RT FINANCIAL PLANNERS LTD

NEWSLETTER – SPRING 2020

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Investing in Current Markets

Without wishing to cover the spread of Coronavirus too much, as it has already been covered so extensively in the news, I cannot avoid this topic, given the relevance for the economy and repercussions on investments.

There is no disputing the fact that we have witnessed some alarming and unprecedented volatility over the last few weeks, and this has already had a far greater impact than was predicted. Unfortunately, it now appears inevitable that this is set to continue for considerably longer yet.

To put some context to recent events, during the last month from 17th February to 17th March, global equities (measured by the FTSE All World Index) have experienced a fall of almost 25% and the UK FTSE All Share Index has seen close to 31% fall in value. Mixed asset funds on average have fared a little better with the more cautious sector of funds holding between 20% and 60% shares averaging a fall of 13.84% and the more balanced 40% to 85% share sector dropping by an average of just under 18%.

The disruption has raised the question of whether the impact will be short-lived or will mark a longer-term inflection point for the global economy - perhaps even a recession. The ultimate impact of the outbreak will depend on how long the virus persists, the size of the policy response and how far the knock-on effects extend. The outlook for economic recovery looks different between regions. China may be first to emerge, while economies in Europe currently appear more at risk. Growth in Europe was already sluggish, and many countries rely on tourism and are part of complex global supply chains disrupted by the virus.

Market expectations for additional central bank and government intervention are high, and reaction to announcements of stimulus to date have certainly not been positive, or at best have had limited impact.

Amid the uncertainty, one small piece of encouraging news is that unlike natural disasters, such as floods and earthquakes, capacity in many sectors should bounce back once things return to normal. Factories and offices will remain untouched and the majority of people who fall sick will recover.

Stock and bond markets are displaying levels of apparent disorientation as they bounce between brutal sell-offs and staggering recoveries, suggesting that distressed sellers are dominating the markets. It appears that we cannot currently gain much insight from market action, except that no one has more insight than anybody else.

Investing in Current Markets *continued*

This is not, in our opinion a rational sell-off and valuations are down to levels which do not seem particularly logical anymore. Unlike previous market crashes, this time the source of the stock market downdraft is not the financial system itself, but an external shock to global economic activity. The resilience of the financial system is certainly stronger following the financial crisis of 10 years ago, and there appears to be far less stress across the financial system overall.

We cannot predict the short-term impact of the virus. Indeed, the effects may run from months into years. However, we always recommend investments are considered long term, exactly for the reason of counteracting these significant events. We put together diverse portfolios to try to minimise the effect of one asset class or market having too great an impact. Unfortunately, the current falls are being seen across most asset classes.

In all of this we shouldn't lose sight of the fact that such extraordinary times can also lead to some extraordinary opportunities in investments, as too much focus on the very short term leads to buying opportunities for those with a longer-term perspective. Remember during the media outcry that for every seller that has to be a buyer. Historical precedent tells us that this crisis will pass and eventually lead to a strong recovery, because the recessionary conditions are related to a passing condition, rather than, in our view, a sustained deterioration in the general direction of travel the global economy was on before the virus crisis struck.

We understand it is a testing time for markets – indeed, 12 March saw the largest single equity market drops since 1987 – and it is almost impossible to not feel some anxiety. After global markets crashed in 2008, it took less than two years for them to recover all of the losses.

Valuations such as the ones we are seeing can invoke fear in investors, encouraging them to sell at precisely the wrong time. And once you have sold, it can be impossible to know when to re-enter the market. Very often the largest price rises are seen very suddenly and shortly after some of the heaviest falls, meaning you miss the best days to be invested. There is research into this and the enclosed document from Fidelity Investments gives some insight. It shows that if you had remained invested throughout the last 15 years you would be on average 4.3% per year better off than if you had missed the best 10 days in the market. So it can definitely be worthwhile holding investments throughout these difficult times and for the long term.

Protecting Investment Values

If selling investments is not advisable, as we have mentioned, what actions are sensible to consider for capital preservation in these difficult times?

