EQUINOX

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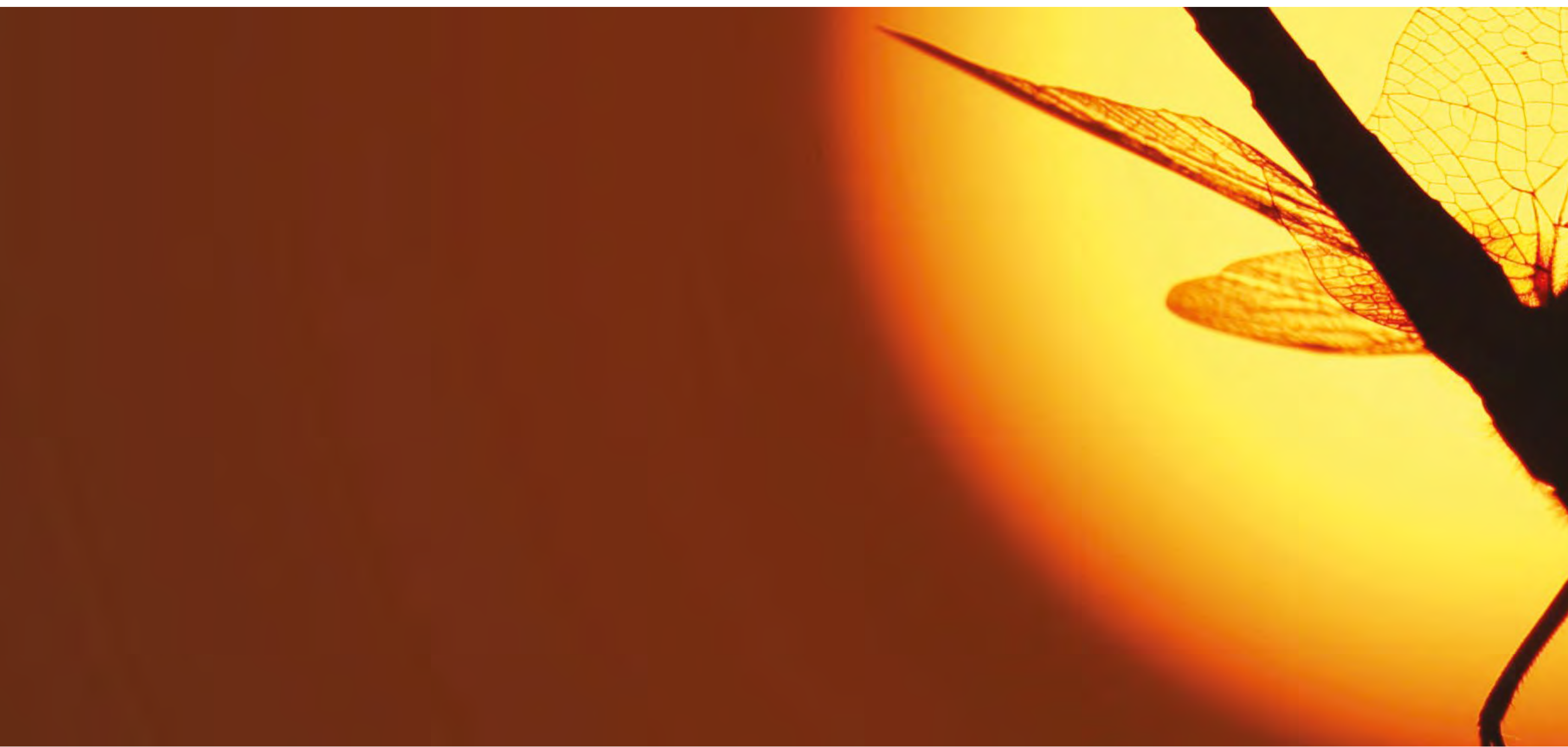

Welcome

In my last Equinox introduction I spoke about my hope for stability in markets, the government and the world in general. Six months on and whilst stability might not have landed in many parts of the world just yet, I am more hopeful about markets. On 14 October 2022, our portfolios reached their low points and, in my opinion, that was the day that the bear market officially ended and a new bull market began.

The market fundamentals for almost all asset classes look very promising, indicating that we should see strong returns and hopefully outperform both cash and inflation going forwards.

You will no doubt notice that this issue is without a market commentary and so the above is the only investment reference that you will read! As part of our constant evolution (which I also spoke about in the previous edition), you can find a separate and improved investment report on our website – if you've not already seen it, please take a look at the back page of Equinox for more information.

I hope that you enjoy the new format and would love to hear your feedback so feel free to drop me a line at colin.lawson@equilibrium.co.uk.

Colin Lawson
FOUNDER

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Experience Equilibrium

Our enhanced service proposition is going to make your life even better...

