Chrysalis
Wealth Management

Chrysalis Wealth Management Ltd
4 St Georges House
Vernon Gate
Derby
DE1 1UQ

Telephone: 03333 449 321
Email: info@chrysaliswealth.com
Website: www.chrysaliswealth.com
Facebook: www.facebook.com/chrysaliswealth

Money & Wealth

Issue 19 | Winter 2022

Inside this issue:

Contents

Great expectations as a new year dawns

We could be forgiven for focusing on life's trials and tribulations heading into 2022, given the challenges that we've faced over the last couple of years. Despite inflation-related concerns, new COVID variants and supply chain disruption, which may be disconcerting for investors, there are indications that the coming year will present opportunities as well as risk, as we hopefully venture towards post-pandemic life.

International soothsayer, the International Monetary Fund (IMF) predicts a continuation of the global recovery in 2022, forecasting growth of 4.9% for the world economy. Its analysis did, however, acknowledge that the level of uncertainty encircling prospects has intensified with policy choices becoming increasingly complex.

Taking steps to inflation-proof your wealth

Rising inflation and global supply chain issues have undoubtedly generated a policy dilemma for central banks. These dual concerns have heightened the need for investors to employ considered strategic thinking, enabling them to reposition their portfolios in order to take advantage of growth opportunities, while ensuring their wealth is inflation-proofed.

Investment scam-savvy

As the year progresses, although the spectre of rising inflation is expected to see central banks tighten policy, deposit-based savings rates are forecast

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

Rising inflation and global supply chain issues have undoubtedly generated a policy dilemma for central banks. These dual concerns have heightened the need for investors to employ considered strategic thinking

to remain at historically low levels. Such small returns have prompted many savers to move their money into investments, with research suggesting over half of all adults have done so. This shift has raised concerns that unrealistically high return expectations could leave some investors vulnerable to investment scams.

Take control

Although 2022 is likely to present ongoing challenges, the key to successful investing remains adopting a carefully considered strategy based on sound financial planning principles. Attractive investment opportunities will undoubtedly be available as the year progresses. With our help and careful repositioning of your portfolio, you should be able to make the most of these as and when they arise.

Climate disclosures top corporate agendas in 2022

Regulators have been urged by the IMF to do more to prevent financial companies from making misleading claims concerning their environmental credentials – *'Proper regulatory oversight and verification mechanisms are essential to avoid greenwashing.'* To achieve the expansion needed to reach the target of reducing worldwide carbon emissions to net zero by mid-century, will require a proper understanding by investors how their money is used.

From April the UK's biggest companies will be required to make climate-related financial disclosures. Firms with a turnover in excess of £500m and at least 500 employees are expected to publish the climate-related risks they face. With the UK the first G20 country to make this compulsory, John Glen, Economic Secretary to the Treasury commented, *"These requirements will not only help tackle greenwashing but also enable investors and businesses to align their long-term strategies with the K's net-zero commitments."*

The requirements for disclosure will be aligned to the Task Force on Climate-Related Financial Disclosures, backed by over 1,000 global financial institutions, and responsible for over $190trn of assets. Companies will need to *"focus on the effects of climate change on their business"* and communicate to investors how these are being managed, according to Chris Cummings, Chief Executive of the Investment Association.

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

In the news...

Risk-on, risk-off

New research[1] has shown that affluent to ultra-high-net-worth UK investors are more conservative when compared with their international counterparts, as 54% of UK respondents rate themselves as conservative in their approach to risk, with the lowest percentage of any nation surveyed (10%) saying they adopt an aggressive approach. In contrast, nearly half of respondents from China rated themselves aggressive in their approach to risk, with just 19% conservative. Potentially underpinning the lower risk, long-term mindset, the primary reason for 66% of UK respondents for saving and investing is for their retirement, with 35% citing future healthcare costs and 17% entrepreneurial activities.

