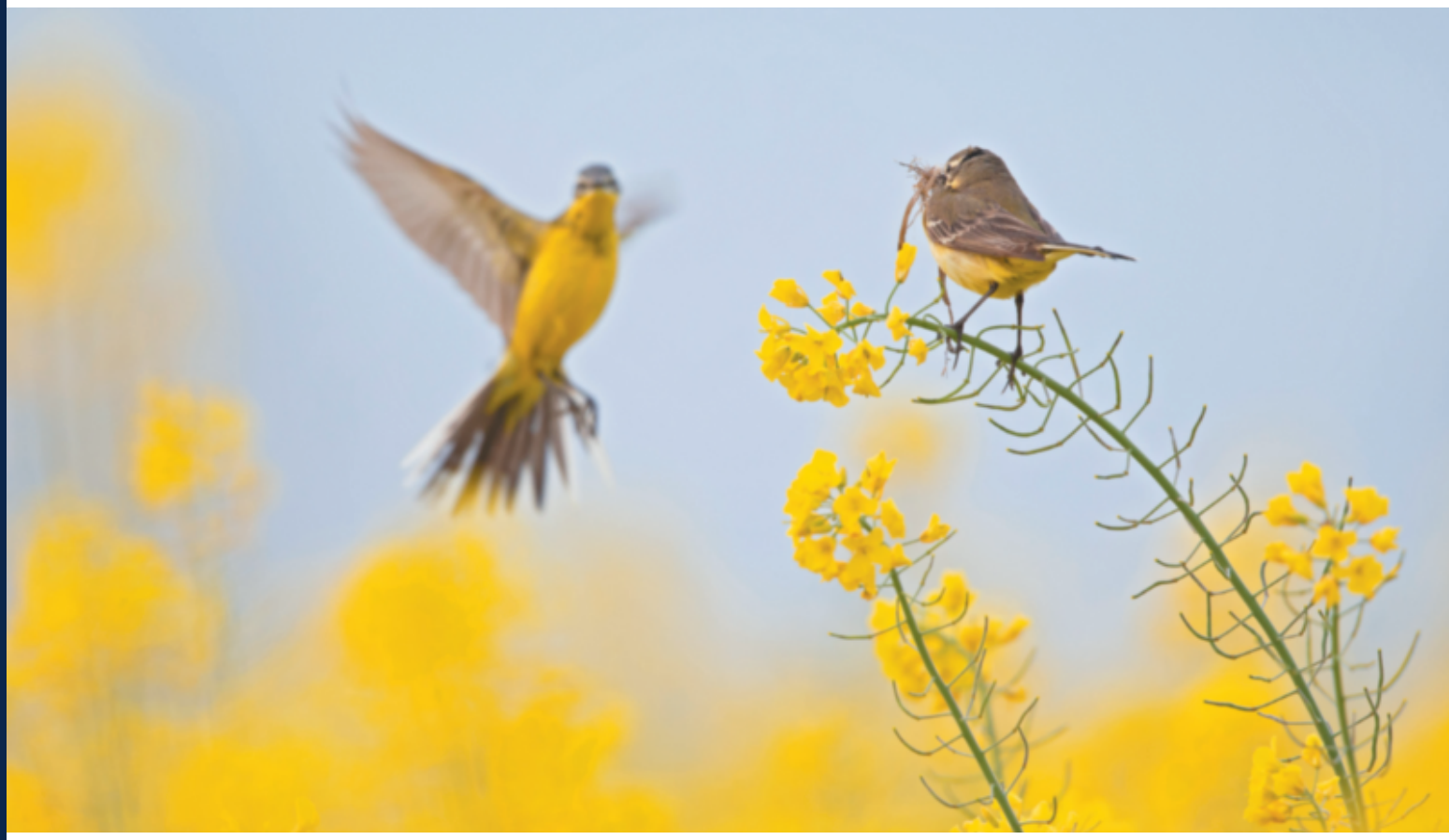
# BULLETIN

YOUR ESSENTIAL FINANCIAL BRIEFING

ISSUE TWO



## Welcome to this series of topical articles to help you navigate your financial world

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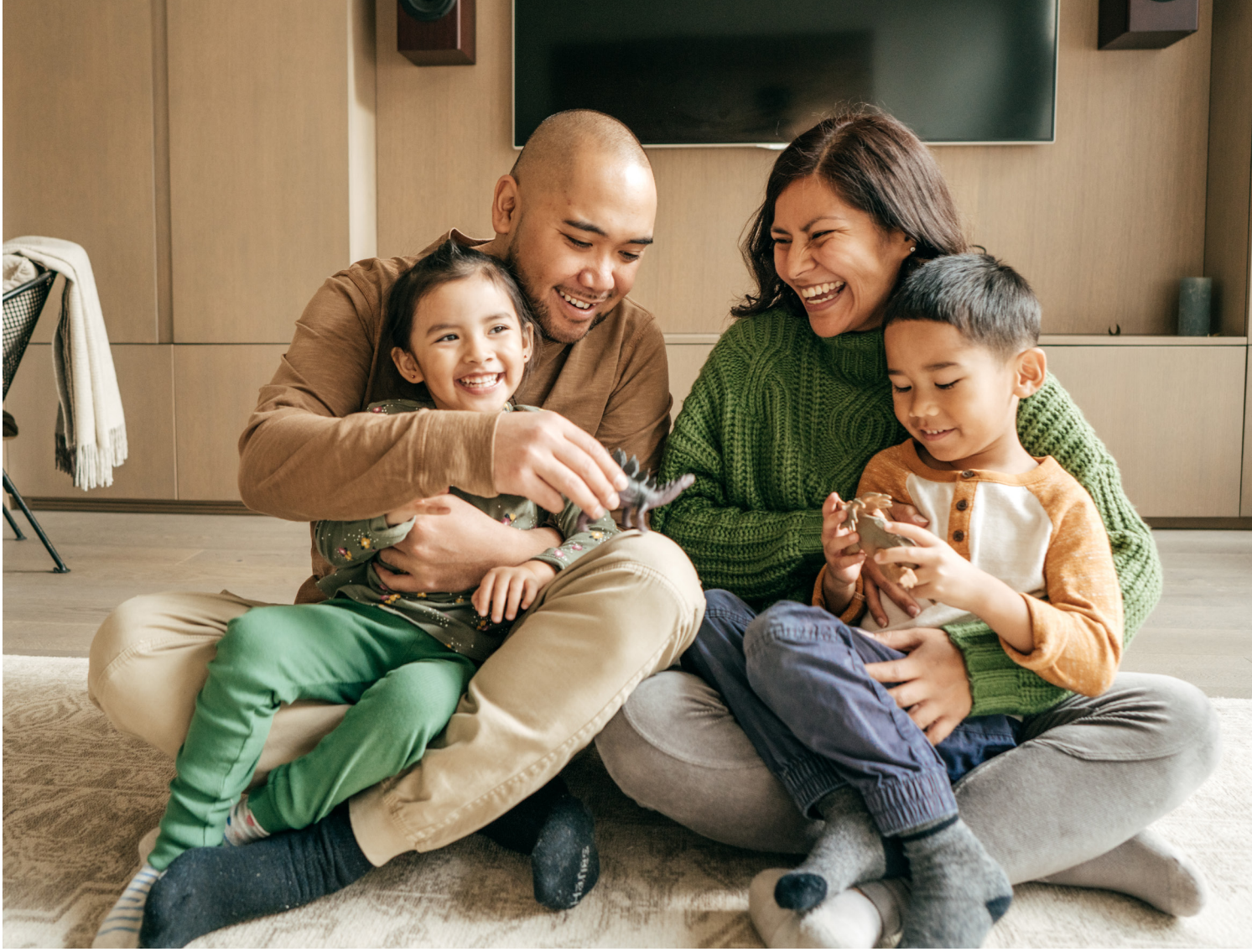


# Is it time to think about remortgaging?

**Taking out a better-value loan on your home is an often-overlooked way to improve finances. But amid the uncertainty of the pandemic, is now the time to think about it? We examine the pros and cons**

It's wonderful to read headlines about vaccines and a return to something like normal; yet daily news of further restrictions and recession do little to calm the financial nerves. Little wonder, then, that many people are using this uncertain time to reassess their goals in light of unpredictable events, as well as reassessing their objectives.

One way of doing this is securing a better-value loan on your home through remortgaging. Switching your mortgage deal, either with your existing lender or a different one, isn't a new concept; but when it comes to achieving long-term financial goals, for some people it takes a back seat to, say, amending a personal pension or restructuring investments.

## IT'S EASIER THAN YOU MIGHT THINK

That, however, may be a mistake, according to Paul Johnson, Client Banking and Mortgage Manager at St. James's Place, who believes that remortgaging should be at the forefront of financial planning. He says the historic perception of remortgaging – that it's a troublesome, bureaucratic process involving the gathering of payslips and other paperwork, and seeking a solicitor's approval – is largely outdated. Many lenders have made the process simpler, quicker and far less stressful.