We have named this project "Dragonfly" - an important symbol in many cultures, often representing rebirth, change, happiness and financial gain as well as insight"

When Rachel Griffiths joined our Marketing team, like all great marketeers do, she stood firmly in the shoes of our clients and began asking seemingly simple and innocuous questions. That was over two and a half years ago now, but it started us on a journey that has grown exponentially and created something that I believe will be transformative for our clients and business.

Rachel's initial work led to the most eloquent definition of **how** we do what we do:

"We help our clients to live the life they want, to look after those they love, and to leave a powerful legacy."

While this sums up our approach perfectly, it doesn't come close to covering **what** we do to achieve this.

To address this question, Rachel started to look at EVERYTHING we currently do, could potentially do and have done for our clients. This encompassed everything from the important conversations that are held, ensuring all legal documents are in place, informing and educating, to guiding clients into making some powerful choices.

It became clear that there were 19 modules/topics that we wanted our clients to experience with us before we could honestly say that we have done all that we could to make their lives better.

I vividly recall my initial reaction when I first laid eyes on this list - a mixture of amazement, trepidation and excitement. In our 28 years of business, we have never captured the full scope of our services.

My initial amazement turned into trepidation as I soon realised that refining the list, creating a program of experiences and then rolling it out to every client would be a monumental undertaking.

However, it wasn't long before excitement took hold because I could clearly see that if we were successful in doing so, it would have a huge impact on our clients and team, creating a ripple effect that would ultimately enhance the lives of many.

It clearly highlighted that - for now at least - we don't do everything that we can do for every client, we don't have a methodology for working out what clients need and when, and the depth of delivery was inconsistent.

So, I embarked on a mission to refine these modules into client experiences and create a formula that would ensure that we do our very best work for every client in ALL ways.

We have named this project "Dragonfly" - an important symbol in many cultures, often representing rebirth, change, happiness and financial gain as well as insight.

In the mystical world, dragonflies point towards a deep energy and expression of the soul, urging one to be open to change and transformation, breaking free of old patterns, and paving the way to freedom and new beginnings. A perfect metaphor for what we are looking to achieve here.

It is only right that we equip our clients with the right level of education, insight and knowledge so that they have complete confidence and clarity about their money and what it can do for them.

The original 19 experiences have now been condensed into just 12 that make people's lives better. These have been split between five core experiences that we believe everybody will benefit from to varying degrees, and seven situational experiences as life unfolds and situations change. The full list is below:

Core experiences

- **This is your life**
- **Volatility – victim or victor**
- **Money in mind**
- **Nearest and dearest**
- **Law in order**

Situational experiences

- **Rapid responsibility**
- **Relishing or resisting retirement**
- **Inheritance tax - the bottom line**
- **The gift of giving**
- **Care conundrum**
- **Good grief**
- **Setting sale**

Unfortunately, there isn't enough space here to describe each one in detail, so I will share the core experiences and a couple of the situational ones.

Rest assured, there will be plenty of content to come. You may also be interested in 'Planning for care' on pages 16-17 which refers to our 'Care conundrum' masterclass.

This is your life

Every client in the future will receive a robust financial plan. This will be a living, breathing document that doesn't just sit on a shelf but instead is used and updated to empower all financial decisions. It will encompass every aspect of your life, serving as your roadmap. It will focus on "living the life you want to live, looking after those that you love, and leaving a powerful legacy". See related article on pages 12-13.

Your outcome: Gain the confidence and clarity that your financial plan aligns with your life's aspirations.

Volatility – victim or victor

Markets are, by nature, volatile but by understanding past behaviour, we can ensure that our clients are not surprised by the expected. Clients will gain a heightened awareness of the numbers under prevailing market conditions. As the saying goes, knowledge is power, and our aim is to provide an in-depth level of knowledge about how one's own personal mix of investments may perform in different cycles, good and bad.

Your outcome: We will share our strategy on potential returns, giving you confidence in the figures underpinning your financial plan. This will empower you to take advantage of volatility rather than being a victim of it.

Money in mind

Once you have your financial plan in place and have a sufficient level of knowledge about markets and returns, then you need to move on to think about how your hard-wired emotional and mental biases can kick in to negatively impact your decisions and your overall feeling of wellbeing.

Your outcome: You can experience an overall sense of financial wellbeing, comfort and confidence.

By taking the time to understand your own psychology, it will ultimately help you to make better decisions.

Nearest and dearest

Once you are happy that you are living the life you want, who are your nearest and dearest that you would like to support?

We will explore all the different options looking at the when, how and why.

We can help facilitate some of the courageous conversations that might need to take place and help co-ordinate the sharing of information.

Your outcome: Gain peace of mind knowing that you are best supporting those you love, so that the right people get the right help at the right time, all delivered in the right way.

