The Efficient Wealth Update

Efficient Portfolio

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How Much Can We Trust in the City Analysts?

Apparently not very much! Research in 2018 showed that the recommendations of city analysts underperformed the stock market for the fourth year in a row.

The recommended stocks from investment banks, which form part of the FTSE 100 were down 17% last year compared with the greater market, which lost only 12%. In comparison, our average portfolio, using our investment strategy, lost only approximately 5%!

The performance of the analysts' choice of funds was so bad you would have been better off just putting the money into a savings account and letting it sit there. For example, at the beginning of 2018 the majority of analysts recommended buying stocks in American Tobacco, the share price of which then proceeded to fall by over 50% throughout 2018.

This shows that advice on stocks by city analysts should be taken with a pinch of salt. The real value of advice lies not just in a recommendation, but in one that is supported by analysis and research and which is suitable for you.

Housing Market Outlook Bleak

The next three months for the housing market look as if they will be the worst period for 20 years, with sale prices expected to fall dramatically. If you are thinking of buying, it's good news; if you are thinking of selling … it's not so great.

The downturn has been linked (not surprisingly) to the uncertainty surrounding Brexit, but also to the general affordability of the market. This has led to a lack of supply and demand; sellers are not comfortable to sell and buyers are nervous about buying, or unable to afford it.

Once Brexit is out of the way, and depending on the outcome of the negotiations, experts seem confident that we will see a rebound and recovery. This relies on many 'ifs' and 'buts' so we will check back again in three months to see how the market is getting on.

Inflation Lowest in Two Years

Inflation is actually within touching distance of the Bank of England's (BoE) recommended 2% target, as the Consumer Prices Index (CPI) fell to 2.1% across December. Lower oil prices cut the cost of fuel and air fares that led to the fall in CPI, which is now at its lowest level in two years.

As I am sure you all know, the CPI measures a theoretical basket of consumer goods, basically measuring how expensive things are to the consumer, AKA you.

Forecasts predict that inflation may fall below the BoE target of 2% over 2019, a reflection of the general outlook for the economy. The BoE is unlikely to change its monetary policy until after decisions have been made about Brexit and so this fall in CPI will not change the target levels of inflation for now.

Lower inflation is good news for consumers' pockets, but it does raise questions about the stability of the economy in general and it will be interesting to see how this changes as the economy stabilises after Brexit is finalised.

Baby Boomer Wave on the Horizon

We are all so focused on the turmoil in the markets now – between Brexit and Trump they don't seem to know which way is up … literally. But is that the only thing to be concerned about?

A Baby Boomer is someone born in the years following the Second World War, when those who returned from the war had lots of babies. This created a surge in population which was repeated when their children started having children, and so on.

The original Baby Boomer generation has now hit retirement, or is about to, and this generation typically has a lot of investments in the market, either in defined benefit pensions, ISAs or other savings. When they retire, they will want to either spend their savings, gift them to their family during their lifetime or, at the minimum, reduce the risk in their investments by moving away from equities. This means a great deal of money may be about to leave the investment markets, and equities in particular.

This is a concern in the UK, and Zurich have recently announced an amendment to their platform to incorporate JISAs and junior retirement accounts to encourage wealth to remain in the markets and on their platform. However, this does not only affect the UK; it is a global issue and America is bracing itself for healthcare costs to soar as Baby Boomers become seniors and the pressure increases.

There have been multiple baby booms since this first one, but the effects of this one are approaching fast and could see demand in, and therefore the price of, equities especially drop substantially. This is on our radar – if you have investments held elsewhere then make sure it is on their radar too!

If you want to know more about the science behind this kind of thing then look up 'the Elliott Wave principle', a theory from the 1930s that discusses repetitive patterns in the stock markets.

Neglected Drawdown a Risk for Pensioners

Since the new flexible pension rules were introduced, thousands of people over the age of 55 have accessed their pensions – the majority to access their tax-free lump sums, meaning the remainder of the pension is placed in drawdown.

This has left many people unsure how to proceed with the remainder of their pensions, especially if they are still employed and don't yet need to access any more of the pension. It is likely that the funds will remain in drawdown, untouched until retirement, which is what has happened in nearly half the cases looked at so far.

Leaving the funds untouched for long periods of time without active management may mean they veer off track relative to the desired retirement plan, and investors are being advised to monitor their pensions and adjust them as necessary. However, people sometimes just do not have the time or inclination to do this! And if they're working full time why should they have the additional stress?

If you would like to discuss any pensions or investments for your retirement that you may or may not have accessed, and how active management could be beneficial, please contact us for advice.

IHT Review Delayed

An Inheritance Tax review was planned for release in November 2018, which caused much excitement as we thought that IHT may actually be simplified, fairer and more transparent in the future.

The initial excitement has dissipated, however, as we are yet to hear anything regarding the IHT review and there has been no communication about when it can be expected. We hope there will be news soon, and that this wasn't much ado about nothing!

