VIEWPOINT

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Why it usually pays to diversify

There are several places you can choose to allocate your assets and it can be confusing. Here's what you need to know about building a diversified portfolio.

You've probably heard about the benefits of asset allocation when investing. The idea is that a portfolio blending different types of investments tends to deliver better (and smoother) returns over the long term. That's because at any one time, assets will behave differently with potentially some rising in value to offset others that are falling in price.

Asset classes

Different asset classes are often heading in different directions at any one time too. For example, when equity markets are rising, government bonds are often falling in value. Yet that's not always the case, which is why it can help to add exposure to uncorrelated asset classes, such as alternatives.

A diversified strategy tends to be less risky than one that invests in a single asset class. In the past it's an approach that delivers a smoother investment journey with less volatile swings up and down. Diversifying your investment portfolio is important to minimise your exposure to risk, as is spreading your investments within asset classes.

A diversified portfolio

Building diversified portfolios is complicated. It requires lots of tools and is best left to a professional team of investors. There are lots of ways to invest in a multi-asset portfolio. Here are some of the options available to you:

Managed fund. The most straightforward way is through a fund, for example the Omnis Managed Funds. Working with your financial adviser, you can consider your appetite for risk and other factors like your time horizon, to pick a fund that's right for you and can meet your objectives.

Diversified portfolio. Another way of investing in a diversified portfolio is by combining funds investing in different classes. At Omnis, we offer funds that cover many different asset classes and regional exposures. The Openwork Graphene Portfolios are a series of six advised portfolios with varying degrees of risk. We also provide Graphene portfolios through 2plan wealth management advisers. Your financial adviser will work with you to assess the best portfolio for you and the portfolios are designed to automatically rebalance to the original mix of asset classes every six months so that the portfolio always meets your risk profile.

Flexible portfolio. You can also access a well-diversified portfolio by investing in the Omnis Managed Portfolio Service (OMPS). The OMPS is a discretionary portfolio investing in a wide variety of asset classes through the Omnis funds, in a similar way to the Graphene portfolios. Within the OMPS, the investment team can increase or decrease the allocations to certain asset classes in line with market conditions, but always staying true to your risk profile. This helps optimise the portfolios with the aim of delivering better returns and / or reduced volatility in periods of market uncertainty.

Diversification protects your interests

Diversification can help mitigate risk and volatility by investing across different parts of the stock market, reducing the impact of any one share or asset class performing badly. For example, if one investment performs poorly over a given period, other investments may perform better over the same period, helping to reduce any potential losses.

A diversified approach is better placed to handle regional fluctuations that could affect the value of your investments and helps to navigate the effects of inflation or interest rates on stocks in a stronger position, too, through the nature of it being a regionally based way of handling different asset classes, supported by local experts.

Ultimately, a diversified approach allows you to minimise any downsides during periods of volatility, and benefit from the rewards that come from stronger market performance.

Speak to your financial adviser to find a range of investment opportunities that are right for you.

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

OW3656 Exp. 19/10/22

Should we be concerned about rising inflation?

Most economists expect inflation to pick up over the next few months as lockdown restrictions ease and shops and restaurants reopen. But is this a cause for concern?

As lockdown measures begin to lift, financial markets are making their adjustments in anticipation of a rise in inflation, with bond yields picking up (meaning prices have fallen) and stock markets rotating from defensive sectors into cyclicals.

What is inflation?

Put simply, inflation measures the change in the prices of goods and services. If it rises then it takes more of our cash to buy things. We all experience inflation in our daily lives, from filling up our cars with fuel, buying groceries or using public transport.

In the UK, the official measure of inflation is the Consumer Prices Index. It's published by the Office for National Statistics (ONS), which monitors what people are spending their money on, using a basket of everyday goods and services.

The ONS adjusts the basket from time to time to reflect our changing spending habits. During lockdown, there was a shift with products like hand sanitiser and hand wipes being added, and items like white chocolate and ground coffee dropping off the list.

Inflation is all an illusion... or is it?

It's easy to ignore the impact of inflation on your finances. Most people's spending habits this month compared with the same time a year ago would probably stick to the same patterns – regardless of inflation at the time – because the differences seem small and therefore wouldn't affect the way they spend.

If you're trying to save money though, it's worth remembering that with interest rates currently lower than the rate of inflation, the real value of any cash savings is falling. In other words, the cost of living is increasing at a faster rate than your savings are growing, which means the spending power of your money is actually falling.

How will inflation affect investments?

