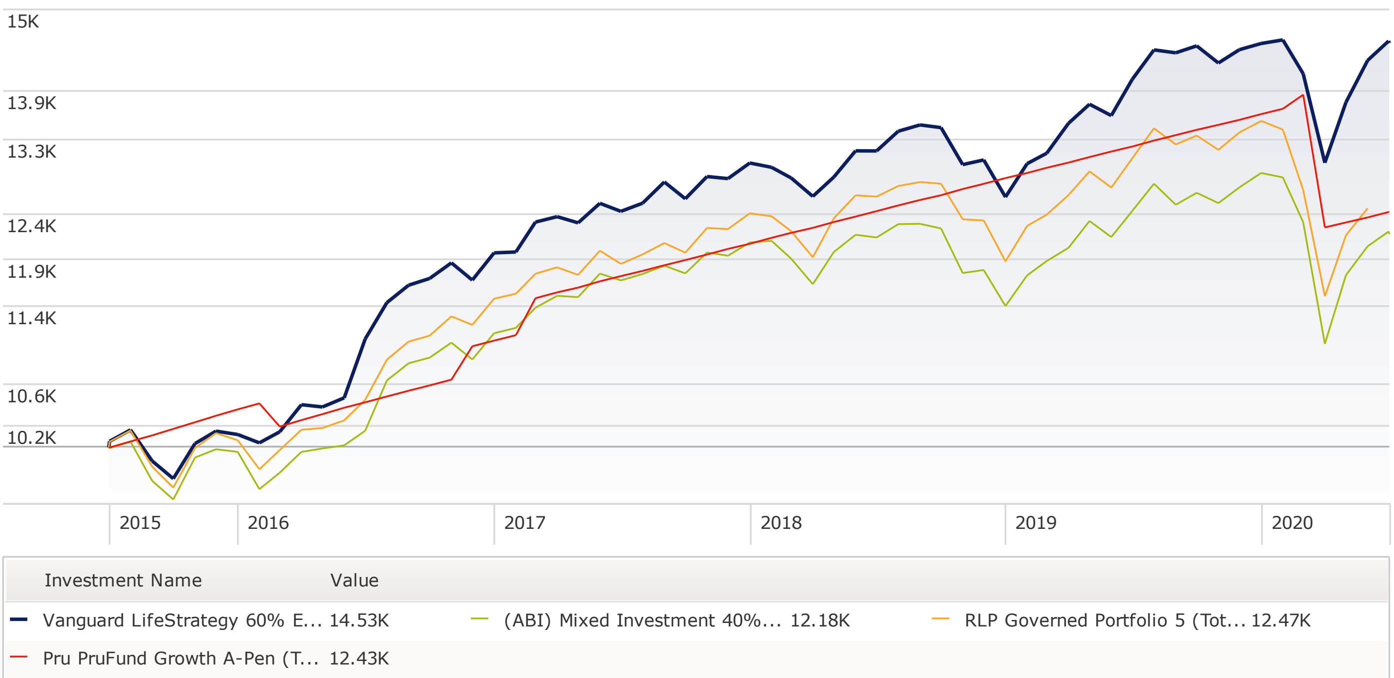
Our approach to investments is to use well diversified and risk rated portfolios depending on our client's individual circumstances. The chart below plots the performance of some of these funds and portfolios which our clients are invested in.

As you can see, all of these funds, including Prudential's Prufund fell sharply in March 2020 but have since regained some of the lost ground.

