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ISSUE 12

INSIGHT

YOU DO THE BUSINESS AND WE TAKE CARE OF YOUR BUSINESS

INVESTING AND INFLATION

Safeguarding the purchasing power of your money over the long term

INVESTMENT WISE

Learning from the past and understanding the present

MAKING A DIFFERENCE TO YOUR FINANCIAL FUTURE

Are you taking the right steps to make sure you're prepared for retirement?

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BUCKLEYKIELY
WEALTH MANAGEMENT
Independent Financial Advisors

WELCOME

Welcome to the latest issue of *Insight* from Buckley Kiely Wealth Management. Rising inflation is a concern to investors, as changes in inflation and interest rates affect various asset types in different ways. This is an especially important issue for retirees living on a fixed income and is a subject many Buckley Kiely Wealth Management clients contact us to review and alter portfolios accordingly. We look at this in more detail on page 03.

The key to successful investing isn't predicting the future, it's learning from the past and understanding the present. To give your money its best opportunity to grow, whether you're just starting to build a portfolio or looking to rebalance an existing one, on page 06 we consider some of the key questions you need to consider to nurture your wealth. Retirement may not be a priority right now, but it'll come round quicker than you think.

At Buckley Kiely Wealth Management, we can help you take the right steps now to make sure you're prepared for the retirement you want. One element of provision to fund your retirement is the State Pension (Contributory). This is paid to people from the age of 66 who have enough Irish social insurance contributions. It is not means-tested; you can have other income and still get a State Pension (Contributory). This pension is taxable, but you are unlikely to pay tax if it is your only income. The State Pension (Contributory) was previously known as the 'Old Age Contributory Pension' up to 28 September 2006. The full article can be found on page 07.

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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INVESTING AND INFLATION

Safeguarding the purchasing power of your money over the long term

Rising inflation is a concern to investors, as changes in inflation and interest rates affect various asset types in different ways. This is an especially important issue for retirees living on a fixed income and is a subject many Buckley Kiely Wealth Management clients contact us to review and alter portfolios accordingly.

If inflation was 4% a year for ten years, prices would increase by 48%. You'd need €148 to buy goods that had cost just €100 ten years earlier.

INFLATIONARY PRESSURE

There are a number of different factors which may create inflationary pressure in an economy. Rising commodity prices can have a major impact, particularly higher oil prices, as this translates into steeper petrol costs for consumers.

Stronger economic growth pushes up inflation too, as increasing demand for goods and services places pressure on supplies, which may in turn lead to companies raising their prices. The aim of investors is to grow their money at a rate that will meet their goals and comfortably exceed inflation.

RETURNS COMPOUND

Although more volatile, stock market investments have historically performed well, benefiting from the earnings of companies usually rising along with inflation and when dividends are reinvested. It is these dividends that help in the battle to beat inflation, particularly when returns compound.

Although rising inflation is eating away at the nation's savings, the reality is many people don't know how to fend it off. A gap in consumer awareness over how some can protect their savings from inflation could mean many people will see their wealth simply drain away.

WAGE GROWTH

Over the long term, this could threaten to leave people financially worse off in retirement, especially when combined with ultra-low interest rates and stagnant wage growth.

Inflation is bad news for savers, as it erodes the purchasing power of your money. Low interest rates also don't help, as this makes it even harder to find returns which keep pace with rising living costs.

LESS ATTRACTIVE

Higher inflation can also drive down the price of bonds. These become less attractive because you're locked in at interest rates that may not keep up with the cost of living in years to come.

One option is index-linked gilts, which are government bonds whose interest payments and value at redemption are adjusted for inflation. However, if they are sold before their maturity date, their market value can fall as well as rise and so may be more or less than the redemption value paid at the end of their terms.

BETTER PROTECTION

Investing in equities can potentially provide better protection against inflation than deposit accounts or bonds which aren't index-linked, because companies can raise prices to cover higher costs, which in theory should enable them to grow at the same rate of inflation over time.

Reinvesting dividends is one of the most powerful tools available to an investor to increase returns over time. When purchasing equities, investors can elect how they will receive any future dividends. They can choose between receiving the cash, or instead using that money to repurchase more company shares.

COMPOUNDING INTEREST

When opting for reinvestment, this triggers the start of a process Albert Einstein called the 'eighth wonder of the world' – the miracle effect of compounding interest.

Compound interest, put simply, is interest on interest, and it can help an investment grow at a faster rate.

SHAREHOLDER VALUE

By reinvesting dividends, you give your equity holding the potential to earn even more dividends in the future. The value of compounding increases over time, accelerating shareholder value, especially when share prices increase.

