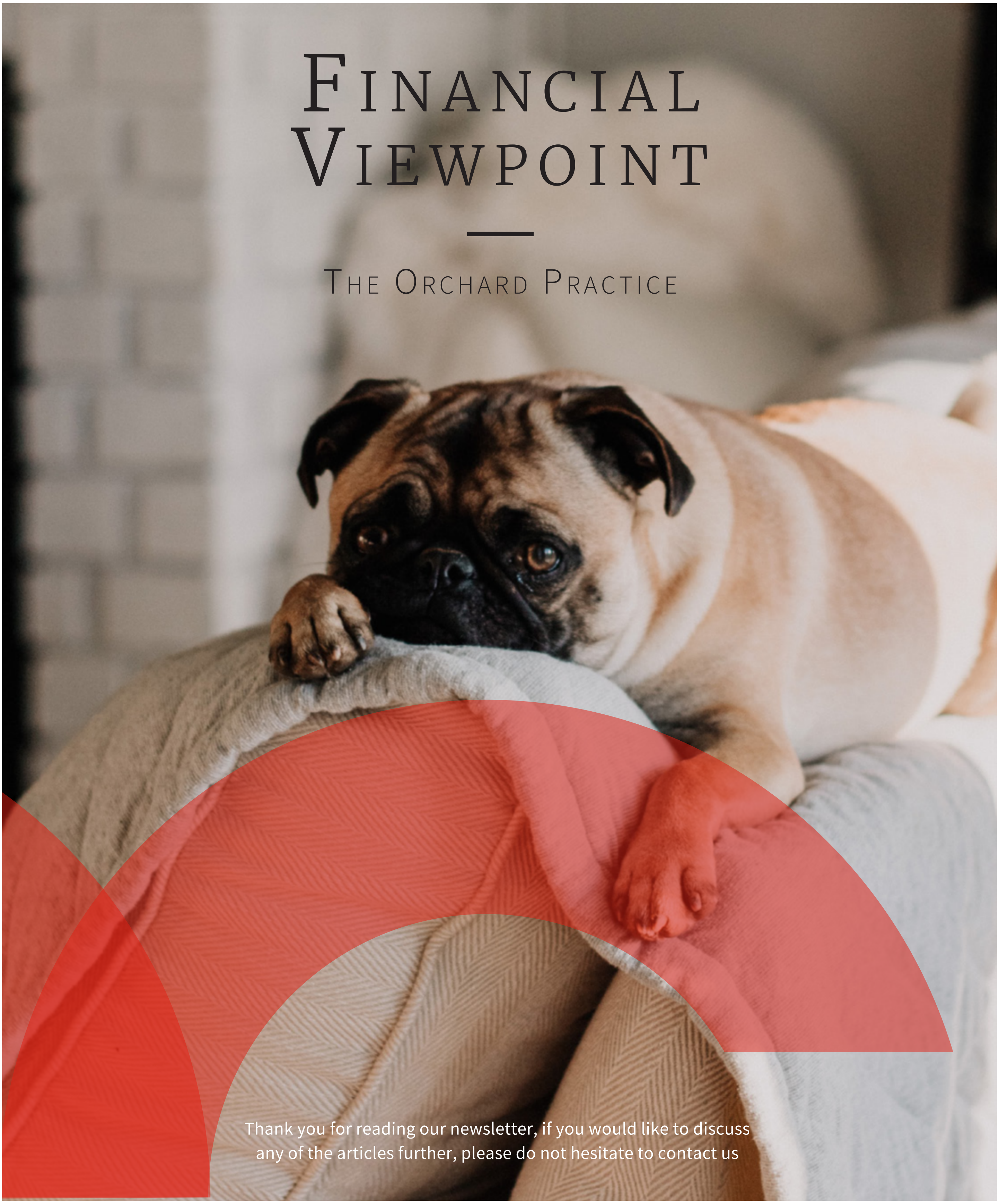
Financial Viewpoint

The Orchard Practice



Thank you for reading our newsletter, if you would like to discuss any of the articles further, please do not hesitate to contact us

The Orchard Practice
growing together

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A global approach to asset allocation

Asset allocation is one of the key tools in our investment proposition to help strike the right balance between risk and reward in your portfolio. It applies to asset classes, such as equities, bonds and cash, and different global regions.

