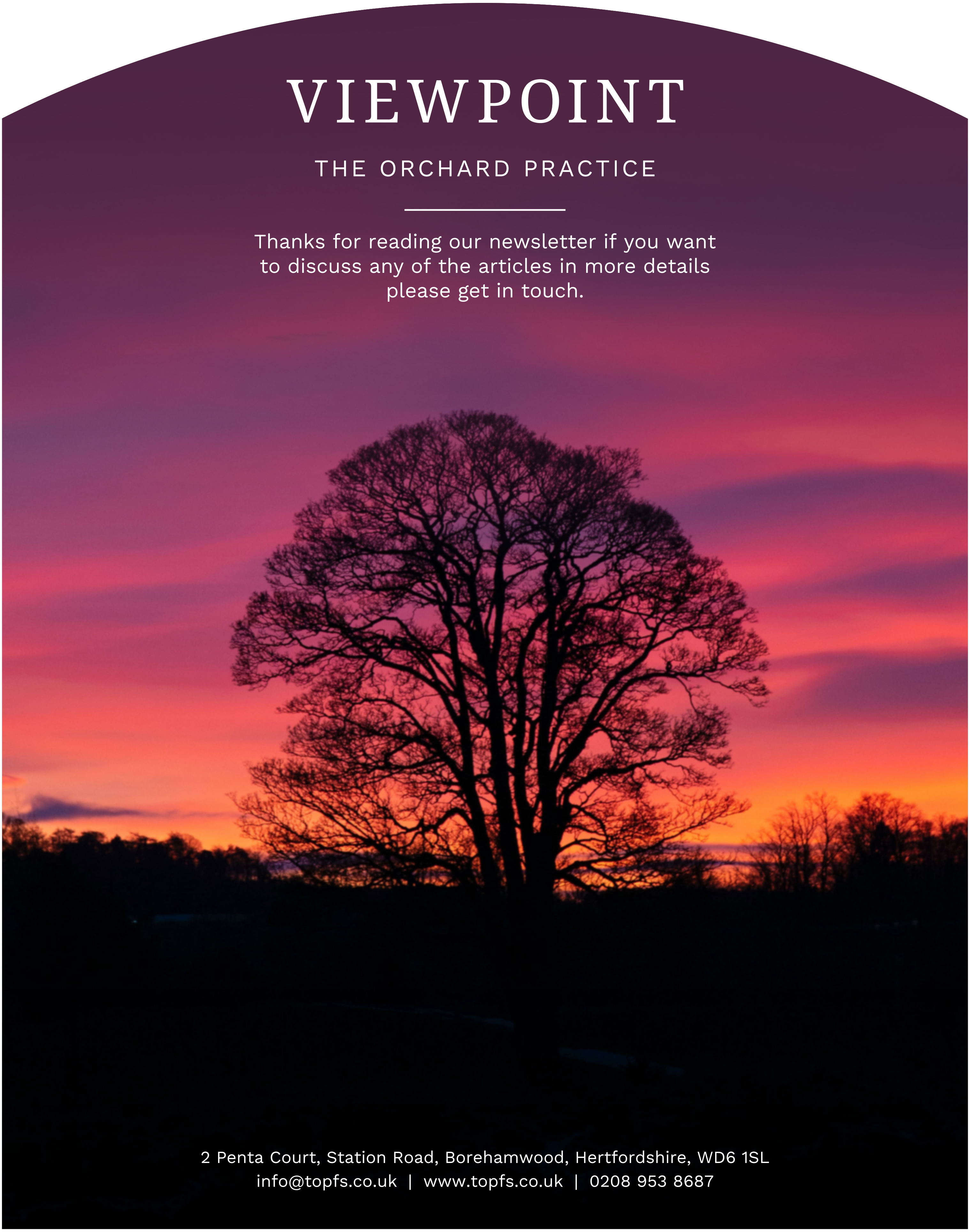
VIEWPOINT

THE ORCHARD PRACTICE

Thanks for reading our newsletter if you want to discuss any of the articles in more details please get in touch.



2 Penta Court, Station Road, Borehamwood, Hertfordshire, WD6 1SL
info@topfs.co.uk | www.topfs.co.uk | 0208 953 8687

The power to change the world

Ethical and sustainable investing are both popular and it's useful to understand the difference between the two approaches.

