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YOUR WEALTH SUMMER 2018

INSIDE THIS ISSUE

DIVIDEND INCREASE FOR GLOBAL SHAREHOLDERS

In a demonstration of rising corporate profitability, many shareholders saw an increase in dividends as global payouts hit a record high at the start of the year.

Investment firm Janus Henderson[1] revealed that global dividend payouts rose over 10% to $244.7bn, making it a record-breaking Q1 for shareholders across the globe. Dividend payments to shareholders in the UK in the first quarter of the year grew by over 21% to $18.7bn (£16.4bn) from $15.4bn (£13.5) in Q1 last year. This figure was elevated by a host of factors, including a hike in dividends by mining firms, a special dividend from Sky, the addition of new companies to the index and British American Tobacco's first quarterly dividend. Adjusted underlying growth, taking these factors into account, was a more modest 4.2%.

In the US, underlying dividend growth was 7.6%, boosted by President Trump's corporate tax cuts.

In the first three months of the year, dividend payments by US companies totalled $113bn, 5.2% higher than Q1 2017 payouts. Financial, healthcare and technology stocks recorded the highest growth. Shareholders have benefited as corporate profitability has risen and companies return some of the cash they have accumulated via dividends.

Dividend growth in Japan topped 8.2% (underlying basis), whilst Continental Europe registered dividend growth of 3.9%. The research forecasts global payouts will rise by 6% to $1.36tn this year.

[1]Janus Henderson, Global Dividend Index, May 2018

PLAN TODAY FOR THE RETIREMENT YOU DESERVE

You may feel that retirement planning isn't the most riveting topic, but the sooner you engage with the concept, the sooner you'll be able to put plans in motion to secure your financial future.

If you are disengaged from thinking about your retirement, you aren't alone as a recent study[1] reveals. In the UK, 45 to 54-year-olds spend on average two hours more per year planning their summer holiday or redecorating, than they do putting a strategy together for their retirement.

INVEST TIME TO REAP THE BENEFITS

Your retirement plan is unique to you. Planning for it isn't just about getting your finances organised, you need to really think about what you'd like to do and how you'd like to live. Depending on your circumstances, you may see retirement as an opportunity to completely change your lifestyle, maybe move home, travel the world, learn a new skill or just put your feet up!

Like all big projects in life, the more time you can invest in thinking it through, the better the outcome will be. Changes in legislation have given those about to retire far greater freedom when it comes to using their pension pot, but freedom brings greater individual responsibility. With longevity increasing, more people than ever will spend longer in retirement. Getting financial planning advice before accessing your pension pot can go a long way to help alleviate financial worries later on in life.

BUDGETING FOR YOUR LIFESTYLE

Spending in retirement tends to follow a u-shaped curve. People often spend more money in the early, more active years of their retirement, with spending decreasing in the middle years and increasing again later in life when additional care and medical expenses are more likely to be required.

It makes sense to draw up a budget for your retirement that covers your likely income needs. Things to think about include factoring in income from employment, or will you choose to give up work altogether? You may decide to downsize from a family home to a smaller retirement apartment, meaning you can extract some equity to bolster your income. Do you intend to help your children or grandchildren financially? You will also have to think about the likelihood of needing care in your later years.

However you plan to spend your retirement, taking professional advice early can really help create a successful roadmap for your financial future.

[1]LV=, 2017

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.

IS DRAWDOWN RIGHT FOR YOU?

Since pension reforms were introduced, an increasing number of retirees have chosen to take flexible withdrawals from their pension. According to the Financial Conduct Authority, drawdown has become an increasingly popular option, with twice as many pension pots moving into drawdown than into annuities.

In basic terms, income drawdown is where you withdraw money from your pension pot on a regular basis to provide an income for your retirement. By leaving your pension pot invested and taking an income directly from it, you don't need to use the money in your pot to buy an annuity. As the rest of your pension pot remains invested, it will continue to benefit from any investment growth.

TAKE TIME TO FULLY UNDERSTAND THE RISKS

Whilst drawdown offers flexibility, there are risks that you need to consider. The amount you could draw as income is not guaranteed, unlike an annuity. As your pension fund remains invested, it is vulnerable to price fluctuations, making it increasingly important to take advice. Without advice, you could find your income level drops, you could run the risk of running out of money – not a desirable retirement outcome.