You should always try to hold some of your money as cash. But if you keep all of it in a savings account, inflation can eat away at it – especially when interest rates are low – so over time, a given amount will buy less and less. ■

PREPARING YOUR PORTFOLIO FOR INFLATION

Investing is one way of trying to beat inflation, as it gives your money the potential to grow at a higher rate than cash over the medium to long term (at least five years). As with any investment, the value of your fund can go up or down and may be worth less than what was paid in. To discuss your particular situation, please contact Buckley Kiely Wealth Management on +353 (0) 21 4350777 or email wealth@buckleykiely.ie.

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MARKET COMMENTARY

Outlook for commodity-based economies remains favourable

Financial markets consolidated in April with mixed results across regional equities and small positive returns for fixed interest – notably, for UK investors, index-linked gilts.

While the S&P 500 rose 21 to 2,384 and the FTSEurofirst 16 to 1,519 – both reflecting strong corporate results – the FTSE 100 fell 119 to 7,203. UK mid cap companies bucked the trend with the FTSE 250 gaining 644 to 19,615 – its high for the year. Asian and emerging markets also gave back some of their recent gains.

Hopes of a fiscal boost leading to a significant acceleration in the US economy have faded. While tax reforms should provide some additional stimulus, these will be more modest than anticipated, are unlikely to be agreed until later this year and will not be implemented until 2018. Despite weak Q1 GDP – reflecting inventory de-stocking and the impact of mild weather on utilities – the rest of 2017 should see modest growth of 2.1% supported by the favourable financial backdrop and a strong jobs market. The Federal Reserve is on track to raise interest rates again in June and September as part of the process of normalising financial conditions. Providing the economy continues to strengthen, this is unlikely to derail the recovery.

In contrast, Chinese Q1 GDP accelerated to 6.9% year-on-year. However, the subsequent slowdown in the latest purchasing manager indices supports our view that growth in both the manufacturing and service sectors will decelerate over the rest of the year resulting in GDP of 6.6% for 2017. Although interest rates remain unchanged, monetary conditions have been tightened significantly by cutting central bank liquidity, regulatory tightening and improved enforcement. The policy mix is aimed at balancing the need to dampen property speculation while maintaining currency stability against the dollar. Other advancing economies are also performing well, with growth in India expected to increase marginally as the impact

of demonetising large denomination notes fades. Korea and Taiwan continue to benefit from the recovery in exports.

The outlook for commodity-based economies remains favourable. Last year saw strong commodity price gains as China experienced a housing boom and energy and mining sectors achieved a better supply/demand balance. This year, slowing Chinese demand has impacted iron core and copper, but the steady improvement in global manufacturing purchasing manager indices since mid-2016 to multi-year highs suggests robust demand for commodities. At $47, Brent crude is towards the lower-end of its six-month price range despite reasonably high levels of compliance with OPEC's November production cut. Although US production is set to rise, this will not meet increased global demand. If OPEC and Russian supply cuts hold, we anticipate the oil price rising in H2.

The manufacturing upturn has also improved the GDP outlook for Japan and Europe. Germany, Spain, Ireland and Portugal are all experiencing stronger growth, largely as a result of exports. The French economy is under-performing and heavily distracted by politics. Of the larger economies, Italy is the laggard and – with 0.8% growth expected this year and 0.5% in 2018 – an anti-Euro government and renewed concerns about bank stability cannot be ruled out. Capital controls and new austerity measures in Greece are preventing any meaningful recovery as the bailout saga rumbles on.

Early polls suggested the snap UK election on 8 June would increase the Conservative majority and improve the prospects of negotiating a controlled EU exit after 2019. Large short positions ensured a 3% rebound in sterling to $1.29 following the initial announcement of the election. Given opposition disarray, there is little likelihood of election giveaways, which is just as well with the UK economy starting to flag. Although the manufacturing sector accelerated in Q1 despite lower export volumes, retail sales fell for the first time since 2013, services and construction activity slowed and house price inflation declined to around 3% in March from a peak of 10% in 2014. Real wages are expected to fall this year, and with savings rates already close to record lows, this will act as cap on consumption. Lower levels of business investment have probably plateaued for the time being, and the contribution from government remains stable. Recession is unlikely, and GDP estimates of 1.8% this year and 1.4% next are only marginally below the Eurozone average.

