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Financial *focus*

OBJECTIVE WEALTH

Environmental concerns

One of areas that we, at Objective, have been working on this Autumn is how we may become Carbon Neutral and make the environment a key element of the way in which we conduct business. Using our Personal Finance Portal (PFP) allows both our clients and our staff to share documents reducing the amount of paper waste that we produce as well as ensuring the security of those documents. We are trying to develop a productive way of using video calling for appointments for those individuals who wish to use them as an option to reduce our carbon footprint in the use of our cars. It would be great to hear your feedback on whether video calls in place of some appointments is something that you, as a client, would welcome. Collectively, we have been considering our investment proposition and how your money is invested with our futures and those of our children in mind. At Objective, we are acutely aware that we need to ensure that your money is working for you and your family Therefore, any proposed changes will be modest and we will, of course, seek your opinion on them at each step of the way. **John Wheatley**

OBJECTIVE WEALTH SEMINAR

On Friday 22nd November 2019, we held our first company seminar. The seminar's aim was to give more insight into what we are looking at, as your financial advisers in looking after your portfolios. We heard from LGT Vestra regarding Environmental, Social and Corporate Governance (ESG) which is a big part of the present and future of sustainable investing. We also heard from Vanguard regarding how behaviour can affect one's decisions when it comes in to investing. Finally, Objective Wealth's Mark Jones gave an insight on how we manage client's portfolios when there is an income requirement. We look forward to rolling out more seminars next year and hope to see you there.

Reduce the impact of volatility when taking income

How using the 'bucket approach' can help you plan taking an income

Pension Freedoms in 2015 was a monumental shapeshift in financial planning and in particular retirement planning, that I've seen since working financial services. Pension freedoms meant that annuities weren't the only choice anymore for pensioners coming up to retirement which prior to 2015 was a continued grievance for pensioners. The value for money on most annuities was purely judged on how long a retiree lived. However, once Pension Freedoms arrived in April 2015, investors were able to keep their pensions invested and simply draw down what they need from their pensions. This opened up all sorts of possibilities when it comes to financial planning.

More Control Over your Finances

Now, if you decide to keep your pension invested and take an income (drawdown), then this comes with its own set of risks. With a lifetime annuity, you can get a guaranteed income for life but in order to take income for life via drawing down a pension, the investment has to last throughout your lifetime. This, in itself, can make investors nervous and one of the biggest worries to an investor when taking an income is volatility in the markets. Saying that, volatility is quite welcome if the markets perform very well and your investment goes up. However, it is not quite so comfortable when the markets go down. Everyone will remember the credit crunch in 2008. The FTSE100 fell by 31.3% in the 2008 calendar year. If we put this into context, if taking an income from an investment and it doesn't have to be a pension. If you had £100,000 to invest at the beginning of 2008 and wanted an annual income of £5,000, then your pot at the end of 2008 would be circa £65,000 (if invested in the FTSE100). In 2009, you still need an income of £5,000 and this suddenly represents 7.7% of the total value of the pot. Therefore, suddenly your investment needs to work harder to produce the same income the next year.

> 'People who have worked hard and saved hard all their lives, and done the right thing, should be trusted with their own finances'
> Chancellor George Osborne's 2014 Budget speech

The Bucket Approach

One way to protect income investors on the downside and it is something we have incorporated at Objective Wealth, is to segregate your investments into time horizons. If we know, you are going to take a certain amount of income in the short term, it makes sense for us to reduce the investment risk on this money. Therefore, we take the approach of leaving enough in cash for the next two years' worth of income requirement. If the market does take a downturn, then this short-term income is not affected seeing as you were going to take it anyway. Next, we have another bucket for next time horizon which is two to five years requirement for income. We still invest this in Stocks and Shares but we take less risk than you would your longer term money. Finally, the final bucket is the long-term money which we know we won't need for five years plus. This gives this part of the investment a chance to ride any downturn in the markets without the need to disinvest when prices are low.

If we go back to the Financial Crisis of 2008 which is the best example of a big market downturn, the average balanced investor's portfolio had recovered to the pre-credit crunch levels by October 2009. This is a period of 22 months and if we had taken the bucket approach, the cash would be unaffected by the downturn, and the two other buckets would have had a chance to recover in this timeframe by remaining invested. It takes discipline but this is what your annual reviews are for, to make sure you are appropriately placed when you have the need for income.

This doesn't just apply to pensions but you can apply this approach to your finances as a whole. **MJ**

The Bucket Approach

Taking a £5,000 income from a £100,000 pot.

Bucket 1 = £10,000 (0-2 Years)
- Cash

Bucket 2 = £15,000 (2-5 Years)
- Lower Risk Investments

Bucket 3 = £75,000 (5 Years plus)
- Your Attitude to Risk