



# FINANCIAL VIEWPOINT

OYSTER FINANCIAL SOLUTIONS LLP

---

Please enjoy reading our newsletter. If you would like to discuss any of the articles further, please do not hesitate to contact us.

PART OF  
— THE —  
**Openwork**  
PARTNERSHIP

109 Mortimer Street, Herne Bay, Kent, CT6 5ER  
[admin@oysterfinancialsolutions.co.uk](mailto:admin@oysterfinancialsolutions.co.uk) | [www.oysterfinancialsolutions.co.uk](http://www.oysterfinancialsolutions.co.uk) | 01227 375500

# Cost of living crisis: Why you should review your budget and plans

The cost of living is rising. Reviewing your finances now is crucial for understanding what effect inflation could have on your lifestyle and long-term plans.

Inflation was at an almost 40-year high. In the 12 months to August 2022, it was 9.9%. There are several factors contributing to rising inflation, including the conflict in Ukraine, which has disrupted energy and food supplies.

**Rising inflation means now is the ideal time to review your budget**

Keeping track of your finances during the cost of living crisis is crucial. In the short term, you should review your budget. Can your budget absorb the higher costs, or do you need to make lifestyle changes?

The Bank of England expects inflation to peak at around 13%. It's also said it doesn't expect the rate to fall to its target of 2% for several years.

So, you should look at what that means for you in the coming years. Will rising energy prices mean you need to be more mindful of energy use or cut back expenses in other areas?

While the headline inflation figure can give you an idea of how prices are changing, your personal inflation rate may be very different. If you commute long distances, for instance, the steep rise in fuel costs may mean your outgoings rise more than you expect.

Going through your budget and calculating how your regular costs have changed in the last year can help you better manage your finances.

In some cases, you may decide to draw on savings or other assets to bridge a gap if your expenses rise. You should ensure this is sustainable.

**The steps you take could affect your long-term plans**

While it's important to focus on how the cost of living crisis is affecting your finances now, don't forget to consider the long-term effects too. Decisions you make now could affect your income and financial security for years to come.

If you're using assets to create an income, such as your pension, you need to be aware of how increased withdrawals may affect you. Could taking a higher income from your pension now to cover costs mean that you deplete your savings faster than you expect? If so, it could mean you face an income shortfall later in life.

Research also suggests that some people are cutting back outgoings that could improve long-term financial security. According to Canada Life, 5% of adults have already stopped contributing to their workplace pension due to budget pressures. A further 6% are actively thinking about pausing their pension contributions.

While pausing contributions for a few months may seem like it will have little effect on your retirement, it can be larger than you think. The power of compounding means that pausing pension contributions for just a year could reduce the value of your pension at retirement by 4%.

It's not just stopping pension contributions that could affect your long-term plans. Things like reducing how much you add to your savings account or investment portfolio could affect whether you can reach your goals in the future, whether that's to support children through university or retire early.

**Contact us to review your finances**

Amid the current economic uncertainty, reviewing your financial plan can give you peace of mind and confidence. We'll help you understand how your current budget has been affected and the steps you can take now to create long-term financial security.

*Please contact us to arrange a meeting to discuss your goals and the effect the cost of living crisis could have.*



# 3 important reasons for staying invested through market downturns



It's been a difficult year for investors so far. Inflation and political uncertainty have led to market volatility.

Market volatility can be scary, especially if the value of your investments drops, but it's important not to let fear guide your decision about whether to stay invested in your portfolio. Here are three reassuring reasons for staying invested in the stock market during uncertain times.

## 1. The best financial decisions are not based on emotion

Emotions can play a big role in your financial decision-making if you aren't vigilant. The thrill of seeing your investments increase in value can quickly be replaced with panic and fear when the value decreases during market slumps.

When you understand the cycle of emotions related to investing, you can reframe downturns as opportunities to maximise your returns in the long term. This is because when the value of investments falls, it becomes cheaper to buy more shares or fund units – providing greater opportunities to grow your wealth when conditions improve.

As Warren Buffett, one of the world's most successful investors, famously said: you should aim to be "fearful when others are greedy, and greedy only when others are fearful".

By looking at the situation objectively, without the influence of emotions, you will be able to make sensible financial decisions based on your understanding of how the markets tend to ebb and flow.