Investing in a responsible way is nothing new. It dates as far back as the 1700s, when religious groups such as the Quakers refused to support companies involved with the slave trade or other activities that conflicted with their values. Ethical funds started to appear in the UK in the late 1960s and early 1970s, which allowed people to invest in a way that reflected their personal values.

Ethical investing usually involves using your principles to filter out certain types of securities. For example, some ethical investors avoid sin stocks, which are companies that are involved or primarily deal with traditionally unethical or immoral activities, such as gambling, alcohol or firearms. Businesses involved with the tobacco, mining and oil industries are other typical ones to avoid.

A sustainable approach

Investing sustainably is different to ethical investing because it involves considering a wider range of issues – from how companies are managed to the impact they have on the environment and the roles they play in society. Investors are embracing this approach because there's mounting evidence to suggest these issues affect how companies perform over the long term too.

According to calculations made by the sustainable finance team at Danish bank Nordea, moving your pension savings to sustainable investment funds can be 27 times more efficient than four popular ways of reducing your carbon footprint that involve making lifestyle changes – taking shorter showers, flying less, travelling by train instead of by car, and eating less meat.

It makes good financial sense

Investing in well-managed companies that have a positive impact on society and the environment makes good financial sense. For example, if a company suffers reputational damage because it's been involved in an oil spill, discovered to be treating its workers poorly or accused of corruption, its share price will probably suffer.

Meanwhile, companies that use energy efficiently, invest in training their employees and pay their executives reasonable bonuses are likely to outperform their competitors and return more value to shareholders. Over the long term, they are also better prepared to meet future strategic challenges and take advantage of new business opportunities.

Incorporating an ESG framework

One of the difficulties with sustainable investing is that there's no standard definition of what it means. However, environmental, social and governance (ESG) factors provide a useful set of standards to assess potential investments:

- Environmental criteria look at how a company performs as a guardian for the environment, their impact on climate change or carbon emissions, water use or conservation efforts.
- Social criteria focus on a company's ability to manage relationships with its employees, clients, suppliers and the local communities in which it operates.
- Governance examines a company's leadership, shareholder rights, audits and internal controls, anti-corruption policies, board diversity, executive pay and human rights efforts, for example.

We believe that by incorporating these measures into our processes for selecting the fund managers we use to build portfolios, we can manage risk more effectively and improve returns. In addition, we expect all our investment managers to integrate analysis of ESG risk and rewards into their own investment processes too.

We only engage with those that are signatories to the United Nations Principles of Responsible Investing, the gold standard in the wealth management industry when it comes to incorporating ESG issues into investment practice. The Covid-19 pandemic has had such a substantial impact on societies and economies around the world, and the relevance of integrating a responsible investment approach is greater now than ever before.

If you want to know more about sustainable or ethical investigating visit **omnisinvestments.com/about-us/environmental-social-and-governance or get in touch**

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.

Why it makes sense to spread your investments

Investing in a diversified portfolio is one of the best ways to grow your money over the long term, while making sure you're not concentrated in too much risk.

You've probably heard about the benefits of diversification when investing. The performance of a portfolio comprising different assets from around the world tends to be smoother over the long term than one that's concentrated in a particular market or geographical region. It's because the holdings don't usually correlate with each other, which provides balance.

For example, when equity markets are falling, the price of government bonds typically goes up. This approach lowers overall risk because it dampens the impact of events in the global economy that affect financial markets. A diversified portfolio is also your best defence against a crisis because it's rare that all the investments would fall substantially after a single event – like a sharp recession, an unexpected election result or a global pandemic.

Rotating into better days ahead

It's a good idea to diversify exposure within each asset class too in order to spread risk. Industry sectors and geographical regions tend to perform at different speeds as global economic conditions change. For example, stock markets plunged in value at the start of the coronavirus pandemic in March and April last year but then recovered throughout the rest of the year.

Over the summer this recovery was driven by companies whose fortunes were lifted by the lockdowns. Most of them conduct all, or a big part, of their business over the internet and provide services to the home. They include online grocery and delivery companies, sellers of online exercise equipment and video streaming services. Large technology companies were the most notable winners.