Buy Investments! This may be a risk many investors are not be comfortable with at the present time, which is understandable. If this is to be considered, you really must be prepared to accept the risk and – importantly – have the time to sit out any continued downturn, as we cannot say how long any recovery may take. But the certainty is that you will be buying an asset at a significantly discounted price – and the value is likely to be much lower than it was a month or so ago.

Small, Regular Fund Purchases are also worthy of consideration at the present time – to benefit from "pound cost averaging", which means buying at different unit prices that are lower in some months than others and avoid buying too much ahead of a fall in value. So, if you are currently investing monthly, we would encourage you to continue to do so. If not, you may wish to consider this course of action.

Avoid or Reduce Withdrawals – Although it may not be possible for all investors, if you are making regular withdrawals for income, it may be worth considering whether deferring or suspending the monthly payments for a period is possible. If you can afford to do so, this will certainly help the position, as withdrawals being made from investment funds at present involve selling many more units. If you have cash reserves that can be drawn on in the shorter term this is certainly an option to be considered as a preference.

Active Fund Management – this may be simply an extension to the ever-present debate of active versus passive investment management, but it is a time that will undoubtedly see some sectors of the market fare much better than others. For example, travel or aviation firms are more likely to take longer to recover than other sectors. Within sectors, there may be stocks more likely to benefit, for example, firms that can deliver services to your door or by internet order may prosper more in the short term than those that require customers to visit them. Active fund managers can seek out these opportunities whereas funds that track a market or index may be less able to do so and may perform less well despite their lower fees.

Only Invest for the Long Term – times such as these serve as a stark reminder that equity investments are only suitable for long term holdings, as after heavy downturns, there needs to be time for a recovery. To illustrate this, I have enclosed a second document from Fidelity Investments showing that equity investments are not ideal for shorter terms. It shows that over the last 25 years, investments in the FTSE AllShare Index held only for a year would have lost money in over 20% of instances, whereas those held for 10 year periods would have only lost money in 2% of time periods. You can see why it is so often stated that investments that carry any risk are only suited for longer term holdings – and recent times are only emphasising this.

As always, please speak to your adviser with any questions you may have about any aspect of this newsletter or if you wish to discuss your own investments.

Updates from the Spring Budget

The recent budget was dominated, as you may expect, by moves to try to support the economy through these difficult and uncertain times. Although there wasn't too much of consequence in respect of financial planning, we are providing a summary of the main points that may be of most interest or relevance for our clients. The main highlights can be summarised below.

Pension Tax Reliefs – We were pleased to see that despite speculation again (as happens most years), the right to take 25% tax free cash or receive higher rate tax relief on pension contributions wasn't withdrawn.

The pension lifetime allowance will increase in line with CPI for 2020/21, rising to £1,073,100 (from £1,055,000).

The most welcome news was an increase in the income figures used to calculate maximum pension contributions for high earners and the tapered annual allowance. This saw the Threshold income, (which is broadly total income before tax) increase from £110,000 to £200,000. And Adjusted income, (which is broadly total income before tax plus employer pension contributions) increased from £150,000 to £240,000. Although the minimum tapered annual allowance decreased from £10,000 to £4,000, it will now apply only where adjusted income is £312,000 or more, so will affect many fewer people. The measure will take effect for the tax year 2020/21 and will only be effective for benefits accrued on or after 6 April 2020.

ISAs – The standard ISA allowance remains the same at £20,000, but the Junior ISA contribution limit will increase from £4,368 to £9,000.

Income Tax – The majority of income tax bands, rates and allowances are remaining the same for 2020/2021. The personal allowance remains at £12,500 (with reductions applying once income exceeds £100,000). Where standard personal allowance applies, higher rate tax becomes payable for income over £50,000

Capital Gains Tax – The Capital Gains Tax annual exemption will increase to £12,300 (from £12,000) for individuals, and £6,150 (from £6,000) for trustees.

Entrepreneurs' Relief – It had been reported that this relief would be withdrawn, so when there was only a reduction in the lifetime allowance to £1 million, it may be seen as positive news for small business owners.

Corporation Tax – The government will legislate to retain the current 19% rate in April 2020 and also to set the main rate at 19% for the financial year beginning 1 April 2021.