Q1 corporate earnings are likely to have been among the strongest in recent years. The improvement is broadly based geographically and across industrial sectors with revenues and earnings exceeding expectations by a significant margin. For US companies, the 6% year-on-year revenue increase boosted earnings by 12%. The major contributors were the recovery in energy, materials and financials while IT surprised on the upside as companies increased capital expenditure. Eurozone results were even stronger albeit the cycle has lagged the US and is therefore starting from a lower base. Share price reaction has been relatively muted suggesting investors had largely discounted the results.

Looking ahead, management guidance is being revised up and this – together with positive signals on bank lending and the new orders component of business surveys – suggests there is more good news to come. 2017 could be one of the rare years when earnings exceed even the most optimistic forecasts.

Markets remain close to all-time highs. Despite some short-term weakness in the economic data, we believe the global economy will grow 2.9% this year and 3.2% next. Inflation pressure from commodity prices will ease marginally, and although wage growth is contained, this needs to be monitored closely in view of the high employment rates in many advanced economies. There will also be further scrutiny in the coming months of plans by central banks to phase out quantitative easing and shrink balance sheets, but this process is likely to be implemented over several years. While lower new issuance will help dampen rates, bond yields can be expected to rise gently from near multi-year lows as the economy expands. Equities remain our preferred area. Although there are no obviously 'cheap' financial asset classes, a 16.6x valuation for global equities and 15% forward earnings growth does not appear excessive given the outlook we envisage. The US is at the upper end of the regional valuation spectrum with the UK and emerging markets towards the lower end. Those able to generate excess cash to fund real dividend growth and situations where management can exercise 'self-help' measures continue to be attractive areas. ■

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INVESTMENT WISE

Learning from the past and understanding the present

The key to successful investing isn't predicting the future, it's learning from the past and understanding the present. To give your money its best opportunity to grow, whether you're just starting to build a portfolio or looking to rebalance an existing one, in this article we consider some of the key questions you need to consider to nurture your wealth.

HAVE YOU PARKED TOO MUCH CASH?

You may think cash is a safe haven even in volatile times, or even as a source of income, but the ongoing era of ultra-low interest rates has depressed the return available on cash to near zero. This will leave your cash savings vulnerable to erosion by inflation over time and undermine your long-term investment objectives

ARE YOU TAKING TOO MUCH RISK?

For example, if you are already in retirement, you may need to adjust your portfolio accordingly. If you still have a number of 'adventurous' investments, you may wish to consider reducing your weightings in these holdings. That way, you can realise some the gains of previous years and reduce the overall risk of your portfolio so you're not placing too much of your future income in jeopardy.

ARE YOU TAKING TOO LITTLE RISK?

If you're investing for a retirement that's more than 30 years away, for example, you may want to consider a more 'adventurous' portfolio. The longer the time horizon before you need to withdraw your money, the riskier you can afford to be, as you can ride out a few bumps and dips along the way – although, of course, your personal attitude to risk is of paramount importance.

DO YOU KNOW YOUR RISK PROFILE?

While a higher-risk approach is generally advocated for those with a greater amount to invest and a longer time horizon, an ability to accept risk is also important. You must be comfortable with short-term losses and happy to invest for a long period of time to think of yourself as an 'adventurous' investor, for example. If swings in valuation worry you and/or you are closer to retirement, you might prefer to take a 'cautious' stance.

DO YOU HAVE ENOUGH DIFFERENT INVESTMENTS?

One of the ways to reduce the volatility of your portfolio, apart from selecting funds with a lower risk rating, is to diversify your holdings. The greater the spread of funds, the more you reduce your risk. But keep in mind that spreading your assets across too many funds means those that perform strongly will have less impact on overall performance.

DO YOU REINVEST INCOME FROM YOUR INVESTMENTS?

If you don't require the income from your investments you should consider reinvesting the income to boost your portfolio value further. The difference between reinvesting and not reinvesting the income from your investments over the long term can be significant.

IS YOUR INVESTMENT BALANCE SUFFICIENT?

The greater your spread of sectors and asset classes, the less your portfolio will be subject to swings in market sentiment. You could give a greater weighting to your preferred sector but still keep a percentage of your total portfolio in other areas too.

DO YOU MONITOR YOUR PORTFOLIO?

Remember to monitor your portfolio, at least on an annual basis, to prevent sector and country biases creeping in. Go back to your original goals and the sector and country weightings you were trying to achieve. As some of your investments perhaps outperform and others underperform, your portfolio weightings may have shifted. This could mean you've accidentally taken on a higher or lower risk profile than you intended and you need to rebalance – for example, if a volatile fund has done particularly well, you may want to sell some of your holding to realise those gains and re-invest it into something lower risk. ■

HOW CAN BUCKLEY KIELY WEALTH MANAGEMENT HELP YOU?

