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All

Energy cost crisis

Britons are bracing themselves for an expensive winter as a global surge in the cost of gas at wholesale has led many companies to drastically increase their prices. While many companies have reacted by hiking up costs even more for customers, others have taken themselves off price comparison websites and some have gone bust. The British public has already been hit with energy price hikes over the last few months and could be paying hundreds more this winter, unless they counterbalance the extra costs by making some simple changes to their usage. The news that another five energy firms have folded in recent months will no doubt worry many householders but Ofgem has said it has systems in place to look after consumers. An Ofgem spokesman said that currently wholesale gas prices are at a record high, driven by international supply and demand factors. This is undoubtedly putting pressure on companies - with four leaving the market recently. In the past few months Utility Point, People’s Energy, PfP Energy, MoneyPlus Energy and Hub Energy have all ceased trading - something which is thought to have affected half a million British households. And although these consumers will be given a new supplier, that means extra hassle for them with the costs passed onto customers. Ofgem added that it is working closely with the government to manage the wider implications of the global gas price increase and it is not thought that this will lead to a complete halt in supply. As such there is no better time to see if you qualify for the Warm Home Discount Scheme, which could ensure some people are £140 better off. To find out, people can speak to their energy supplier, most of them are signed up to the scheme if they have 250,000 customers or more. More than two million UK households should qualify for this rebate on their energy bills this year and it’s important to get in touch with them early as there is only a limited amount of people energy companies can help.

All

Protecting yourself from inflation

Inflation is back. Last month, the consumer prices index was up 3.2% and the retail price index up 4.8%. They could potentially go higher. The Bank of England forecast that the CPI would reach 4% this autumn. And this is happening at a time when we are pushed to get even 0.5% interest on a bank account. There is no point in fulminating against the Bank of England, for it has to follow the global mood in central banking. There has, however, recently been a small shift in the wind. Goldman Sachs has warned that rates might go up faster than the market thinks, with the first increase in Bank base rate coming next May. That is more than a year earlier than it had previously projected. The Treasury is getting seriously worried, as it should be, about the rising costs of funding the national debt. So it will announce some new rules for controlling the deficit, with the aim being to convince the markets that it really will be fiscally responsible in the future. As for the Bank of England's intentions, we may learn more from the Monetary Policy Committee meeting this Thursday, but whatever they do the harsh reality is that interest rates will be lower than inflation for the foreseeable future. It is called financial repression – holding interest rates below inflation – and it was the way the Government reduced the burden of the national debt after the Second World War, getting it down from more than 250% of GDP in 1945 to 30% by 1990. It is now a whisker below 100%. So what should we do? Well, the first thing to do is not to make the mistakes that savers made in the 1950s and 1960s by holding Government stock. On Friday 10-year gilts were yielding 0.8%. That is absurd. No sane person would buy that debt when it will give a guaranteed real loss over the next decade. So in practice most of the debt is held either by the Bank of England itself, which 'owns' more than 35% of the national debt, or by other financial institutions that are compelled by regulations to hold gilts. But saying what not to do is easier than saying what you should do. In the 1950s it was clearer. You switched out of gilts into equities – the 'cult of the equity' was a movement pioneered by the legendary pension fund manager George Ross Goobey, who saw that the shares of solid companies were actually safer than supposedly safe government debt. Now it is tough. Everyone should use what ever tax incentives are available. If an employer will match a pension contribution, it is a no-brainer to take the money. Rely on compound interest to build wealth. Protecting ourselves against inflation is not simply about investing our savings. It is also about making ourselves bulletproof in other ways. It is about making sure we have a secure flow of income. It is about making sure we have a roof over our heads. Property may not potentially be as great an asset over the next decade as it was in the past, but we all need somewhere to live. To end on a positive note, remember this. The world's central banks may have made a huge collective mistake in stoking up inflation. But they don't want a financial crash. They don't want mass unemployment. So they will do their utmost to keep the world economy growing – and that gives us time to sort ourselves out.

Retired

State pension payment delays

Hundreds of new pensioners could face anxiety and stress owing to delays in payments of their state pension, campaigners have said. The Department for Work and Pensions admitted that the pandemic and staffing issues had caused backlogs in payments to those reaching the age of 66. It is understood that the number affected is in the low thousands, and officials have apologised to them. Pensions Minister Guy Opperman told MPs that hundreds of department staff were being redeployed to deal with the backlog in payments. A DWP spokesman said: "We are sorry that some new state pension customers have faced delays receiving payment. Apparently, all those affected have been identified and DWP have deployed extra resources to process these as a priority. Any claims made today should not be subject to delay. Those without their money should be paid automatically, and Mr Opperman said that the system would be back to normal by the end of October. The DWP is already facing criticism and a heavy workload after it emerged that an estimated 200,000 female pensioners are collectively owed up to £2.7bn after the under-payment of state pensions owing to historic errors at the department. Pensioners were also told earlier this week that the "triple lock" formula for annual state pension increases would be suspended for a year. The move follows government concern that a big post-pandemic rise in average earnings would have meant pensions increasing by 8%. Now, the average earnings component will be disregarded in the 2022-23 financial year, with the rise based only on the higher of the consumer inflation rate or 2.5%.