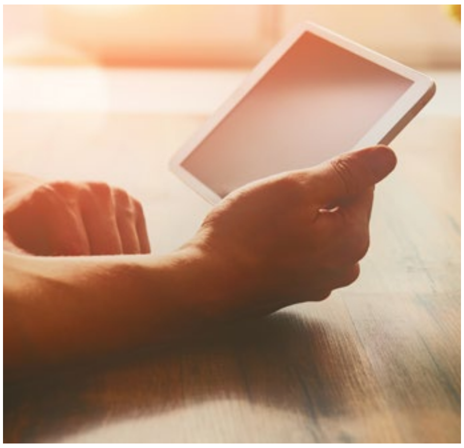
£810m tax relief unclaimed

Recently released data[2] has highlighted that during the 2018/19 tax year, an estimated £810m in tax relief was unclaimed by over 1.5 million of the UK's highest earners. Higher rate taxpayers benefit from 40% tax relief, but eight in ten failed to use their Self-Assessment tax return to claim it. Similarly, 53% of additional rate taxpayers failed to claim the 45% tax relief for which they are eligible.

[1]Avaloq, 2021, [2]Pension Bee, 2021

'Special dividends' boost investor income

In Q3 2021, UK dividends reached £34.9bn, an impressive 89% year-on-year rise[3]. Part of this rise can be attributed to large one-off special dividends, a trend expected to continue in Q4. Excluding special dividends, the underlying total in Q3 was £27.7bn, a 52.6% increase. In context, this year-on-year rebound, is comparable with a pandemic-stricken Q3 2020, in which dividends halved.



Managing Director of Corporate Markets at Link, Ian Stokes commented on the findings, *"The good news is that we have consistently seen companies deliver more in dividends than we thought likely at the beginning of the year... Companies were progressively less impacted by each lockdown and many of them took action to bolster their balance sheets during 2020... Dividend firepower is now much stronger as a result."*

Referring to the dominance of special dividends, he added, *"The boom in special dividends reflects how some companies are making catch-up payments, some are capitalising on very strong demand, and others are seizing the moment to sell assets at a time of high prices and numerous cash-rich potential buyers."*

Although good news for income investors, dividend growth may be driven by sectors which might not perform as well in the future, which highlights the importance of diversifying across different sectors.

[3]Link Group, 2021

Your 2022 playlist

Research studies over the years have reinforced the idea that equity prices are not solely driven by analysis of a company's prospects but also by outside factors which can impact investor mood. Correlation has been found between improved stock market performance on sunny days or poor performance after a country loses a vital football match, for example.

A novel measure of investor sentiment has been discovered by a recent study, which apparently captures actual sentiment rather than shocks to sentiment[4]. A significant correlation has been determined across 40 national stock markets between weekly equity returns and the emotional content of that week's top 200 songs on Spotify. The findings suggest that stock markets perform better when a country is listening to happier songs – *'In our main findings, we document a positive and significant relation between music sentiment and contemporaneous market returns, controlling for world market returns, seasonalities and macroeconomic variables. Music sentiment also predicts increases in net mutual fund flows and absolute sentiment precedes a rise in stock market volatility. Our study provides evidence that the actual sentiment of a country's citizens significantly affects asset prices.'*

Whatever's on your playlist this year, you can rely on us to take the emotion out of your investment decisions.

[4]The London Business School, 2021

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

Time to consider external factors

The Autumn Budget may have left a sense that nothing much had changed in the realm of personal financial planning, as no major changes to Capital Gains Tax, Inheritance Tax, Income Tax or pensions, were announced. Despite this, a prime consideration needs to be how external factors such as frozen rates and higher inflation, could impact your finances and what action you need to take before the end of the tax year to utilise any exemptions and allowances.

Your pension

The Annual Allowance remains at £40,000 and the Lifetime Allowance remains at £1,073,100. As these allowances haven't increased with inflation, it effectively means those saving to the maximum extent possible with tax concessions can save less in real terms each year.

Individual Savings Accounts (ISAs)

The annual ISA limit has been frozen at £20,000 for five years. If the allowance had increased with inflation every year since 2017, it would stand at £21,440 today, sheltering an additional £1,440 from the taxman. JISAs celebrated their tenth birthday in November – the allowance remains at £9,000.

Inheritance Tax (IHT)

HM Revenue and Customs (HMRC) data for April to September 2021 shows that IHT receipts totalled £3.1bn, £0.7bn higher than the same period in 2020. With the nil rate band and residence nil rate band frozen until April 2026 at £325,000 and £175,000 respectively, don't overlook the importance of effective estate planning.