Volatility in financial markets is normal, and investors should be prepared upfront for the ups and downs of investing rather than reacting emotionally when the going gets tough. We can help you consider the issues and opportunities that affect your financial plans and investment portfolio to meet your ambitions and aspirations. To find out more, please contact Buckley Kiely Wealth Management on +353 (0) 21 4350777 or email wealth@buckleykiely.ie.

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SOCIAL INSURANCE CONTRIBUTIONS

As the social insurance conditions are very complex, you should apply for a State Pension (Contributory) if you have ever worked and have any contributions paid at any time. There are a number of pro-rata pensions available to people who paid different types of social insurance contributions or who did not pay contributions because of various reasons (see below). Changes are proposed to the current system in 2020.

ENTITLEMENT TO A PENSION

If you retire early, you should ensure that you continue to pay PRSI contributions or get credited contributions, if eligible, to maintain your entitlement to a pension. For those receieving Jobseeker's Benefit (JB) and are aged between 65 and 66 when their JB would normally end, they may continue to receive it until the age of 66, provided they meet the PRSI requirements.

To qualify for a State Pension (Contributory), you must be aged 66 or over and have enough Class A, E, F,G, H, N or S social insurance contributions. You need to:

- Have paid social insurance contributions before a certain age
- Have a certain number of social insurance contributions paid
- Have a certain average number over the years since you first started to pay

WORKING IN THE HOME AND STATE PENSIONS

The Homemakers' Scheme makes it easier for people who stop working for a period to take care of children or adults to qualify for pensions. The scheme was introduced from 6 April 1994 and applies to anyone who provides full-time care for a child under age 12 or an ill or disabled person aged 12 or over. It does not apply to time spent caring before the introduction of the scheme. It is most beneficial for people who work outside the home for a number of years and then spend a number of years as carers. It applies equally to women and men.

PRO-RATA PENSIONS

There are a number of pro-rata pensions, which were introduced because of the exclusion of some people from the social insurance system at particular times.

PRO-RATA PENSION FOR MIXED INSURANCE

Pro-rata pensions were introduced for people with mixed insurance records. Mixed insurance arises when a person spends part of his/her working life in the public service paying modified social insurance contributions and part in the private sector paying full-rate social insurance contributions.

PRO-RATA EU PENSIONS

If you have worked in Ireland and one or more EU states, your social insurance contributions from each EU state will be added to your Irish social insurance contributions to help you qualify for a social welfare payment. More information about combining your social insurance contributions to qualify for a State Pension is available.

Ireland also has bilateral social security agreements with Canada, the USA, Australia, New Zealand, Austria, Japan, Republic of Korea and Quebec (which has a separate system from the rest of Canada). These agreements are broadly similar and they generally provide that social insurance paid in Ireland and the other country can be combined to help people qualify for old age and retirement pensions. Again, in general, the method of calculation is similar to the EU rules.

EXTRA BENEFITS

You are automatically paid an extra allowance of €10 per week when you reach 80 years of age. This increase is not paid to qualified adults. The Living Alone Increase may be payable to people who live completely alone. You may also be eligible for other benefits. ■

CHECK YOUR PRSI RECORD

If you want to find out how to check your PRSI record to work out the the rate of State Pension (Contributory) you might get please contact Buckley Kiely Wealth Management on +353 (0) 21 4350777 or email wealth@buckleykiely.ie.

PREPARING FOR THE UNEXPECTED

Cancer remains the main cause of death and illness in Ireland

A critical illness can strike at any time, and cancer still remains the main cause of death and illness in Ireland according to Irish Life. The report provides a unique insight into the health of the people of Ireland and includes a breakdown of the illnesses and conditions that led to payments for 2,600 Life Insurance, Specified Illness Cover and Terminal Illness claims in 2016.

These findings are consistent with discussions Buckley Kiely Wealth Management has with many clients concerned about this subject.

SPECIFIED ILLNESSES

The data highlighted that cancer was the leading cause of both Life Insurance (44%) and Specified Illness claims (59%), followed by heart-related conditions which accounted for 11% of deaths and 21% of Specified Illnesses.

None of us can predict the future. However, the 2016 report highlights how important it is that people protect themselves against any financial difficulties caused by unexpected illness or death. This is shown by the fact that accidents were the second biggest cause of life insurance claims for people under 40 years, while nearly 40% of Specified Illness claims were for people under 50 years, which are startling figures.