Many people in the UK are preparing to spend the cash they've saved over the past year when the lockdown ends and shops, restaurants and entertainment venues reopen. Activity is likely to return to pre-pandemic levels and the expectation is that inflation is likely to pick up. Some economists are worried about inflationary pressures. In addition to this is the effect of government stimulus packages on the economy, which would provide another tailwind.

However, experts believe it's likely to be a short-lived phase and should not pose a longer-term challenge to fixed income or equity markets. The Bank of England does foresee inflation rising towards the 2% mark, but believes it will be a temporary phenomenon. Continuing deflationary forces like ageing demographics, technological innovation and global supply chains cast doubt over predictions of a new era of inflation.

Ultimately if you want to beat inflation in terms of finding some good returns on your savings, investing is the best option at the moment – due to cash savings rates being at such low levels.

One of the best ways to ensure your investments are given the strongest opportunity to navigate the effects of inflation on financial markets is through a global, multi-asset portfolio that's actively managed by a professional team of investors. Speak to a financial adviser to find out more.

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OW3380 Exp. 04/06/22

The perks of protection

What support do insurers offer after the event?

Illness and bereavement help.
Many providers give free access to services offering practical and emotional support for those left behind after the death of the policyholder.

Rehabilitation.
Insurers usually offer back-to-work support services, including physiotherapy, careers guidance or advice if you choose to go self-employed. If you're returning to work following a mental health issue, providers will continue to cover counselling sessions for a set period of time.

As well as peace of mind, many insurance providers offer additional benefits that you may not know about.

Whether we're crossing the road or getting on a plane, we encounter risks every day. For many of us, life has felt more uncertain than ever over the past year as we continue to deal with the coronavirus pandemic. Although we can't always control what's happening in our lives, we can plan for the unexpected.

By taking out a protection policy, you can safeguard your family's finances if your situation changes. The main types of protection include:

— Life cover – pays out a lump sum if you die

— Health insurance – pays medical costs at a private hospital or private ward

— Critical illness – pays a tax-free lump sum if you're diagnosed with a major illness

— Home contents and buildings – covers your home's structure (including fixtures and fittings) and contents (furniture)

— Income – pays out if you can't work due to illness or injury

As well as peace of mind, protection policies often come with added extras. We've highlighted examples of some of the perks you could receive when you take out a policy, even if you don't make a claim.

Welcome gifts

When you sign up for a protection policy, some providers offer a welcome gift. For example, health insurers sometimes offer gadgets like an Apple Watch to help you track your activity – with some even offering a discount based on the amount of exercise you do each month.

Discounts

Many health insurers offer discounts on gym memberships and weight-loss programmes to help you embrace a healthier lifestyle. Some also offer you the option of taking a health check to reduce the amount you pay each month.

It's worth noting that when you take out a protection policy, your provider is likely to offer you discounts on other products such as pet or travel insurance.

Additional healthcare options

Some health insurers now cover complementary therapies such as osteopathy and acupuncture, giving you more treatment choices. In addition, counselling services are now included in most health insurance policies and many also give you the option to upgrade your hospital room if you need treatment.

Will writing

Some providers of life insurance give new policyholders the opportunity to draw up a will free of charge.

Cover for children

Many critical illness plans include free cover for dependent children.

Whatever type of protection you're looking for, get in touch and we can help

OW3219 Exp. 09/03/2022

Jargon and lingo – talking about mortgages

From agreement in principle and loan-to-value to freehold and leasehold, we've compiled a list of terms you're likely to come across when buying a property and what they actually mean.

Buying a property can be a complicated process, and even more confusing when you're confronted with various terms you've not come across before. To help you make sense of it all, we've listed some key definitions you'll need to know.

This list should give you a good head start when it comes to understanding the jargon around mortgages. To help you take the stress out of buying a property, speak to a financial adviser about how they can help you find the most suitable mortgage and guide you through the process.

