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Nugenis News

May 2023



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People News

A New Addition to the Paraplanning Team



Albert Maunga joined Nugenis at the start of April becoming the newest member of our Paraplanning Team.

Albert has 7 years' experience in the financial services sector, and worked as a senior customer service administrator, pension administrator and paraplanner.

He has completed the level 4 Diploma in Financial Planning and is now looking to start working towards the Advanced diploma.

Outside of work Albert's daughter keeps him on his toes, and he also has an allotment where he grows vegetables.



Other News

Credo Quarterly Periodic Statements

You will shortly receive your normal Quarterly Periodic Statements for the period 1st of January - 31st of March 2023. These will be issued to clients as we have done previously.

If you have any questions, please speak to your Nugenis financial planner.

May 2023

Market overview

After a volatile, if ultimately positive, first quarter for markets April proved to be a quieter month.

Inflation and the likely path of central bank policy remains the key driver of markets. US inflation has fallen to 5% from a peak of 9.1% last year, and market expectations are now of one final 25 basis point rise in May before the Federal Reserve pauses and then potentially begins loosening into next year. While a significant (c2%) step down in UK inflation is expected shortly, driven by a favourable 'base effect' on fuel prices, the UK continues to face more acute inflationary pressures than almost any other developed country. Rising food and drink prices are currently weighing heavily on the UK, as is continued strong wage growth which is impacting the services sectors in particular.

The comparison between the inflation rate trajectory in the UK and US since last summer is therefore a stark one, however markets are anticipating a similar final 25 basis point rise from the Bank of England next month, albeit there is less consensus on how quickly policy may change. The dilemma that the Bank of England (and other central banks) faces is that there is typically a lag in the economic effect of rate rises, and it is likely that the full impact has not yet been seen on either the consumer or the corporate world.

Markets are also focusing on the earnings outlook as the first quarter results season moves into full flow. Given recent concerns in the financial sector stronger than expected results were welcomed and, to date, corporate earnings announcements more widely are continuing to prove more resilient than expected and markets are reacting reasonably favourably.

Fixed income markets are also going through a more settled period driven by moderating inflation and greater clarity around the end of central bank monetary tightening cycles. Resilience in the corporate sector and reduced fears around recessions are also providing support to credit and higher risk areas of fixed income markets.

Strategy Positioning

Our base case remains for inflation to fall to more comfortable levels for central banks over the course of this year, potentially allowing them to loosen policy into 2024, which should provide support for risk assets.

Our view remains that recessions this year, where seen, will be relatively mild and that 2024 will bring quite a strong recovery in both economic and earnings growth. Given that valuations do not look stretched this backdrop leads us to favour equities as the asset class most likely to provide the strongest real returns on a medium-term view. Our assessment leads us to skew exposure to the US and Asia which we expect to provide the strongest and most resilient growth profile going forward, plus specific sectors that provide the prospect of superior earnings growth, notably infrastructure and sustainable energy. Given our expectation of inflationary pressures receding and of key central banks becoming more dovish over the course of this year we see investment opportunities in both government and corporate bonds and we have added targeted exposure to where we see most value in recent weeks.

Numerous potential risks to markets do remain however and, where relevant to the mandate, we continue to believe that low risk, uncorrelated alternatives strategies have an important role to play in portfolios.



The importance of risk profiling in financial planning

Risk is a hugely important factor in good financial planning. The fear of taking too much risk can deter people from making investments, but taking too little risk can result in your savings being eroded by inflation. That's why building and maintaining an accurate picture of your personal attitude to risk is crucial when making decisions on your long-term finances.

Most decisions in life involve some form of trade off as – consciously or otherwise – we are balancing the potential pros and cons of taking a particular action. When it comes to investing the trade-off is that, broadly speaking, the more risk we take, the more we could get back. Conversely, the less risk we take, the lower the returns we're likely to get.

Financial planning is about ensuring you have enough money to afford to do the things you want to do throughout your life. The last thing anyone wants is to be constantly worrying about the performance of their investments. That's why it's so important to build and, just as importantly maintain, an accurate picture of the level of risk you are willing and able to take. Get your risk profile wrong, or fail to assess it at all, and there's a good chance you'll find yourself with investments that are unsuitable for you.

The recent market volatility and the impact of rising inflation and interest rates offered the latest reminder that our investments need to be aligned with the level of risk we're willing and able to take. We cannot control the many variables that affect movements in stock and fund prices, but we can make fairly sure that we don't have money in investments that either leave us more exposed to losses than we're comfortable with, or with too little growth to reach our objectives.



