Downton and Ali Associates

INVESTMENT VIEWPOINT

DOWNTON AND ALI ASSOCIATES

If you want to discuss how the details in this newsletter may affect your financial plan please contact us.

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Investing for the long term – lessons from the past

The emergence of COVID-19 brought a rapid end to the drawn-out recovery of major stock markets from the share price lows associated with the financial crisis a decade ago. When the scale of the threat to lives and livelihoods became apparent, market analysts and investors reassessed the global economic outlook and corporate prospects; they didn't like what they saw and a wave of selling followed, with inevitable consequences. Most share prices, and thus stock indices, were impacted.

Market analysts and investors aren't infallible, but when something like COVID-19 strikes they get nervous because closed borders, flight bans and lockdowns can pose a threat even to large companies, especially in exposed sectors. Axed dividends and distressed rights issues are anathema to the jittery; and the largest blue-chip companies aren't immune. Little wonder then that the 100 shares comprising the UK's blue-chip share index, the FTSE 100, rapidly lost about one-third of their combined value before regaining some composure.

Lessons from history

Created in 1984 with a starting level of 1,000 points to provide a wider index of leading shares quoted in London, the FTSE 100 largely superseded the narrower Financial Times 30-share index launched in 1935. As a barometer of economic outlook and corporate prospects, the FTSE 100 has gauged a few storms over the past 36 years. A chart of its progress reveals a plethora of spikes and dips, the starkest of which can be associated with key events in recent financial history.

Chart: **FTSE 100 from inception to March 2020**
https://tradingeconomics.com/united-kingdom/stock-market
Not the first FTSE 100 dip

After its launch on 3 January 1984, the FT's new share index only slipped very briefly below 1,000 points that year. It then made progress, sometimes faltering, to hit 2,000 points by March 1987, by then buoyed by the effect of the previous October's 'Big Bang' modernisation of the London Stock Exchange's trading structure. Six months of further upticks followed and the index broke through 2,350 in early October 1987. It would be two years before that level was attained again.

On 19 October 1987, the Monday after The Great Storm ravaged Southern England, global stock markets suffered a crash so severe that the day became known as Black Monday. A tsunami of selling, much of it blamed on new-fangled computer-program trading, rapidly took the FTSE 100 down to around 1,600, starting with an 11% drop on the Monday and 12% the next day.

The ascent of the 1990s

Share-price recovery was slow, hampered by a short UK recession in 1991-92 caused in part by high interest rates and an over-valued pound associated with efforts to keep sterling within Europe's exchange rate mechanism. After Chancellor Norman Lamont took sterling out of the ERM in September 1992, having spent billions and upped base rate to 15% trying to stay in, the index gained about 14% in six months.

As 1994 dawned, a decade on from its launch, the FTSE 100 stood at around 3,400; although then, as now, changes had been made to its constituent shares as companies' respective market capitalisations waxed and waned. Concerns about the economy and tax plans dampened sentiment and the index fell below 3,000 during the first half of 1994 before starting a five-year ascent to break the 6,000 barrier in the summer of 1998. After a 500% rise in 14 years, what came next for the FTSE 100?

A 1,000-point drop

High interest rates and other threats to UK economic growth and even talk of an impending recession brought a 1,000-point drop in the FTSE 100 in the autumn of 1998, almost all of it recovered by the year-end. General bullishness continued through 1999, which ended with the index nudging 7,000. As the year 2000 unfolded, a combination of overvaluation, epitomised by the rapidly inflating 'dotcom bubble', and a global economic slowdown brought further investor jitters.

The bull market had marched the FTSE 100 up the hill; the ensuing three-year bear market marched it back down again to around 3,600 in the spring of 2003. The index would take another five years to climb back above 6,500, where it was delicately poised for the next big shock: the 2008 collapse of US investment bank Lehman Brothers and the cascade of failures prompting what became known simply as 'the global financial crisis'. By March 2009, the index was down around 3,500 again.

