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INSIGHT

ISSUE 8

YOU DO THE BUSINESS AND WE TAKE CARE OF YOUR BUSINESS

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MARKET MATTERS

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APPETITE FOR RISK

Striking the right balance is important to avoid losses

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BUCKLEYKIELY
WEALTH MANAGEMENT
Independent Financial Advisors

WELCOME

Welcome to the latest issue of *Insight* from Buckley Kiely Wealth Management.

The UK's exit from the European Union after 43 years is now set to happen. The vote by a majority of British people to leave the European Union on Thursday 23 June represents a very significant decision for the UK, for the European Union and indeed for the wider global economy. The Brexit announcement is expected to have an immediate negative consequence for the British economy and the likely spill-over effect will impact on Ireland. Exactly how big that effect is going to be is hard to tell. On page 03 we look at the events as they happened.

'Will I be able to afford the retirement lifestyle I want?' is a question that many people ask but struggle to figure out. Turn to page 05 to consider the many ways available to assess your likely income in retirement and work out how much you need to put away now to enjoy the kind of lifestyle you want in later life.

While diversification is important, you should keep in mind how much risk you are prepared to accept on your money. If it is important to you to avoid losses, you may want a portfolio that has less in shares and more in cash and fixed interest securities held to maturity, for example. Read the full article on page 06.

The full list of the articles featured in this issue appears opposite. We hope you enjoy reading this issue and find it informative. To discuss any of the articles featured, please contact us.

Kind Regards,
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Contents

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The UK's exit from the European Union after 43 years is now set to happen. The vote by a majority of British people to leave the European Union on Thursday 23 June represents a very significant decision for the UK, for the European Union and indeed for the wider global economy. The UK voted to leave the EU by 52% to 48%.

REFERENDUM TURNOUT

The 'Leave' campaign won the majority of votes in England and Wales, while every council in Scotland saw Remain majorities. The referendum turnout was 71.8%, with more than 30 million people voting. It was the highest turnout in a UK-wide vote since the 1992 general election. For the UK to leave the European Union, it has to invoke an agreement called Article 50 of the Lisbon Treaty.

The Prime Minister, David Cameron, announced on Friday 24 June he would be stepping down as prime minister, and he or his successor will need to decide when to invoke Article 50 which sets in motion the formal legal process of withdrawing from the European Union and gives the UK a period of two years to negotiate its withdrawal.

ADJUSTMENT IN THE UK ECONOMY

On Monday 27 June, the Chancellor of the Exchequer, George Osborne, said that the UK is ready to face the future 'from a position of strength' and indicated there will be no immediate emergency Budget. He also said there would still need to be an 'adjustment' in the UK economy.

However, Mr Osborne said it was 'perfectly sensible to wait for a new prime minister' before taking any such action. He also said that only the UK could begin the process of leaving the EU by triggering Article 50 of the Lisbon Treaty.

IMPACT ON IRISH EXPORTS

The value of sterling fell to a 31-year low as the effects of Brexit unfolded. Sterling dropped past $1.32 to $1.3192, its lowest since mid-1985, taking losses to 11.8% since the 23 June vote. It is safe to assume sterling will remain very weak for a considerable period which will make Irish exports to the UK more expensive and our imports from Britain cheaper.

A low pound will impact on some industries more than others. However, farming and agri-food exports are particularly exposed, with 52% of Irish beef going to the UK, 60% of cheese exports and 84% of poultry.

IMMEDIATE NEGATIVE CONSEQUENCE

The Brexit announcement is expected to have an immediate negative consequence for the British economy and the likely spill-over effect will impact on Ireland. Exactly how big that effect is going to be is hard to tell.

The latest analysis of the Government suggests it could knock between €1.1 billion to €2.7 billion off Ireland Gross Domestic Product. The ESRI has estimated it could reduce Ireland's GDP by between 0.5% and 1.6%.

RECENT SELLING PRESSURE

The Irish bond market has seen more recent selling pressure although the cost of borrowing for Ireland remains relatively low. Brexit could add to Ireland's cost of borrowing.

Estimates indicate that the Brexit result could mean Irish – UK trade relations has a negative impact of about 20%. With no clarity on whether there will be tariffs, signing a contract with a British customer could be difficult.

EXTRA COST ON BUSINESSES

The imposition of border controls would also act as an extra cost on businesses and could delay the transport of goods to and from the UK. That will cost Irish companies money.