Dividend Tax

Last September, the government revealed that it would increase Dividend Tax by 1.25 percentage points from 6 April 2022 to help fund health and social care. This means investors will have to pay more on any income from shares held outside ISAs and above the £2,000 Dividend Allowance.

Variables

It's time to tune in to all the variables at play, affecting your finances; frozen allowances, inflation, interest rates and taxation. Talk to us for help with your individual circumstances.

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.

Preserving your retirement from the risk of mental decline

Many of us can now look forward to a longer retirement, due to increased life expectancy, however this unfortunately comes at a cost. The prevalence of age-related cognitive decline is on the rise, which could leave us vulnerable to costly financial errors.

There are nearly 885,000 people living with dementia in the UK[5], with estimates suggesting that between 5% and 20% of over-65s suffer from mild cognitive impairment (MCI). This is a condition in which someone has minor problems with cognition, such as thought process and memory.

Planning for every eventuality

An essential element of preparing for your retirement should involve planning for the possibility of cognitive decline. Despite many people still having the capacity to make decisions and live independently, MCI has been linked in studies to poorer financial capacity and a greater susceptibility to scams.

It's all about timing

In a recent survey[6], over 80% of investors felt the ideal time to transfer financial control would be *'sometime after they had begun to experience some cognitive decline but before they became completely incapable.'* Respondents thought there was a higher than one-in-three chance of a mistimed transfer, partly attributable to a reluctance to relinquish control, which highlights the need to plan sooner rather than later, so that any future transfer takes place on your terms.

Make time to talk

Preparing for the possibility of cognitive decline requires careful planning, not only having legal documents in place but also starting conversations with your family and those you trust about your finances and objectives, in advance of its possible onset. This fosters transparency and, with everything out in the open, close connections are more likely to notice if you begin making decisions about your money that don't align with your objectives.

We can assist you with planning and in starting these conversations well in advance, enabling you to better plan for the future, giving you a greater sense of control and ownership of your plans.

[5]Alzheimers Society, 2019, [6]Vanguard, 2021

An essential element of preparing for your retirement should involve planning for the possibility of cognitive decline

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.

The *'Late Financial Bloomer'* faces a complex retirement journey

A new group of consumers, dubbed the *'Late Financial Bloomers'* are set to change the face of retirement[7]. An array of socioeconomic factors, such as later home ownership, are the primary drivers behind this shift.

Divorce and marriage trends are also key contributors, as is later childbirth. First marriages now take place four years later than they did 20 years ago; similarly, divorce rates peak 20 years later than they did two decades previously. With more women over 40 now giving birth each year than those under 20, a growing proportion of the population will be supporting children through education later in life, diverting attention from retirement planning.

Currently, accounting for just 6% of retirees, the number of Late Financial Bloomers is set to rise considerably over the next 15 years or so. The trend towards later financial security means an increasing number of people will face complex retirement journeys, highlighting the requirement to plan ahead.

[7]Canada Life, 2021

Gen up to protect yourself from pension scams

With pension scam losses totalling millions each year, good news came in November, when new regulations came into force to protect pension savers and stop suspicious scam transfers.

From 30 November 2021, pension trustees and scheme managers received new powers to intervene. Previously pension providers were not allowed to refuse to carry out a transfer where the saver has the right to do so, even if they were suspicious, but the new regulations will enable trustees to prevent a transfer request if they see evidence of 'red flags.'

Knowledge is power

The Financial Conduct Authority (FCA) has reaffirmed its commitment to tackling scams in order to ensure the long-term health of the pensions market. In a speech to delegates at the Pensions and Lifetime Savings Association, the FCA's Executive Director of Markets Sarah Pritchard said steps have been taken to stop scams reaching consumers, *"We want people to be better protected from the risks of scams and know how to protect themselves against them. Our ScamSmart campaign… gives knowledge and tools to help people protect themselves from scams."*

On-the-ball

We can all take simple steps to protect ourselves against potential scams, including:

- Double check who you're dealing with
- Don't give out personal information you wouldn't share with a stranger
- Don't feel pressurised into making quick decisions.

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.

In other news...

