ROBERTS MACKIE WINSTANLEY
INDEPENDENT FINANCIAL ADVISERS

FACTSHEET

That shrinking feeling

Don't let your portfolio wealth simply drain away

Millions of Britons could see their savings shrink because they don't know how to shield them from rising inflation. The findings are according to research by YouGov for Zurich which found more than a third (37%) of people aged 18 to 65-plus are in the dark over ways to grow their savings enough to at least keep up with rising prices.

There are a number of different factors that 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.

INFLATIONARY PRESSURE

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 falling pound since Britain's vote to leave the EU in June last year and the 2017 UK general election result is also contributing to higher inflation in the UK, as it makes the cost of importing goods from overseas more expensive.

CONSUMER AWARENESS

Rising inflation is eating away at the nation's savings, yet the reality is that 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.

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. Of the 4,000 people surveyed by YouGov, more than a quarter (27%) said they believed property was the best way to outpace inflation.

SPENDING POWER

More than one in ten (13%) people thought Cash ISAs could help them maintain their spending power – twice as many as those who said Stocks & Shares ISAs (7%).

Just 4% of people said investing in the stock market could help outstrip inflation, while only 3% backed savings invested in a pension. In fact,

risk, Stocks & Shares ISAs typically offer more protection against inflation than Cash ISAs.

RAINY DAY

Cash ISAs are more appropriate to save money for a rainy day but are less suitable for long-term savings, such as for retirement. From this April, the amount people can now shelter tax-efficiently in a Cash ISA has risen to £20,000 a year.

With a bigger ISA pot to fill, the danger is that some people will leave more of their long-term savings stuck in cash where they will be eaten away by inflation.

LIVING COSTS

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.

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.

BETTER PROTECTION

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.

Investing in equities can potentially provide better protection against inflation than deposit accounts or bonds that 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. However, investing in equities carries a high risk

that you could get back less than you put in and that the value of your investment may not keep up with inflation.

PREPARING YOUR PORTFOLIO FOR INFLATION

Inflation may finally be returning, and should it continue to rise, there will be a number of opportunities open to investors. To discuss your particular situation, please contact us.

Roberts Mackie Winstanley
Jonathan Scott Hall, Thorpe Road, Norwich NR1 1UH
T: 01603 628403 F: 01603 661223 E: enquiries@robertsmackie.co.uk W: www.rmw-ifa.co.uk
Partners: Andrew Mackie • Iain Mackie