The actively-managed Omnis Managed Portfolio Service (OMPS) and our Graphene model portfolios are all globally diversified. While the largest allocation is to domestic assets, as you might expect from a UK-based service, they also hold investments in developed and emerging markets (EMs).

The thesis supporting the investment in developed markets (DMs) like the US, Europe and Japan is reasonably clear. Their economies are robust, and their stock markets boast some of the biggest publicly-listed companies in the world.

The argument in favour of EMs is based on what we believe are attractive prospects for the region due to its demographics. As we pointed out in one of our newsletter articles in late 2018, most of the global growth in the middle class for the foreseeable future will take place in EMs . An expanding middle class consumes more and generates greater domestic demand, leading to a stronger economy.

A bumpy journey

One reason investors sometimes shy away from EMs is because they are traditionally not as stable as developed markets. These concerns are reflected in the volatility of the region's stock markets. The MSCI Emerging Market Index (the benchmark for the Omnis EM Equity Fund) rallied at the start of 2018 before a strong US dollar, rising US interest rates and idiosyncratic incidents in Turkey and Argentina weighed on performance for the rest of the year. However, the outlook has improved lately as the Federal Reserve has softened its tone and is expected to pause interest rates in 2019, while China has launched stimulus measures to boost its economy. Other EMs, including India, are undertaking structural reforms which should improve sentiment further.

Effective diversification

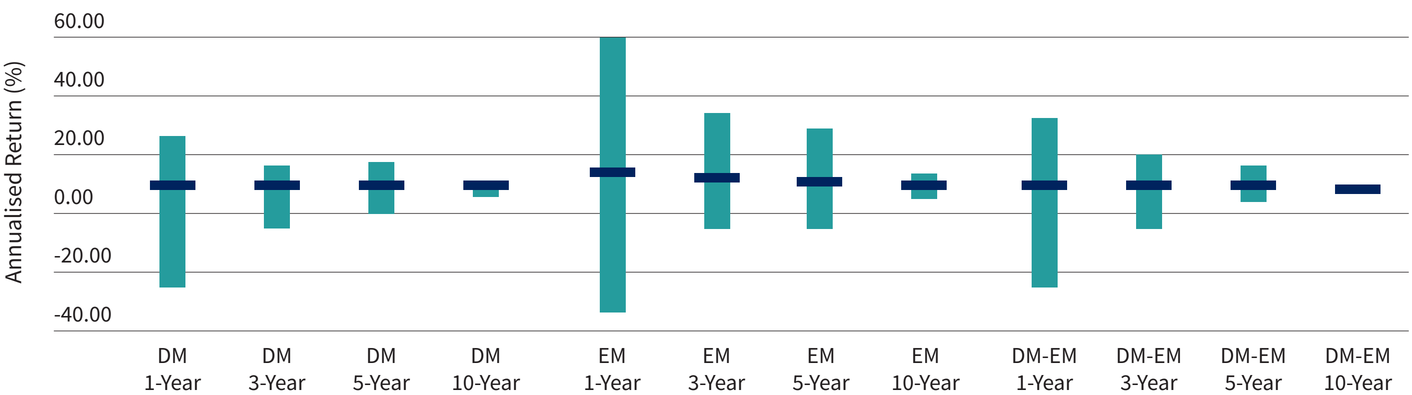
As you can see from the chart, long-term average returns from EMs tend to be higher than developed markets. That's why the allocation to the region in the Graphene and OMPS Adventurous and Balanced portfolios is relatively high compared to similar services available to UK investors (the OMPS Cautious portfolio occasionally adds a small overweight position).

We believe this will allow us to take advantage of what should turn out to be the region's superior growth rates. But as 2018 reminded us, you must be prepared to put up with short-term periods of volatility to secure those potentially attractive returns.

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 reliable indicator of future performance and should not be relied upon.

Range of Developed & Emerging Equity Returns Over Different Holding Periods



OW1910 Exp. 15/04/20

How inflation eats into your returns

Food price comparison

	1989	2019
White sliced loaf	*49p*	*£1.09*
Chicken (fresh / per kg)	*£1.89*	*£2.77*
Milk (per pint)	*28p*	*44p*
Oranges (each)	*17p*	*38p*
Draught lager (per pint)	*£1.06*	*£3.69*

The value of your investments can fall as well as rise, and you could get back less than you invest.