Investor / Saver / Retired

A winter stock market dip? – what's next

Over the past 19 months, investors have witnessed history on both ends of the spectrum. They've navigated their way through the quickest decline of at least 30% in the history of the stock market and they've subsequently revelled in the strongest bounce-back rally from a bear market bottom of all time. Since bottoming out on March 23, 2020, the benchmark index has more than doubled in value. But this monster rally begs the question: Is another stock market crash or potentially steep correction around the corner, and should you be worried about it? If you're a short-term investor/trader, you have reason to worry. We're never going to know precisely when a stock market crash will begin, how long it will last, or how steep the decline will be. We also rarely know what will cause a crash or steep correction until after it has begun. Thus, expecting a big decline in the market is a bit of an inexact science. With that being said, there are a number of figures which suggest a stock market crash could be on the horizon. For example, the performance of the stock market following each of its previous eight bear market bottoms, dating back to 1960, is telling. In the three years following each of these bear market bottoms, the broad-based index pulled back by at least 10% once or twice. We are now nearly 1.5 years removed from the coronavirus crash bottom, and the market has yet to endure a double-digit percentage decline. In fact, we've now gone 10 months without even a 5% pullback. Bouncing back from a recession has never been this smooth or easy. On the other hand, if your holding periods are measured in years or decades, stock market crashes aren't something to fear. In fact, they're historically an excellent time to put your money to work. To begin with, even though stock market crashes and corrections are quite common, they don't last very long. For example, of the 38 double-digit percentage declines in the broad-based S&P 500 since the beginning of 1950, the average time it's taken to go from peak to trough is 188 calendar days (about six months). The average length of corrections has grown even shorter since computers became mainstream and information could be easily disseminated at the click of a button. Since the mid-1980s, the average correction length has dipped to 155 days, or about five months. Though big moves lower in the market can pull at our heartstrings as investors, it's a lot easier to remain invested with the understanding that bull markets last considerably longer than bear markets. It's a simple numbers game that absolutely favours optimists.

All

Demand for advice rises but is evolving

Young investors are reforming their relationships with their advisers. A recent Fidelity study found more investors have begun to work with an adviser since the start of the pandemic. And, from May 2020 to June 2021, more than a quarter of advised investors hired a new adviser, according to the study. Of the investors surveyed, younger workers, identified as "Gen XYZ," or those who were born after 1965, are looking to their adviser for support with their health, family, work and wealth. In fact, the study found that 34% of younger investors want their adviser to offer life guidance outside of traditional financial advice. When working with younger investors, advisers should consider offering services such as career coaching; real estate planning; philanthropic planning; or environmental, social and governance (ESG) solutions, Fidelity says. Gen XYZ investors are also prioritizing their digital experience with advisers. According to the survey, 48% of investors born after 1965 were more likely to relate to a financial adviser with a social media presence than one without. Additionally, 65% said they would prefer to work with an adviser in a paperless firm rather than a firm that uses paper statements. As a result, younger investors are looking for digital, on-demand communication from their advisers. Throughout the pandemic, younger investors were more likely to adapt to digital communication with their advisers, such as videoconferencing, chatting online or texting, than older investors, according to the survey. Fidelity adds that it's likely these investors will expect their adviser to be available through these channels now.

Property Owner

Stamp duty and property prices this winter

The temperature has been rising in the housing market since the start of the year. The introduction of the Stamp Duty holiday meant that the average price of a house in the UK climbed to the heady heights of £265,000 in June 2021. However, the phasing out of the tax break has meant that house prices have started to level off. While they were still 8% higher in July 2021 than in July 2020, they fell 13.1% compared to the previous month. According to Rightmove, the national average asking price of a home fell by 0.3%, or around £1,000, during August. So, as we move into autumn, can we expect to see more of the same? The big change this autumn is that Stamp Duty thresholds will return to normal on 1 October. This means that buyers will pay Stamp Duty on properties worth £125,001 or more. While some may be concerned that this could lead to a big drop in house prices, other factors are still in place that should prevent prices from falling off a cliff edge. Market sentiment still remains positive. In fact, buyer demand has remained strong, particularly for smaller properties. This has led some market experts to forecast an 'autumn bounce' in prices. The supply of houses remains low. And if there is low supply and high demand, house prices inevitably go up. There is also the fact that mortgage providers have relaxed their lending rules. There are a lot more low-rate mortgages available. And in some cases, lenders are considering borrowers' overtime and bonuses as income again. While we are unlikely to see house prices climb as high as they did in the middle of the year, it is also unlikely that there will be a sudden drop. A shortage in supply, high demand from first-time buyers and second steppers, and increased mortgage availability will all support the market. So house prices are likely to continue to move upwards, just not at the record pace we have seen so far this year.

All

Winners and losers from the social care tax raid

Dramatic tax rises to fund social care were unveiled by the government this month, sparking criticism from the self-employed and limited company directors. From April 2022, national insurance contributions (NICs) will increase by 1.25 percentage points for employed and self-employed people earning more than £9,568. A similar increase will also apply to employers' national insurance payments. From April 2023, the higher NICs rate will apply to people working beyond the state pension age. In a surprise move, Boris Johnson, prime minister, announced an increase in dividend tax — which will rise by 1.25 percentage points from April 2022. There were some winners from the policy. People receiving only pension income will not be affected by the changes. Landlords who have not incorporated into a company will also be left untouched, along with investors holding wealth generated from capital growth, as opposed to those receiving dividends. Meanwhile, about 6.2m people earning less than £9,568 in 2021-22 will not have to pay the Health and Social Care Levy. But for many — including about 29m people caught by the NICs increase — the new regime will mean a notable hit to the pocket, with the government itself warning the measures could have an impact on people just about managing to cope financially. The increase in national insurance is focused on workers, since it only affects those with employment-related earnings. Currently, employees pay no national insurance on the first £9,568 earned. They pay 12% on earnings up to £50,270 a year, falling to 2% on earnings above £50,270 a year. The increase means employees will now pay a rate of 13.25% in the second band and 3.25% on earnings above £50,270.

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