Financial Landscape

Spring Issue 2018 Carpenter Rees Ltd

Crypto currencies

Don't believe the hype

Digital or crypto currencies such as Bitcoin, Ethereum and Ripple have been causing a financial frenzy over the past months. Bitcoin is the oldest and best-known crypto currency created in 2009 by an unknown person using the alias Satoshi Nakamoto.

Transactions are made with no middle men – this means there's no bank, regardless of the hype around getting rich by trading it. The frenzy was sparked by bitcoin soaring to more than 1,900% in 2017 to around $20,000, before falling to around $14,000 in February this year at the time of writing this article.

SEPARATE COMPONENTS

There are two separate components. You have bitcoin-the-token, a snippet of code that represents ownership of a digital concept – or a virtual IOU. Then you have bitcoin-the-protocol, a distributed network that maintains a ledger of balances of bitcoin-the-token. Both are referred to as 'bitcoin'.

Crypto currencies can be used to buy merchandise anonymously. In addition, international payments are easy and cheap because bitcoins are not tied to any country or subject to regulation. Some people just buy crypto currencies as an investment, hoping that they'll increase in value.

PRIVATE TRANSACTIONS

Though each transaction is recorded in a public log, names of buyers and sellers are never revealed – only their wallet IDs. While that keeps bitcoin users' transactions private, it also lets them buy or sell anything without easily tracing it back to them. That's why it has become the currency of choice for some people online buying drugs or other illicit activities.

There are now hundreds of other such currencies that can be traded – and new ones are regularly being created. For some investors, one attraction of crypto currencies is the ability to participate in an initial coin offering, or ICO. Investors jump in, hoping to get the digital currency at a low price, and then profit as it rises. But ICOs are far riskier than stock initial public offerings (IPOs) and have other key differences.

IMPERFECT INFORMATION

Crypto currencies are very risky investments because the technology is new and unproven, and prices have been extremely volatile. Many experts are sceptical about bitcoin as an investment primarily because there is nothing for them to analyse, so people are investing with imperfect information and joining the herd of speculators.

Aside from the operational issues of trading in crypto currencies, there is also a high risk of fraud. There is still a good deal of misinformation and lack of clarity regarding bitcoin trading, and fraudsters have taken advantage of this to launch Ponzi schemes, which promise 'guaranteed high returns'. Some companies claim to double the initial investment within a very short period of time. The growing use of virtual currencies in the global marketplace makes it easy for miscreants to lure investors into Ponzi schemes. Investors should be careful to steer clear of such unrealistic promises.

For any investor looking to take the plunge and buy crypto currencies, it is essential they make sure it's a very small part of their diversified portfolio – and that they can afford to lose their investment. ■

11 Ashbrook Office Park, Longstone Road, Manchester M22 5LB
T: 03330 100777 F: 03330 100888 E: hello@carpenter-rees.co.uk
www.carpenter-rees.co.uk

Carpenter Rees
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New lease of life

Pensioners embracing the benefits of retirement and new-found time

As with any new life stage, planning often helps a smooth transition from the old to the new. Preparing properly for anything new requires planning and commitment. Spending time on planning now will ensure you enjoy the retirement you've worked hard to achieve.

According to new research[1], retirement has meant a new lease of life for millions of people who have given up work in the last ten years, with more than one in four (26%) saying they are fitter and healthier since they stopped working. Far from winding down, nearly half of those who have retired since the height of the financial crisis (48%) say they are busier and more active than they anticipated.

EXPERIENCE OF RETIREMENT

Through embracing the benefits of retirement and making the most of the new-found time, more than one in three (35%) say they have more time to make their life more adventurous than they could have hoped while they were still at work.

When asked how else their experience of retirement was exceeding their expectations, many of those who have become pensioners in the last ten years pointed to improvements in their relationships. More than a quarter (26%) believe they now get on better with their partner, while 25% think that their relationship with their family is happier since stopping work. Meanwhile, just under one in four (23%) say their social life has improved more than they expected.

