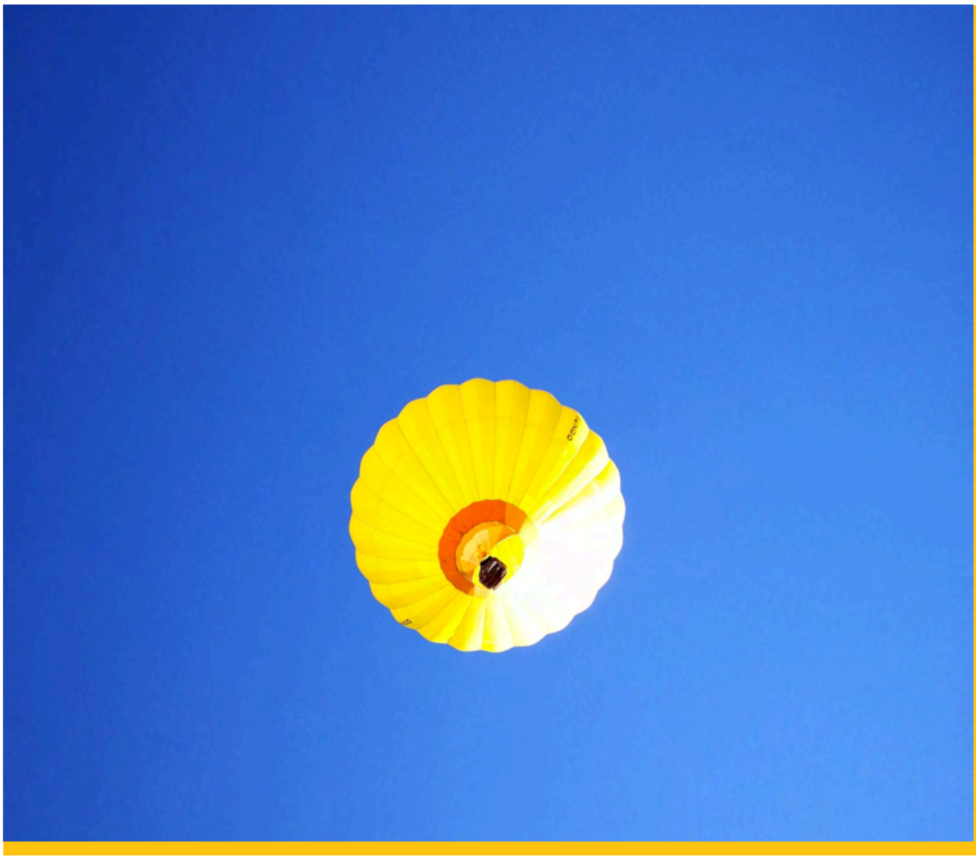
Clarity

Newsletter Summer 2020

Proud to offer independent advice

Dentons Wealth



Welcome

To our latest newsletter highlighting some important changes within the insurance and financial services industry and our latest news.

In this issue:

If you'd like to find out more about any of the topics covered in this issue, or have any comments, please get in touch. We look forward to hearing from you.

COVID-19 and your personal finances.

The past few months have been a worrying time for investors as they question the impact of Covid-19 on all parts of their life and personal finance.

We have identified five main questions that our clients have focused on relating to their investments, pensions, insurance and savings.

How does coronavirus (Covid-19) affect my investments?

As you are aware Covid-19 has had a global impact, and everyone who is invested would have felt the effect of the pandemic on their investments in one way or another.

While everyone's personal circumstances vary, our clients generally accept that it is better to leave investments intact if this remains possible.

This will give them the opportunity to recover any value lost as markets slowly improve. That's not to say that investments will not face further volatility but our belief is that over time global markets will improve.

Furthermore the current fall in the markets from their highest point six months ago could present new opportunities for investors who have capital to spare, but this should be done in alignment with your appetite for risk and capacity for loss and an investment horizon of at least five years.

We would encourage our clients who may be considering disinvesting or making new investments to talk to us so we can guide you through any decisions you may be contemplating.

What about my pension?

Covid-19 could have pension implications where the value of your pension is driven by the performance of its underlying investments.

We understand that people may be under financial pressure and may be considering drawing down pension funds to support their personal spending.

However, it's important to consider the longer-term implications that this could have.