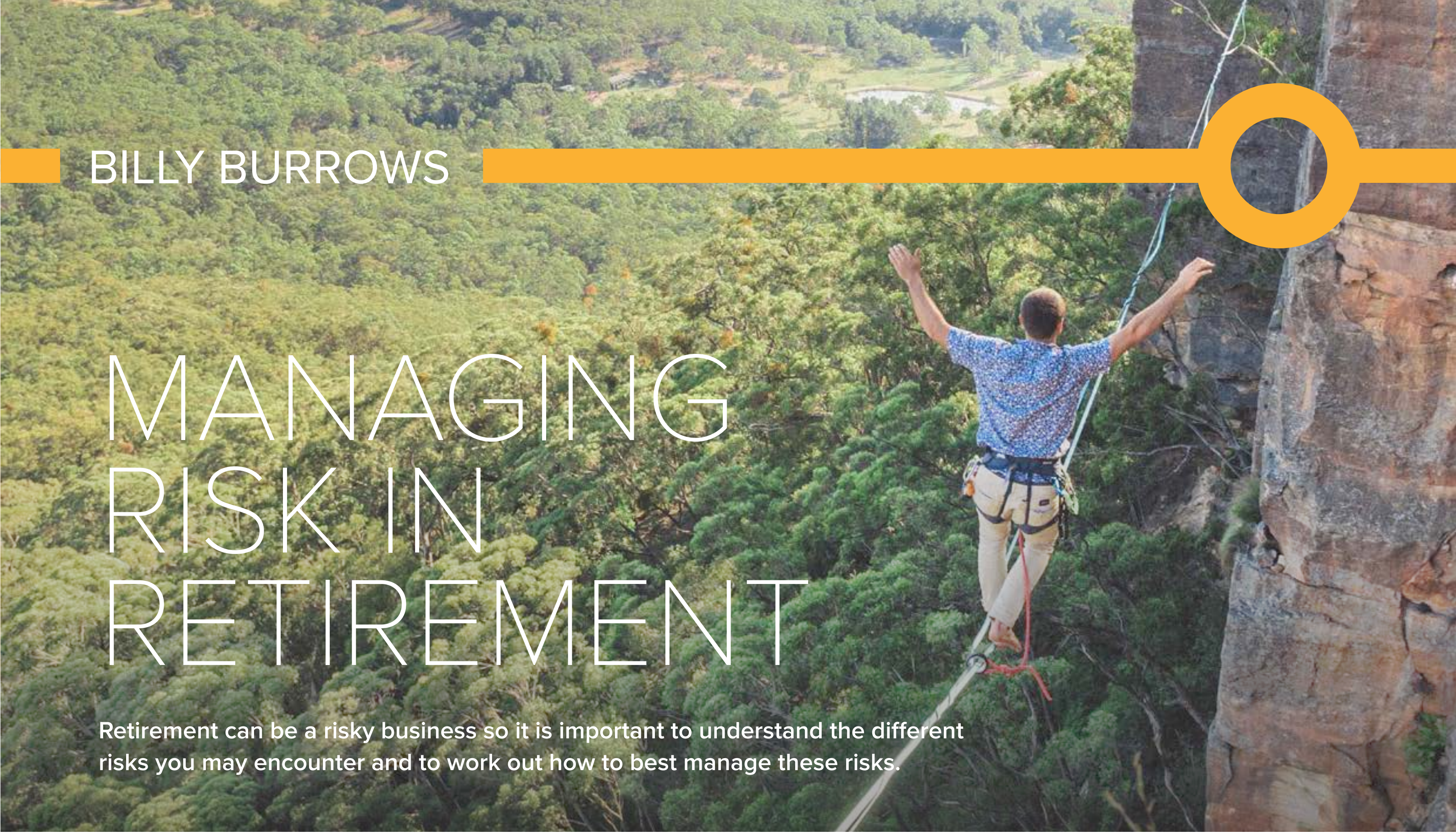
This vindicates our 'don't panic' approach, but we are not resting on our laurels as we are reviewing individual portfolios.

Although we still think the best long-term investment is in real assets, i.e. bonds and equities, we are reviewing our client portfolios and where appropriate building up cash and low risk buffers to protect against another market crash.

This month's newsletter continues with the investment theme. We look at various risks you will be facing in retirement and an interesting article which compares investing to farming.



Source Better Retirement / Morningstar July 2020



BILLY BURROWS

MANAGING RISK IN RETIREMENT

Retirement can be a risky business so it is important to understand the different risks you may encounter and to work out how to best manage these risks.

When we talk about risk most people automatically think about investment risk.

For instance, there is the risk you might be too cautious and therefore get locked into low returns or the risk you might be too optimistic and therefore run the risk of losing your cash or running out of income. But, important as investment risk is, it is only one of the risks that you need to watch out for.

There are many other different risks you should take into consideration during your retirement such as:

INCOME RISK – If you don't plan wisely you may end up short of income in later life and at the very worst run out of income.