Term	Definition
Agreement in principle	A document from a mortgage lender with an estimate of how much money you may be able to borrow. You can use this to prove to a seller that you can afford to buy their property.
Annual percentage rate (APR)	The overall cost of a mortgage, including the interest and fees. It assumes you have the mortgage for the whole term.
Arrangement fee	A set-up fee for your mortgage.
Base rate	The interest rate the Bank of England charges other banks and lenders when they borrow money.
Buildings insurance	Covers you for damage to the structure of your home – you'll need to have a policy in place when you take out a mortgage.
Capital	The amount of money you borrow to buy a property.
Conveyancing	The legal process you go through when you buy or sell a property done by a licensed conveyancer or solicitor.
Deposit	The amount you need to put down in cash towards the cost of a property.
Equity	The amount of the property that you own outright – your deposit as well as the capital you've paid off on your mortgage.
Fixed-rate mortgage	The interest rate on the mortgage stays the same for the initial period of the deal. Your rate won't change with the Bank of England base rate during this time.
Flexible mortgage	Allows you to underpay, overpay or take a payment holiday from your mortgage – they are usually more expensive than conventional mortgages.
Freehold	You own the building and the land it stands on.
Gazumping	When an offer has been accepted on a property but a different buyer makes a higher offer, which the seller accepts.
Guarantor	A third party who agrees to meet the monthly mortgage repayments if you can't.
Help-to-Buy	The government has introduced various Help to Buy schemes to make buying a home easier, including equity loans, mortgage guarantees, ISAs and specific schemes for Scotland and Wales.
Interest-only mortgage	You only pay the interest on your mortgage each month without repaying the capital.
Joint mortgage	A mortgage taken out by two or more people.
Land Registry	The official body responsible for maintaining details of property ownership.
Leasehold	You own the building but not the land it stands on, and only for a set period.
Loan-to-value	The size of your mortgage as a percentage of the property value.
Porting	Allows you to transfer your borrowing from one property to another if you move, without paying arrangement fees.
Repayment mortgage	You pay off interest and part of your capital each month.
Stamp duty	You'll need to pay stamp duty land tax when you buy a property over a certain price.
Standard variable rate (SVR)	The default interest rate your lender will charge after your initial mortgage period ends.
Tracker mortgage	The interest rate on your mortgage tracks the Bank of England base rate at a set margin above or below it.
Valuation survey	Lenders will carry one of these out to check whether the property is worth around the amount you're paying for it.

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

OW3277 Exp. 06/04/2021

Pensions after a divorce

Divorce can be just as final when it comes to valuable assets like your pension. Getting some financial and legal advice is a good idea, as pensions are often overlooked during a divorce. There are options to make a claim for some of your former partner's pension pot, whether it's by offsetting their pension against other assets like the family home, sharing a percentage of the other party's pension or one party paying the other an agreed portion of their pension once pension payments begin.

Pensions are complex at the best of times, but during a divorce things become extra tricky. It's also important to note that the laws are different in Scotland. The main thing to do to ensure you are not worse off in retirement is to seek legal and financial advice during the divorce process.

What happens to your pension after you die?

It's good to be aware of what will happen to your pension after you die, and the tax implications for your dependants.

Whether it's a state, workplace, or personal pension, what happens to the funds you've accumulated after you die depends on the type of pension and whether you started taking payments.

State pension

State pensions can be complicated. Depending on whether your spouse or civil partner reached the state pension age before or after 6 April 2016, they could be able to claim your state pension, based on your National Insurance contributions up until the time of your death. They would only be able to make the claims once they started claiming their own pension, however. If they reached pension age after 2016, they would receive the government's 'new state pension' and could also inherit an extra payment in addition to their regular state pension, due to their bereaved status.

Defined contribution pension

Defined contribution pensions can be either personal or work-based and involve contributions from yourself (or if it's a workplace pension, your employer and potentially you, too). If you die before 75 and haven't taken any payments from your pension, your beneficiaries may be able to withdraw all the pot as a lump sum. Alternatively, they could set up a regular payment instead of a lump sum or choose a flexible retirement income (known as pension drawdown.)

If you have started pension drawdown and then die, your beneficiaries can either receive a lump sum, continue the drawdown, and receive the income or use the remaining pension fund to buy an annuity. In all these examples, if you are under the age of 75 when you die, your beneficiaries will not pay income tax on the payment(s) but will pay tax if you die after age 75.

Defined benefit pension

In a defined benefit pension, the retirement income is based on your salary and the length of time you worked for the employer (for example, 'final salary' or 'career average' pension schemes). Within the rules of these schemes are the sections and clauses around how much and when your beneficiaries might receive an income or lump sum. It could be the case that your beneficiaries will receive a percentage of the pension you were – or would have – received – and be taxed on these earnings, too. You can check with your scheme's administrator to find out (and again, a financial adviser can help you with the small print).

Death and a guaranteed annuity

If you buy an annuity, you will have decided the options of payments upon your death, when you set it up. For example, if you arranged the annuity on a joint life basis, your beneficiary would continue to receive a proportion of the income you were receiving. But if you chose a single life annuity, the payments would stop when you died. There might be further payments if you had a 'guarantee period' with the pension provider and died within the guarantee period. In this case, the income would carry on to your beneficiary until the end of the guarantee period.

Speak to your financial adviser to ensure you are aware of where, and to whom, your pensions will go to after you die.

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OW3655 Exp. 19/10/22

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.

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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