Given current market performance, withdrawing funds could have an erosive effect on your pension particularly in the light of future market volatility. In addition, certain flexible drawdown situations, such as putting a pension pot into a flexi-access drawdown scheme, can trigger the Money Purchase Annual Allowance (MPAA) – a measure that reduces the amount that can be saved tax-free into a pension pot every year from £40,000 to just £4,000.

Those considering accessing pension funds now but hoping to rebuild, or continue building, pension savings in the future will need to remember that any contributions

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they make that exceed the MPAA will be taxed at their marginal rate of income tax.

Consequently it's important to seek advice to ensure you are aware how any pension decisions could affect you further in the future.

What about my savings?

We strongly recommend that cash is available to deal with unforeseen emergency expenditure, and generally would recommend you have three months' worth of income in cash which can be accessed in an emergency quickly.

However, with interest rates at historic lows, it's advisable that funds are only kept in low-interest accounts to provide for emergency or planned expenditure over the short term - any longer and the value of money could depreciate in real terms.

Should I consider protection cover?

The possibility of disruption to your day-to-day life from Covid-19 underlines the importance of protection cover to help mitigate the financial impact of any sort of illness or injury.

It is a good idea to review what cover you currently have and whether this is the right level of cover to afford you adequate protection both for you personally and for your business.

We would be delighted to explore this with you and to present you with a recommendation as to where we consider shortfalls exist and what solutions are available to address this.

Is there anything else I can do to support my finances?

If you are experiencing personal financial pressure at the present time there are options available that may be suitable for you such as considering seeking a 'mortgage payment holiday' on your mortgage (a temporary suspension or reduction of repayments on mortgages).

You will still be liable for any payments deferred but the temporary relief could free-up cash during this uncertain time to help meet other day-to-day expenses.

Finally, for those who need to access larger amounts of capital, possibly to help children in this trying period or to finance their lifestyle further, a life time mortgage may be appropriate but as in the case of any other financial decision, it's important to get advice to ensure this is the right option for you.

Please note: *the ideas covered in this article may not be suitable for your individual circumstances and we always recommend you take advice from an independent financial adviser.*

By Sue Stevens

Introducing Dentons Mortgages.

We'd like to introduce you to Dentons Mortgages, which has been established as a separate division following the success of the mortgage lending team at Dentons Wealth.

They are not a high street mortgage lender but a specialist broker, visible in their chosen areas of expertise.

As a dedicated Independent Mortgage Consultancy, Dentons Mortgages provides a range of mortgage and finance solutions including:

- residential mortgages
- lifetime mortgages
- equity release
- commercial mortgages
- lending.

They also provide mortgage protection and a niche specialism for commercial lending within trust based pension schemes such as SIPPs (Self Invested Personal Pensions) and SSASs (Small Self Administered Schemes). This can be extended to those in business for a range of different circumstances.

Dentons Mortgages pride themselves on providing a holistic view of clients' personal and business affairs structuring solutions and offering recommendations on how your future wealth can be protected.

The dedicated and hardworking Mortgage Consultants can represent our clients with solutions that enhance their finances and make them lifelong partners of Dentons Mortgages.

If you would like to find out how Dentons Mortgages Consultants can help you, please contact Jon Gall or Andrew Myall:

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Dentons Mortgages – busting common equity release myths.

Dentons Mortgages can help with a range of later life mortgages for the over 55s who are looking to release money from their home tax-free.

In the past equity release has had a bad reputation for leaving homeowners and their heirs with big debts when the family home has been finally sold however the industry is now regulated by the Financial Conduct Authority (FCA) resulting in important customer protections.

As we continue to see a rise in the popularity of equity release, they have listed below some reasons for why people choose equity release:

- helping family members, such as contributing to education fees or getting them onto the property ladder
- home improvements to enhance their home or carry out adaptions that make it possible for them to stay in their home longer term
- holidays and trips to help enhance their retirement and get the most out of it
- lifestyle improvements like a new car, a hobby or to provide care in the home
- provide additional income to supplement a pension
- pay off outstanding debts to relieve the pressure of monthly outgoings.

However there are a number of common myths that may put prospective clients off equity release. Dentons Mortgages have outlined the main ones below and answers to dispel these.