Remortgaging is also an option with buy-to-let (BTL) investment properties. Some landlords increase the size of their portfolios by releasing funds from existing BTLs through remortgaging, to pay the typical 30 to 40% deposits required when purchasing an additional property.

But whether you're an owner-occupier or a landlord, it's important to have clear goals for remortgaging, and then to research and calculate as thoroughly as possible to ensure that you choose the optimum remortgaging product.

**Switching your mortgage deal, either with your existing lender or a different one, isn't a new concept**

## IDENTIFYING GOALS

So, why talk about goals? Surely remortgaging is simply about paying less per month on a mortgage?

"Yes and no," says Johnson. "Of course remortgaging should mean paying less, and if successful it's likely to save hundreds of pounds a month.
But if that's frittered away, the full saving isn't maximised. A goal of, say, using saved money to pay down the mortgage is a win-win – you pay less per month on the mortgage itself, while the loan term is shortened."

There are many other possible goals – using saved money to invest, for example – so establishing objectives at the outset will help you to identify the right mortgage for you. That's where research comes in. There are literally thousands of mortgage products in the marketplace, so where's the best place to start?

A lower monthly payment will be the primary objective, but it's vital to assess other factors. Is there an arrangement fee for switching to another lender? Does a longer-term mortgage mean you ultimately pay more? If you inherit and want to go mortgage-free, will there be a large early repayment fee?

"And remember, not all lenders cater for all clients, especially in coronavirus times," says Johnson. "The self-employed or those on furlough will have fewer remortgage choices – but they do exist, and an expert will find them and advise on them."

## GETTING THE RIGHT HELP

That access to expertise – from people who can authoritatively assess your financial position and look at the widest selection of options available – is more important than ever right now.

"COVID-19 has fast-tracked change in people's lives. Job security, which they previously felt they controlled, might now be out of their hands. And the monthly cash flow, which used to be so reliable, may be much less certain today," says Melloney Underhill, Marketing Insights Manager at St. James's Place.

Traditional reasons for remortgaging – because an existing mortgage deal is ending, or a home has increased in value substantially, or a borrower is concerned about future changes to interest rates – remain completely valid. But in the context of the pandemic, there are often more immediate and less predictable reasons why people may take this course of action, especially if short-term protections such as payment holidays and furlough arrangements are added into the mix.

"It's a delicate and difficult time," says Underhill. "Someone must be willing to say if an option is wrong and suggest a better solution. If a client has a six-month cash problem, they shouldn't lock themselves into a 25-year product which makes them disadvantaged long-term just to achieve a quick remedy."

With uncertainty in plentiful supply, it's easy to steer that wrong course. "So the trick," says Underhill, "is to have someone like a St. James's Place Partner in your corner, identifying opportunities and pitfalls, and offering financial advice. It's needed more now than ever before."

Please get in touch today if this is an area you need help with. Together we can look at your options.

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

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

# Planning for your retirement when you're self-employed

**Amid the bustle of running your own business, it can be easy to forget to make provision for your retirement. But getting it sorted could bring benefits both now and in the future**

In June 2020 a record number of people were paying into workplace pensions[1]. This upward trend began in 2012 with the launch of automatic enrolment, which brought millions of individuals into the pensions system for the first time. But one important and fast-growing cohort of people was excluded from auto-enrolment: the self-employed.

The ranks of the self-employed have swelled over the past two decades, rising from 3.4 million (12.9% of the workforce) in 1998 to 4.8 million (15.1%) in 2017[2]. Yet over the same period, the proportion of self-employed workers paying into a private pension has fallen from 48% to just 16%, according to the Institute for Fiscal Studies[2].

## MIND THE GAP

The UK now faces a widening pensions gap, with the self-employed falling behind when it comes to saving for retirement. There are several reasons for this, including their exclusion from auto-enrolment and the income insecurity that can be a feature of self-employment. There's also the hassle factor – when you're self-employed starting, and paying into, a pension can quickly slide down the list of priorities. Similarly, self-employed earnings can be uneven and unpredictable, so working out monthly or yearly contributions might be difficult.

"People will put blood, sweat and tears into getting their business off the ground. It's often hard to find the time to focus on the bigger picture when it comes to retirement finances," says Tony Clark, Senior Propositions Manager at St. James's Place Wealth Management.

## SPREADING THE RISK

Many self-employed also expect their business to be their main source of retirement income. Although understandable, a business should form part of a broader financial plan and relying on it entirely is risky.