Some foreign investment however earmarked for the UK may now come to Ireland which could take the form of financial services companies relocating to Ireland. But it could also see more investment in Irish commercial property originally intended for the UK. ■

PROFESSIONAL FINANCIAL ADVICE

At Buckley Kiely Wealth Management we understand there will be opportunities – as well as pitfalls – as a result of the UK Referendum 'Leave' result. During any period of uncertainty, expert professional financial advice is at its most important, so if you are concerned about any aspects of Brexit on your finances or business, please contact us.

MARKET MATTERS

Brexit outcome was a surprise compared to investors' expectations

The initial market reactions post the Brexit referendum result to leave the EU was negative with Japanese equities down some -7.9 (approximately -3.5% in €) while other Asian markets were down in the region of 4/5% (-2/3% in €). UK equities fell -4.5% (-9.5% in €) compared to the futures market indicating falls of up to 10%.

European equities also fell and were down approximately -7%. The US equity market opened down -2.5% after earlier indications in the futures market of being down -4%. Sterling fell -7.7% against the US dollar to 1.365 having hit its lowest levels since 1985 on Friday 24 June and fell approximately -5.5% against the Euro to 0.809. The Euro was down -2.8% against the US$ to 1.103.

EQUITY MARKETS

Overall, while remaining weak, equity markets did not deteriorate further from their opening levels or early morning indication levels on 24 June. German 10 year bund yields fell to new record lows of -0.16% although rebounded to -0.07% while peripheral spreads against Germany widened to approximately 160bps, up 30bps on the day having widened earlier to a peak of 200bps, the highest levels since early 2014.

Markets are expected to remain volatile in the short term and may take some time to settle and find levels where they stabilise. The initial market reactions appeared close to what would appear justified on a fundamental basis but given the outcome was a surprise compared to investors' expectations immediately prior to the vote, some additional market weakness could be possible from current levels although should be limited.

INVESTMENT ACTIVITY

The outcome of the referendum is expected to result in a significant slowdown in UK economic growth with a recession possible over the next year as consumption and investment activity are likely to be reduced. It is possible that the London financial industry could be particularly negatively impacted by the lack of access to European markets post the exit with many international operators indicating prior to the vote that they would reduce their London presence if the vote was to leave the EU.

The economic impact on Europe post the expected slowing in UK growth is expected to be in the region of -0.2/0.4% over the next year, resulting in still positive but modest growth of around 1/1.5%.

GLOBAL GROWTH

The lower growth outlook across the UK and Europe an expected flow through to global growth given the associated levels of uncertainty limits the scope for any significant recovery in equity markets, notwithstanding any policy monetary or fiscal responses.

Ireland is seen as one of the more sensitive European economies to slower UK growth with around 15% of Irish exports to the UK. Some offset however could be evident with a possible redirection of Foreign Direct Investment previously intended for the UK to Ireland. The impact on Irish GDP growth could be in the region of -0.5%/1% which would leave Irish GDP growth still relatively strong at about 4%.

STRONG FUNDING

The National Treasury Management Agency has said it will continue to monitor developments in bond markets and has highlighted its strong funding activity already year to date. Over the medium to longer term, the vote raises questions about the long term future of the EU and Eurozone with the possibility that other countries may at some point in the future seek referendum to vote on their membership of the EU.

These are not expected in the short term but much will depend on the response of the EU itself as to how it plans to improve integration and co-operation among remaining members of the EU. ■

ARE YOU FIT TO RETIRE?

Getting your pension in shape to enjoy the kind of lifestyle you want in later life

'Will I be able to afford the retirement lifestyle I want?' is a question that many people ask but struggle to figure out. There are many ways to assess your likely income in retirement and work out how much you need to put away now to enjoy the kind of lifestyle you want in later life.

TOO COMPLICATED TO THINK ABOUT

Funding a comfortable retirement will be the biggest financial priority for many people, yet some people spend more time planning their holiday than their own retirement – perhaps because planning for retirement seems too complicated to think about?

We know that we want an active, comfortable retirement but often don't know where to start the savings and investment process. The starting point is to obtain professional financial advice and set a plan in motion that is reviewed at least annually to enable you to build the future retirement you want.