## Get in touch

If you're concerned about whether the current market volatility will affect your long-term financial plans, seeking expert advice can help to reassure you and keep you on the right track.

We can help you to decide on the most appropriate next steps based on your circumstances and future goals. Please get in touch to arrange a time to chat.

*Please note: The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested. Past Performance is not a guide to future performance and should not be relied upon.*

## 2. Bull markets tend to outlast bear markets

When markets are trending upwards and investments are generally growing in value, this is called a "bull market". This is when you will often see your investments increasing in value.

By contrast, a "bear market" describes periods when the market has dropped 20% or more from its peak. Despite rallying in October, the S&P 500 is currently down 22% since the start of the year, with many of the top-performing US stocks noting significant drops since the start of the year.

As seen in the chart below, bull markets have not only been more frequent over the past 60 years, but they have also tended to last far longer than the average bear market.

So, despite the rocky start to 2022 for investors, it makes financial sense to be optimistic about the prospect of markets recovering sooner rather than later. As the markets recover, you could see significant increases in the value of your investments.

## 3. Staying invested could produce better long-term gains than moving to cash

Attempting to time the market by moving your investments into cash during market downturns could lead to significantly lower long-term returns than if you had stayed invested throughout.

The chart below shows how returns on £1,000 invested can be affected by attempting to use this strategy.



The end results show that the initial investment would have created a final value of £1,993.32 if it had remained invested throughout downturns; if the same amount had been invested initially, but removed from investments during downturns, the final value would have only been £1,042.43.

The difference in returns is partly because the best days in the markets tend to occur immediately after a downturn. By attempting to time the market, you will often miss out on the significant returns generated on these important days. Compounding is the process of generating returns on the total value of your portfolio, including both your initial investment and any returns generated since then, so the impact of missing the best days in the market will be reflected in your portfolio's value for many years.

# Decumulation

## Why a plan is crucial when you start to spend your wealth

### Making your retirement savings last a lifetime

To help ensure a sustainable income, you first need to understand how much you'll need to live on.

- **On the go** – during the early stages of retirement, there's a strong likelihood that you'll spend more on travel, hobbies, or home improvements
- **Slowing down** – while you may be slightly less active, you're still busy with hobbies, but you may be less inclined to long-haul travel
- **Coming to a stop** – in later life, your mobility may be more limited, and you may require care.

### Structuring a sustainable income

The most efficient retirement income strategy should be planned well in advance and ensure that:

- Allowances and exemptions are used to their full capacity
- Married couples plan together so income and assets are allocated effectively.

Regarding capital withdrawals, you may want to consider decumulating using cash first, followed by taxable investments, ISAs, and finally pensions.

### Tax efficiency is key

While tax-efficient accumulation helps enhance your wealth for the retirement you desire, tax-efficient decumulation helps preserve your capital and increases the chance of having money to leave to your loved ones.

So, maximise all your tax allowances including:

- Income Tax allowances
- The Dividend allowance
- 5% return of capital allowance from investment bonds
- Personal savings allowance
- ISA allowance
- Capital Gains Tax allowance

By planning together, couples can use these allowances to maximise the amount of tax-free income available.

### Consider spending excess cash first

Ideally, you should hold an emergency fund to cover around six months of regular expenditure. If you have more cash available, consider using this before withdrawing from pensions investments. Using excess cash allows you to leave funds invested, which may provide enough time for funds to recover any lost value.

### Get in touch

If you'd like help to create a financial plan to structure a tax-efficient income in retirement, we can help. Please get in touch to arrange a time to chat.

### Think twice before drawing on your pension

While you may consider your pension as the foundation of your retirement plan, if you have other income that uses your tax allowances, it may be prudent to defer drawing on your pension.

Since pension funds benefit from tax-free growth, interest, and dividends, leaving your pension invested is especially useful for maintaining capital value. Plus, pension funds are usually not subject to IHT. So, leaving your pension fund intact while drawing on other investments may help to reduce your IHT liability.

### Enjoy flexibility from ISA savings

ISAs are considerably more flexible than pensions. Growth, interest, and dividends are all free of tax and you can withdraw money tax-free without restriction. As for IHT, ISAs can be passed between spouses on death, which preserves the tax-efficient treatment.