"Having your income and future retirement dependent upon one company's performance can leave you exposed to societal changes, global crises and, often, a lack of geographical, industrial and asset class diversification," says Simon Martin, Chartered Financial Planner at St. James's Place Wealth Management. "If the business performance suffers, so does your present and future income."

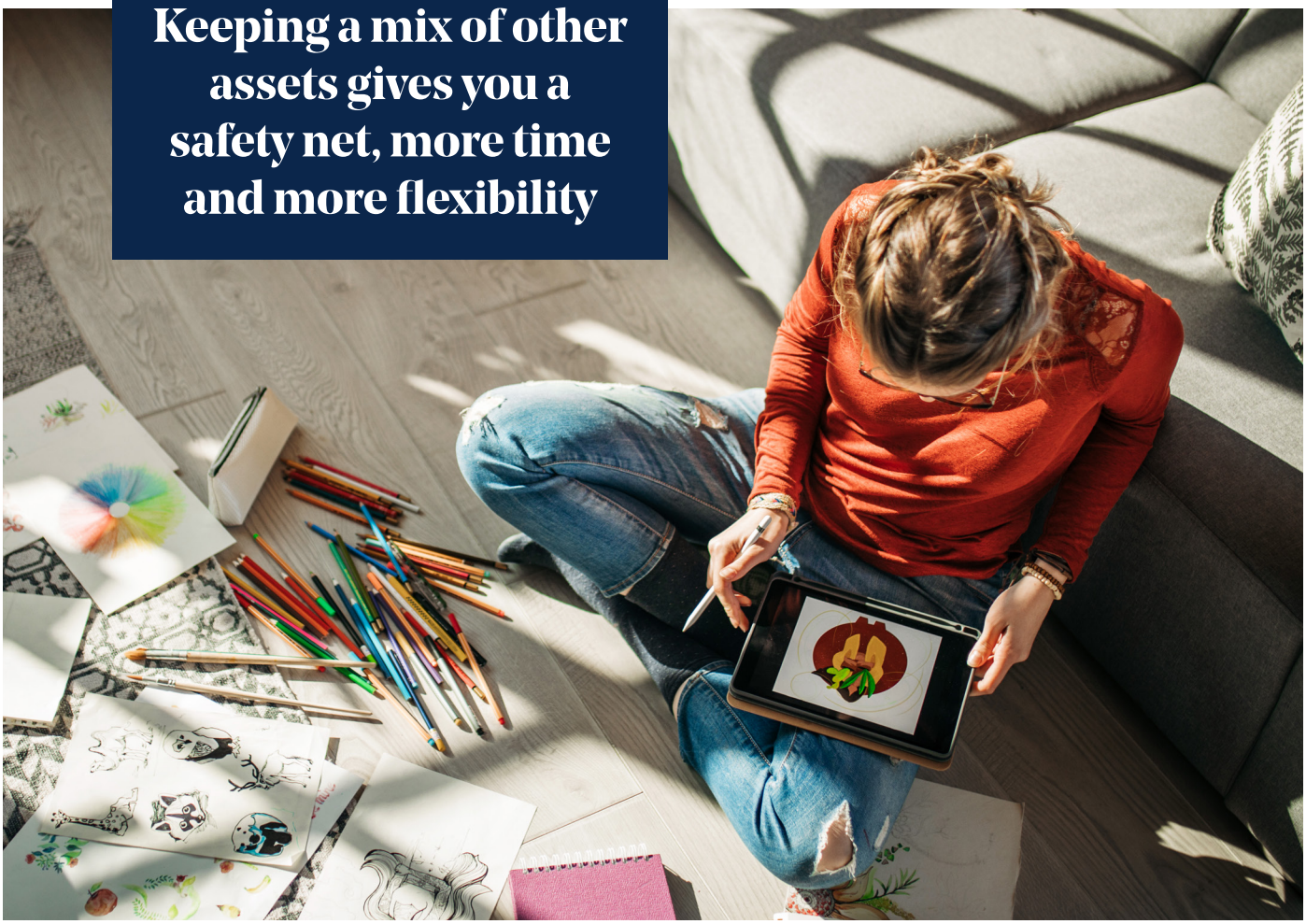
Any retirement plan should include pensions, ISAs, property, state pension, earnings and so on. If you're self-employed, your business is part of that. Having other assets can benefit your business planning, particularly if you're approaching retirement and finding it hard to extract value from the business.