News on Brexit

With just 50 days left to go until the United Kingdom leaves the European Union, we still have no clarity on what will happen when we wake up on 30th March. Whilst there has been no progress, it certainly hasn't been quiet on the Brexit front.

The UK-EU Withdrawal Agreement was overwhelmingly rejected by the House of Commons on 15th January, by a record margin of 230 against the proposition. This led Labour to table a motion of no confidence in the Government, this time using the legally prescribed wording, which was in turn defeated by the Conservatives and their DUP coalition partners. So, on to Plan B …

At this stage, nobody knows what Plan B is. But we do know what it is not. There will not be a further proposal from the EU on this matter; they have been quite clear that a counter proposal needs to come from the UK. It won't be the previous deal with the troublesome backstop removed; the EU, more specifically Ireland, are wholeheartedly against any deal which allows for any possibility of a hard border between them and Northern Ireland. So there will need to be some kind of ongoing customs arrangement to prevent both this and the dissolution of the Good Friday Agreement.

Parliament debated Plan B on 29th January, and voted to renegotiate the Backstop arrangement, so we now are seeing the Prime Minister heading back to Brussels to try and reopen negotiations on the Withdrawal Agreement. Additionally, Parliament voted to "reject" the notion of leaving the EU without some kind of deal in place; this was in place of the motion they voted against to extend Article 50 to allow more time to negotiate. We hope this, coupled with the renewed proposals being put to the EU, will move us closer to a resolution and offer us some clarity on what the future of the UK will be. The clock is counting down and the reality is that unless Parliament can agree a way forward with which the EU is happy, we will exit the EU on 29th March with no transition agreement, which will, without exception, affect each and every one of us in some way.

Mortgage Blog

The Bank of England's Monetary Policy Committee (MPC) unanimously votes to maintain the base rate at 0.75%.

UK economic growth slowed in late 2018 and appears to have weakened further in early 2019. This slowdown mainly reflects softer activity abroad and the greater effects from Brexit uncertainties at home. The Consumer Price Index (CPI) (Inflation) fell to 2.1% at the tail end of 2018, but with current uncertainty is expected to drop this quarter.

With this current low rate of 0.75%, this is a great time to speak with one of our Mortgage Advisors to review your current mortgage and ensure that you are on the most competitive product available. As we move towards, and shortly past, Brexit, it is unclear how rates will be affected, and so, for example, a fixed term mortgage will aid in ensuring at least one payment and area of your financial life is fixed and won't be affected by any short-term volatility.

Book of the Month

If you have already read my Mini Blog, you will now know that I have signed up to attempt Ironman Italy in September to raise money for MDNA, our charity of the year. As a result, this month's book recommendation is 'Endure: Mind, Body and the Curiously Elastic Limits of Human Performance' by Alex Hutchinson.

It would seem our body is far more capable of enduring long exercise than we think. It is usually more about the mind than the body. Woven through the story of Nike trying to deliver the first sub 2-hour marathon, this fascinating book will have any endurance athlete, or anyone else interested in the subject, enthralled.

I couldn't put it any better than Bear Grylls did, so won't bother trying; 'If you want to gain insight into the mind of great athletes, adventurers, and peak performers, then prepare to be enthralled by Alex Hutchinson's Endure.' Some of the stories within it are quite amazing.

Charlie’s Mini Blog

Each year at Efficient Portfolio we select a charity, or charities, that we are going to put our efforts into supporting. We commit to pay 1% of our profits each year to these causes, but we also organise various events to raise further funds. These events often include charity balls and golf days, but invariably I take on some new and testing challenges to raise some money too.

This year, we have selected the Motor Neurone Disease Association as our chosen charity to support. It is a charity that is close to our hearts, as Caryl and I lost a friend, our age and with young children, to this hideous, and currently incurable disease a few years ago. It has now been brought back into the spotlight for us all as Charlotte, Efficient Portfolio’s Practice Manager, has recently received the sad news that her mother has also been diagnosed with MND. It is news like this that really brings our limited time on this planet back into sharp focus, and anything we can do to support the fight against this disease will be time and money well spent.

As a result, I was looking for a big challenge that reflects how much this means to us. I’ve never run a marathon before, so that seemed to be the obvious choice. Along with a few of the team here, I will be running the Brighton Marathon on 14th April. That said, that didn’t seem like a big enough challenge to encourage sufficient support, so I enlisted into the Ironman Italy, held in Cervia, an hour south of Venice, on 21st September. For those of you who don’t know, the Iron Man comprises of a 3.86km swim in the Adriatic Sea, a 180.25 km bike ride, and then running a marathon - so just a 42.2 km run to finish me off! All in all, it should take me between 13 and 15 hours of constant, not stop efforts, if everything goes according to plan!

I know we all get a lot of sponsorship requests these days, so if you already pledge your support elsewhere, please don’t worry; I won’t be offended. However, if you could afford to help this amazing charity on our behalf, we’d be extremely grateful. It would be fantastic to raise a really meaningful amount that can help support people with this dreadful disease. I know that when it comes to running a marathon after maybe 10 hours of exercise, it will be the mental boost I need!