

BIRCHWOOD

INVESTMENT

MANAGEMENT LTD

NEWSLETTER



January 2023

It's plain sailing...

Top Tips to keep your New Year's resolutions and fix your finances

The start of a brand new year is when we traditionally set goals and new resolutions, usually focussed around getting in better shape and health and spending more quality time with family. January is also normally the time of year we attempt to give our finances an overhaul. However, the focus has now shifted considerably and trying to maintain healthy finances and not get in debt is the new top priority for the majority of people. 2023 has brought yet more worry and uncertainty with the continuing cost-of-living crisis and if you are one of the millions in the UK, who are concerned, here are our top tips to keep your new year's resolutions and fix your finances.

At certain moments in time like the New Year or when we move house or start a job, we have a rush of motivation to make changes, which is called the 'fresh start effect'. The aim is to use this burst of motivation to commit yourself to achievable goals. However, if you are someone who sets a new year's resolution on the 1st January and 2 weeks later abandons it, we can help with some advice for sticking to your financial resolutions.

1. Identify your priority areas

By giving your finances a thorough health check at the start of the year, you can identify where your money is going and where you need to cut back. Work through each cost one at a time to see if you can get a better deal on bills, insurance and any day-to-day costs, including how much you spend at the supermarket or eating out. Keep a track of all costs, so, when you do save money, it helps to keep you motivated and try and save in other areas.

2. Choose a positive resolution

By choosing a positive goal, it makes it easier to stick to than a negative one. By saying 'I will put £10 away this week into an account', it is way more effective than saying 'I will not spend as much this week' and also much easier to measure.

3. Have goals that are realistic

It helps to make resolutions that you actually stand a chance of keeping, as we're more likely to give up trying if we have unrealistic goals or they are too restrictive. If they are not achievable, it will then also have a negative impact on our personal wellbeing and could get in the way of any progress.

4. Make your goals specific

Obviously a popular financial resolution at the start of a new year is to try and save more, but you need to make it more specific with a time frame so, you know when you have reached your goal. If for example you wanted to save £5,000 by the end of the year, that is your target to work towards. Another way to motivate yourself is to stick a photo on the fridge or by the kettle to help you stay motivated of exactly what you want to buy with the money you have saved.

5. Don't rely on self-motivation but take action

Financial resolutions are so frequently broken and many people come unstuck by making resolutions that rely on their willpower or remembering to take an action. If your resolution is to save more money, one way to do this so that you don't forget, is to set up a standing order from your current account to your savings account every month. It then happens automatically without you having to remember to move the money over. If your aim is to pay off some or all of the debt on your credit card, again just set-up a standing order. This will also help avoid any late payment charges if you forget. Another great way to save that several banks offer is rounding up any payments you make to the nearest pound with the extra pennies going directly into your savings account.

6. Make it harder to spend your money

Nowadays it is just too easy to spend money, as our bank card details are automatically added as we go to the checkout. Make it harder to buy

items by remove your card details from your favourite websites, so that you have to input them to make a payment. Also unsubscribe from any retailers' newsletters to avoid being tempted by special offers on items that you don't really need.

7. Maximise all help available to save money

The task of improving our finances can be a real challenge, so, it pays to use all the help available which includes switching to a better rate savings account through to taking advantage of tax relief and employer contributions, by saving as much as you can into a workplace pension. Any purchases online can be checked against cashback websites like Top Cashback or Quidco to see if you can get money back when you buy anything. There are also online price checker and coupon apps that you can add to your phone or computer that check if a discount is available on your purchases.

8. Make extra money on the side

Now more than ever people are finding ways to make an additional income on the side alongside their 'day' job, or even retirement income. Many people started up small businesses in the first lockdown which are now their main income, so consider if there is a gap in the market for an area you are a specialist in or have skills and see if you can plug it. Having an extra income coming in each month will give you more freedom, flexibility and feel less stressed about your finances. Even better is finding a 'passive income' that generates money whilst you sleep, with little input once it is set-up and the money continues to flow in for years and years. This could be via an e-course, blog or an online shop.