"When you retire, or take value, from your business you may have difficulties selling or passing the business on. That's where plans can come unstuck if you're not diversified," says Clark. "Keeping a mix of other assets gives you a safety net, more time and more flexibility."

## NOT MISSING OUT

Diversifying also brings tax benefits. When taking money out of a business, there will likely be some Inheritance Tax (IHT) or Capital Gains Tax (CGT) liability. By contrast, pensions stay outside your estate for IHT purposes,

**Keeping a mix of other assets gives you a safety net, more time and more flexibility**



which makes them more tax efficient when it comes to passing on wealth to your family.

"The 2015 pension freedoms increased the scope of pension death benefits and made them an effective IHT planning tool," says Martin. "A personal pension is generally free from IHT and can be passed to a dependant or nominated beneficiary, subject to scheme rules, in a very tax-efficient manner."

The tax advantages of pensions can also help when maximising your contributions too, especially if your earnings can vary significantly each year. While the annual allowance limits how much you can pay into a pension each year, there is flexibility. Carry-forward rules entitle you to use any unused allowance from the previous three tax years to maximise your pension contributions in the current tax year.

"This means you can contribute to your pension beyond the current tax year's allowance," says Clark. "It's a way for you to catch up, removing some of the worry around being able to fund your pension as fully as possible."

## PLANNING AHEAD

When running a business, managing your longer-term finances can feel time-consuming. That's why it makes financial and business sense to seek support by getting in touch with us, or your accountant. By having a conversation we can discuss how your earnings are panning out over the financial year and put plans in place around that. That can include structuring your pension contributions in such a way that you don't miss out. By guiding you through the different stages of running your own business, together we can make sure it dovetails with your wider financial plans.

"Each stage of your business will require financial strategies, including retirement," says Clark.

"Your Partner needs to be on the journey with you. As you build your business, you'll have various experts – and your Partner should be part of that support network, helping you realise the outcomes you're looking for.

The value of an investment with St. James's Place will be directly linked to the performance of the funds selected and may fall as well as rise. You may get back less than the amount invested.

The levels and bases of taxation and reliefs from taxation can change at any time. Tax relief is dependent on individual circumstances.

Sources:

[1] Department for Work and Pensions, Workplace Pension Participation and Savings Trends of Eligible Employees Official Statistics: 2009 to 2019, June 2020

[2] IFS, Retirement saving of the self-employed, October 2020

# Why you should avoid the comfort of investing with the herd

In uncertain times, it's tempting to invest in expensive companies that seem like safe bets. But overpaying for comfort can prove a costly mistake, says Tye Bousada, founding Partner of EdgePoint Investment Group. EdgePoint are co-managers of the St. James's Place Global Equity and Global Growth funds

**You've maintained it's unwise to overpay to invest in big, growing companies that are expensive compared to the rest of the market. What does that mean?**

If brave enough to wade into the stock market, most people have felt very comfortable finding the obvious growers over the last 12 to 18 months. People are looking for the simple narratives, the very big mega-cap businesses. And they're not really paying attention to valuation.

But that's never proven to be a successful strategy. Go back over the last 70 years, and, in every year, look at the 750 largest businesses in the US. From that list, pull out the 10% fastest growers and compare their average valuation to the rest of those big companies.

You might be surprised to know that people have never paid more, on a relative basis, for growth than they have over the last 12 months; and that includes the 'dot-com bubble' back in 2000. At other times, where people have paid a lot for growth relative to the rest of the market, it's never ended well. That seems to be what's going on in the market today.

**Most people are doing the same thing – seeking the comfort of the obvious growers in the stock market**

**Why do you think that's happening now?**

When the stock market becomes extremely volatile, as in the last 12 months, investors tend to seek out businesses with a high probability of growing in the short-term.

Take Netflix – everyone knows it will grow during the pandemic because people are staying home and watching more shows. The problem is everyone knows this and, therefore, the future expectations of growth are likely already more than reflected in the share price.

**So, if everyone expects a company to grow, then its share price might be too expensive?**

When you invest in the stock market there are only two potential outcomes – making a mistake or capitalizing on someone else's. Your relative gain will be someone else's relative loss, or vice versa. How do you increase the probability of winning? The answer is you must have a view about the business's future that's not currently reflected in its share price. If you can't answer this, you're likely making a mistake investing in it.

**But that sounds like it could be an uncomfortable choice?**

Here's the problem with doing what's comfortable. Most people are doing the same thing – in this case, seeking the comfort of the obvious growers in the stock market. This 'herd mentality' results in rising valuations.