Useful in reducing tax in retirement, you can use your ISA to:

- Fund large, one-off purchases
- Top up your income – especially useful if your pension exceeds your tax-free allowance
- Make your portfolio more efficient over time, by gradually moving taxable funds across.

### Take a savvy approach to investment accounts

A basic and flexible wrapper, investment accounts can hold funds, shares and investment trusts. Interest and dividends are taxable at your marginal rate and selling assets can incur Capital Gains Tax (CGT) if your profit exceeds your annual exemption (£12,300 for 2021/2022 or, for a couple, £24,600. In the 2023/24 tax year, the CGT exempt amount will fall to just £6,000, or £12,000 for a couple).

The following strategies can help reduce tax:

- Phase your taxable investment accounts into ISAs
- Use your annual CGT exemption to avoid large gains rolling up
- Structure your investments depending on the type of income they generate

*The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.*

*Past performance is not a guide to future performance and should not be relied upon. An ISA is a medium- to long-term investment, which aims to increase the value of the money you invest for growth or income or both.*

*HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.*



The financial assets quilt

# Why diversification is key when inflation rises

To stay ahead of rising costs and maintain your assets' purchasing power, your portfolio needs to provide positive returns. Diversification can help you achieve this.

## What is diversification?

Diversification is investment jargon for the well-known proverb: "don't put all of your eggs in one basket".

While a well-diversified portfolio doesn't give you guaranteed downside protection, it can help you maximise long-term growth potential. Since the values of different types of assets don't always behave the same way or move in the same direction, holding a range of different investments can help reduce your risk.

## Balance between risk and reward

The balance between risk and reward should be front of mind – diversification is key to this.

The chart below breaks down historical performance and volatility of different asset classes – cash, equities, real estate and so on – over time. The balanced portfolio – represented by the white boxes – highlights how diversification can help reduce risk in the portfolio and enhance returns.

## Protect your downside

When global events provoke market volatility, a well-diversified portfolio can help protect your downside.

As illustrated below, when Russia's invasion of Ukraine caused volatility, some markets were more severely affected than others.

Had you invested the majority of your money in Europe, you would have suffered far greater potential losses than if your portfolio had been invested across all regions.

## 4 main asset classes for a well-diversified portfolio

Spreading your wealth over different asset classes should achieve a strong, well-balanced portfolio.

### 1. Cash

Secure and easily accessible, cash is generally considered to be the safest asset. However, it tends to provide lower long-term returns than other asset classes and its value can be eroded by inflation.

### 2. Bonds

Bonds are a loan you make to a company or organisation from which you receive interest payments. While usually considered medium risk, this depends on who is issuing them.

### 3. Equities (or shares)

Equities are an ownership stake in an individual company listed on a stock market index – the FTSE 100 in the UK or the S&P 500 in the US, for example. Many investors hold equity assets in funds, such as pensions, ISAs, or unit trusts, which are often pooled or collective investments. Investing in individual companies tends to carry more risk, so a collective approach can be extremely beneficial, especially since funds are looked after by professional managers. Because your money is pooled with other investors, you can often access a range of investments that might otherwise be unavailable.

While history shouldn't be considered a guide to the future, over the longer term equities tend to outperform other types of investment.

Shares can be volatile. Their value can go up as well as down and you may not get back the full amount invested.

### Alternative investments

Property is one alternative investment. Its returns tend not to closely correlate with those of shares or bonds, which may be useful if you want to introduce another source of potential capital growth and income into your portfolio.

While property tends to be less volatile than equity or bonds, its value can fall as well as rise and is also less liquid; it can take longer to invest into and sell when you want to access your money.

### Other alternative investments include:

- Infrastructure funds (large, high cost projects, often connected to public development of core systems such as transportation or electrical supply)
- Natural resources (companies that are involved in the extraction of oil, gas, coal, metals, etc.).

Diversification is more than just the type of asset held

You can also diversify across:

- Geographical regions – the US, UK, Europe, or Asia
- Sectors – finance, energy, or transport
- Themes – technology, healthcare, or renewable energy
- Size – smaller companies (small cap) or larger companies (large cap).