Law in order

We will ensure that all the legal documents are stored in one place, along with the necessary information and guidance needed. This way, when these documents are needed, the process is as stress-free, efficient and as low-cost as it can possibly be.

The key to this section is our unique 'dress rehearsal,' during which we review how everything will work in the event of yours and/or your partner's death, so that all the documents work in the real world.

Your outcome: You feel secure in the knowledge that your financial plan is supported with the correct legal paperwork for the outcome you want.

Rapid responsibility

At times, life events force us to step into a new role that we are unfamiliar and uncomfortable with. For those taking on the responsibility of managing money for the first time, maybe due to retirement, bereavement, inheritance or divorce, we will start from the beginning, providing need-to-know basic knowledge in an interesting and engaging way.

Your outcome: Following this supportive introduction, you can speak and understand the lingo, armed with sufficient (and more for those who want it!) information to make sound financial decisions.

Relishing or resisting retirement

Retirement is one of the biggest life shifts anyone will ever make.

We will draw upon our extensive experience of working with hundreds of clients over the last three decades to make the transition as smooth as possible.

Your outcome: You can look forward to your retirement, confident about the transition ahead, knowing you have enough to live on and live for. Each experience will be

> **At times, life events force us to step into a new role that we are unfamiliar and uncomfortable with"**

delivered in a range of formats that best suit the subject. While a masterclass event will form the basis of many, others will be delivered during your adviser meetings, or perhaps through a series of short videos and written guides.

It is our aim to allow people to engage in the way that works best for them.

If each of the 12 modules is approximately two hours of content, then that's 24 hours of time, which could easily be overwhelming for you as our client. Our program will be based upon the "diagnose and then prescribe" methodology (explained more on pages 8-9). We will assess what we believe you need, when you need it, and to what depth. For instance, is it section two and four of 'Rapid responsibility' or all of it? What delivery method do we recommend—written text, video, masterclass, or one-to-one? What takes precedence as the highest priority?

I have had the privilege of informally testing various aspects of this program and the feedback to date has been really encouraging. Whilst it is still very much a work in progress rather than a work of art it is now quickly starting to come together.

No other financial planning organisation has ever attempted to provide such an overarching, comprehensive, and integrative program for their clients. I firmly believe this provides us with a unique position in the market. For me, this embodies how I always thought financial planning should be – closely connected to the life of each client. It will certainly make all our lives better and as the saying goes: "You can never do wrong by doing the right thing."

The trepidation has gone and now I am simply excited to see the positive impacts we can make.

Our program will be based upon the "diagnose and then prescribe" methodology. We will assess what we believe you need, when you need it and to what depth"

Find out more

If you're new to Equilibrium, call us on **0161 383 3335**. If you're already a client, please reach out to your usual Equilibrium contact.

Diagnose and prescribe

Our experiences don't just treat the symptoms; they look for the cause as well.

The well-known saying “prevention is better than cure” remains just as relevant today as it was when it was coined by Dutch philosopher Desiderius Erasmus in the 1500s. With our suite of experiences, we aim to uphold this principle and provide our new and long-standing clients with immeasurable financial health benefits.

The importance of early diagnosis and its potential value was evident in a recent meeting with two potential clients, whom we will refer to as John (age 57) and Sally (age 55). John, who works at Astra Zeneca, earns a salary of £250,000, along with a £50,000 bonus and share options valued at £450,000. While he enjoys his job, it can be quite stressful, and Sally believes he should consider retiring soon. However, John is hesitant, as he worries about losing his sense of purpose without work.

In addition to his job, John also owns 50% of a family business with his brother. This business typically pays an annual gross dividend of £350,000 and is currently being sold for £12 million, with John expecting to receive net proceeds of £5 million. John's brother manages the business on a day-to-day basis, and John's relationship with his brother's wife is strained.

In terms of legal documentation, the business lacks any safeguards for its shareholders, leaving them vulnerable. Additionally, both John and Sally have yet to establish wills or powers of attorney, leaving their personal affairs unprotected.

Throughout his career, John has accumulated a final salary pension (also known as a defined benefit pension that pays a guaranteed annual income for life) which is estimated to pay him £50,000 from age 60, as well as a money purchase pot (also referred to as a defined contribution pension to provide income in retirement) valued at £375,000. However, he has paid little attention to these assets over the years. Together, John and Sally have amassed £1 million in cash savings, with no specific plans for it. They have

no mortgage and no immediate plans to move from their home, which serves as a thriving family hub for their three married children (aged 28, 30, and 33), who between them have three children of their own and another on the way.

While the traditional approach of a financial planner would involve proposing suitable investment products and tax planning after the initial meeting, we believe that is merely a basic requirement. This is where our Equilibrium experiences, based on the concept of "diagnose and prescribe" truly shine.

The life plan serves as the starting point for our initial diagnosis (see 'This is your life plan' on pages 12-13). Through further conversations, we will then create an initial prescription with a timeline for the treatment plan.