Growth stocks make the average investor feel comfortable today because they'll grow in this volatile world. This comfort causes people to invest in them, despite not knowing how the business might help them achieve their goal. Although owning an obvious growth stock makes you feel comfortable today, overpaying for a business for this reason in the short-term won't help you get there.

**Finally, do you see any parallels with the current popularity of index-tracking 'passive' funds, which allow people to invest across whole markets or sectors?**

It all comes back to whether doing what feels comfortable today is the right thing in the long-term. I was born into the era of the 'nifty 50', a time in the US where investors thought that all they had to do was buy the 50 biggest, most branded companies that were the obvious growers. That made everyone feel comfortable. But had they done that, over the next decade they would have experienced permanent loss of capital and their money cut in half.

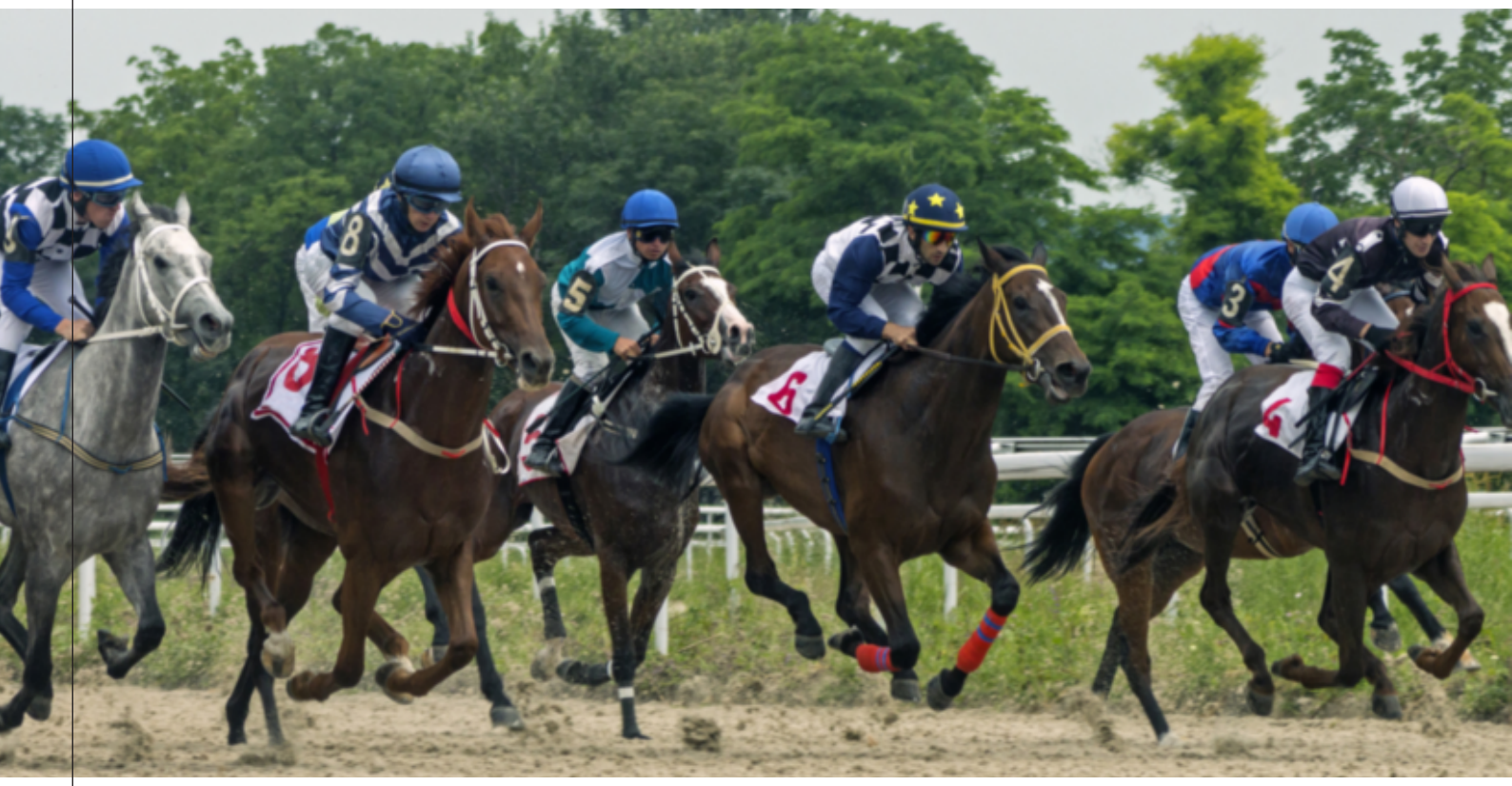
Then, in the late 1970s, President Jimmy Carter went on television and told his fellow Americans that the world would soon hit peak oil. Everyone went out and bought oil and gas companies However, 25 years later it cost more money to pull oil tanks out of the ground than the oil inside was worth – there was permanent loss of capital again.