I won't own my home anymore, so I might lose it.

This is a surprisingly common misconception. People are regularly relieved to hear that a lifetime mortgage means they remain the owner of their home.

I don't want another mortgage now, I can't afford the repayments.

This is the downside of equity release when clients discover that the most popular equity release product is actually a mortgage. However doubts are often dispelled once they learn that repayments are not normally required until the borrower dies or goes into long-term care.

I have a blemished credit record.

Lending is based on the market value of the property, age and health status of the borrower. Income and credit history are not normally taken into account.

I don't want my children inheriting a debt.

A 'no negative equity guarantee' invariably comes as a pleasant surprise to people with little prior knowledge of equity release products.

I won't be able to leave anything to my children or grandchildren.

We encourage good communication between family members before someone opts for equity release. This gives potential beneficiaries the chance to clarify their true priorities. There is also the option to take up an equity release product with built-in equity protection to provide an 'inheritance guarantee'.

I might not want to stay here forever. Wouldn't equity release tie me down to this home?

Again, many people are surprised to learn that portable equity release products are available, depending on a number of criteria, including the value of the home being moved into.

By Andrew Myall

Dentons Mortgages – Lifetime Mortgage Case Study

Andrew and Lesley Bingham's story.

Andrew and Lesley are 72 and 68 and live in West Sussex. They have no mortgage and live comfortably in retirement from their pension income. They are settled in their home, with many friends in the local area and do not want the disruption and costs of moving.

Both are now retired, and enjoy a very active retirement walking across the Surrey Hills and South Downs and sailing off the South Coast. They have both private and state pensions and some savings and investments.

" We have all that we need but whilst our daughter has a good income she is struggling to get on the property ladder because she does not have a deposit. "

Lifetime mortgage required: their property is worth £350,000 and £75,000 is needed to gift to their daughter who will then use this as a deposit for her first house purchase.

How did we help Andrew and Lesley?

They paid off their mortgage many years ago and a mortgage at this stage would not have been their first choice. They are happy to help their daughter but really don't want the debt building up with interest rolling up. They may also want a further sum in the future but have no plans at present.

We recommended a lifetime mortgage which helped them to:

- provide a gift of £75,000 to help their daughter to buy her first home
- benefit from a low lifetime fixed interest rate of 3.91%
- they don't want the debt to build up on their property and so will cover the interest of £245 per month. Their daughter has also offered to pay this for them as she is directly benefiting from the cash being raised and gifted to her
- the lifetime mortgage product also allows for further drawings should a further sum be required.

By Jonathan Gall

All information is illustrative only to show how a lifetime mortgage could be used. This information is not intended to provide any form of advice or recommendation.

Diversification: ice cream and umbrellas.

In practical terms, diversification is holding investments which can react differently to the same market or economic event. You may have previously been warned about putting all your 'eggs in one basket' and that it is prudent to spread your investments across a range of assets. That way, if the value of one of them falls, it could be mitigated by your other investments that increase. This is a basic strategy of mitigating risk whilst potentially having a limited overall effect on your returns.

How to diversify your investments

The best way to achieve this is to invest in different asset classes across various countries, regions and industries. The main asset classes in most portfolios consist of shares and bonds as these tend to behave differently. When you invest in shares, you buy into a company's ongoing operations and profitability. The value of shares fluctuate according to the fortunes of the company, so they are riskier than bonds. However, with greater risk comes greater potential reward and so the returns can be greater too. A bond is effectively a loan to the issuer in return for a fixed interest payment. For example, a UK government bond, known as a gilt, is considered to be among the least risky investments, as the UK government is unlikely to default and so returns can be lower.

Most portfolios will also diversify holdings across developed countries e.g. the UK, the US, Europe and also the far-east and the emerging markets (EMs). Developed countries typically have relatively stable economies and stock markets comprising large, well-established companies. EMs on the other hand, are growing faster so they offer greater potential rewards, however, they tend to be more unpredictable so they are regarded as higher risk.

How diversification actually works

During times of uncertainty, bonds can rally as investors move their money out of shares and into safe-haven assets such as gold. When the outlook improves, shares rebound as investors switch back to taking greater risk in return for what they hope will be a higher reward.

As for geographical diversification, any number of economic or political factors can weigh in on the financial markets in one country or region without necessarily spreading into others, however, there are often exceptions.