PROFILE PICTURE

An investor's risk profile tells us about their appetite for risk and capacity for loss.

Your appetite (or tolerance) for risk is about the level of risk you feel comfortable taking. How worried would you be if your investments saw a sudden drop? The answer might depend on how much money you have invested, what proportion of your assets that represents, if you have other sources of cash, and whether you're building your savings pot or taking an income in retirement.

This is why measuring capacity for loss is also important. This looks at the amount of risk you can afford to take without jeopardising your financial stability. By setting your assets and income against the lifestyle you want we can determine how severely impacted your finances would be by fluctuations in your investments.

A suitable portfolio will reflect not just your willingness to take investment risk, but also your ability to do so. Indeed, any investor's portfolio and broader financial plan will be determined to a significant degree by their risk profile.

Put like that, it's easy to see why embarking on an investment journey without an understanding of your risk profile would not be a good idea. As Financial Planners we therefore place a lot of importance on making sure we accurately measure each client's risk profile and keep it updated over time.

With the financial services regulator taking a much closer look at investment suitability over the past few years, getting the risk profile right has become an even bigger part of a Financial Planner's role. These days we have access to a range of increasingly sophisticated tools and software that help us assess a someone's risk profile and investment suitability. We can develop a detailed picture of your appetite for risk to form the basis of your tailored financial plan and ensure that we build the right portfolio for you.

TAKING YOUR INVESTMENT PULSE

A thorough risk measurement process will ask a wide range of questions in order to develop an accurate snapshot of an investor's risk profile at that particular time.

The process will initially involve a questionnaire that focuses on your attitudes, emotional response to risk and past behaviours. It will ask questions about factors such as your investment time frame and objectives, any previous investment experience, your tolerance to loss, income and outgoings and the proportion of your assets being invested. That questionnaire will generate an initial profile, which is then discussed with you by your Planner to ensure that the results are as accurate as possible.

Improvements in risk profiling in recent years have made the measurement of risk appetite increasingly accurate, taking into consideration a range of psychological, behavioural and attitude factors.

Cashflow modelling can come in handy here too. This is the software we use in certain cases to map out a client's financial future under a range of scenarios, demonstrating the effect of variables such as inflation, interest rates and different levels of growth, as well as the impact of taking less or more investment risk.

We can use various cashflow models to estimate how much money you might need at certain points in the future, helping us create a forecast of your long-term financial needs and how they might be met. All of this can help establish a risk profile that can then be used as a basis for identifying suitable investments and the appropriate mix of assets within your portfolio.



A MOVEABLE FEAST

A person's risk profile will invariably change over time. Over the long term, our risk tolerance will be affected by major life events, such as marriage, children, divorce, serious illness or the death of a loved one. Often investors will also need to reduce their exposure to risk as they get older as they will have less time in which to recoup any losses that may be incurred.

Studies have found that typically our risk appetite gradually falls with age. A 2017 academic paper, Risk Attitudes across the Life Course, found that this happens regardless of factors such as wealth, income and education[1], while Neuroanatomy accounts for age-related changes in risk preferences in 2016 suggested that age-related shifts in risk appetites might be linked to changes in our brain anatomy over time[2].

Our capacity for loss is more movable in the short and medium term, as it can fluctuate according to market movements, investment goals and changes in financial circumstances. For both, it's essential to take a regular snapshot of your risk profile to guard against having an investment portfolio that no longer matches your appetite or capacity for risk.

Here to help

The risk profiling process might seem daunting, or perhaps unnecessary and repetitive, but with a regular review we can make sure you're taking the appropriate level of risk with your investments so that you can be comfortable with your long-term financial plans.

If you would like to discuss your risk profile in further detail please speak to your Financial Planner or contact our office.

The value of your investments and any income derived from them will rise and fall, and is not guaranteed. Past performance is not a reliable indicator of future performance, and you could receive back less than you invested.

[1] Risk Attitudes Across The Life Course, Thomas Dohmen, Armin Falk, Bart H. H. Golsteyn, David Huffman and Uwe Sunde, The Economic Journal, 2017, <https://academic.oup.com/ej/article-abstract/127/605/F95/5069461>

[1] Neuroanatomy accounts for age-related changes in risk preferences, Michael A. Grubb, Agnieszka Tymula, Sharon Gilaie-Dotan, Paul W. Glimcher and Ifat Levy, Nature Communications, 2016, <https://www.nature.com/articles/ncomms13822>

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