As the sale of John's business progresses smoothly, there is no immediate need for our "Setting sale" experience. However, if the sale falls through, it may be worth revisiting, especially considering John's strained relationship with his brother's wife and lack of shareholder protection. It may also be beneficial for John to bring his mother, Carol (age 82), to our "Care conundrum" masterclass, as she is a widow living alone in her home of 50 years.

Given John and Sally's current hectic lifestyle, it will be crucial to manage the pace at which they take their medication for maximum effectiveness. The initial prescription can be tailored and adjusted throughout, based on their priorities and desired speed of progress.

The case of John and Sally exemplifies the importance of the order in which the treatment plan is implemented. While the content may be similar for each experience, the personalised dosage aims to ensure a clean bill of financial health for our clients.

The example used in this article is for illustrative purposes only, but it is based on a real-life scenario.

For your diagnosis and prescription, please reach out to your usual Equilibrium contact or alternatively if you're new to Equilibrium, please call us on ***0161 383 3335****.*

Patients name: John & Sally

Plan Year	Diagnosis	Prescription
Initial	Sort out basic legal needs such as the will and pension nominations.	Law in order (light dose)
1	With potential cash to invest of £6 million and little investment experience, it will be important that John and Sally have the necessary guidance to help them understand the fundamentals. It will also be key for them to understand the psychology and financial behaviours associated with investing.	Volatility – victim or victor Money and your mind
	It will be valuable for John and Sally to recognise the importance of establishing powers of attorney.	Law in order (Power of attorneys masterclass)
	Revisit first year treatment plan and adjust dose where necessary.	This is your life (repeat prescription)
2	The need for clarity around what is important for the family by having courageous conversations with the children. Furthermore, it is crucial to consider how this can be effectively integrated into the realm of inheritance tax planning.	Nearest and dearest Inheritance tax – the bottom line Gift of giving
	Review to ensure treatment is still effective.	This is your life (repeat prescription)
3	Consider what retirement might look like for John and Sally by understanding their accumulated retirement provision. This will then bring financial clarity to their plans ensuring they transition into retirement with a purpose.	Relishing/resisting retirement
	Discuss their investment journey so far to ensure they remain comfortable.	Volatility – victim or victor Money and your mind
	Check the plan is still appropriate and that legals are still suitable.	Law in order This is your life

EQUILIBRIUM

Masterclass

Masterclasses in momentum

Our masterclasses have been a huge success but for those who haven't yet been to one, here's what you can expect...

Keeping our clients informed has been a core part of what we do here at Equilibrium and since our inception 28 years ago, this has largely been achieved through seminars. In fact, the first seminar Colin hosted was in 1997. It was entitled 'Live well and leave a legacy' and we still run a developed version of it today - **Live the life you want, look after those you love,** and **leave a powerful legacy**. The seminars ran on a grand scale and would often accommodate over 50 attendees at a time, typically in a large hall.

The new masterclasses are an evolution of the old seminar format, one that would feel very different from what you may have experienced before. The topic of each masterclass is driven by the experiences one may face in life (as spoken about on pages 4-7) and demands a mix of learning, personal reflection, and sometimes clear action. Aimed to be more informal in nature, with numbers capped at 16, we knew we already had the perfect space to host these events - where else but our head office, Ascot House!

“We believe our latest evolution provides a richer opportunity to make people’s lives better”

This set up enabled us to respond to questions and answers, offer a wider picture of the subject matter, including real-life case studies that people can relate to, and ultimately, explain the ‘why’ behind the importance of each topic. We believe our latest evolution provides a richer opportunity to make people’s lives better.

With current topics covering essential planning around Powers of Attorney and the Care Conundrum, we felt it was vitally important to encourage interaction among attendees. A presentation simply on the cost of care is useful but a masterclass on funding care and how a care plan can look, with live discussion and sharing of stories, is invaluable. We are incredibly fortunate to look after over 1,300 clients and each has incredible stories and insights that make these experiences even more powerful.

To date, we have hosted 11 masterclasses, and it is no exaggeration to say that every one has been different as we tailor it to the audience on the night or more recently, the morning. The feedback received after each event has also highlighted attendees’ preferences for the masterclass format and of being heard, rather than simply being presented to.

What to expect on the day...

You will be met at the door by one of our friendly team members, who will escort you to our common area known as “The Mess” – obviously we are not a military organisation, but the name just fits our hub of activity. Before the presentation there’s time to help yourself to a variety of food and drink and mingle with other attendees.

The presentation itself lasts no more than an hour where you will be invited to share your thoughts and discuss the topic along the way. At the end, there will be a question and answer session for those who choose to stay.

What to expect in the future...