Then in November hopes that a successful vaccine could be deployed to slow the spread of coronavirus in as little as a few months triggered a powerful rotation into industries that are set to benefit most from the economic recovery. They included airlines along with energy, finance, real estate and retail.

Investing actively

In order to manage investment risk and gain exposure to the most attractive opportunities it's necessary to continuously adapt to the evolving environment through an active approach. Sometimes it's not the most obvious stocks that outperform, and it takes an experienced investor to spot the trends.

For example, when Pfizer announced successful vaccine trial results, its share price barely moved. Its revenues are driven by many other underlying issues and not one single drug – despite the significance. Yet the news was market moving for IAG, which owns a number of airline brands, including British Airways. Its share price rallied as investors looked ahead to an upturn in passenger numbers.

The fund managers behind the Omnis multi-asset portfolios can differentiate between firms like Pfizer and IAG. In periods of market stress, they allocate capital to companies that are likely to generate above-market returns. We choose active managers with investment processes and philosophies that we believe give them an edge in identifying these businesses.

With cash savings rates still negligible and unlikely to rise any time soon, investing is the only way to preserve the spending power of your money against the impact of inflation. We're confident about the year ahead and believe there will be plenty of attractive investment opportunities as the economy heals, particularly in trends that are driving the economy, such as new technologies and clean energy, as well as Asia's emerging markets, which have coped relatively well with the pandemic.

We can help you explore tax-efficient savings and investment options, so get in touch.

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.

OW3221 Exp. 09/03/2022

Buy to let as a private company

April 2020 marked the final stage of phased changes to Income Tax relief rules for landlords. Up until the 2016/17 tax year, landlords were able to deduct all mortgage interest payments and other allowable costs from their rental income before being taxed on the rest (tax paid depends on the landlord's Income Tax band).

Now, though, landlords are only entitled to a basic rate 20% tax credit on mortgage interest payments.

20%

Wait, so what's the difference?

Under the old system, a landlord might have made £12,000 in annual rental income but have paid £8,000 in mortgage interest. Now, let's say they were subject to the additional Income Tax rate of 40%. They would be looking at paying 40% of £4,000 – tax bill of £1,600.

Since April 2020, a landlord earning the same rental income and paying the same mortgage interest now faces paying 40% tax on the full £12,000 – i.e. £4,800 – and then deducting the 20% tax credit on their mortgage interest payments – i.e. £1,600 – leaving them with a higher tax bill of £3,200, double what they would have paid previously.

What about operating via a private limited company?

Well, that's what a lot of people have been talking about doing since the tax relief changes were announced. The new system only affects private landlords, which is why so many aspiring property investors are considering this option. If you set up and buy through a company, you'll be subject to Corporation Tax on your profits at a rate of 19%.

It's not for everyone

There are some downsides to operating in this way. For example, if you're trading as a company, you'll have to complete a Company Tax Return and file accounts with Companies House each year, which can be stressful to do yourself, and expensive if you hire an accountant. It can also be more difficult (and costly) to access your profits – for example, should you choose to pay it to yourself in dividends, you'll face additional tax on anything over the £2,000 dividend allowance.

Some buy to let mortgages are not regulated by the Financial Conduct Authority

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

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

YOUR PROPERTY MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE

Could you 'nudge' your way to a healthy retirement?

Nudge theory was popularized in 2008 by behavioural economist Richard Thaler and legal scholar Cass Sunstein. In simple terms it is about making it easier for people to make a certain decision that is ultimately in their own self-interest.

Day-to-day

In the short term there are some financial nudges you can do to apply nudge theory to your own finances.

Put your decisions into context – During lockdown, local or national (or whatever COVID-19 throws at us next) do you really need to buy another plant, candle or pair of joggers.

Set simple and clear goals – A single goal like save £6,000 for a car is much easier to achieve than multiple goals like save for a home, car, and holiday.

Make it easier to do the things you should do (and hard to do the things you shouldn't) – Putting small barriers in the way of every day things, like not allowing your browser to remember your PayPal password, makes it harder to spend money and you may ultimately decide not to.

Don't ignore information and the facts – check your budget, bank statements and accounts regularly.