Scam victims suffer a £9.3bn wellbeing impact

Unfortunately, scams continue to be rife. As well as having devasting financial impacts, a study[8] has found that scams affect personal wellbeing. By using a model that allows researchers to value changes in wellbeing in monetary terms, the impact of scams on victim wellbeing has been calculated at over £9bn a year – a personal cost of £2,509 for each victim, although the estimated impact for someone hit by online fraud is higher at £3,684. The research suggested scam victims faced a decline in life satisfaction, lower levels of happiness, considerably higher levels of anxiety and in some cases, ill-health.

Is a savings slump looming?

The cost of living is rising, with many savers saying they are rapidly eating into the additional savings they built up during lockdown. Nearly three-quarters (74%) of UK adults say they are worried about rising living costs, with 35% saying they feel more anxious about the future than before the pandemic[9]. This percentage increases to 42% for 45 to 54-year-olds. A significant proportion of adults are eating into their lockdown savings fast. In fact, one-fifth say they have already spent their lockdown savings, while a further quarter predict their savings will be gone before the year is out. As normal life returns, the balancing act between spending and saving, particularly for those approaching retirement, is becoming ever more delicate. Although you're unlikely to save the same amounts now as you were in lockdown, don't despair as small amounts of savings each month can soon add up.

[8]Which?, 2021, [9]Aviva, 2021

Prepare with confidence

If you are in the dark about how to prepare for retirement, then join the club. Nearly half (47%) of working age people are a bit lost when it comes to getting their retirement planning in the right place[10].

The research also shows that just 28% feel secure in their understanding of how to manage their pension as they approach retirement, while fewer still (27%) have an idea of what a 'good' amount of pension savings is for someone of their age.

'On the back foot'

The gender pension gap once again rears its ugly head in the research, with women almost twice as likely (21%) to say they feel completely *'on the back foot'* than men (12%). Women are also more than twice as likely to lack understanding of how to manage their pension in the runup to retirement (34% of women vs 14% of men).

A confident approach to retirement

Managing Director at Aviva, Mary Harper, commented, *"It's very easy to put thoughts about later life to the back of your mind but investing time in thinking and planning ahead can make a world of difference to your options... evidence suggests that people who access financial advice are, on average, tens of thousands of pounds better off in the long-term."*

We can offer expert guidance and advice to help you manage your retirement planning with confidence.

[10]Aviva, 2021

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.

Consumers and investors tune in to tackle climate change

More than half (57%) of consumers want their pension to be invested responsibly to help tackle climate change, but only one in seven people who have a pension have taken steps to invest it responsibly[11].

Climate change and the environment are bigger concerns for most people than COVID-19 or the economy, according to a new study[12]. In all ten countries surveyed, climate change or the environment was the number one ESG (Environmental, Social and Governance) concern, reflecting the prominence of climate change in the global debate. Other environmental issues cited include waste management (8%), pollution (6%) and clean air (5%). Furthermore, over half of consumers are willing to boycott companies with poor ESG performance.

SEC Newgate Deputy CEO EMEA Tom Parker commented, *"There is a widespread interest in and concern about the ethical and sustainability performance of governments and corporates. This is a truly worldwide phenomenon. The surprising consistency in these results illustrates that all local issues are global and that global issues are local."*

[11]Royal London, 2021, [12]SEC Newgate, 2021

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.

Making savings for your children work

Many parents are keen to give their children a flying start financially by putting aside money throughout their childhood. Mums have been shown to be more likely to take the lead in this area, with most savings being held in cash products, such as cash Junior Individual Savings Accounts (JISAs) or premium bonds.

Mum's the word

The research[13] shows that 60% of those actively contributing to a child's savings and investments were women. Researchers commented that this appears to fit in with a broader theme whereby women tend to connect investing to outcomes for their family more than to their own needs.

The survey also highlighted a drop-off in contributions as children get older. While 67% of new parents start saving or investing for their new-borns, this figure falls to 54% by the time children reach secondary-school age.

Is cash king?

The efforts of parents to save for their children is clearly admirable, but it is important to make sure that the money works hard for the long term. The JISA recently celebrated its tenth birthday, and the allowance has increased over the years from £3,600 a year in April 2011 to £9,000 a year today – currently stocks and shares JISAs make up just 3% of all accounts.

In times of rising inflation, sticking to cash can limit the impact of parents' savings, as the real value of cash will be eroded over time. While not guaranteed, investment products have historically delivered better returns over the long term. It's advisable to consider the options.

