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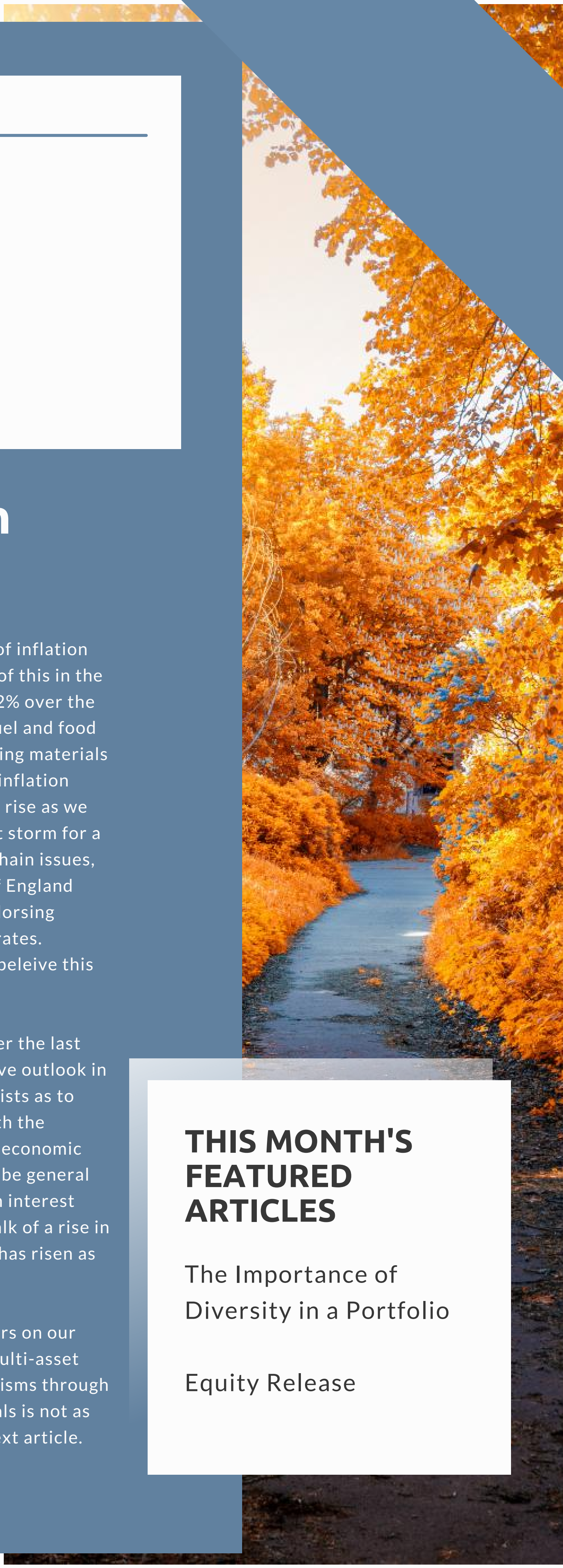
FINANCIAL FOCUS

OBJECTIVE WEALTH



An Update on Inflation

The onset of inflation is now starting to bite

In our newsletter from May, we talked about the possibility of inflation coming to the fore. You will have heard recent confirmation of this in the press with the most recent figures showing prices rose by 3.2% over the last 12 months. You will of certainly seen it first hand with fuel and food price increases. There are shortages in goods including building materials pushing up prices in this sector. We are expecting the latest inflation figures on 20th October 2021 and expect inflation figures to rise as we move towards December. It does seem that there is a perfect storm for a potentially elongated period of inflation ahead with supply chain issues, labour shortages and fuel shortages. This has led the Bank of England Monetary Policy Committee member Jonathan Saunders endorsing market expectations of an upcoming shift higher in interest rates. However, the Bank of England is keen to reiterate that they beleive this increase in inflation will be transitory.

This talk has sparked some sell offs in the equity markets over the last couple of weeks, however, there remains a short-term positive outlook in equities. There does seem to be disagreements from economists as to how long this period of increased inflation may last along with the potential impact of it given that inflation has not featured in economic thinking for a long time now. That said, there does appear to be general agreement that we will not see a return to the sustained high interest rates of the past. At the time of writing this, the continued talk of a rise in interest rates in the UK has meant that the value of Sterling has risen as it is seen as better value compared to other currencies.

We carefully consider the impact of all wider economic factors on our recommended portfolios and maintain our own policy that multi-asset passive portfolios are the best access to the support mechanisms through any economic conditions. Timing of investment or withdrawals is not as important as time in the markets which is explained in the next article.