Understanding inflation and its impact on your portfolio is important because rising prices can reduce the value of the money you get back from your investments.

What is inflation?

Inflation is a term used to describe a rise in prices. In the UK, it is measured by the Consumer Prices Index including owner-occupiers' housing costs (CPIH), the Retail Prices Index (RPI) and the Consumer

Price Index (CPI). CPI the most commonly quoted measurement tracks the changes in prices of several hundred household goods and services including food, clothing and recreation. The Office for National Statistics publishes CPI figures on a monthly, quarterly and annual basis.

Prices increase for a variety of reasons, such as a rise in the cost of the raw materials used to manufacture goods, or tax cuts which encourage consumers to spend.

In the UK, inflation has drifted above the Bank of England's (BoE) target of 2% since the Brexit referendum as political uncertainty has caused sterling to weaken against other major currencies. Weaker sterling means goods imported from outside the UK become more expensive.

Most other major central banks set a similar target because a healthy level of price rises reflects a strong economy. If inflation races ahead for any reason, the banks can use interest rates to get it back under control.

Why does inflation matter to investors?

Inflation reduces what is known as your purchasing power. In short, when prices rise, you can buy less with your money. This effect does not just impact your day-to-day spending though, it also eats into the returns generated by your investments.

Say your portfolio increased in value by 5% in a year. This is your nominal rate of return. However, prices rose by 2% during that time, consistent with the BoE's target. To determine your real rate of return, you need to subtract the inflation rate (2%) from your nominal return (5%). In this case, the value of your portfolio increased in real terms by 3%.

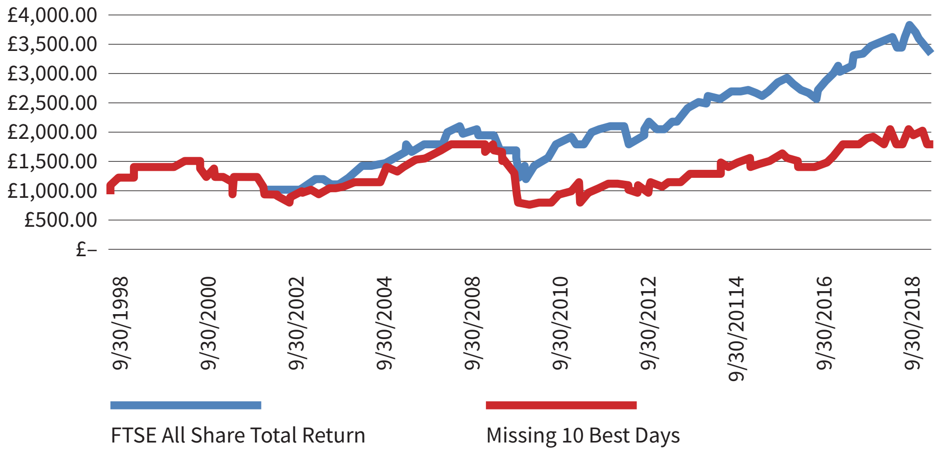
Inflation proofing your portfolio

An investment portfolio should ideally be designed to deliver returns that beat inflation over the long term (five to ten years), even if it does not achieve this aim consistently throughout the whole investment period.

Bonds play an important role in the diversification of risk in your portfolio, but they may underperform when prices rise because payments become worth less. Fixed interest payments received by bond investors stay the same regardless of inflation, while equity investors earn a variable return which they expect, to some degree, to reflect changes in inflation. Alternative asset classes such as commercial property and commodities might also benefit from rising prices. Conversely, with interest rates at record lows since the 2008 financial crisis, holding cash will generate negative returns.

OW2286 Exp. 09/10/20

Time in the market vs timing the market



When it comes to investing, you might have heard that time in the market is better than timing the market.

Time in the market is another way of describing long-term investing. Investors with a time horizon of at least five years (and in many cases longer) buy an asset and hold on to it. They tend to invest with a goal in mind. A good example is someone saving towards retirement which, depending on the stage of their career, could be 20 years or more in the future.