Equilibrium’s overarching plan, at the time of writing, is to have over 12 experiences in play by the end of next year. With topics ranging from ‘Relishing or resisting retirement’, ‘Rapid responsibility’, and ‘Law in order’, we strongly encourage clients to attend topics that matter to them. There are some we view as core, which everyone should attend, such as ‘Your life plan’, while ‘Setting sale’, is targeted to business owners and naturally more circumstance driven. The evolution from the traditional seminar format to a smaller, more bespoke one is intended to improve the experience our clients have with us and leave them feeling more informed about subjects that are important to them.

Would you like to join us?

Our current masterclasses run monthly with morning and evening sessions available. You can view availability and register your interest by either calling **0161 486 2250**, visiting **equilibrium.co.uk/events** or scanning the QR code.

We look forward to welcoming you to our next masterclass!

This is your life plan

Living your best life is something we all strive for, but how easy is it to put into practice? Transformation Team Leader, Catherine Dooley, tells us how.

Financial planning can be boring

Planning how to take advantage of tax relief, build a retirement pot or avoid inheritance tax, isn't the most exciting aspect of our lives. We know that it's important and has to be done at some point, but we keep putting it off for a rainy day because it's dull and boring and we'd much rather do something more enjoyable. Sound familiar?

Research has shown that having a **life plan** that focuses on your dreams and goals will increase your motivation levels, helping you to make progress towards what matters and improve happiness.[1]

So, is it possible to create a life plan and combine it with financial planning?

The good news is that the two go hand in hand. But there's more to it than asking yourself: "How can I reduce the tax I'm paying?" or "When can I afford to retire?"

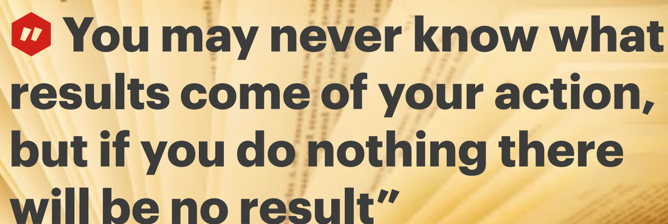
Creating a life plan requires a broader perspective. It goes beyond basic facts and figures; life planning is deeply personal. We need to ask more meaningful questions, be open and honest, and occasionally confront some hard truths.

Living the life you want - goals, hopes, and dreams

Taking the time to work out what you really want to achieve with your money is key.

You may already have some goals in mind, such as buying a new car. By planning ahead, we can ensure funds are available in the most tax-efficient way, hopefully avoiding selling funds at an inopportune time.

But what about your aspirations? Instead of solely considering monetary needs, focus on envisioning how your future life might look and feel, based on what we know now.



> **"You may never know what results come of your action, but if you do nothing there will be no result"**
> *Mahatma Gandhi*

For example, we may ask a client approaching retirement:

Q: Over the first three years of retirement, what would you need to happen for you to consider it as a success?

"I want to complete my master's degree in..."
"I want to visit my brother in Australia."

Q: How does your perfect week look?

"Pick the grandkids up from school, couple of days out, work on my university course and improve my golf swing."

Q: Is there anything you would be disappointed not to achieve in your lifetime?

"I have always wanted to learn to fly an aeroplane."

Fulfilling a lifelong dream has shown to be beneficial for our wellbeing and can help us focus on achieving our dreams as opposed to thinking: "How much do I have?"

Looking after those you love

Having more than just a family tree and a list of your assets will help us build a clear picture of what you value and what motivates you. We may also uncover areas you haven't considered before but now need building into your plan. Questions we may ask:

Q: How would you like to support your loved ones now and in the future?
Q: What are your children's biggest financial concerns?
Q: Do you have any concerns about helping them?

There may be some difficult decisions you wish to place on the back burner or conversely, ones you wish to tackle head-on. See our related website article on 'Courageous conversation' (equilibrium.co.uk).

Leaving a powerful legacy

You may wish to leave a long-lasting legacy that benefits the people and/or causes closest to your heart.

Maybe you want to ensure that your grandchildren's and great-grandchildren's education needs are catered for or perhaps you want to leave your own philanthropic legacy, in which case, we will arrange a meeting with our philanthropic expert, Andrew Evans.

By acting today, we can help to minimise the amount of tax you're currently paying and will pay in the future, so your money can make an even bigger impact.

Q: Who would you like to benefit from your money when you're no longer here?
Q: What impact do you hope to make?

Mind over money

In crafting a financial plan, we must acknowledge that no investment comes without risk. Every financial plan will involve an assessment of the level of risk you need to take to achieve your goals. However, not all plans include a discussion about how you might feel in times of market volatility. We know this can have a huge impact on your emotions and ultimately the decisions you make. Pre-empting problems before they arise is an integral part of getting the life plan right.

Q: What worries you about your finances and why?
Q: Have you ever made and later regretted a decision regarding your investments?