Long-term

Do you like going on holiday, eating out and enjoying your hobbies? If so, it's likely your 'future self' will too. Far from sitting in an armchair in your carpet slippers and a tartan blanket, it's much more likely that your future self (who is, after all, still you) will want to enjoy their retirement in style.

So, what's the dream? Well, according to research from Aviva, almost half of people want to travel when they retire, while taking up a new hobby and helping their children and grandchildren out financially come second and third on the list – all suggesting that people want to live their lives to the fullest in their later years. Unfortunately, translating the dream into reality is where it falls apart for some – 23% of people think their retirement is likely to be a financial struggle.

Living the dream

A study has hit on a novel solution to the problem – 'nudges'. In other words, by making small behavioural adjustments to your spending habits, you could enjoy an additional £7,000 every year in retirement income. The key lies in encouraging young people to imagine themselves in the future, rather than viewing their 'future self' as a different person.

Understandably, a lot of young people are focusing on their current financial priorities – after all, we're in the midst of a global pandemic. But that doesn't mean your future financial needs have gone away. So, rather than thinking of your 'future self' as a stranger, treat your pension like a gift you're giving yourself – you just can't open it yet!

Get nudging

COVID-19 hasn't given us many silver linings but reduced living expenses due to remote working and the closure of bars, restaurants and other leisure and hospitality businesses could provide a welcome boost to our savings.

Similarly, you could save around £40 a month by keeping going with the home workouts, like the 72% of people who say they have no plans on going back to the gym. In addition, many kids' clubs have yet to start back up following lockdown, so parents could be making big savings here, too.

Save on subscriptions

Foregoing the latest iPhone could also save you a hefty sum. Keeping your existing handset instead, and switching to a SIM-only deal, could help you move some welcome funds into the pension pot.

Or, you could divert an average £39 per month in wasted subscriptions into your pension. Unused gym memberships, phone contracts and subscriptions to online video streaming services are all common culprits, according to research.

Expert 'nudgers' at your service

If you need a 'nudge' from us to help boost your retirement income, we're just a phone call away.

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.

OW3043 Exp. 20/05/2021

Preparing emotionally for retirement

You've retired from work, you've waved a cheerful goodbye to your colleagues and you're ready for the rest and relaxation you so rightly deserve. It's exciting! For a couple of weeks. Then the doubt sets in.

What will you do with your life, you might find yourself asking? How will you fill the long daytime hours? How will you manage without the comfort of your routine? Where will you find your purpose, if not from work?

Planning – it's not just financial

Whenever we talk about retirement, it's all about the pension. If you have enough in your pension pot when you retire, you're all set, right?

Many retirees simply aren't prepared for how significantly their life will change, and many, while not missing work per se, will certainly miss the sense of purpose it offered. And, with life expectancy on the rise, it's daunting to contemplate the next 20 to 30 years without any of the structure around which you're used to organising your life.

'Reinvent' yourself

A European study funded by the Erasmus program argues that we should start preparing for retirement as early as 50. Suddenly stopping work after spending a lifetime focused on your career, it argues, can be the catalyst for depression and other mental health issues. That's why we need to 'reinvent' ourselves in our 50s by discovering new passions and interests, improving our mental and physical health, and generally forging a life for ourselves outside of work in the run-up to retirement.

So, what steps can you take to prepare for a happy retirement?

Happy, healthy, whole

Retired or not, you'll still want and need similar things in life: a sense of purpose, social interaction and activities that interest and stimulate you. With this in mind, here are our tips for preparing for a fulfilling retirement:

Wind down in stages – rather than going from full-time to retired overnight, why not try reducing your hours first, giving you the fulfilment of work combined with the free time to pursue other interests?

Exercise your body – and your mind – experts have long extolled the virtues of exercise for our physical and mental health. Getting into the habit now could really help your emotional state when you retire.

Be a social butterfly – in addition to solitary hobbies and interests, joining groups and clubs can help you develop social networks outside of the workplace.

Get a furry friend – as well as keeping you company indoors, a pet (such as a dog) will give you an incentive to get outside in the fresh air.

Don't neglect your pension – while preparing emotionally is a big part of retirement, the money still has to be there to allow you to live life to the fullest.