Remember the main thing is to not beat yourself up if your good intentions at the start of January don't happen. New financial habits can be formed at anytime of the year not just in January, so, just pick up where you left off and keep trying as every little helps.

April deadline for NI contributions

With new rules coming into effect in April 2023 regarding your state pension*, now is the time to check if you have any missing years where you may not have paid your NI contributions - which go towards qualifying for your state pension. If you have been out of work for any period of time which includes gap years, raising children or caring for parents, this could mean you won't receive your full state pension when the time comes - so take action now and check before it's too late.

Under the current rules, it is only possible to fill gaps in your NI record up to six years after the year in question. Following this the missing year becomes a permanent gap in your record and could affect your ability to build up a full state pension. Therefore, 2016-17 would be the oldest year which could be filled in 2022-23. However, until the start of the new tax year on 5 April, those aged between 45-70 are now able to go further back and fill gaps for any year from 2006-07 onwards which is an extra ten years.

Other people that may find they have gaps in their NI contributions are those who are employed but have or have had low earnings, the unemployed who are not claiming benefits, self-employed who did not pay contributions because of small profits, or if you were living or working outside the UK.

It is also worth checking your records if you have been the person in your family claiming Child Benefit, as this automatically counts towards your NI contributions if you have a period of not working whilst raising children. This is however, only for the person claiming the Child Benefit and does not count towards their partner/spouse's NI contributions.

The new rule does only apply to those who come under the new state pension system, so those people who reached, or will reach, state pension age after 5 April, 2016. It can take some time to work your way through the necessary steps, so people are being encouraged to go online and check sooner rather than later at <https://www.gov.uk/check-national-insurance-record>

The rules also state that in order to qualify for the full state pension you must have been contributing to NI for 35 years and were never in contracted out employment. You are able to fill any gaps in your NI contributions by paying £800 per missing year before the April deadline. By doing this, it will mean you'll get more state pension every year of your life when you retire, so that investment could bring you thousands in future years. It's important to do so before the deadline, as then you will only be able to fill gaps going back six years.

Money saving Expert Martin Lewis has also spoken out on this new rule change and claims it might be possible to turn the £800 payment into a £5,500 top-up on your state pension**.

To qualify for NI contributions, people need to earn more than £123 a week and typically must accumulate 35 years' worth to qualify for the full new state pension. To top up your class 3 contributions, it currently costs £15.85 per week or £824.20 per year, but this one-off lump sum can add up to 1/35 of the full rate to your eventual state pension. The state pension is currently £185.15 per week, so, therefore, this boost is worth £5.29 per week or around £275 per year. If you were to get this boost for at least four years you will recover the initial outlay (net of basic rate tax) and everything beyond that would be profit up until you pass away.

Pensions, both state and private, can be an extremely complicated subject matter and it always pays to speak to a Financial Advisor to check you are covering yourself and are going in the right direction to be able to take the pension amount that you need in retirement. If you or someone you know would benefit from speaking to one of our Financial Advisers, please do get in touch.

Divorce & pensions - why it's vital to get advice

January is often a time when people are motivated to make big changes to their life and not just in the form of eating healthier or joining a gym. The first working Monday of January is normally the busiest time of year for divorce lawyers, when they are inundated with enquiries from unhappily married couples looking for advice. However, according to a recent survey from Stowe Family Law, 30% of people are putting off contacting lawyers this year on 'Divorce Day' due to an increase in the cost-of-living.

Although divorce enquiries had initially soared since the pandemic, these have now dropped due to the increase in living costs across the UK. With mortgage rates increasing and inflation rises on food and other essentials, many people are unfortunately, deciding to just stay in an unhappy relationship as they simply cannot afford any other option. This is despite new 'no fault' divorce legislation being introduced last spring which makes the splitting up process simpler and speedier.