We can agree how to communicate news about changes in markets effectively, without causing undue worry, and what level of information you need to make decisions around finances, i.e., some people prefer lots of detail while others just want the headline facts.

We can better understand how much input you want or need to stay on track. Do you prefer a light touch approach, or more frequent touchpoints at certain times, such as when markets are volatile?

Adapt and compromise

A robust plan must be adaptable to accommodate growth and changes in circumstances, whether that's due to personal or external factors.

Delaying these decisions and conversations may lead to making poor choices and create unnecessary worry. Planning ahead and recognising that you need to expect the unexpected, while accounting for these possibilities, will allow you to have confidence in your financial future, regardless of what challenges arise. For example, if things don't go to plan:

Q: Are you willing to continue working if needed or are you prepared to downsize?
Q: What can you compromise on or where can you reduce spending?

We will also agree what level of emergency fund you need to handle any unexpected expenses that life throws at you.

The hard truths and nothing but the hard truths

For a plan to work we will explain the limitations, ensuring we don't over promise or under deliver. We'll also be clear about the consequences of not sticking to the plan!

For example, if you continue to spend at the same rate, your funds will be depleted in xx number of years or conversely, if you don't spend the planned amount per year, your IHT liability will increase to xx amount over xx number of years.

Q: What's stopping you from achieving your goals?
Q: What's getting in the way of doing what you said you'd do?

In summary, your life plan will be a guide for creating the life you want to live. It will empower and inspire you to take action. One thing's for certain: it won't be dull or boring!

This article is intended as an informative piece and should not be construed as advice.

*To start making your life plan today, call us on **0161 383 3335** or reach out to your usual Equilibrium contact.*

(1) Action for Happiness - www.actionforhappiness.org/take-action/set-your-goals-and-make-them-happen

Bank of Mum and Dad

Never has the Bank of Mum and Dad been in such demand. Chartered team member, Mark Barlow, addresses some of the parental decisions you may be faced with.

Trust forms the bedrock of any successful relationship, and this holds true for the bond between banks and their customers. A recent survey conducted by GFT[1] revealed that almost half of British bank customers lack faith in their banks' ability to assist them in navigating their finances during a recession. However, there is an exception to this trend, and it has garnered rave reviews.

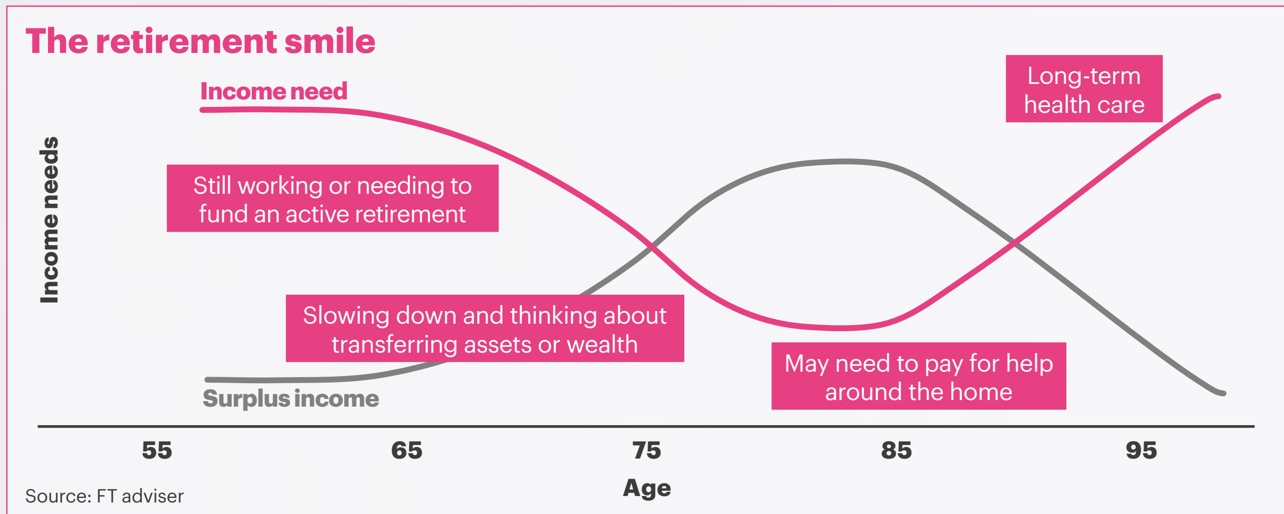
This exceptional establishment is none other than the 'Bank of Mum & Dad', which has long been known for its flexibility in extending credit lines and repayment structures. The traditional model involved gradually reducing withdrawals over time, culminating in a potentially substantial financial withdrawal through inheritance.

Does this sound familiar? Is this truly the most advantageous method of making withdrawals? Is it not an outdated approach to running a 'Bank'?