Long term trend

It was a long haul back from there for the FTSE 100 but, after gyrations associated with various stages of the Brexit process, the start of 2020 saw it comfortably above 7,000. News of a new virus outbreak in an unfamiliar Chinese city seemed at first like a distant threat. As the outbreak turned into a pandemic, global markets faltered again and the FTSE 100 headed below 5,000 before recovering some of the loss. COVID-19 has brought a reset of the blue-chip barometer, the FTSE 100 index.

Despite a variety of market shocks and rebounds, the index still has a long term growth trend. It is important to remember that some market volatility is inevitable; markets will always move up and down. As an investor, putting any short-term market volatility into historical context is useful.

Financial advice and regular reviews are essential to help position your portfolio in line with your objectives and attitude to risk, and to develop a well-defined investment plan, tailored to your objectives and risk profile.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

OW2654 Exp. 27/04/21

Spreading the risk

Stock markets do not react well in times of uncertainty and the effects of the pandemic continue to pile pressure on financial markets worldwide. During periods of increased volatility, such as we have seen over the last few months, the importance of spreading risk and considering the longer term, remain constant investment principles.

Why diversify?

Adopting portfolio diversification means you do not put all your eggs in one basket. A balanced portfolio contains a combination of different asset classes, such as equities (shares), bonds, property and cash. Equities have the potential to deliver higher returns than bonds, but bonds can provide an element of capital preservation for times when a more risk-averse approach is required. You can also diversify your portfolio further through choosing different geographical regions and industry sectors.

Don't overdo it

While building diversity into an investment portfolio is undoubtedly important, try to guard against over-diversification. This could make your portfolio unmanageable and could mean you spread your investments too thinly, resulting in a detrimental impact on potential returns.

Holding your nerve

The pandemic has unsettled global markets and it has been an unnerving time for many investors. I's important to remember that stock market volatility is inevitable, and markets can often rebound quickly once immediate issues are resolved. Experienced long-term investors know that the worst investment strategy you can adopt is to jump in and out of the stock market and sell up when investments have hit rock bottom.

Diversification is key

We can help you to identify how much risk you are prepared to take and advise you how to achieve your long-term investment goals, through an appropriate balance of risk and reward. A sensible way to build a portfolio is through collective investment schemes with a risk profile to match your objectives and needs. We can advise on the investment strategies and products most appropriate for your own individual circumstances.