From the 380 people aged 25-74 that were surveyed by Stowe Family Law, who were either married, living together or with a partner, nearly 60% feared current financial pressures might lead to the breakdown of their relationship. However, 72% were unaware of the new no-fault rules, which allow couples to get divorced within six months of first applying, even if

one partner is opposed. Under previous law, a divorce was only granted if there was an 'irretrievable breakdown' of a marriage. This meant either one spouse had to cite a 'fault' by the other which included adultery, unreasonable behaviour or desertion. Or if both parties agreed, the couple had to separate for at least two years to show that they were serious about the split. A five-year separation was needed to divorce with no consent by one partner.

Under the new law, a no-fault divorce can be granted within six months and a joint application can be submitted, or one spouse can file an application within 28 days and then notify their partner. A conditional order for divorce, which was previously called the 'decree nisi', can then be applied for 20 weeks after the first filing, and a final order, previously the 'decree absolute', can be applied for after 26 weeks. The divorce will proceed even if one partner is against it, as long as the right procedures have been followed. However, when it comes to the financial side this will continue to be dealt with separately.

Whilst this is beneficial if a couple are unhappy and want a quick divorce, it can also mean the financial assets are split or settled too quickly and are not considered in enough depth, especially with regards to pensions. Typically divorced women often end up with very low pensions in retirement.

Pensions are a vital area to consider and since 2017, the number of couples splitting pensions in their divorce has dropped by a third - even though retirement savings can be as valuable as the family home.

This drop in applications for pension sharing orders coincided with the introduction of DIY online divorces in 2018, and the new 'no-fault' divorces, clearly demonstrating that people are not considering pensions as an important asset. Retirement pots are often worth nearly as much as other assets such as property, and sometimes even more if people divorce when they are older.

According to Ministry of Justice figures acquired under a Freedom of Information request by law firm Nockolds, the average age of divorcees has been on the rise. It has increased to 46.4 years for men and 43.9 years for women, with official data showing the number of over-65s parting ways has also gone up. This means that as the average age of people getting divorced rises, so does the value of their pension assets.

This is why it is so important to not rush this area of divorce and make sure you or anyone you know obtain financial advice from a qualified financial adviser before making any rash decisions.

Investment Insights

January 2023

Q4 2022 Overview

Table 1: Asset Class Performance Table, on 31 December 2022. All returns are calculated in GBP.

Asset Class	1 month	3 months	1 Year	3 Years	5 Years
UK Equity	-1.36	9.02	1.25	6.19	9.08
Global Equity	-4.85	1.97	-7.63	25.64	1.97
Developed Equity	-5.16	1.98	-7.37	29.13	1.98
EM Equity	-2.34	1.89	-9.62	2.58	1.89
Global Property	-4.31	-0.54	-13.97	2.44	-0.54
Global Bonds	-0.46	-2.98	-5.70	-4.02	-2.98
UK Gilts	-4.41	1.71	-25.06	-22.77	1.71
EM Bonds	-0.62	-0.29	-5.93	-4.05	-0.29
Oil	-1.22	-2.67	40.68	9.62	-2.67
Gold	3.10	1.57	11.77	26.56	1.57
Commodities	-3.42	-5.14	30.72	57.44	-5.14
IA Mixed Investment 40-85% Shares	-1.40	3.00	-10.18	5.39	3.00
IA Mixed Investment 20-60% Shares	-0.93	3.09	-9.67	-0.62	3.09
IA Mixed Investment 0-35% Shares	-1.02	2.31	-10.22	-4.24	2.31

Source: Morningstar Direct, Stonewood Wealth Management LLP

The fourth quarter ended 2022 on an improved note. It brings to an end a year that was certainly one of the tougher years that investors have faced.