According to The Times, parents typically authorise withdrawals amounting to £202,660 throughout their child's formative years until they turn 18. In later years, parents may also assist with university expenses and house deposits before witnessing a reduction in withdrawals as their investment begins to bear fruit and becomes self-sufficient.

As the withdrawal rate from the Bank of Mum and Dad dwindles, the financial focus shifts towards retirement. At Equilibrium, this phase assumes great significance as the focus transitions from

> **"The average cost of raising a child to age 18 in the UK is now a staggering £202,660"**
> *The Times*



accumulation to decumulation. Regular meetings with your financial planner to forecast cash flow can breathe life into your retirement plans and instil confidence in your financial future.

Chartered Financial Planner, Ben Harrison describes the journey of spending in later life as the 'retirement smile'. He explains: *"In the initial years of retirement, individuals tend to spend more as they check off items from their bucket lists. After a few years, they may choose to slow down, leading to a decrease in expenses."*

It is during this phase of slowing down that you may find yourself accumulating wealth once again. But could this surplus income be put to better use?

The dilemma of childcare

After fulfilling their role as the CEO of the Bank of Mum and Dad and settling into retirement, parents witness their children flourish in various aspects of life, be it their careers, relationships, or becoming parents themselves.

The joy of being a grandparent is a magical experience as you bask in the pleasures of retirement. However, it is at this juncture that your children may require your assistance more than ever.

Every family is unique, but the average UK family now consists of 1.7 children, 1.4 parents, and half a dog[2], all of whom require careful budgeting.

According to data from the National Vital Statistics System, the average interval between the birth of two children is between two and two-and-a-half years, resulting in significant financial outlays during the early years. Let's examine one of the most substantial costs that families face - childcare.

The cost of childcare

According to the Coram Childcare Survey (2023), the annual childcare cost of 50 hours a week in a nursery setting for a child under two is £14,836, with only a marginal increase from the age of two.[3]

For a single parent with two children earning the UK average net wage of £26,735 [4], the cost of childcare would surpass their take-home salary. Even covering childcare expenses for a single child would be a challenge after paying household bills.

A report by the charity 'Pregnant Then Screwed' revealed that one in three families relying on formal childcare resort to some form of debt to meet these costs. Additionally, over three-quarters of mothers (76%) paying for childcare believe that it no longer makes financial sense for them to work. However, for parents who choose to give up work, this decision comes at a cost both professionally and personally.

Christine Morris, a long-standing client of Equilibrium and a mother of six and grandmother of twelve, understands the financial burden of childcare all too well. After a few years of settling into retirement Christine became aware of her surplus income during a cashflow planning meeting with her Financial Planner, Tim Latham. It had never occurred to her that this surplus could have a profound impact on her family until Tim presented the myriad of opportunities this could provide for Christine and her family.

After engaging in thought-provoking conversations, Christine discovered that her daughter Vanessa was struggling with the cost of childcare after giving birth to her daughter Paige six months earlier.

"I spoke to all my children, and it became evident that Vanessa was torn between returning to work full-time and covering childcare expenses. We agreed to assist with the cost of childcare for a few years, and the difference it has made has been truly remarkable."

Vanessa initially returned to work part-time at a large accountancy firm but thanks to the additional financial support for childcare, she was able to establish her own company Morris Accountancy Services Ltd and now solely works for herself.

"Having this additional support opened up a world of possibilities for me. I now have a tremendous sense of purpose in both my family and professional roles, which has had a profoundly positive impact on my work-life balance."

This article is intended as an informative piece and should not be construed as advice. To speak with one of our experts, call us on ***0161 383 3335***.

(1) GFT UK Banking Disruption Index
(2) Mr Men Research
(3) Coram Family and Childcare 2023: GB
(4) Office of National Statistics - average mean

Planning for care

Chartered financial planner and presenter of the 'Care conundrum', Tim Latham, talks you through the vital components of his masterclass.

Care is important. Everyone is concerned about it. Some might need it for themselves, whilst others may need to care for loved ones. In the care conundrum masterclass I host, I highlight that Bruce Willis, aged 68, is sadly suffering from dementia. This reminds us that anyone can be affected, even a 'die-hard'.

With a government report stating that 69% of people will spend an average of three years in long-term care[1], it is a

topic that, while it may be difficult or depressing to discuss, requires appropriate planning and attention.

The care conundrum masterclass is split into two main sections. First, I highlight how we can fund the cost of care and the different options such as, 'pay as you go' or using a long-term care annuity. This is an important starting point because the average cost of high-quality care is £56,000 per annum.[2]

Under current legislation, you would be expected to pay for your care fees if your assets exceed £23,250. This, of course, depends on the assessment by your local authority, but it is safe to assume it would catch all our clients. What became clear when I was preparing for each session, was that all attendees could afford the cost of care if required. (If you are reading this and unsure if that applies to you, why not register your interest to attend our next session and see for yourself?)