PROFESSIONAL FINANCIAL ADVICE

As people who plan to finish work in the next ten years begin to look forward to their retirement, there's plenty they can still do to make sure they are as comfortable as the people who have become pensioners over the last decade. Most importantly, in the face of changing pension rules, many people will benefit from obtaining professional financial advice in the run-up to retirement.

Retirement will continue to change over the coming years, but for many people the desire to make the most of their new-found free time will remain. Reflecting on their retirement in general, the vast majority who gave up work in the last ten years (86%) said that it had met their expectations or they were happy with how it had panned out so far, while only one in eight (13%) said that it has been a disappointment.

THOUGHTS, FEELINGS, EMOTIONS

Nearly two in five (37%) thought they would have missed work more than they have since retiring, and in fact one in four (26%) wish they had retired earlier. Meanwhile, on reflection, more than one in ten (11%) wish they had been more active or found a job in the early years of their retirement.

RETIREMENT WILL CONTINUE TO CHANGE OVER THE COMING YEARS, BUT FOR MANY PEOPLE THE DESIRE TO MAKE THE MOST OF THEIR NEW-FOUND FREE TIME WILL REMAIN.

It's important to prepare your thoughts, feelings and emotions for the next phase in your life: a time to look forward to and welcome as a chance to do the things you have been dreaming about, as well as a rest after a long career. There is likely to be a mixture of feelings and thoughts as you start on this new venture into uncharted territory. ■

ANY CONCERNS ABOUT YOUR RETIREMENT?

If you have any concerns about your retirement provision or would like to assess your personal circumstances to see what type of retirement income your current planning will give you once you've retired, please contact us. If your goals are out of reach, or you're taking undue levels of risk, we'll let you know.

Source Data:

[1] Consumer Intelligence conducted an independent online survey for Prudential between 26 May and 5 June 2017 among 751 adults in the UK who had retired within the last ten years.

Avoiding hidden dangers in retirement

Make sure you don't run out of money or face a reduced standard of living

Increasingly, more and more pensioners are keeping much of their pension invested after they retire. This means they're faced with two very different risks when deciding what to do with their savings in retirement in a world of 'pension freedoms'. Since April 2015, people who reach retirement have had much greater flexibility over how they use their pension funds to pay for their later years.

A recent report[1] identified that many savers in retirement are either taking 'too little' risk (the 'risk averse' retiree) or taking 'the wrong sort' of risk (the 'reckless' retiree). Each of these approaches increases the danger of a saver either running out of money during their retirement or having to face a reduced standard of living.

THE RISK-AVERSE RETIREE – HOW CAN YOU TAKE TOO LITTLE RISK?

An example of taking 'too little' risk is the saver who takes their tax-free cash at retirement and invests the rest in an ultra-low-risk investment such as a Cash ISA, believing this to be the safe approach. The report points out that 'investing in retirement is still long-term investing' and shows that decades of low-return saving can seriously damage the living standards of retirees.

It highlights the case of someone who retired ten years ago with an illustrative pension pot of £100,000 which they invested in cash. Assuming they withdrew money at £7,500 per year (in line with annuity rates at the time), they would now be down to £27,000 and likely to run out in around four years' time, less than fifteen years into retirement. By contrast, if the same money had been invested in UK shares, there would still be around £48,000 left in the pot, despite the 2008 stock market crash.

THE RECKLESS RETIREE – WHAT IS 'THE WRONG SORT' OF RISK?

In an era of low interest rates, some retired people may be tempted to seek out more unusual forms of investment with apparently high rates of return but accompanied by much greater risk to their capital. Examples could include peer-to-peer lending, investment in aircraft leasing or even crypto currencies such as bitcoin.

Concentrated exposure to a single, potentially volatile investment can produce very poor outcomes, particularly if bad returns come early in retirement. The pension pot in the previous example would still have £88,000 in it if the bad year for UK shares had happened at the end of the ten-year period we looked at and not at the start.

THE RATIONAL RETIREE – WHAT IS THE BEST WAY TO HANDLE RISK IN RETIREMENT?

Rather than invest in an ultra-low-risk way or chase individual high-risk investments, the report identifies a 'third way' of spreading risk across a range of assets, including company shares, bonds and property, both at home and abroad. This multi-asset approach can be expected to provide better returns over retirement than cautious investing in cash but also helps to smooth the ups and downs of individual investments.