THE VALUE OF ADVICE

In drawdown, there are risks in taking out too much and too little. This is where advice will help you plan your drawdown strategy and guarantee that it's reviewed regularly. Taking out too much could have tax implications and restrict your remaining pension pot's ability to provide an income for the duration of your retirement. If you draw too little you might not have sufficient to cover your living expenses.

Even though it's no longer compulsory to take an annuity at retirement, they still offer valuable benefits. You may choose to put a portion of your pension pot into an annuity to provide a regular guaranteed amount for the rest of your life, to cover your core living costs for example.

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WHAT TO DO WITH A DOG FUND?

You may have heard of the term 'dog fund' – but what does it mean and what should you do if you are invested in one of these funds?

The financial press regularly publish lists of 'dog funds', simply put this refers to a fund which is deemed to be poorly performing, usually underperforming the allocated benchmark by, say, 5% or more, over a set period of time.

All investment funds fall into sectors – for example, UK equity income, technology and telecommunications or global emerging markets. Classifying them under these headings means that it's easier to make comparisons. They can be compared both against each other and against the average performance for all the funds in that sector. If a fund is consistently showing as being below the sector average, then it can earn the 'dog' tag.

KEEP YOUR COOL

What's really important to remember is that companies producing these lists aren't giving specific advice or recommendations and results are compiled using past performance, which isn't necessarily an indicator as to how the fund will perform in the future.
Just because a fund may appear on this list doesn't mean it should be sold immediately, as funds that have historically underperformed could turn performance around. A fund management company may take action to improve performance by altering the investment strategy or by appointing a new fund manager with a strong track record elsewhere.

Also important to bear in mind is that some funds adopt styles that are out of favour with the markets, such as contrarian or value styles, but might come back in favour soon. Some managers are suited to tougher times, others to rising markets. Some funds focus on growth, others on income.

RELY ON US TO KEEP A CLOSE EYE

Regular reviews are the key to ensuring your investments are still right for you. Keeping a close eye on the performance of your assets will mean that under-performing funds can be identified and, if necessary, changes made to your portfolio.

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

KEEP UP THE GOOD WORK – THE PREVALENCE OF THE PART-TIME PENSIONER

We know demographics are changing. We're living longer, quite alarmingly; the population of England is set to rise by around nine million by 2039[1], with almost two thirds of that increase occurring in the pension age bracket. Not so long ago, many people's lives fell into three distinct stages – education, career and retirement. The date at which people chose to retire was usually aligned with their state retirement age; 60 for women and 65 for men. Today, retirement no longer means packing up your desk on your 60th or 65th birthday.

STEP BY STEP

Today, many people are choosing to adopt a more gradual approach to retirement, working beyond their state pension age, slowly reducing the amount of time they spend at work. Some people are even choosing completely different careers to embark upon.

A widely-accepted concept referred to as 'pretirement' is the process of gradually reducing the number of hours worked, which generally begins in people's 50s and can run into their 70s and beyond. Figures for the three month period December 2017 to February 2018, show that just under 1.2m people over the age of 65 were in work, and for the first time, there were more than 10m people aged over 50 in employment out of a total workforce of 32.2m[1].

KEEP CALM AND CARRY ON

People choose to adopt a 'pretirement' approach to working for a variety of reasons, including a requirement to boost their retirement income, continuing because they enjoy the work they do, they feel they still have something to offer their workplace.

Whatever your thoughts on the type of retirement you want, financial advice will ensure

that you can make the best use of your pension funds and savings, to select the best retirement income solution for your circumstances. It's important to have the right retirement plans in place so that you can choose the path to full retirement that suits you.

[1]Office for National Statistics, 2016 and 2018

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TAKING STEPS TO PROTECT THE ELDERLY FROM FINANCIAL ABUSE

We know that the scammers are out in force and that although cold calling is to be banned, there are numerous other ways to be contacted. Scammers have turned their attention to targeting older people. Many of the crimes they commit involve the selling of bogus or unsuitable investments, or bank account fraud.

According to the Alzheimer's Society[1], the number of people in the UK living with dementia is expected to rise from 850,000 people today, to in excess of 1 million by 2025. The advice from charities caring for the elderly is that everyone should plan for a time when they might not be able to make important decisions about their finances or welfare.

HELPING THE ELDERLY WITH A LASTING POWER OF ATTORNEY (LPA)

In the last ten years, LPAs have become much more common, helped by TV finance guru Martin Lewis, who although in his 40s, has taken steps to arrange one. He believes everyone should think about using LPAs to safeguard themselves and their families.

