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WALLIS WEALTH LIMITED

If any of these articles pique your interest and you want to discuss more, please get in touch.

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Investing or saving?

Investing can beat inflation

Investing is a better option if you've got longer-term goals because inflation can erode the value of cash savings over the medium to short term, and your money may not have the same spending power as when you first put it away.

For example
If you have £2,000 in savings and the bank offers a 1% interest rate, each year you will get back £20. However, if the inflation rate is 6% the cash in your savings account will fall in value. After one year your cash would be worth £1,887. After five years it would be worth only £1,495.[1]

Saving money is a great way to prepare for unexpected expenses and investing your money can have the potential for higher growth than saving.

A lot of people put their money in a savings account and leave it there to accumulate interest. While this is a good strategy in the short term, you potentially risk losing out on higher returns in the long run, while also struggling to keep up with inflation. However, investing is a good approach if you have long-term financial goals and want to earn more money than you could by saving it.

What's the difference between saving and investing?

With saving you are setting aside cash for future use, while investing means using cash to buy assets that you expect to produce a profit or income. The biggest difference between saving and investing is the level of risk. With saving you will always get back at the very least what you have put in, as well as any interest on your deposits. You won't lose any money, making it a less risky option.

Investing your money means it will rise and fall over time and there is a chance you could lose some of your initial investment. Your financial adviser will be able to help you make sure you're aware of the risks and the minimum time you should consider investing for. A longer timeframe (at least five years) will give your investment more time to recover if there are any sudden market swings.

Speak to your financial adviser to find out about a range of investment opportunities to help you meet your financial goals.

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.

Types of investments

The main types of asset classes that investors could choose from – which your adviser can go into detail with you – are equities, bonds, and property. Different asset classes have different levels of risk and return. Usually, the safer an asset is the lower the returns will be, while the riskier an asset is, the higher the returns.

Property this could be investing in commercial property through investment funds, including retail, office, and industrial property. It makes a good long-term investment and is effective at beating inflation. Property can add diversification to your portfolio as it tends to perform differently to other assets in response to different market conditions. However, property does come with its risks, including a risk of a fall in value as well as the maintenance costs.

Bonds sometimes called fixed-term investments, bonds are issued by governments and companies looking to raise money. A bond is essentially a loan made to a company or a government by an investor for a set period – usually several years. In return they pay you a regular income in the form of interest over the life of the bond, after which they must repay your loan. Bonds typically offer stable returns and are a lower risk than equities, although they tend to offer lower returns in the long term.

Equities also known as stocks and shares, equities are issued by a public limited company and can be bought and sold on stock exchanges. When you buy an equity, you are basically buying a piece of that company and become a shareholder. Equities can make you money through increases in share price or you can receive income in the form of dividend payments. The disadvantage is that returns are not guaranteed, and the share price could fall below the level that you invested.

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.

Why having an emergency fund matters and where to hold extra cash reserves

Having ready cash on hand is an essential part of any successful financial plan.

When investing, it's important to hold an emergency fund. This readily available cash will mean you're prepared to protect yourself against the unexpected and also plays a vital role in maintaining your financial wellbeing.

It's generally advised to keep between three and six months of household expenditure in an easy access account – more if you work in a particularly volatile sector. If you're approaching retirement, you may want to keep even more of your wealth in cash.

An emergency fund and a retirement "buffer" are only two aspects of how to think about cash – it can also be integral to a diversified portfolio.

Cash tends to be the asset with the least associated risk. While cash offers the benefit of easy access, it also tends to provide lower long-term returns than other asset classes.

Over time, cash value can be eroded by inflation. So, any additional cash reserves should be placed in accounts that can earn you more interest.

Inertia is every saver's worst enemy

Unfortunately, savers often fail to make the best choices about where to hold their cash.

UK savers could be missing out on more than £1.6 billion in interest every year.

There's around £160 billion in savings accounts paying less than 0.5% interest and more than £246 billion sitting in savings accounts earning no interest at all.

So, it's important to spend time considering the right places to hold cash reserves. Here are some of the main options and potential benefits and drawbacks.

High interest current accounts

These accounts often pay more than standard savings accounts. While they can be used as an easy access account, most high interest accounts will come with certain restrictions.

So, check the small print – the promise may not suit your needs. For example, you may have to save a set monthly amount into the account or there could be limits on how much of your balance will earn interest.

Cash savings are protected

Cash savings are protected by the government's Financial Services Compensation Scheme (FSCS). This provides protection for up to £85,000 for individuals and £170,000 for joint accounts per provider.

So, if you're a single account holder, avoid having more than £85,000 with any single institution. If the savings provider holding your funds fails, you could lose everything over this threshold amount.

If you're a single person with £170,000 in savings, you could protect the full amount by investing £85,000 in two separate accounts held by different savings providers.

Earn more with fixed-rate accounts

Fixed-rate accounts typically offer higher rates of interest. However, to gain maximum benefit, you'll need to lock your money away for a set amount of time.

If you have a healthy emergency fund and are comfortable with the commitment and timescale, these can be great for growing your balance.

The longer you're prepared to tie your money up, the higher the interest you could gain.

The rate available on fixed savings has been creeping up in recent months. As of early November 2022, it's possible to find two-year fixed-rate accounts paying up to 5% interest.

As the Bank of England continues to battle against rising inflation, the City expects more rate rises. So, we should see the rates on fixed savings continue to rise, too.

Consider Premium Bonds – Ernie (Electronic Random Number Indicator Equipment) could deliver big

Premium Bonds are one of the most popular UK savings options. In October 2022, more than 21 million people had a total of £119 billion of savings allocated to the National Savings & Investments (NS&I) monthly prize draw.

Instead of earning interest, each £1 bond is an entry into the prize draw. All prizes are tax-free and range from £25 to £1 million. Premium Bonds are also Treasury-backed and 100% secure.

The downside is that, with no interest being paid, if Ernie doesn't draw your number you'll effectively be losing money as your savings won't be keeping up with inflation.

You can save from as little as £25 and the maximum you can hold is £50,000 – a couple can invest up to £100,000.

Cash can create additional leg work

Because interest rates and offers are constantly changing, ensuring your cash is working as hard as possible can take a lot of time.

Fortunately, there are services that can do all the work for you.

For example, Insignis removes the complication by securing optimal interest rates for your cash deposits across a variety of banks. The simple proposition helps you to reduce risk, increase potential returns on your cash, and save time.

GET IN TOUCH

We can help you understand how much emergency cash to keep on hand and how best to allocate additional cash reserves alongside your diversified portfolio. To discuss your options, please get in touch to arrange a time to chat.