Equity markets ended December on the backfoot with all regions reflecting negative returns. The quarter, however, was a better period for equity investors. UK Equity was a big outlier for the quarter, posting very strong returns over the last three months of the year. The dollar weakened over the quarter against most currencies, but this was also supported by local factors that took place in the final quarter, giving local and international investors slightly more confidence in the policies and leadership that will be steering the UK in the coming period.

Bonds were mixed for the quarter with global bonds selling off while Gilts ending the quarter in positive territory despite selling off more than 4% in December. This relative outperformance for the quarter does need to be taken in the context of the year's performance with Gilts selling off around 25% during 2022. While this may be a year UK fixed income investors would prefer to forget, we believe this sows the seeds for a much better backdrop for fixed income investors going into 2023.

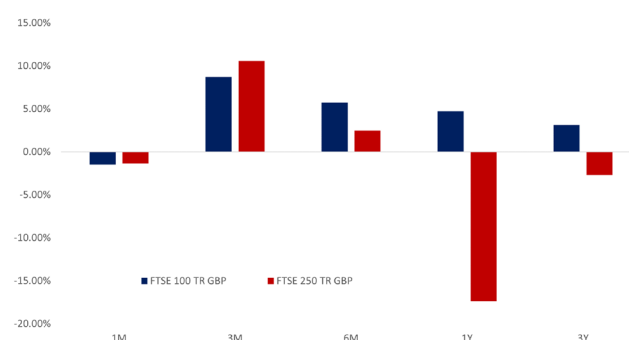
Commodities finished December in negative territory, this was a general outlier ending the quarter in negative territory. This is on the back of

concerns of global growth slowing down into 2023 as well as a milder winter in Europe which reduced energy demand. This follows a very strong first three quarters and commodities remain the strongest asset class performer during 2022. Gold was the exception posting positive returns for the month and quarter.

The IA Mixed Investment categories all posted negative returns over the month of December but did manage to register a positive quarter. This is due to the positive contribution from equities over the quarter. Summarizing the year, the sector averages showed negative returns between 9.67% and 10.22%. Abnormally more conservative investors who traditionally hold more of their portfolios in Gilts and other bonds did not experience the normal stability one expects from being more defensively positioned. In fact, Gilts underperformed UK equity in 2022 by a significant margin.

UK performance during the year is however somewhat misleading. The UK equity market is split into two broad categories. The FTSE 100 and the FTSE 250. The FTSE 100 is made up of the 100 largest companies listed on the LSE. Many of these generate a large percentage of their revenues outside of the UK and therefore are not only exposed to the ups and downs of the UK economy and benefit from GBP weakness. The same cannot be said for the FTSE 250 which is made up of the next 250 companies (101st to 350th) in terms of market capitalization. This is a universe that is said to be more representative of the UK economy as many of the index constituents generate the majority of their income locally.

The performance difference between the FTSE 100 and the FTSE 250 during 2022 can be seen below.



Source: Bloomberg

Any portfolios that included the FTSE 250 constituents and global equities detracted from investor performance during 2022. It is unlikely that this will continue indefinitely and therefore it is sensible not to reduce diversification characteristics in portfolio at this point.

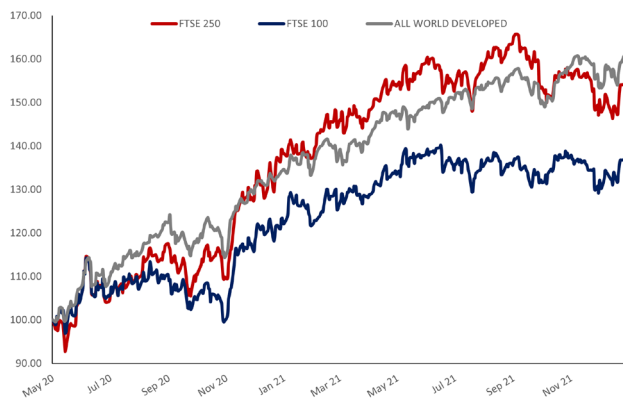
Even if the FTSE 100 outperforms again during 2023 it is unlikely will do so indefinitely and therefore portfolios should continue to have exposure to multiple regions and currencies.