Designed to protect you if you lose the ability to make financial or care decisions, making an LPA allows you to choose someone you know and trust, your 'attorney', to make important decisions should you be unable to do so.

Your attorney(s) can be a relative or friend, your partner, or a professional adviser. Without an LPA in place, if you were to lose mental capacity, your friends and family wouldn't have the automatic legal right to step in and take decisions on your behalf. Instead, they would need to apply for Deputyship to the Court of Protection, an expensive and time-consuming process.

A SIMPLE STEP TO PROTECT YOUR INTERESTS

With a Property and Financial Affairs LPA your attorney has the power to make decisions about money matters on your behalf if you are unable to do so. This includes financial transactions like running bank accounts, accessing and managing pensions and funds in drawdown, paying bills and selling property. A little forethought could prove hugely beneficial.

[1]Alzheimer's Society, Facts for the media, 2018

WHAT NEXT FOR THE GLOBAL ECONOMY?

It was a disappointing beginning to 2018 for many major advanced economies. The UK endured a woeful start, with estimates suggesting gross domestic product (GDP) rose by just 0.1% in the first quarter, the weakest rate of growth since the final quarter of 2012.

A similar picture of weakening growth emerged across the other major advanced economies. Growth in the Eurozone slowed to 0.4% in the first quarter, compared with 0.7% in the previous quarter. In Japan, the economy contracted by 0.2%, ending two years of positive growth. The US economy lost some steam; data released by the Bureau of Economic Analysis, revealed US GDP rose at an annualised rate of 2.3% in Q1 2018, a significant slowdown from the annualised 2.9% expansion witnessed across Q4 2017.

HEALTHY PROSPECTS FOR THE YEAR AHEAD

Despite this loss of momentum, prospects across the global economy for the year ahead are relatively healthy. The first quarter slowdown is widely expected to represent a temporary blip rather than a sign of more deep-rooted economic problems. The fundamentals of the global economy appear to be relatively robust and there are signs that the major advanced economies are likely to see a rebound in growth over the coming months.

FORECASTS UPGRADED

The IMF feel the global economic upswing that began around mid-2016 has become

broader and stronger, and that advanced economies will continue to expand above their potential growth rate this year and next. They predict global economic growth of 3.9% in 2018 and 2019, with the economy supported by favourable market sentiment, accommodative financial conditions, and the domestic and international repercussions of the expansionary US fiscal policy.

TROUBLE AHEAD?

An area of concern the IMF have highlighted, is protectionism and the prospect of a trade war, with a warning that economic performance could be impacted by increased trade barriers. Fears of a stronger and longer period of monetary tightening have also abated in recent months, with the first quarter slowdown halting the need for imminent increases in interest rates in the UK. The Federal Reserve are expected to be more aggressive with markets predicting four rate increases across 2018, as Fed officials become mindful of a build-up in inflationary pressures.

TIME FOR GOOD CHEER?

While there are economic dangers lurking ahead with a resurgence of inflationary pressures, Brexit uncertainties, political turmoil and setbacks in trade talks all possible, at the moment, there does appear to be some room for optimism when it comes to global economic prospects.

WHAT IS ESG INVESTING?

Environmental, Social and Governance, ESG in short, refers to a subset of non-financial performance indicators, which encompass sustainable, ethical and governance issues. ESG factors can be used to evaluate corporate behaviour and to determine the long-term financial performance prospects of a company.

Increasingly, socially conscious investors are using ESG factors to screen potential investments. Environmental criteria look at how a company performs as a guardian for the environment, for example their impact on climate change or carbon emissions, water use or conservation efforts. Social criteria focus on a company's ability to manage relationships with its employees, clients, suppliers and the local communities in which it operates. Governance examines a company's leadership, shareholder rights, audits and internal controls, anti-corruption policies, board diversity, executive pay and human rights efforts, for example.

Many larger firms are beginning to track their ESG progress as ESG-minded business practices are gaining traction. In the financial services sector, firms such as Wells Fargo, JPMorgan Chase and Goldman Sachs have released annual reports reviewing their approaches to ESG.

IF YOU WOULD LIKE ADVICE OR INFORMATION ON ANY OF THE AREAS HIGHLIGHTED IN THIS NEWSLETTER, PLEASE GET IN TOUCH.

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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.

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