In the 1980s, the idea was to invest in Japan, because everyone would buy Walkmans and televisions from Sony, and Toyota would teach the world how to make cars. At the time, you might have felt comfortable, but 30 years later you've still not made your money back, never mind accounting for inflation.

In the 1990s, the narrative was that emerging markets always grow faster than developed markets. But crises in Mexico, Russia, and South-East Asia resulted in permanent loss of capital. In 1999 everybody ploughed into technology, media and telecoms – but we know how that ended.

Finally, in the mid-2000s, there was a global real estate boom going on. Alan Greenspan, then-Chair of the US Federal Reserve, told Americans not to worry because the average US house price never falls. People felt comfortable following these ideas.

So, I understand many might feel comfortable buying an index fund that's full of mega-cap businesses trading at all-time high relative valuations. But, if history is a guide, that's not a proven strategy towards your financial goals.



# What are the risks for investors in 2021?

Hamish Douglass is co-founder of Magellan, manager of the St. James's Place International Equity Fund. Here he discusses some of the risks on the horizon for 2021, and why Bitcoin should be seen like a 'punt at the races'

**Can you expand on the concerns you've expressed that the market hasn't 'priced in' the risk of COVID-19 mutations?**

The virus will keep mutating because there are so many infections happening around the world. What we don't know is what the nature of the next mutation will be.

The current vaccines are still highly effective in protecting you against dying, but less so at protecting you from getting infected or sick. It's almost inevitable that, in time, mutations will cause an 'escape variant' – which could get around these current vaccines. It might not happen, but there may be a 5% probability, it may be a 20% probability, I don't know.

It's more likely we get an escaped mutation that undermines the current vaccines, after which scientists recode the vaccines. In that case, you'd have to start the whole vaccination process again, because this new variant would become the dominant variant, and everyone who's just been vaccinated won't have any immunity against it.

That would delay the world recovery by 12 months or so, which would have some impact on the markets. There seems to be very little margin of safety in markets for an adverse outcome with the vaccines. No-one knows what will happen.

**So how are you considering the risks of COVID-19 mutations on the portfolio?**

I'm relaxed about it. Across our portfolio, we've still got businesses that are reporting incredible results: whether it's Alphabet, Microsoft, Facebook, Netflix, or Crown Castle.

We're taking a lot of expert advice, and playing it cautiously. We're here to protect people's capital by trying to make prudent decisions. We're not going to punt that there's a 100% probability that the economic story is going to improve, like the market's pricing it at the moment. We actually don't know what this virus will do in 12 months' time.

**What about speculation that the Biden administration will increase regulation on Big Tech? Does that change your views on the technology companies that you hold?**

No, I think the regulatory risk has reduced and it's more predictable now. Are we going to get regulation? Yes, but to regulate technology companies would mean passing more legislation, which is very hard to get consensus on. In the US, that requires 60 senators and you'd need 10 senators from the Republican side. There are deep divisions on this.

Plus, we think the regulatory risk is already reflected in the share prices of these companies. Facebook is trading at 23 times earnings, but it's just grown its revenue at 32% in a year, and it's still got enormous runway to monetise Messenger and Shops. So, these companies would be at much higher prices if there wasn't regulatory risk around these stocks.

We factor in regulatory risk alongside other things in the future, and we still like the businesses.

For Alphabet, just look at the results. We're trimming it because it's now at our maximum position size under our new risk rules. But it's just one of the strongest business models the world has ever seen, and a little bit of regulation won't kill this business. It's going to come at some cost. But it's a cost that I think is well within the guardrails and where the share prices are for the economic potential of the businesses.

Over three to five years I believe we'll earn decent returns by holding at these prices. Could there be, say, 10% or 15% of price volatility if a new regulatory enquiry is announced? Absolutely. But when you consider it's a 5% or 6% position in the whole portfolio, you're talking about 0.6% of the portfolio in a month, which is largely just noise in that period. What matters is compounding this money over time. And we're confident in that compounding.