[13]Boring Money, 2021

Mums have been shown to be more likely to take the lead in this area, with most savings being held in cash products, such as cash Junior Individual Savings Accounts (JISAs) or premium bonds

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

Investment terms trigger stress reaction

The common use of jargon can make investments and pensions seem impenetrable and intimidating. If the thought of words such as 'Equities' and 'Investment ISAs' gets your heart racing, you're not alone: new research[14] has shown that financial terms really can make people feel anxious.

How can this be tested?

Researchers used a variation of the Emotional Stroop Test, which measures information processing speed when naming the ink colour of different words, to compare response times for neutral words like 'pencil' with investment-specific terms like 'ISA.'

Nearly two-thirds of participants had slower response times and higher error rates for financial trigger words, suggesting stress reactions. Additionally, 44.3% experienced a raised heart rate and 11.5% reported an increase in breathlessness.

The terms 'Stockbroker', 'Asset Manager' and 'Investment Risk' produced three of the slowest reaction times. Other investment-related words like 'Bond Fund' and 'Equities' also took longer than average.

Don't have a fear of finance

Stripping back jargon can help people think more clearly about investments and pensions. In supporting research, Barclays found that 71% of respondents don't feel confident enough to invest money in the stock market, with a quarter feeling 'frightened' by the idea.

Despite these fears, people do want to improve their financial knowledge, with three in five participants keen to learn more about financial terminology. We can relieve the stress of investments and pensions – and take the fear out of financial planning!

[14]Barclays, 2021

Lights, camera, action!

Did you know that Jackie Chan's stunt team has been blacklisted by all insurance companies, leaving Chan to pay out himself for any injuries? Fortunately, for most people it is considerably easier to get covered, so there is no excuse to be uninsured.

Over a third of people say they are more likely to buy protection insurance because of their experiences during the pandemic[15], indicating how the devastating impact of COVID has clearly led many to reassess their priorities and to seek the reassurances provided by protection insurance. This reassurance comes from hearing that 98% of protection claims were paid in 2020[16]. Witnessing the pandemic's impact on the health of others was cited as the main reason people were now more likely to take out protection insurance.

Affordability

Perceived cost, however, remains a barrier for some. Indeed, almost a third of people say they haven't taken out protection because they think it would be too expensive.

It's a wrap

Protection is a crucial component of a balanced financial strategy and, with policies starting at just a few pounds a month, it is a small price to pay for the peace of mind it provides.

Take action in 2022, to protect those you love.

[15]Hymans Robertson, 2021, [16]ABI, 2021

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.

Building financial resilience in 2022

The new year is the perfect time to reassess how your finances are faring and take advantage of any opportunities that may lie ahead. Household budgets are likely to be stretched in 2022, with rising inflation and tax increases already on the table. It makes sense to quantify your assets and position them appropriately to build financial resilience for your future.

Millions forecast to be worse off

Analysis by the Institute for Fiscal Studies (IFS) shows that living standards are set to stagnate over the next few years. This year specifically, an average middle-income earner will see take-home pay fall by around 1% as soaring household bills and an increased tax burden outpace any anticipated rise in wages. Research[17] also highlights the pandemic's impact on finances, with almost 16 million people feeling more financially vulnerable than before the pandemic.

Plan for your future

This situation is exacerbated by the fact people typically devote relatively little attention to financial matters. For example, one study[18] found that more than four in ten adults would either struggle to locate and access their pension, or said they had 'no idea' whatsoever about their pension pots.

Building financial resilience, however, lessens the impact of any unforeseen circumstances and ensures you are prepared for life's key events, such as retirement. It's therefore vital to plan now for the future you deserve.

Inflation-proof your finances

Inflation can erode savings quickly and is a growing concern for many. As a result, savers have been increasingly switching money from deposit-based accounts into investments – research[19] suggests over half of UK adults have already done this.

Diversification

The spectre of rising inflation certainly means investors need to carefully consider how to inflation-proof their portfolios. As always, maintaining a diversified range of investments is key, with appropriate portfolio construction enabling successful navigation through any periods of uncertainty.

[17]Royal London, 2021, [18]money.co.uk, 2021, [19]Aegon, 2021

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.