Shares and bonds

Property

Cash

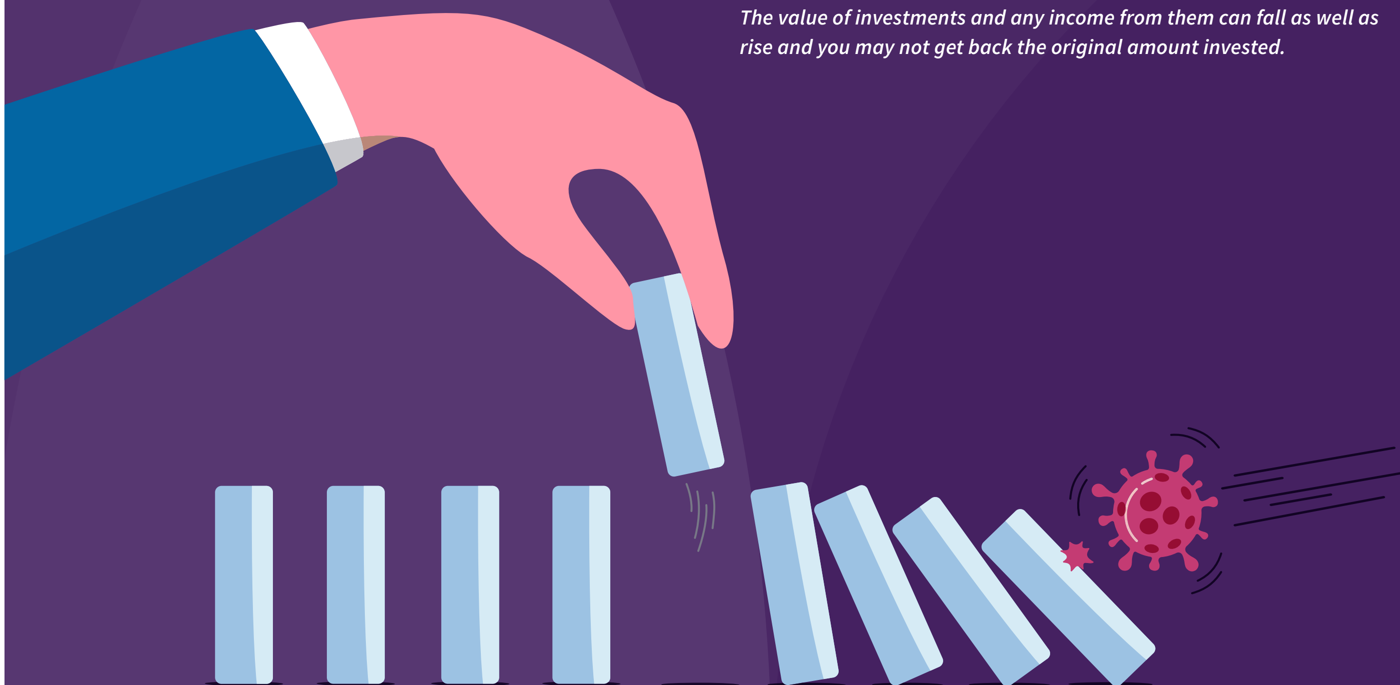
Location and sector

Keep in touch

Financial advice and regular reviews are essential to keep your portfolio in line with your attitude to risk and your objectives. This allows you to develop and continue to follow a well-defined plan.

Your circumstances or objectives may well have changed recently, so please don't hesitate to contact us with any questions or concerns you may have.

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.



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All about ISAs

In the 2020/2021 tax year, you can save up to £20,000 tax-free in an Individual Savings Account (ISA), and when it comes to your ISA investment, you have a number of options.

Investors comfortable with the slightly higher risk Peer to Peer lending can also now invest in an Innovative Finance ISA, and those aged 18 to 40 can open a Lifetime ISA.

Although you can't hold an ISA for anyone else, parents or guardians can open a Junior ISA and manage the account; but the money belongs to the child.

Put simply, an ISA is a tax wrapper for your money. There are two main types available depending on the level of risk you're prepared to take:

— Cash ISA
— Stocks and shares ISA

Withdrawing money

You can withdraw money from your ISA at any time without losing the tax benefits, but your ISA provider may have restrictions or ask you to pay a charge. It's worth contacting them to find out before you withdraw any money.

If you have a 'Flexible' ISA, you can withdraw cash and replace it in the same tax year without reducing your current year's allowance. For example

— The 2020/2021 allowance is £20,000
— You pay in £10,000 and withdraw £5,000
— If your ISA is flexible, you'll have a remaining allowance of £15,000
— If your ISA is not flexible, you'll have a remaining allowance of £10,000

Transferring your ISA

All ISA providers allow you to transfer your money to a different provider (or to a different ISA with the same provider). By transferring, rather than selling or reinvesting, you keep future tax benefits.

Here are the rules:
— You can transfer from one provider to another
— You can transfer money from one type of ISA to another ie, from a cash ISA to a stocks and shares ISA
— Money you have invested in an ISA in the current tax year must be transferred in full
— Money you have invested in previous years can be transferred in part or in full

You may not be able to transfer your ISA back to the original source.

If your investments are moved to us as cash, you'll be out of the market while your money is being transferred. You could miss out on growth/income if the market rises during this time.

Additional permitted subscription allowance (APS)

If you're married or in a civil partnership with someone who died on or after 3 December 2014 you can apply for APS, which means the surviving spouse or civil partner will have an increased ISA allowance:

If a person dies with £50,000 in an ISA;
— The remaining spouse can apply for APS
— In the 2020/2021 tax year they would have an allowance of £70,000 instead of £20,000.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

An ISA is a medium to long term investment, which aims to increase the value of the money you invest for growth or income or both.

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

OW1935 Exp. 05/04/2021