> **We're not going to punt that there's a 100% probability that the economic story is going to improve**

**What are your views on Bitcoin?**

I would say the wisdom and the madness of crowds intersect here. There is no doubt the theory behind the algorithm is a brilliant concept. But there is no basis, other than convincing people of the theory, getting the crowd behind it, and then enough people to buy it to offset people who want to transact in it, to support the value.

There is no government backing. It's not a fiat currency [money, issued by a government, which isn't backed by a commodity such as gold], and there are no fundamentals behind it. It's a digital algorithm on a screen. There's nothing intrinsic about it at all.

The problem is that if more and more people want to get behind it because there is a limited supply, bubbles can occur. I think currencies should be pretty stable. They shouldn't go up and down 200% in a year, so it's much more of a speculative asset.

I like the idea behind creating a digital currency, but I think it's deeply dangerous and highly speculative to make a judgement call whether you make or lose money in it. It's something we would pass on. But if you're going to do it, treat it as a punt at the races. It's not something I would call an investment class asset from our perspective.

# Getting support to raise your game

We take a look at some government-backed schemes designed to make SMEs more competitive and resilient amid economic uncertainty

The government has provided many valuable financial support measures to help firms weather the storm of the pandemic, ranging from furlough to CBILs loans. But businesses cannot afford to just take the money, hunker down and wait for pandemic-driven economic uncertainty to pass, argues Martin Brown of leading business growth advisers Elephants Child.

"Enterprises must be pro-active and agile to remain competitive and resilient," he says. "One way to start is to take advantage of government-funded training schemes designed to make companies better able to compete within their own markets or pivot to new ones."

## LEADING THE WAY

A relatively new government scheme worth considering is the Small Business Leadership Programme (SBLP), designed for companies with two to 249 employees. Delivered via 20 leading business schools, the free 10-week programme is designed to help businesses deal with the impact of COVID-19 while developing their productivity and long-term growth potential.

Two senior managers from each company take part in interactive weekly webinars and peer-to-peer sessions and receive personalised support from a range of business school experts covering areas including HR, operations and supply chains, productivity and profitability, sustainability and how to be more resilient.

## DRIVING PERFORMANCE

Jane Pallister, Entrepreneur in Residence at Staffordshire University Business School, manages the SBLP scheme for Staffordshire and beyond. She says: "The programme removes senior managers' feelings of isolation in dealing with the commercial impact of the pandemic and consolidates steps they're already taking.

"We share new marketing, finance, operations and employee engagement models to drive performance and productivity, while also focusing on employee support and wellbeing. We have engaged five cohorts so far and are hopeful that we can run more beyond May 2021."

Participant Kevin O'Mara, Managing Director of Staffordshire-based specialist executive chauffeuring business, Advanced Journey Chauffeuring, says the scheme has been a lifeline.

He explains: "We were losing revenue and visibility through the pandemic but the course inspired us to launch a communications exercise to let our customers know we were back in action and the steps we'd taken to ensure COVID safe travel, and really put ourselves 'out there' on social media platforms and virtual business marketing groups.

"As a result, we've attracted major new corporate clients who'd lost their incumbent service-providers through COVID-19. We couldn't have turned things around without the help, expert advice and support we received to navigate us through some critical decision making."

## PEER NETWORKS

Another programme designed to strengthen businesses is peernetworks.co.uk, which brings together small groups of SME business owners across the UK to collaboratively develop solutions to common business challenges, such as EU transition, recovering from COVID-19, HR, technology and finance.

Led by the UK's 38 Local Enterprise Partnerships, Peer Networks is free to join and offers access to one-to-one mentoring, coaching and advice, with each group led by a skilled professional facilitator. Martin says: "It provides the benefits of group learning in a collegiate and non-intimidating environment, offering the benefits of knowledge-sharing and being in a team to examine business, culture and related personal issues in a pragmatic way."

It's also worth taking a look at the government-supported Recovery Advice for Business Service run by Enterprise Nation, which gives SMEs access to business advisers and experts on business topics across all sectors to help them bounce back from the pandemic.

**Enterprises must be pro-active and agile to remain competitive and resilient**

## GET ADVICE

Summing up, Martin says: "The highlighted examples are just a taste of what is available – but trying to make sense of the bewildering choice of state funded and private options out there is a challenging and time-consuming task."

If you're looking for help in this area of financial advice, please get in touch to arrange a meeting. Together we can work with the St. James's Place Entrepreneur Club Network to find the most appropriate provider for you.

Where the opinions of third parties are offered, these may not necessarily reflect those of St. James's Place.