JW

The Importance of Diversity in a portfolio

Why investors should try not to put all their eggs in one basket

As a Financial Adviser, I am always asked, what are the best stocks to buy? Also as a Financial Adviser, I quickly reply to say I do not advise on individual stocks so I wouldn't have a clue! Picking individual stocks is something that just isn't in our remit and nor should it be. We research and build portfolios in order to help you succeed in your financial planning objectives. By a rule of thumb, you need to take on some risk in order to generate a return whether you are a high-risk investor or even a cautious investor if you want to generate returns above cash interest rates. One of the best methods of controlling risk is diversification.

We find that clients come across owning individual shares in all sorts of manners. Some may inherit vast quantities of shares, some people pick up shares from demutualised companies or some people like to have a punt on particular companies for greater returns. We are not saying owning individual company shares is wrong but they should not form the vast majority of any individual's portfolio. You could get lucky, or it could spell disaster. I will try and demonstrate this in the below graph. We take three prominent FTSE 100 companies (AstraZeneca, HSBC and Unilever) and track their progress over the last five years. After 20 months of investment in each share, each share price return is pretty much the same albeit on different journies to get there. However, after 5 years of investment, their fortunes vary dramatically. In yellow, we have the AstraZeneca shares which have increased in price dramatically following the pandemic, increasing in price 85.38% over five years (excluding dividends). In purple, we have the consumer goods company **Unilever**, whose share price has only increased in value 5.08% (ex. dividends) over 5 years. Finally, in blue, we can see the share price of **HSBC** has dropped 37.26% over the last five years. You can see who would be the happier investor in this scenario but you can see it is far riskier relying on the share price of one company.

Past performance is not a reliable indicator of future results

Source: uk.finance.yahoo.com (07/10/2021)

Diversification

At Objective Wealth, whether you are a cautious investor or even a very high-risk investor, we will give you a portfolio of funds that invest in many different stocks & shares in order to smooth your returns. For example, the Vanguard LifeStrategy 40% Equity Fund, currently invests in 27,497 underlying holdings which give the investor a huge amount of diversification. If one company fails within this fund, then there are 27,496 holdings propping up the portfolio which should give a lot of reassurance. Within the diversification process, there are also different methods of diversifying, such as not only investing in equities (shares) but also in other asset classes like Bonds, Property, Commodities or even Cash. Furthermore, you can invest in different sectors or industries that aren't necessarily correlated to each other. For example, Financials, Technology, Health Care or Industrials. Finally, you can also diversify your portfolio by investing in different regions of the world. If we invested 100% of your portfolios in the UK, then we could be affected by the economic conditions or government policies in the UK alone which could have a detrimental effect on your portfolio. We put together diverse portfolios regardless of your risk profile as we want to protect you on your financial journey.

This is not to say there is no place for individual shares in your portfolio. However, we feel the majority of your investments and pensions should be well spread for your protection and if you want to invest in individual shares, it should represent a smaller part of your portfolio. **MJ**

Equity Release

Is there a place for Lifetime Mortgages now that interest rates are at a record low or is now a good chance to re-look at an existing policy?

Equity Release (Lifetime Mortgages) has come a long way in recent times and is one of the most rapidly growing areas in financial planning. Equity release is available to homeowners above age 55 and gives you the ability to unlock tax-free equity from your home via either a lump sum or a regular income.

For Objective Wealth, we are seeing this as an increasing area where advice is required. In the Spring 2021 Market Report, the Equity Release Council stated that the average interest rates for Equity Release were 3.95%. Therefore, interest rates in Lifetime Mortgages are at an all-time low. We are not advocating that a Lifetime Mortgage is for everyone as it is very dependent on individual circumstances. However, with all time low interest rates and more providers offering Lifetime Mortgages, now would be the time to consider it.

Those that already have a Lifetime Mortgage, should review your existing policy. Recently, we have reviewed clients who already have Lifetime Mortgages and we were able to put our clients in a much better long term financial position. Historically, interest rates have been up to 7% annually on a roll-up basis which can quickly eat into the equity in the property. This means there is potentially less to pass down to beneficiaries as part of your estate if this is one of your objectives. Even if you are still in an early repayment charge period, with the lower interest rates, you could save money by finding a new interest rate and paying off the early repayment charge. A bit like insurance or credit card debt, it is always best to shop around and not stay on a rate that is not beneficial in the long term.

If you would like to discuss Equity Release, please do not hesitate to get in contact. **JC**

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