

Feature Article

Welcome to this latest edition of our newsletter!

Happy New Year to you and welcome to this latest edition of our newsletter.

In our first article this month, we reflect on the recent volatility in markets, which some analysts are forecasting will continue in 2019. We suggest a few ways in which you can ensure that your own reactions don't scupper your prospects for long term financial success. This is followed by some thoughts on why it just might be a good time now and important to take a hard look at your retirement planning.

Finally, there is our usual mix of content that we found on the web that we think will be of interest to you.

Best wishes!

Main Articles

Be on your best (financial) behaviour in 2019

2018 ended with a bit of a sting in the tail for investors, where we saw a lot of volatility in markets and a modest correction. While many analysts are forecasting single digit growth in 2019, they are also suggesting that 2019 may be another bumpy ride for investors with more volatility in markets. We fully recognise that volatility can cause uncertainty and lack of confidence for investors, but it's our job to help you to avoid making mistakes now that will hurt your long term financial future.



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Here are a few habits and behaviours that we believe will stand you in good stead throughout 2019, and will prevent you from making short term mistakes that will negatively impact you in the future.

Your financial objectives are paramount - keep them in mind

First and foremost, remember your investment objectives, and crucially *your investment timeframes*. In most cases, these are medium to long-term – at least they should be if you are invested in any sort of risky assets. These time frames are critical to your investment success. As we have seen in recent months, markets regularly experience short-term volatility. To try and forecast market movements and time this volatility usually results in further losses - none of us have a crystal ball. Research tells us time and time again that staying invested is the key to long-term success. Investors who look to sell out at the top and buy at the bottom usually miss both points, and often by very wide margins.

Keep saving

When short-term volatility happens, some investors are slow to commit more money to their investment strategies. This is effectively trying to time the market. It's important that you keep the faith! Keep investing, although talk to us about the best way to do this. It may make sense for you to employ a strategy such as "euro cost averaging". This is where you invest a fixed amount at regular intervals. This ensures that if markets are moving around, you are buying in to the market at various price points. As a

result you are not exposed to the risk of investing all of your money, to be followed closely by an immediate fluctuation.

Volatility is part and parcel of investing

Volatility is simply a feature of investment markets which go through periods of both calm and volatility, sometimes in line with the market cycle, at other times reacting to once-off events. At the end of 2018 we saw potential trade wars, Brexit and tech stocks losing their lustre among other factors that caused some jitters in markets. Times of volatility have historically proven to be bad times to make significant investment decisions, as strategies tend to be coloured by short-term factors. Don't let your emotions cloud your decision-making.

A diversified portfolio is key

A far more robust approach to investing is to stick to the asset allocation approach that was used in constructing your portfolio, as this is more likely to deliver long-term success. There are endless examples of investors chasing that one sure bet – technology companies in the late 1990's, bank stocks in Ireland and foreign property investments in the 2000's. All ended in tears. A key principle of successful investing is to stay diversified across asset classes, geographical regions and sectors. This will protect you against unforeseen calamitous events in a single area.

Look at what you've already achieved

While of course we are always at pains to point out that past performance is not a guide to future performance, at the same time it's sometimes worth looking back and seeing where you came from. This hopefully will give you confidence in the future! Look at an investment that you've had for a long time – this could be an old pension fund, a children's education fund or even your family home. Or for example, just look at stock market returns over any 10year+ time frame. With very few exceptions, the results are extremely heartening - often that policy that you haven't touched has been your stellar performer! This will give you a sense of how the passage of time is an investor's friend, and this will hopefully bolster your confidence to stick with a consistent investment approach throughout good and bad times.

Often it simply makes sense to sit down with an expert who will look dispassionately at your situation and reassure you, or guide you towards a change. We would be delighted to help you.

Important: Past performance is not a guide to future performance

5 reasons it's time to review your pension

At the start of a new year and as outlined in our other article this month, we all tend to take stock of how we manage our finances. We look at our financial habits, ways of saving money and managing our spending better. This is also a great time of year to take a hard look at our retirement planning, to ensure it is in the best shape possible.



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Here goes on five reasons why we think it's a good time now to do so.

The State Pension picture is far from rosy

Where do we start on this one! There is a lot of uncertainty over the long term viability of the state pension due to the fact that the ratio of people working compared to retired people is reducing from 5 to 1 today, to 2 working to 1 retired by 2050. As the numbers of those working reduces in relation to the numbers of pensioners receiving benefits, there will be less money coming in to the central government coffers, with more going out. Who is going to pay for the benefits, as the government actually hasn't

saved any money for future pensions?

In any event you can't rely on the state if you want any more than a subsistence lifestyle. The maximum state (contributory) pension is currently €243.30 per week for a single person and €442.30 per week for a couple. While this will increase marginally from March 2019 as announced in the most recent budget, it's not a lot of money if you fancy going on the odd holiday!

