WALLIS WEALTH

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WALLIS WEALTH LIMITED

Thanks for reading our newsletter. If you want to discuss any of the articles in more detail, please get in touch.

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3 useful ways to manage your finances and boost your financial wellbeing

The cost of living crisis has dominated the headlines since inflation began to creep up from historic lows in mid-2021.

While the Covid pandemic began the inflationary increase, the situation was made worse by the war in Ukraine, which pushed up energy and food prices even further.

Following such an extended period of price rises, you may be concerned about your household finances and long-term plans.

If you want to understand how you can tweak your expenses and finances to best protect your wealth through the cost of living crisis, read on for three practical tips.

01 Keep calm and carry on protecting yourself

It can be easier said than done, but even when your bills are rising and things are looking a bit worrying, staying calm and thinking objectively about your finances really is the best way to approach the challenge.

You might be tempted to start cutting down on your expenses, but one thing it's really important not to cut is your financial protection.

Research has revealed that 1 in 7 people in the UK are considering cancelling their life insurance policies to save money during the cost of living crisis.

Removing a monthly expense such as a life insurance or income protection premium might feel like a smart move in the short term. But things could become even more challenging if you were to fall ill and not be able to work for a few months or longer. If this were to happen when you'd cancelled your cover, you might struggle even more without the potential pay out from your policy.

If you are struggling to pay your monthly expenses, it's important to reach out and talk to an expert. We can help you to see your finances more clearly and to create a plan of action that takes you from worrying about money to feeling in control.

GET IN TOUCH

If you're worried about the rising cost of living and would like to discuss ways to protect your finances from the effects of inflation and rising energy prices, we're here to help. Please get in touch to arrange a time to chat.

02 Reducing debt might be the best place to start

If you want to boost your financial wellbeing, it might be best to begin by reducing your debts to lenders.

If you have high levels of debt, your monthly payments could be one of your most costly expenses. If you have some savings, reducing or eliminating the amount you owe could help free up money to be deployed more usefully elsewhere.

High-interest debt is often tied to credit card debt. If you're carrying a long-standing balance from month to month it could be costing you dearly every month.

To illustrate the potentially damaging effects of interest on debt, if you have £1,000 sitting in a savings account earning 1% interest, you're only making £10 a year. If you have £1,000 on a credit card at 18% interest, you'll be paying £180 a year. Using your savings to pay off the debt will mean you are £170 a year better off.

In short, the sooner you can cancel out debt the better.

If you have debt in multiple places, you might want to consider consolidating them.

There are various options for consolidating debt, but the right solution will depend on your individual circumstances. We can help you understand which course of action might be most suitable for you.

03 There might be some easy cost savings that will reduce your monthly bills

Once these bigger things are taken care of, you can look for some smaller actions you could take to reduce your monthly expenses. Review your bank statement to identify anything that you no longer need. Things to look out for include:

- Streaming services that you rarely or never use
- Subscriptions that you don't get value from
- Gym memberships that you don't use
- Delivery fees for online shopping.

Given the sharp rise in energy costs this year, it may also be helpful to consider how you could use energy more efficiently in your home to save costs.

The Energy Saving Trust reports that the average UK household spends £65 a year powering appliances on standby mode. So, remaining vigilant about turning off appliances like TVs or games consoles when you aren't using them could help to save money across the year.

Additional savings could be made by installing and fully utilising the features of a smart thermostat; the average installment cost is £215. The Energy Saving Trust estimates that a typical household could save £180 a year by using a smart thermostat so that your heating only comes on when you need it.

By identifying and plugging these "money leaks", you may be able to reduce your monthly expenses without having to slash spending on the things you enjoy.

Think carefully before securing other debts against your home. Your home may be repossessed if you do not keep up repayments on your mortgage.

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With inflation at its highest level in 41 years and energy prices skyrocketing, the cost of living crisis has dominated headlines since inflation began to creep up from historic lows in mid-2021.

While the Covid pandemic began the inflationary increase, this was further exacerbated by the war in Ukraine pushing up energy and food prices even further.

Following such an extended period of price rises, you may be concerned about your household finances and long-term plans.

Rising inflation affects everybody differently depending on their circumstances. If you are approaching retirement, or have already retired, here are a few points to help you understand what the cost of living crisis means for you and some practical tips to help weather the storm.

What does the cost of living crisis mean for your retirement savings?

What's happening to interest rates and how might your pension be affected?

The Bank of England (BoE) is tasked with keeping inflation at the government-set target of 2%. Whenever it falls more than one percentage point above or below that target, the BoE must explain how they will address the difference.

In December 2022, they increased the base rate to 3.5%, which, in turn, will push up interest rates on the high street.

Higher interest rates will affect your pension differently depending on how it is invested:

- If your pension is invested in the stock market, its value could drop since the stock market tends to go down when interest rates rise
- If your pension, or some of it, is invested in bonds, its value could go up, since bonds can increase in value when interest rates rise
- If you hold savings in cash, you are likely to get increased returns as high street banks pass on some of the increases in interest rates.

While current headlines are worrying, it's best to tune out the noise and focus on your personal circumstances.

What is your personal inflation rate?

The UK inflation rate is measured by the Office for National Statistics (ONS), who monitor the fluctuating price of goods in an average shopping basket.

So, how you experience inflation depends on what you spend your money on.

For example, the ONS assumes that an average household allocates 9.8% of their monthly budget on a car or other vehicle. If you don't own a vehicle, your personal inflation rate might be lower than average.

Understanding your personal inflation rate, by using an online calculator, allows you to make informed choices about how you allocate your monthly income and to locate possible savings.

In spite of inflation, here are three ways you can make your retirement income more sustainable.

1. Annuity rates have risen recently

If you've saved into a defined contribution (DC) pension scheme, you have a few different options for drawing an income. One is to buy an annuity that will guarantee you a certain level of income, usually for the rest of your life.

With yields on government bonds increasing, annuity rates have risen through 2022 and are currently enjoying a 14-year high. This means you can get a much higher income for the same level of initial investment than you might have before this year.

If you are approaching retirement or already in retirement and looking for ways to generate an income from your accumulated savings, annuities could be worth considering.

2. Maximising other savings accounts

If you're about to retire, consider whether you have other savings that could provide an income before you start drawing from your pension. This would allow your pension to remain invested for longer, potentially generating bigger returns that, in turn, could provide a better income in the later years of retirement.

This could also help to reduce the Inheritance Tax bill after you die, since pensions usually fall outside of your estate.

3. Using cashflow modelling for greater understanding

We can help you forecast what your savings will look like throughout your retirement using cashflow modelling. When you know whether you're likely to encounter a shortfall, you can create a strategy that will help protect you.

Ensure you also consult us on how best to invest your pension savings. Some pension providers automatically reduce the risk profile on your investments as you approach retirement. This is called "lifestyling" and isn't suitable for everybody as it could harm your pension performance.

OW4297 expires 01.02.2024

GET IN TOUCH

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Approved by The Openwork Partnership on 01.02.2023

A pension is a long-term investment. The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available. Your pension income could also be affected by the interest rates at the time you take your benefits.

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.

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.).

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.

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.

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