KEY CONSIDERATIONS FOR MOST PEOPLE

Everybody's circumstances are different, but the key considerations for most people when they think about retiring will come down to factors such as whether they're renting, paying a mortgage, have any debt, plan to keep working, and how much money they have saved in pensions and other investments. Typically people estimate that living reasonably comfortably in retirement requires around 50% to 60% of the income they had while they were working.

It's also important to bear in mind that your life changes when you retire – and so does the way you spend your money. The increases in the cost of living with inflation are another important consideration.

START SAVING FOR YOUR PENSION EARLY

If you start saving for your pension early in your working life, it may be difficult to predict what your needs will be when you retire. Ideally, you should aim to put away as much as you can afford, but don't worry if it's not as much as you'd like to start with. It can be better to save small amounts that have a long time to grow in value. As your income improves, you may be able to increase how much you put away for your pension.

If you've started to save later in your working life, you may have a better idea of what your circumstances are likely to be, which can make it easier to work out what level of income you'll need for your retirement. However, you'll have less time to save it up and the amount of money you'll need to save may be higher.

ACHIEVING FINANCIAL FREEDOM

Saving for retirement is essential if you want the financial freedom to enjoy your later years. Things to consider include:

1. Deciding how much money you want each year in retirement
2. Calculating how big your pension pot needs to be to give you that income
3. Working out how much you should be saving today in order to build that kind of pension pot value

KNOW YOUR NUMBER

Next, you want to work out how big your pension pot needs to be in order to achieve the retirement income you want. One rule of thumb is to take the annual retirement income you'd like – let's say it's around €50,000 based on the above – and then multiply that by 20. So in this example, to achieve a retirement income of €50,000, you'd need to build up a pension pot worth in the region of €1,000,000.

No matter what age you are, planning for your retirement or making sure your pension is on the right track should be a priority. As a nation we are living longer so the need for a realistic retirement plan is very important. Also the State Transition Pension was abolished in January 2014, thereby increasing the pension age to 66. The state pension age is due to increase further to age 67 in 2021 and 68 in 2028. There's never been a better time to start or review your pension. ■

NEED TO BOOST YOUR FUTURE RETIREMENT INCOME?

There are a number of things you can do to boost your future retirement income, wherever you currently are in the planning process. Everyone's retirement needs are different, and planning for your retirement is just like any other kind of budgeting you have to do: it requires calculating some numbers, implementing a plan and continually reviewing it until you reach your goal. To review your current situation or to obtain further information, please contact Buckley Kiely Wealth Management.

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS. THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION, WHICH ARE SUBJECT TO CHANGE IN THE FUTURE.

APPETITE FOR RISK

Striking the right balance is important to avoid losses

While diversification is important, you should keep in mind how much risk you are prepared to accept on your money. If it is important to you to avoid losses, you may want a portfolio that has less in shares and more in cash and fixed interest securities held to maturity, for example.

KNOW YOUR RISK APPETITE

Saving and investing involves a variety of risks, for example the risk your money will not keep up with rising prices (inflation risk), the risk that comes with share prices going up and down (volatility risk), the risk that an institution will fail (default risk), and the risk that you could have earned better returns elsewhere (interest-rate risk).

The aim is to strike a balance between these different risks. What is a good balance for you will depend on:

- your personal circumstances – how much you can afford to lose (your capacity for loss)
- your investment goals, time frame and need for returns
- your personal attitude to risk

Taken together these make up what's called your 'risk appetite'. Of these three things your capacity for loss and your investment goals are most important. Personal attitude to risk is hard to measure and can be changeable, what feels comfortable one day may not the next.

HOW TO ASSESS YOUR RISK APPETITE

The following steps should be considered when deciding your risk appetite:

KNOW WHAT YOU CAN AFFORD TO LOSE

Ask yourself what would happen if you lost some or all of the money you're putting into investments. This will depend on your circumstances and how much of your money you're investing.

Think about people who depend on you financially and any other important financial commitments you need to be sure of meeting.

WORK OUT YOUR GOALS AND TIMINGS

Your saving and investing choices will depend on your goals and timescales. The bigger your goal in relation to the assets or income you wish to invest, the greater the rate of return required to beat inflation and hit your goal. Taking no volatility risk at all may make your goals impossible to achieve, taking too much may lose you your investment.