The state is looking to address this problem – we've already seen retirement dates and eligibility for state pensions pushed out. For anyone born in 1961 or later, they won't get their state pension until age 68. We're likely to see further such developments in the future. Could we possibly see retirement ages being pushed out further again, benefits being reduced / means tested or stricter qualifying conditions? Nothing can be ruled out.

The government has recently announced a move towards mandatory pensions to also help address the situation, so watch this space... The reality is that it's up to each of us individually to look after our own retirement needs, if we want a nice lifestyle to enjoy later in life.

Life Expectancy

We're all living longer now and can thank our healthier lifestyles, better diets and medical science for this! While this is certainly good news, it also comes with a price. If you live longer, you need a bigger nest egg to see you through these years. Savings in retirement will need to last on average for at least 20 years in retirement for female clients who are aged 66 and 17 years for males when they retire, based on current mortality rates. Indeed more and more people will now be retired for 30 - 35 years. What size of pension fund would you need to maintain your lifestyle for that period? Many people seriously under-estimate the size of their required fund to maintain a chosen lifestyle over such a long period of time.

It's time to take Control

Well it's probably quite obvious but the longer that you pay into a pension fund, the more you can expect to receive when you retire and the more likely you are to achieve your financial goals. Be realistic about how much it will take to achieve your goals. As a **very** rough rule of thumb, you should aim to save "half your age". So if you are 40 years old, you should aim to save 20% of your income each year from now until retirement to build up a decent fund. If you wait until you are aged 50 to start, you should then aim to save 25% of your income each year.

Of course, this is only a rough calculation. We will help you develop a far more tailored picture for you, taking account of any existing benefits that you have already built up, and will help you to implement a plan that is right for your particular circumstances.

Compound interest is your friend

The "Rule of 72" is a simple maths equation to determine how long an investment will take to double, given a fixed annual rate of interest. All that you have to do is divide 72 by the expected rate of return. The answer is the number of years it will take for the amount of money to double.

- If you are aiming for a return of (say) 8% p.a., it will take 9 years for your investment to double ($72/8\% = 9$ years)
- However if you are more cautious, you may only be aiming for a return of (say) 3% p.a. In this case it will take 24 years for your investment to double ($72/3\% = 24$ years).

So starting early, having the opportunity to take on a bit more risk in the hope of achieving higher returns and then having the benefit of time can have a seriously positive impact on your pension fund. It really is a case of starting sooner rather than later.

Then there's the question of how to achieve higher growth rates. First of all, a long-term perspective is critical, particularly if you are investing in the likes of stock markets. For example, according to historical records, the average annual return for the S&P 500 since its inception in 1928 to 2017 is approximately 10% p.a. Now there have been a number of crashes along the way and of course previous returns are not a guide to future performance, but they give a sense of what can be achieved over a long timeframe when one is willing to accept a level of risk.

And then there's the Tax Benefits

Clients who are paying income tax at the higher rate of 40%, effectively receive a 66% increase on their pension contribution when investing, i.e. by foregoing €6,000 in net pay, €10,000 is invested in your pension. Pensions are pretty much the final frontier for such generous tax reliefs. Also any contributions

paid before 31 October next can be used to reduce your **2018 tax bill**. This applies to contributions to personal pension plans (e.g. PRSAs, Retirement Annuity Contracts) and employment pension schemes (i.e. AVCs – Additional Voluntary Contributions).

In addition to tax relief on contributions and your fund growing free of any tax (DIRT, CGT etc.), clients can also avail of a tax free retirement lump sum up to €200K. In most circumstances, a structure (Approved Retirement Fund – ARF) can also be put in place at retirement that enables tax efficient wealth transfer on death to your estate of any remaining fund.

There's 5 good reasons to review your pension now. Please give us a call and let us help you achieve the lifestyle that you want in retirement.

Around the Web

20 financial New Year's resolutions for 2019

Here are 20 money resolutions to consider.

Three Reasons You're Never Satisfied

Everyone says they'd be contented if they only had 2 to 3 times more wealth.

Can anyone retire in their 30s? Meet the people who say yes

There is a huge online movement dedicated to working out how to quit your job ridiculously early. But are its fans merely cashing in on good luck and well-paid jobs?

The case for separate (but combined) finances

In the world of personal finance, the subject of how couples share (or don't share) their money comes up time and time again.

What to Do With Your Money in 2019 According to Financial Advisors

To prevent those costly financial blunders, we asked some financial advisors and professionals what clients tend to get wrong.

International Outlook: Are we nearing peak pessimism?

The relative outperformance of U.S. stocks compared with their non-U.S. brethren is at the highest level in history.

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