## 3 reasons diversification is key

A well-diversified portfolio can help you:

### 1. Minimise risk and increase potential returns

Diversification spreads risk and helps to limit the impact of market volatility on your investments. When one sector, asset class, or geographical area falls, a rise in another area could help to offset the loss.

### 2. Provide greater opportunity for returns and eliminate investment biases

Diversification can help prevent you from falling foul of investment biases. You may be overly confident about the performance of sectors you know, or geographical regions that you're familiar with. These unconscious biases could see you miss out on potential growth, whereas a diversified portfolio won't be constrained.

### 3. Help you to consolidate gains

As your investment goal approaches, you might want to consolidate your gains. Diversification allows you to do this by rebalancing, increasing the number of lower-risk assets you hold.

This should help to avoid the value of your investments suddenly falling in value when you need to withdraw funds.

## Get in touch

If you want to ensure that your portfolio is well-diversified and balanced according to your financial goals, we can help. Please get in touch to arrange a time to chat.

*The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested. Past performance is not a guide to future performance and should not be relied upon.*

# The effect of psychology on investors

You should base financial decisions on logic and facts. But psychology can have a much larger effect than you think, and it can lead to you making decisions that aren't right for you. Read on to find out more about what behavioural finance is and how it could affect you.

"Behavioural finance" was first coined in the 1970s by economist Robert Shiller and psychologists Daniel Kahneman and Amos Tversky. They used the term to refer to how unconscious biases and previous experiences affect the way people make financial decisions.

It can be used to explain why investors can make knee-jerk decisions or invest in opportunities that aren't in their own best interest. Rather than relying purely on facts, investors often have biases that affect how they react to certain situations.

## Finance bias can lead to "irrational" decisions through shortcuts

There's a reason why people often make decisions based on biases: they can make the decision-making process quicker.

If you imagine how many decisions you need to make every single day, it's easy to see why this kind of decision-making can be useful. From what to eat for breakfast to which way to travel to work, it'd take up all your time if you carefully went through the facts for each decision you make. So, you make shortcuts by using biases.

However, while it can be a useful process in your day-to-day life, bias can have a negative effect when you're making important decisions, including financial ones.

## Behavioural finance covers five concepts:

### 1. Mental accounting

Mental accounting can be incredibly useful when you're managing a budget. However, inflexibility could mean you miss out on opportunities.

The concept refers to how people may designate money for certain purposes. So, you may have different savings accounts for various goals. It's a process that can help you manage your outgoings and work towards goals.

However, it can also lead to irrational decision making.

You may not dip into a savings account that you've allocated to buying a new car even when you face an emergency and it'd make sense logically.

How you receive the money may also affect how you use it. For instance, you may put off using money that was given as a gift in an emergency because you believe it should be used for something special.

### 2. Herd behaviour

Herd behaviour is something that's often seen in investing. When you hear that lots of people are selling certain stocks or buying a specific share, it can be easy to be led by this and follow suit.

It can lead to you making decisions that, while possibly right for others, don't suit you or your circumstances. It's not just investing where herd behaviour can have an effect. You may be tempted to purchase an item after a friend has or choose a savings account because someone you know has.

### 3. Anchoring

When you have some information, you may focus on this – anchoring your views to this data.

Setting a benchmark can be useful, but it can mean you don't take in other information, especially if it's contradictory.

So, you may hold on to investments even after the value has fallen because you've anchored its worth to a previous valuation.

### 4. Emotional gap

Emotions often play a role in financial decisions. You may sell a stock because you fear that the price will fall, or make an impulse purchase because you're happy.

Being comfortable with your financial plan is important, but an emotional gap can fuel irrational decisions as you're more likely to overlook data.

### 5. Self-attribution

This concept refers to how investors are likely to have overconfidence in their abilities.

You may believe you can reliably time the market to maximise profits when the markets are unpredictable. In this case, it's common to see "wins" as being down to your knowledge, while "losses" are attributed to things outside of your control.

Unconscious bias may affect your decisions in ways you don't expect. If you have any questions about your finances and the decisions you need to make, please contact us.

*The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.*



# What is critical illness cover?

Whether you need critical illness protection depends on your situation as well as any existing policies you might already have in place.