Pension freedoms open up new possibilities for people in retirement, but they create new dangers as well. There is the danger of being too cautious and not making your money work hard enough – investing in retirement is still long-term investing. There is also the danger of taking the wrong sort of risk, seeking high returns but putting your capital at risk. Spreading money across a range of asset classes and in different markets at home and abroad is likely to deliver better returns in retirement – and a more sustainable income – than remaining in cash, without exposing you to the capital risks that can come from chasing after more exotic or risky types of investment.

These investments do not include the same security of capital which is afforded with a deposit account. You may get back less than the amount invested. ■

HELP TO ENSURE YOUR EXPECTATIONS ARE FULFILLED

By understanding your retirement plans, we are able to help ensure your expectations are fulfilled by establishing tailored plans to preserve your capital, produce income and pass on wealth securely and efficiently. If you would like to review your current planning provision, please contact us – we look forward to hearing from you.

Source data:
[1] Research report published 13 January 2018 by mutual insurer Royal London

THESE INVESTMENTS DO NOT INCLUDE THE SAME SECURITY OF CAPITAL WHICH IS AFFORDED WITH A DEPOSIT ACCOUNT. YOU MAY GET BACK LESS THAN THE AMOUNT INVESTED.

ACCESSING PENSION BENEFITS EARLY MAY IMPACT ON LEVELS OF RETIREMENT INCOME AND IS NOT SUITABLE FOR EVERYONE. YOU SHOULD SEEK ADVICE TO UNDERSTAND YOUR OPTIONS AT RETIREMENT.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

Why being over 40 is the new mid-20s

Healthier lifestyles and feeling happier about financial planning for retirement

An increasing number of middle-aged Britons are getting healthier as they exercise more and eat better than they did when they were younger. Over-40s are turning to healthier lifestyles, with more than half rating themselves as more health-conscious than they were in their mid-20s, according to new research[1].

Nearly one in five (17%) of working over-40s say they are physically fitter than they were in their mid-20s, the nationwide study shows. And the fitness bug even applies to older age groups, with 11% of over-65s reckoning they are physically fitter than in their mid 20s.

CAREER, FINANCES AND RELATIONSHIPS

The study asked over-40s to rate themselves now compared with their mid-20s and found 53% believe they have a healthier general lifestyle now. However, being happier with their lifestyle than in their mid-20s does not necessarily translate into all aspects of their lives according to the research which asked about career, finances and relationships.

Just 45% of over-40s feel happier about their financial planning for retirement than in their mid-20s, while a worried 36% admit to feeling less positive about retirement planning than in their mid-20s. Over-40s are most positive about financial security and relationships now compared with in their mid-20s.

But being happier at work now than in their 20s and being generally happier is not always the case as findings show.

LESS POSITIVE ABOUT RETIREMENT PLANNING

Growing older means changing attitudes, and it is striking that more than half of over-40s believe that they are healthier now than in their mid-20s, with nearly one in five claiming to be fitter. As people earn more and save more, it is good to see they feel more financially secure. However, it's worrying that so many are less positive about retirement planning, especially as many will be fast approaching retirement.

The commitment to healthier lifestyles does not always translate into taking exercise –around 30% admit they either rarely (if ever) exercise for 20 minutes or only do it once a month. However, a committed 22% say they exercise for 20 minutes every day. ■

MAKING THE MOST OF YOUR PENSION SAVINGS

Taking control of our finances is not as daunting as it seems if we plan and focus on a range of small steps, such as saving and investing as much as possible based on your future needs. To find out more, please contact us to see which options could work for you.

Source data:

[1] Research conducted by Consumer Intelligence for Prudential amongst 1,057 adults aged between 40 and 65 across the UK from 6 to 11 July 2017.

OVER-40s VIEWS OF	BETTER OVER-40	BETTER MID-20s
Financial security	62%	31%
Relationship	60%	24%
Healthier lifestyle	53%	37%
Happier	51%	35%
Retirement planning	45%	36%
Job	41%	36%
Fitter	17%	74%