ACCIDENTAL DEATH

In relation to accidental deaths, the average age of people for accidental death claims was just 50, with the men making up the majority (71%). Nearly a quarter of all life insurance claims for people under 40 years were as a result of an accident, making it the second biggest cause of claims for this age group – worryingly, road traffic accidents accounted for 20% of all accidental deaths.

There were significant gender variations in relation to Life Insurance, Specified Illness and Terminal Illness claims. Almost two thirds of Life Insurance claims were for men (62%), compared to just 35% for women. The figures were closer for Specified Illness claims, as 53% of claims were paid to men and 44% to women.

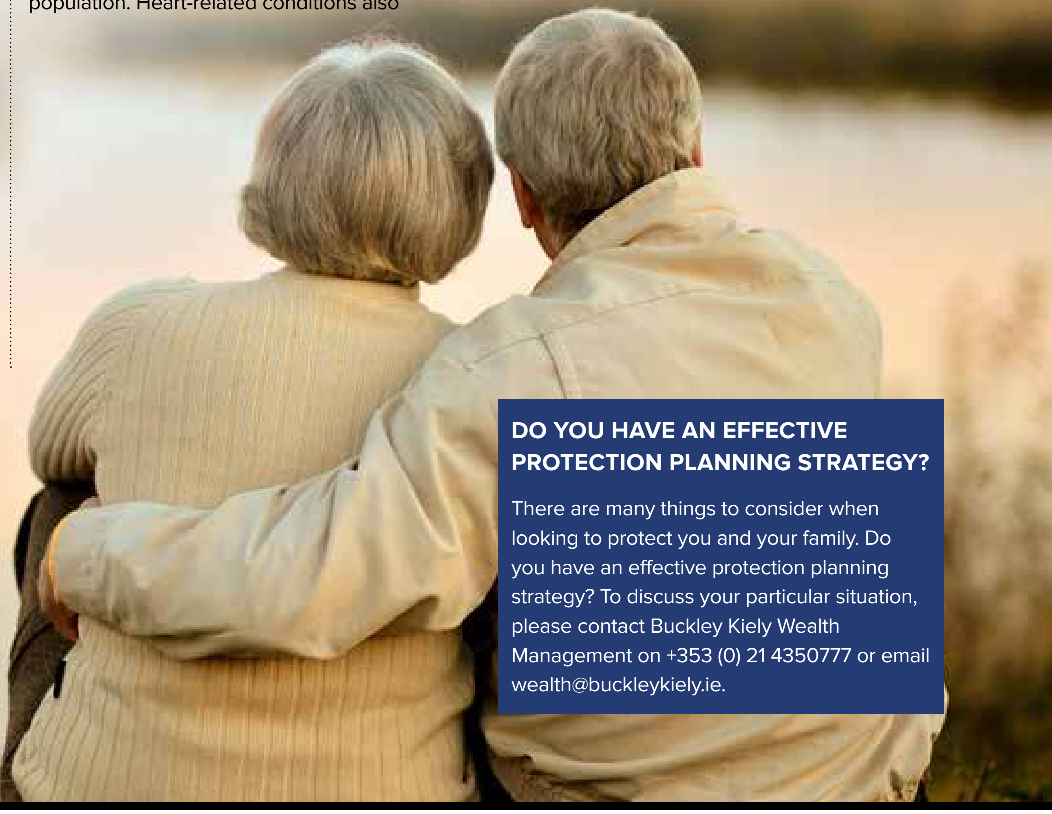
POPULATION AGEING

The number of people dying from cancer is continuing to rise, as the data showed that over half of women (51%) and 41% of men died from cancer, up from 48% and 39% respectively in 2015. This reflects the fact that the incidence of cancer increases with age and Ireland's ageing population. Heart-related conditions also featured as a main cause of death, which was more common in males (13%) than females (9%).

The data also highlighted that malignant cancer was the main cause of Specified Illness claims for women in 2016, with 74% of women having malignant cancer compared to just 46% of males.

GENDER DIFFERENCE

Understandably, men and women claimed for different cancer related illnesses: breast cancer was the main cancer for women, followed by lung cancer and colorectal cancer; for men, prostate cancer was the main cancer, followed by colorectal and kidney cancers. Men made up 85% of Specified Illness claims for heart-related conditions, highlighting another very significant gender difference. ■



DO YOU HAVE AN EFFECTIVE PROTECTION PLANNING STRATEGY?

There are many things to consider when looking to protect you and your family. Do you have an effective protection planning strategy? To discuss your particular situation, please contact Buckley Kiely Wealth Management on +353 (0) 21 4350777 or email wealth@buckleykiely.ie.