ANNUITY RATE RISK – You may decide to purchase an annuity at some time during your retirement and if annuity rates reduce you will get less income. If annuity rates improve you will get more income.

SEQUENCE OF RETURNS RISK – The risk that investment returns are lower than expected or negative in the early stages of drawdown. This means your pension fund will be eroded quicker than anticipated thereby jeopardising the ability to sustain the required level of lifetime income.

INFLATION RISK – This affects your future spending power so if your income does not increase over time you might not have enough income to maintain your lifestyle.

HEALTH RISK – If your health deteriorates you may have to pay for long term care or help with daily living. It is important to consider this when thinking about your income requirements.

As investment risk is the most important one you must work out how much risk you are prepared to take and how much risk you can tolerate. This begs the question: "how much risk should you take?"

The short answer is enough risk to avoid being locked in low returns but not too much risk that you put your future retirement plans in jeopardy.

The longer answer involves assessing not only your attitude to risk but also your capacity for loss.

Attitude to risk is an easy concept to grasp and is normally expressed as low risk, medium risk or higher risk. Your attitude to risk is normally measured as your tolerance to taking investment risk and we have special questionnaires and tools to help assess your risk profile.

Capacity for loss is described as your ability to absorb falls in the value of your investments or income without it causing you adverse financial hardship or emotional strain.

The recent stock market crash has understandably shaken many people's confidence in global equities markets and may have caused a re-think about future retirement plans.

If your attitude to risk or your retirement plans have changed, you should review your attitude to risk. We can do this for you by asking you to complete a risk questionnaire and we will produce a report analysing your risk profile.

If you would like us to review your risk profile we will send you a questionnaire and produce a report analysing your attitude to risk.

BILLY BURROWS

WHY INVESTING IS LIKE FARMING

A good investment adviser will know when it is time to sow and when it is time to harvest

There has been a lot written about how advisers and their clients have reacted to the recent crash in global financial markets. The first reaction is to say there is no need to panic but this may come across as patronising unless there are good reasons to stay calm.

NO NEED TO PANIC

There should be no need to panic if an investment portfolio is set up correctly in the first place, and it is properly managed and regularly rebalanced in line with changing market conditions.

The only people who need to worry are those with investments which were not set up correctly in the first place. This will not be our clients (we recommend risk rated diverse portfolios) but may include many of those who have chosen to select their own investments.

HOW TO MANAGE AND REBALANCE

This begs the question: "how is an investment portfolio properly managed and rebalanced?" There are many different answers to this important question but one of the best answers I have seen is from Dan Kemp, Chief Investment Officer at Morningstar Investment Management Europe. In a recent webinar he compared good investment management to farming.

GOOD INVESTMENT MANAGEMENT IS LIKE FARMING

He said "investing is like farming in that we plant an investment seed and watch it grow to become more valuable over time". However, farming requires patience and a farmer does not constantly dig up seeds to inspect them. A good farmer will plant his seeds, tend to them and watch them grow over time.

Investing, like farming is seasonal and there are times to plant and times to harvest. Generally speaking, the best time to harvest is when prices are high and the best time to plant is when prices are low, e.g. after a market crash.But working out when is the best time to plant and harvest investments is difficult and unlike farming where the seasons are predictable, market crashes are not predictable.

WHEN TO SOW AND WHEN TO HARVEST

A market crash provides fertile soil into which new seeds can be planted for future growth but new seeds can only be planted in ground that has been previously cleared of the last harvest so it is important to clear some space in an investment portfolio by selling some investments when prices are high.

This is fine in theory but difficult in practice and many investors will not harvest their investment at the right time as they may hold on to well performing funds even though there might be signs markets are overheating.

So how can advisers work out when to buy and sell investments? The short answer is they cannot. Investment timing is best left to the investment experts who run well diversified multi-asset portfolios.

THERE IS NOTHING WRONG WITH FARMING OUT INVESTMENT DECISIONS

If investment managers are like farmers, advisers are like doctors. Advisers should look after the financial health of their clients and if their financial health is deteriorating they should prescribe the appropriate medicine. When things return to normal, if they ever do, financial advisers should consider becoming better doctors and farm out the investment management to the professionals.

You can listen to Dan telling his story about investing and farming on this **Morningstar Webinar**. Dan's piece is about 2 1/2 minutes in, after the short introduction.