On the other hand, investors who try to time the market buy an asset when the price seems low and aim to sell it once they believe the price has peaked. That means they typically trade more frequently and hold on to their investments for a much shorter period.

Patience is a virtue
How long you are prepared to leave your money in the markets can have a significant impact on your returns.

Returns become more reliable the longer you hold your investments, especially for a period of 10 years and beyond. To put this into context, take a look at the chart above which covers the performance of the FTSE All Share Index since 1998 *(source: Omnis Investments)*.

As the blue line shows, if you invested £1,000 in 1998, it would have risen in value to £3,000 by the end of 2018. That works out as a compound annual growth rate of 5.65 per cent for every year invested. However, the index did not move up in a straight line each year. While annual returns were positive most years, on some occasions they were negative. But by staying in the market, you would have earned a substantial return on your investment.

The red line tells a different story. It shows your returns on that £1,000 investment if you missed the ten days when the FTSE All Share enjoyed its strongest performance. This is entirely possible if you had tried to time the market, which is notoriously difficult to predict over any time frame, even for seasoned investment professionals. As you can see, your returns over the same period would be nearly 50 per cent lower.

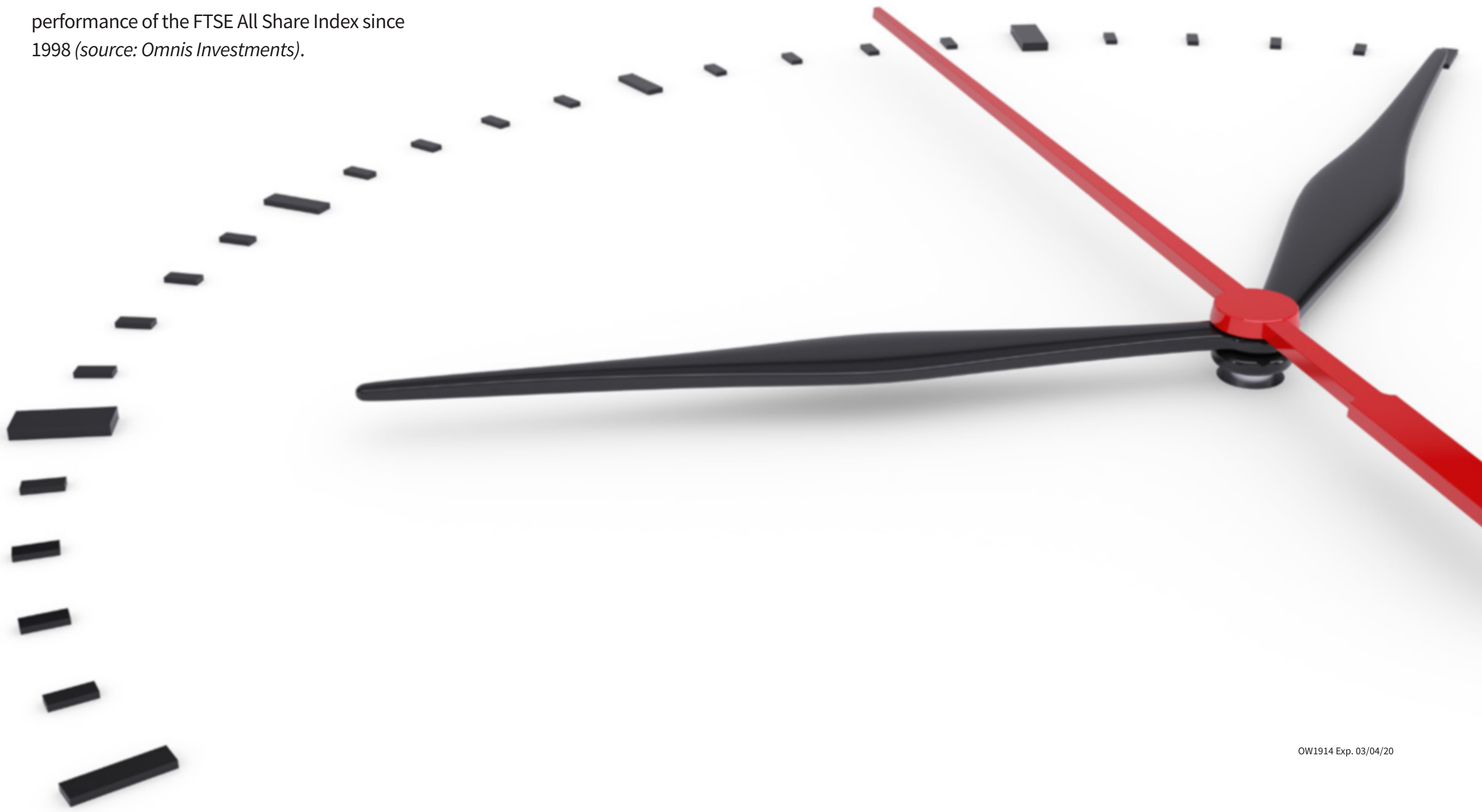
A long-term perspective
Both the auto-rebalancing Openwork Gaphene portfolios and the actively-managed Omnis Managed Portfolio Service are designed to deliver returns over a period of five to ten years. At a fund level, we also ensure our managers target returns over a similar time horizon.