While individual asset classes can suffer severe declines, it's very rare that any two or three assets with very different sources of risk and return, like shares, government bonds and gold, would experience declines at the same time. So even if shares took a sharp correction of say 30%, your bonds and gold could keep your portfolio from falling as far. This is why diversification is important in your investments.

The benefits of diversification include:

- minimises the risk of loss to your overall portfolio
- exposes you to more opportunities for investment return
- can safeguard you against adverse market cycles
- reduces volatility.

How to tell if you are diversified

An easy way to determine if your portfolio is diversified is by looking at your current and past performance. Diversified investments will not move in the same direction at the same time. So, if some of your investments are up while others are down, diversification exists.

A good way to think of diversification is having 'ice cream and umbrellas' and you will fare better in all weather.

By Mark Dunning

Please update your details.

We like to keep in touch with you by email which is not only quicker, meaning the content is more timely and appropriate, but it also helps with reducing waste and excess costs.

Please email: **enquiries@dentonswealth.co.uk** with your current email address, full name and a policy/reference number, or alternatively please call us on **01483 521 528**.

We look forward to hearing from you.

Do you trust Trusts?

Trusts are a way for families to securely hold assets and pass them on from one generation to another. Put simply, a Trust is a straightforward concept. It is the legal transfer of assets (property, shares, cash, etc.) to a small number of people (trustees) or a trust company, with instructions that they should hold the assets for the benefit of others (beneficiaries). This creates the separation of the legal ownership and the beneficial ownership of the assets.

Trusts can play a vital role in arranging families' financial affairs. Their main attraction is that they allow the person setting up the Trust the ability to exercise control over how the assets will be used going forward. This is particularly useful where those set to benefit, may not be ready to manage it for themselves.
Some common situations would be to protect the inheritance of young children, or vulnerable relatives, or to provide for someone, whilst protecting the interests of any children. They are often used in family businesses succession planning.

However, should Trusts always be trusted?

This might be because the public usually has limited or no access to information on family Trusts.

Many people set a Trust up and expect it to remain confidential. So is that a potential cause of mistrust, particularly, given that the beneficiaries may not be aware of the Trust? (A parent might not want their children to know that they are likely to receive benefits.)

In addition, there may be beneficiaries who, in practice, will only receive funds in an extreme situation, such as close relatives pre-deceasing them.

Sometimes Trusts are portrayed as just tax avoidance vehicles. That said, it's hard to envisage any circumstances in which it would be advisable to set up a Trust, just to gain tax benefits.

Remember, in setting up a Trust, someone is handing over the ownership of his or her assets. This is a significant act and as such, only makes sense if they have a clear set of objectives that they want to achieve with those assets.

In summary, the key attractions of Trusts are;

- Their ability to ensure that the trustees use the assets as intended.
- The assets are managed appropriately, until that point.

To conclude, assuming you take the appropriate advice, where necessary, we firmly believe Trusts can be trusted.

By Nigel Cobb

Cakes, glorious cakes!

We all know how difficult the 'lockdown' of Covid-19 was but especially on our younger generation who weren't able to undertake any team sports activities.

Dentons Wealth has for many years been a sponsor of our local rugby team - Guildford Rugby Club (GRFC) and we were delighted to help them out at a recent online event they hosted for their Mini's (under 11) teams. All children were encouraged to bake a cake and send in a picture of it to build a big collage of cakes in the run up to their summer party on 21st June, which was held online this year.

The children were asked to send in pictures of sporty cakes, funny cakes and pretty cakes they baked - you can see some of the wonderful cakes on our website: https://www.dentonswealth.co.uk/Insights/Sponsoring-GRFC

To encourage participation in the event, Dentons Wealth donated a sum of money to Shooting Star Chase Children's Hospices Emergency Coronavirus Appeal.

Contact us

For a review of your personal, business or financial circumstances, or to find out more information about any of the subjects mentioned in this newsletter, please contact one of our Advisers.

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Important notes

The value of investments and the income from them can go down as well as up and you may not get back your original investment. Past performance is not an indication of future performance.

Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances.

The content of this newsletter should not be taken as being professional advice and reflects Dentons Wealth's interpretation of the current law and HM Revenue and Customs practices.

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