

# Cost of living and plan for growth

26th September 2022

We are always thinking about our clients and what the changing economic conditions will mean for your financial planning. Naturally, at times like this, you will want to know if anything different should be done with your investments and financial planning strategy. As this article goes on to explain, we do not see the need for substantial changes, but we would encourage clients who might need more cash from their portfolio than currently planned for, to get in touch.

## What has the UK Government done?

There is a point at which the use of the word “unprecedented” starts to lose its effect. The likely addition to government borrowing as a result of the energy cap and the measures announced in the mini- budget will dwarf the “unprecedented” borrowing to support the furlough scheme and other Covid measures by a factor of up to 10 times – quite remarkable.

It's too early to say what effect this will have, the chancellor believes it will stimulate growth that will strengthen the economy and public finances in the longer term, as tax receipts rise. The initial reaction in the Bond Market, FTSE, and the value of the pound would suggest global markets and investors remain unconvinced.

The government's package on capping domestic and commercial energy prices has now been released and as expected, the typical household bill will now be capped at £2,500. By 'typical', the government means any household that uses 12,000 kWh of gas and 2,900 kWh of electricity. Of course, many households will be 'untypical' and will use more energy than this.

For all of us, even with the government's intervention on energy, costs have increased and will likely continue to increase over the next 12 months at least. The energy cap will provide some much needed relief to households and businesses but there is still pressure on supply, causing many other prices to rise. In addition, borrowing costs have risen as central banks raise interest rates. Many people are coming to the end of low cost fixed rate mortgage deals and will see rises in what they pay at renewal.

Around the world, governments and banks have taken measures to dampen inflation and protect against rising fuel costs. This intervention is designed to help dampen the rate of inflation and reduce the severity of any potential recessionary risk.

Through all of this, markets have been volatile but probably not to the extent that people

feared, with most balanced portfolios down around 6-10% for the year. However, markets could fall further depending upon the severity of the economic slowdown that occurs. As we have said in other articles, investment markets typically 'price in' the bad news in advance, so logic would suggest that a lot of the loss in portfolios could have already occurred.

## What does this do to financial planning strategies?

In times such as this, it is important to remind ourselves of the core principles of financial planning we follow in our review meetings:

1. **Don't try and time the markets**, it really is dangerous to do this. Instead, you should see through the course of the investments. Investment strategy and risk level should change only if your circumstances and planning objectives change, rather than in reaction to market events.
2. **Ensure there are cash reserves** to provide additional funds, so that in times of market stress, you are not forced to sell investments at a low price. We target holding up to two years normal expenditure in this regard, just in case, depending on circumstances.
3. **Always plan ahead for future significant expenditure capital**. If you know with reasonable confidence that your expenses are going to increase over the next 12 months and you need to rely on encasing investments to cover this, you should act now to plan where the funds should be raised from.

We cover all of these points in our review meetings, however, if you think your need for cash will increase beyond what we have already planned for, then please do not hesitate to get in touch. It's always better to have planned in advance rather than "wait and see", as we can't be certain about how investments will move in value from here on.

## Does my investment strategy need to change?

The reality is that it already has. The multi-asset strategies we use, whether multi-asset funds or discretionary portfolios, have the mandate to change their strategy in light of economic and market conditions within the scope of the risk profile selected. This will not protect you completely from market losses but should dampen the impact.

Furthermore, the investment strategies we use are globally invested, with UK exposure relatively limited, something that should always be remembered when viewing UK market and economic news.

There are times where a change in your wider circumstances might trigger a review of the

risk level taken, for example, where:

- Earnings cease unexpectedly
- You come in to more wealth than before
- The time horizon until when you will need to rely on your wealth changes

Market volatility in itself should not normally be a trigger to change risk profile.

We are closely managing the strategies we use to ensure they remain suitable and are performing within expectations and we will suggest changes where required.

## Should I continue to invest new monies?

This is often the hardest argument for clients to rationalise, however, you should continue with planned investments as it is an opportunity to invest at lower prices than you might have otherwise had to pay. If you wait for the headlines to return to being positive, markets are likely to have moved ahead and you could be investing at much higher prices than if you “buy on bad news”.

For large new sums of money, we have and will continue to phase the investment into the market, such that any short-term volatility has a smaller impact.

## Getting in touch

We're always available should you wish to discuss any matter and would welcome a conversation if you have questions related to this note, or any other matter.