To find out how long-term investing can help you achieve your goals, please get in touch.

Regardless of whether you invest in the long or short term, the value of your investment and any income from it can fall as well as rise. You could get back less than you invest.

Past performance is not a reliable indicator of future performance and should not be relied upon.

This update reflects Omnis' view at the time of writing (April 2019) and is subject to change.



Coming to the end of your interest-free equity loan period

The government launched its Help to Buy equity loan in April 2013 and since then 210,964 properties have been bought under the scheme.

First-time buyers and people moving to a new-build home worth up to £600,000 have benefited from the scheme, which provides an equity loan of up to 20% of the cost of the property interest free for the first five years. But what happens when you come to the end of the interest-free period?

Continue paying
If you haven't paid your equity loan off y the end of the five-years, you'll be charged 1.75% interest on the outstanding loan amount and this will increase by the Retail Prices Index (RPI) plus 1% each year.

Sell the property
If you choose to sell your home, you'll need to repay the equity loan in full. If the value of your property has stayed the same and your loan was 20% then your repayment will be 20% of the value of your home.

If the value of your home has increased or decreased the amount you pay will change by the same percentage. So, if your home is now worth 5% more than when you originally bought it you'll owe an extra 5% of original loan value.

Remortgage and keep the loan
If you want to remortgage and keep your equity loan, the new mortgage must not exceed the current mortgage and cannot be longer than the entire term of the existing mortgage. For example, if you remortgage five years after taking a 25 year Help to Buy equity loan, your current mortgage must not be longer than 20 years. You will of course have to start paying interest on your equity loan.

Remortgage and pay the loan
If you choose to increase your borrowing to remortgage to pay the equity loan off i full you'll need to be aware of any changes in the size of your equity loan just as if you were selling.

Your home may be repossessed if you do not keep up repayments on your mortgage

If your original equity loan value was £20,000 – below is indicative values of the amount owing when you come to sell

House value decreased 5%
£19,000

House value the same
£20,000

House value increased 10%
£22,000

There are a number of options when it comes to the end of your five-year equity loan period. Contact us and we can discuss the right option for you.

Why you should get mortgage advice

Taking out a mortgage could be one of the biggest financial decisions you'll need to make in life, so it's important to get it right.

You could 'go direct' to find the right mortgage for your circumstances – as long as you're prepared to spend time and effort scouring a very competitive market for the lender and deal you feel most comfortable with.

You'll also need to consider things like lender administration and booking fees, the length and type of mortgage you need, valuation costs and repayment methods, all of which can affect the total cost of your loan. And you'll need to take out insurance; for buildings and contents and to protect your mortgage payments if you have to stop work.

Lenders will, of course, be able to give you guidance on any mortgages they offer, but you won't necessarily know how their deals compare to other deals on the market.

Advice from your lender

Unlike lenders, we don't have a vested interest. In fact, as part of Openwork, one of the UK's largest financial adviser networks, we can access competitive rates from most of the UK's best-known lenders, many of which aren't available on the high street.