Critical illness insurance pays out a one-off, lump sum if you're diagnosed with a condition or disability that is covered by your policy. It can be offered when someone applies for life insurance – as extra coverage.

In a similar way to some life insurance plans, critical illness covers a set number of years. You can specify whether you want the payout to rise over the course of the term (so it keeps up with inflation) or the opposite – decreasing because your aim is to cover something specific like your mortgage.

If you're thinking about critical illness cover, it's important to speak to your financial adviser who can help you decide how much cover you'll need and how long the term should last.

## What does critical illness cover?

Products vary depending on the provider. Certain illnesses are covered as standard by most insurers, including, cancer, heart attack, stroke, organ failure, multiple sclerosis, loss of arms or legs and Alzheimer's and Parkinson's disease.

Some providers may allow you to add additional illnesses to your policy, which you'll pay more for. Your children could also be covered as part of your policy so it's worth asking your adviser about these options if it's something you're keen to have in place.

## What does critical illness not cover?

Although a diagnosis of a critical illness can mark the start of a claim in some policies, others may only begin to offer protection once your illness hits a certain level of severity. For example, if you are diagnosed with cancer, payments may only begin when permanent symptoms have been officially diagnosed. Additionally, not all types of cancer are necessarily covered by critical illness protection.

It's important to work with your financial adviser when reviewing a policy and all the small print before you commit to make sure you are sufficiently covered – and aware of areas not included.

## Pre-existing conditions

Just like the life insurance application process, critical illness protection requires you to disclose any pre-existing conditions. If you don't then your policy could be invalid.

Your adviser can search the market for a suitable plan, but you'll probably have to pay more in premiums and there will likely be some extra exclusions. The price you pay will vary, based on things like age, occupation, state of health, lifestyle and how much coverage you need and for how long.

## Do you need critical illness cover?

There are things to consider if you're worried about being diagnosed with a critical illness and the impact on your income and ability to keep up with bills (which would not be covered by state benefits when you're unable to work).

Your adviser will help you look at the following areas:

- Your employer's coverage – is there any paid leave for illness or disability and for how long?
- Do you have an existing life insurance policy and if so, does it have any illness coverage included?
- Could you consider income protection insurance as an alternative to critical illness?
- Do you have sufficient savings and investments you could use in place of critical illness cover?

If you want to proceed, it's important to work with your adviser to see how much protection you'll need. This means looking at your monthly outgoings and how much you and your family require to live comfortably. You might want to add in any potential costs from medical treatment you may need.

During these important decisions it's easy to lose track of the small details, which is why your adviser can help make the process easier for you and your family and give you some peace of mind.

*We can examine your needs and existing policies and then find you the right cover that protects your finances – and your family – should anything happen.*

# How to protect your mortgage

Strengthening your ability to keep up with mortgage payments is important and will give you some peace of mind if your circumstances change.

Life insurance is the form of protection most of us would name as one that could pay down or pay off a mortgage. Yet there are other situations (apart from death) that could mean it's very difficult or even impossible to keep up with mortgage payments for an extended period – without the help from other types of coverage.

Here are some protection policies you might want to have in place (alongside life insurance) to give your mortgage some security if you are unable to keep up with mortgage payments. Your adviser can help you work out the best option for your situation.

**Critical illness protection** pays out a one-off, lump sum if you're diagnosed with a critical condition or disability that is covered by your policy. It can be offered when you buy for life insurance, as extra coverage.

**Income protection** pays out a percentage of your monthly income if you are unable to work due to illness, an accident or disability. Depending on the terms, you'll receive a regular income until you either return to paid work, retire, pass away or if the policy term comes to an end.

**Mortgage payment protection insurance (MPPI)** pays your monthly mortgage payments if you're unable to make them due to an accident or illness.

## What's the difference between income protection and MPPI?

Income protection insurance is seen as more comprehensive than MPPI as it covers a proportion of your income and not just your monthly mortgage payments. It could also help to cover monthly bills aside from your mortgage. The period you're protected with income protection tends to be longer than MPPI, too.

Your adviser will help you find a policy that works for you and your needs, in terms of the length of cover you want and how much the premium might be. MPPI premiums could be lower than those for income protection and more affordable.



*Our advisers are here to help if you're looking for ways to protect your mortgage.*