Short-term goals – under five years – such as a car or a house deposit are best saved for in cash. If you have a short-term goal your appetite for volatility risk would usually be low and cash products will be the best place to invest. You don't want to be worrying about the state of the financial markets when you need your money to be readily accessible. However, cash savings run the risk of not keeping up with rising prices (inflation risk)

INFLATION-BEATING RETURNS

With longer-term goals, it's more usual to put your money into investments that have a better chance of giving you inflation-beating returns, such as shares, but which carry the risk of prices going down. A longer time frame gives your investment more time to recover if it falls in value. So if you have a long-term goal it makes sense to be prepared to take on volatility risk for the opportunity of higher returns.

However, as a long-term goal moves closer the risk balance should change. For example, you may want to start moving into less volatile assets a few years before the goal date, to start 'locking-in' gains, and to protect your investment against events like market falls. At any one time you may have a mixture of short-term or critical goals for which you want low volatility (such as saving up to move house), and some non-critical or long term goals for which you have a higher appetite for volatility (for example, saving towards retirement).

UNDERSTAND YOUR PERSONAL RISK ATTITUDE

A good way to manage risk is to spread your money across a range of different investment types. Risk attitude is subjective and is likely to be influenced by current events or recent experiences. When stock markets are rising we tend to feel comfortable with market risk, when they are falling we do not.

Most people are not comfortable with the idea of losing money. On the other hand we may regret it if we've been very cautious and our long term investments don't produce the returns we need. You can keep risks in line with your risk appetite by spreading your money across a range of different investments. ■

IS TIME TO DISCUSS YOUR REQUIREMENTS OR REVIEW YOUR CURRENT PORTFOLIO?

It's important to evaluate and adjust your investment strategy regularly. The products you use and the percentage of your portfolio they comprise will change over time as a result of market conditions, investment performance, and other factors. We provide the professional advice, and ongoing service needed to help you achieve your financial goals and keep your investments on track. To discuss your requirements or to review your current portfolio, please contact a Buckley Kiely Wealth Management adviser – we look forward to hearing from you.

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PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

ADVICE WITH YOU IN MIND

One of the most important relationships you may ever have

Few people really have the time to understand the significant number of financial products on the market at any time. If you're looking to invest, buy a protection product or plan for the longer term, expert professional financial advice is essential to help enable you to create a financial plan that is realistic.

At Buckley Kiely Wealth Management we understand that one of the most important relationships you may ever have is the one with us. Our advice process allows you to assess your financial goals, investment time frame and tolerance for risk, and to monitor these over time. In addition, we'll also provide guidance in times of market downturns and personal financial stress, ensuring that your strategy is tailored for your changing needs and circumstances.

INVESTMENT CHOICES

With a vast array of products and information available, the thought of wading through them and choosing an investment can be quite daunting. In addition, considering the busy lives we lead, it can be difficult to find the time to keep fully up to speed with everything that's going on. We help you to make an informed decision based on your investment objectives, understand which products are available and select the best options to suit your investment needs.

RISK AND RETURN

Investing is as much about managing the potential downside as it is about looking for potential gains. Typically, investments with the potential for a higher return also carry a higher risk due to the more volatile sectors and regions that are targeted. We explain the risk and return trade-off and gauge your attitude towards risk for return. From this, we can ensure that your portfolio has the right balance of risk by diversifying across regions, providers and products as appropriate.

EXTRACTING INFORMATION

Understanding the jargon used within the financial industry and extracting the important information can be difficult and time-consuming. We help you to translate current events and bring out hidden facts in seemingly endless product literature. So whether you want to understand the implications of interest rate increases or a change in pension freedoms legislation, we'll discuss how each issue could directly affect you.

CONTINUAL REVIEWS

As time passes, both markets and your lifestyle can change dramatically. This consequently means that it is important to keep your investments under continual review so that you can get the most out of them. Anything in your life, such as your age or personal situation, could potentially affect the requirements you have for your investments. We'll assist in reviewing and, if necessary, adjusting your portfolio to help it meet your evolving needs.

UNFORESEEN EVENTS

With markets constantly on the move and the likely fallout from the UK Brexit result expected to last for years to come, the need for ongoing adjustments to your investments has never been more important. Taking this important responsibility off your hands and putting it with Buckley Kiely Wealth Management can help you to feel more confident that your investments are in the most suitable place for your individual requirements. ■

ARE YOU BUILDING THE FUTURE YOU'VE DREAMED OF?

Whether your plan is to retire comfortably, put your children through university or protect your loved ones, we can help you to build the future you've dreamed of for you and your family. If you would like to discuss any areas of your financial well-being, please contact us.

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