What's more, we will take the time to get to know you, your circumstances, and your overall financial position. We'll also want to understand what type of mortgage you believe is right for you and talk you through the pros and cons of each option.

Using our expert knowledge and database of several thousand mortgages, we will find the ones most suitable for your needs.

We'll work with you to complete the relevant paperwork and liaise on your behalf with solicitors, valuers and surveyors. We can also talk you through the features and benefits of financial protection for your new property and we'll stay in touch throughout the process – and into the future.

If you'd like more information, or you need help planning your first, or next, property purchase, please get in touch.

Advice from us

Your home may be repossessed if you do not keep up repayments on your mortgage

OW1938 Exp. 03/04/20

Income Protection claims

You might believe you'd be more likely to call on your income protection policy later in your working life, but data from protection insurer, The Exeter, show their ***average claimant was 40, and on certain products, just 33.***

Income protection is designed to pay an income if you're unable to work as a result of an accident, illness, or, with some policies, unemployment. The benefit usually kicks in after what's called a deferred period and can last until you're able to return to work or you retire.

Cover for physical, and non-physical conditions

Every year, one million workers will have to stop work due to prolonged sickness or injury, but the number having to take a break because of mental health issues is sadly growing. As well as revealing the surprisingly young age of some of their claimants, The Exeter said that mental health-related issues were accounting for a growing number of its claims; reaching 10% in 2018.

The Association of British Insurers (ABI) had previously reported that mental health was the most common cause of claim on income protection policies in 2017; perhaps unsurprising given that one in four of us in the UK will be affected by a mental health problem in any given year.

Whether your reason for claiming on your income protection policy is physical or mental, having cover in the first place is crucial – especially if you have a mortgage or people who rely on your income.

Income protection tips

Check if your employer provides cover as part of your employee benefits. If so, how much do they provide and for how long?

If you need to take out separate cover, don't leave it too long; the younger you are, the cheaper the policy.

Make sure the cover you take out complements your existing cover. For instance, if your work policy ends after six months, choose a six-month deferred period.

If you're self-employed, you might consider a shorter deferred period since you'll have no employer's cover. You might have savings that could see you through the first few weeks or months of being unable to work.

If you'd like to find out more about the features and benefits of income protection, please get in touch.

OW2014 Exp.26/06/20

The insurance policy that could prove critical

Some people might be put off buying a critical illness policy because they believe it's unlikely to pay out, despite the proportion of ***claims paid by insurers standing at just over 92%.***

So why is there such a gap between perception and reality among consumers?

There have been well-publicised stories in the past where a policyholder has had a claim refused because their circumstances didn't meet the insurer's terms and conditions. But in reality, the number of critical illness claims declined are actually a tiny minority compared to the total paid out. Take a look at these numbers from 2017 from some of the UK's leading insurers:

Insurer	% of critical illness claims paid
Aviva	93%
Zurich	95%
Vitality	92%
Legal and General	92%
LV=	89%

Reasons why an insurer may not pay a claim:

- The policyholder didn't inform the provider about important medical or health information when they took out the policy
- The condition claimed for didn't meet the definition within the plan
- The policyholder tried to claim for conditions that were excluded from their plan

Separating fact from fiction
A critical illness policy pays out a tax free lump sum on diagnosis for any of the specified serious illnesses – around 100, including cancer, heart attack or stroke. There are additional benefits available with these policies which can be life-changing when called upon.

The cover might seem costly; a policy from Aviva for a 35-year-old non-smoker needing £200,000 cover over 25 years would cost £64 a month and it gets more as you get older but the value of this type of protection makes it absolutely worth considering. In fact, the Association of British Insurers reported that a total of 96% of critical illness claims made for cancer were paid out across the industry, demonstrating the positive impact these products can have during the worst of times.

The insurance market can be complex and confusing. Price comparison sites can make it easier to search and compare critical illness policies, but there's such a large choice and variety of products and you might end up paying for something that doesn't quite fit your circumstances.

Don't leave it to chance, seek professional, face-to-face advice from someone who will get to know your circumstances, your family history and your likely protection requirements and recommend critical illness cover that's right for you.

If you'd like to know more about how we can help you arrange serious or critical illness cover, or you'd like a better understanding of the options available, please get in touch.