Investments Insights cont...

It was not long ago that the FTSE 250 constituents and all other developed markets (including the UK) were performing materially better than the FTSE 100. The chart below shows the performance of all three indices from the period just after the COVID crash of March/April 2020.

The last 10 years (including last years' significant underperformance) saw the FTSE 250 outperforming the FTSE 100 by around 26%. The All World Developed index on the other hand outperformed FTSE 100 by around 28% cumulatively over that period. The reason I highlight these performance differentials is that it reminds investors why diversification remains important even if one thinks 2023 may be a repeat of what we saw in 2022.

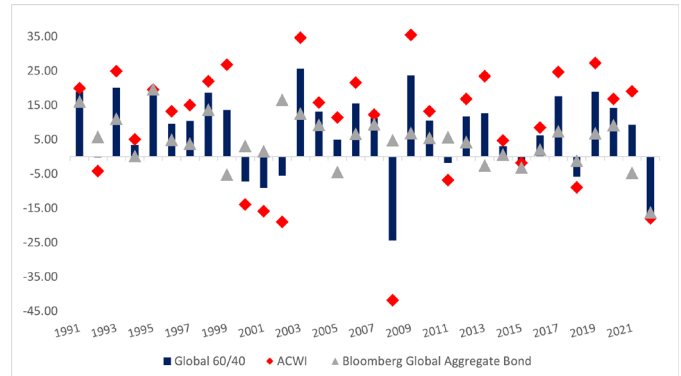
Chart 2: FTSE 100 vs FTSE 250 vs All Country World Developed Markets (% Return, GBP, 01 May-2020 to 31 Dec-2021)



Source: Factset

2022 proved to be a particularly difficult year for many investors. This is highlighted in the chart below showing the performance of a traditional 60% Equity and 40% Bond portfolio ("60:40 portfolio") in USD terms on an annual basis all the way back to 1990. The chart also depicts the contribution of equity (red diamond) and fixed income (grey triangle) to the overall return figure (blue bar)

Chart 3: Global 60:40 Portfolio, Annual Performance and Asset Attribution (1990-2022, USD, Annual Return %)



Source: Morningstar Direct ("Global 60/40 Portfolio: 60% ACWI GR USD, 40% Bloomberg Global Aggregate TR USD, Quarterly rebalancing, Monthly Return Data, USD Currency)

In summary, 2022 was one of the toughest year on record for multi-asset investors. It is not often we see correlations of most major asset classes being positive, meaning that most asset class categories experienced simultaneous negative performance during the year.

There are some silver linings to the year. Bonds start 2023 in a very different place. Central banks globally have increased interest rates in response to rising inflation. As a result, bonds like equities have traded downward but it does mean that yields are far higher than they were this time a year ago and does improve the return expectation for bond investors going forward assuming that interest rates don't increase anywhere near as much as they did in 2022.

The year ahead is unlikely to be smooth sailing as economic conditions continued to deteriorate into Q4 and inflation remains well above central bank targets. Globally, recessions remain a high probability and financial conditions remain constrained as central banks continue their pursuit of bringing inflation under control.

In our view the prudent approach to 2023 is to focus on trying to balance the search for return with the risk mitigation via broad diversification. We have no doubt that in periods of heightened uncertainty, like now, the market will present opportunities for patient investors.

Cash Management Service...

With Bank of England base rates increasing, are you achieving the best interest rate possible for your cash savings?

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We are pleased to announce that we can now assist clients in managing cash deposits.

With one application form and one account you have access to the best rates available from 40 UK Licensed Banks and Building Societies, all with FSCS protection, to maximise your returns. What's more this can run alongside your investment portfolio to provide a complete view of your assets.

If you would like further information about this new service, please contact your usual Financial Adviser.

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