Would equity release be right for you? A way of supplementing your retirement income using the value tied up in your home, although not right for everyone, we can help you explore your options.

We do the finances, you do the rest

That's why we're here! We can help you sort out the financial stuff to provide you with the resources to spend your retirement free from money worries, so you can concentrate on enjoying your later years. Why not give us a call?

You will need to take legal advice before releasing equity from your home as Lifetime Mortgages and Home Reversion plans are not right for everyone. This is a referral service.

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

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

OW3038 Exp. 02/12/2021

Get to know your SVR

As a nation, we aren't great with our financial acronyms and terminology. Life is busy and our heads are often full of important things to get done to make it through the week, without having to worry whether we know our LTV from our ERC!

Incase you were wondering....

LTV
Loan-to-value

ERC
Early repayment charge

SVR
Standard variable rate

You're certainly not alone if you're feeling financially flustered. Recent research has found that more than a fifth of British adults are confused by everyday financial terms.

Worth taking the time to review your mortgage

When you do find some time to settle down on the sofa with a cuppa or a glass of wine in hand, if you are a mortgage holder, it could be a good time to become familiar with one important acronym worth knowing - SVR or Standard Variable Rate.

You may find that you are automatically switched to an SVR when your existing mortgage deal, whether that be a tracker, fixed rate or discounted mortgage, comes to an end. Unfortunately, this could mean you're paying over the odds, perhaps without even realising.

SVR rarely offer the most competitive rates and the SVR interest rate is usually linked to a percentage above the bank's base rate, meaning the rate can rise and fall, which makes you more vulnerable to potential interest rate rises in the future.

Take advantage of record low mortgage rates

After two Bank of England base rate cuts earlier this year, mortgage rates have remained at record low levels, so it makes sense to see if you can save money by switching to a better rate.

Good advice that cuts through the jargon

In a complex environment, getting good, clear advice can really pay – so get in touch and we'll guide you through the process, without using jargon.

Don't worry if you're currently locked into a mortgage deal that has exit charges, you don't have to wait until it has come to an end as your adviser can help you find a deal three or six months before your lock-in period finishes.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON A MORTGAGE OR ANY OTHER DEBT SECURED ON IT.

OW3036 Exp. 18/11/2021

Business Protection

You need it more than ever

Prior to lockdown, over half (51%) of businesses had some form of debt, owing an average of £176,000 each – and yet just 20% used an insurance policy as security.

To add to this already significant issue, bank lending to struggling businesses via government-backed COVID-19 loan schemes reached nearly £52bn as of mid-August – meaning that UK businesses are more heavily indebted than ever.

Business loan protection

Business loan protection provides funds to repay a business loan, commercial mortgage, or a director's loan if one of the company's owners were to die or be diagnosed with a serious or terminal illness. Essentially, this type of insurance comprises a life cover or critical illness policy taken out on the life of the business owner or key person, with the payout ensuring the business can pay its debts should the worst happen.

Most lenders require some form of security when lending to businesses; often, business owners will use their own personal wealth (e.g. their property) as security. So, in addition to their business suffering if they were to unexpectedly die or become seriously ill, their family could face serious financial hardship or even lose their home.

Director's loans

It is common for businesses to have a director's loan account, through which the director can:

— Lend money to the business to fund initial start-up costs or see it through cash flow pinch points, for example;

— Borrow money from the company that is not classed as salary, dividends or expense repayments.

According to research from Legal & General, the average director's loan totals £169,000 – and yet well over a quarter (28%) of businesses are unaware that director's loans must be repaid upon death. This means the business could collapse if there is no insurance policy in place as security.

Loss of a key person

A staggering 52% of businesses say they would cease trading within a year if they lost a key person. Losing a key member of staff can have a huge impact on the business in terms of lost profits, poor cashflow and, potentially, a change in its creditors' attitudes to outstanding debts. That's where business loan protection comes in – it can help alleviate financial pressure by paying off the company's debts and enabling the business to get back on track.

As with all insurance policies, conditions and exclusions will apply

51%

of businesses had some form of debt prior to lockdown

£176k

was the average amount owed by businesses in the UK

20%

of businesses used an insurance policy as security

52%

of businesses say they would cease trading within a year if they lost a key person

OW2980 Exp. 14/10/2021