The topic of care is about numbers and feelings, or *"hearts and charts"*, as we like to call it at Equilibrium. After demonstrating to everyone in the masterclass that they could afford care, the majority were still of the view that they would prefer not to go into a residential home. So, it made me question the old saying: *"If you've got enough money to solve the problem... you haven't got a problem"* - but is that really the case?

In the second part, we explore the equally important role of prevention and self-care. There are numerous studies that hope to find the key to a healthy long life. For example, fish oil (DHA & EPA) can lower the risk of cognitive decline, especially in people at high risk for Alzheimer's disease.[3] Or, if anyone has seen the recent Netflix series called "Live to 100: Secrets of the Blue Zones", Dan Buettner focuses on five communities whose diet and way of life have helped produce the most centenarians in the world. I can assure you that all the recommended lifestyle changes are far cheaper than paying for the cost of care!

"Fish oil can lower the risk of cognitive decline"

In my experience, what tends to be a barrier for those planning around care is that we often think about the end game, nursing care. However, in my view, there are steps to consider before that.

Step one is simply, non-health-related care at home. That is, getting assistance for day-to-day activities and chores such as housework. Too often, I see clients come in for meetings complaining of aches and pains following chores such as cleaning the gutters or painting a room when they could afford to pay someone else to do it, especially the ones we don't enjoy or the ones which could worsen our conditions.

Step two then looks at health-related care at home, whether that's paying for one-to-one physiotherapy or even paying for the use of private healthcare, where expedience and necessity call for it. We discuss the merits of more traditional care planning, such as downsizing for mobility purposes or better preparing for care at home, in comparison to the ever-growing retirement village communities that are appearing across the UK. These are all valid considerations before the latter options of care at home, residential care, and nursing care.

What is becoming increasingly clear at each masterclass is the lack of discussion between the generations of each family around their preference of care. Some have had the difficult experience of having to care for their own parents and navigate through the system without prior knowledge of their parent(s) preferences.

Many people are adamant about receiving care at home as opposed to going in a home. Some see it as a tradition for children to look after their parents when care is required, while others would prefer professionals in their home. So, I leave you with two questions: *"What does your care plan look like?"* and *"Do your children know what it looks like?"*

What is essential with a topic as sensitive as this, is that it's not just about the financial aspect. It is crucial to have open conversations with your loved ones, clearly outlining your wishes and needs for the future (see example).

*This article is intended as an informative piece and should not be construed as advice. To register your interest for our next 'Care conundrum' masterclass call us on **0161 486 2250** or visit **equilibrium.co.uk/events.***

Letters of love example

"I do not wish to go into a 'home' and unless I tell you otherwise, this is to remain my intention. Obviously, if I become a danger to myself and others through dementia you will have little choice; the considerable pension I enjoy from Dad should cover 24-hour care and nursing in my own home. Please do not feel you can save money by doing this yourself as this is unrealistic and will lead to unhappiness for both the family, the carer, and me.

"If eventually and in extremis you all decide I cannot live at home, then I expect the care home to be of an extremely high standard with excellent food and wine."

To view the article in full visit **equilibrium.co.uk/letters of love** or scan the QR code.

(1) "How much care will you need?" – longtermcare.gov
(2) Age UK- paying for a care home
(3) "The secret to great health? Escaping the healthcare matrix" - page 10, source 29 (McKinsey Health Institute)

Probate done properly

Whether you decide to deal with probate yourself, appoint a solicitor to do it for you or use an adviser on an ad hoc basis, we can help you every step of the way. Chartered Financial Planner, Paul Farrugia, explains how.

Putting our personal (or commercial) affairs in order is probably at the bottom of the list for most of us, as it forces us to think about the unthinkable.

However, leaving it for a rainy day can lead to unintended consequences for your family (and/or business partners).

At Equilibrium we can relate to the difficulties families face when dealing with the death of a loved one. We've witnessed many situations that could have been avoided or simplified, so our aim here is to help all our clients to 'get their affairs in order', saving you time, money and worry down the line.

Let's start with your legal documents – do you know where they all are?

To make life a little easier for those dealing with your estate whilst grieving, it would help them to have all the relevant information to hand. This is where we come in - we now offer a document storage facility where ALL your essential documents can be held securely, giving you peace of mind that they are safe and in one place.

Simple. Secure. Stored.

Your essential documents include your wills, power of attorney documents, pension nomination forms, trust deeds and of course, the all-important "letters of love" (letters of wishes).

We will make sure that we have ALL the contact details for your executors, beneficiaries, trustees, and attorneys. Often a will just contains an address and the individual may well have moved, therefore, we will also collect contact numbers and email addresses.

Traditional contact methods may not work on occasion if, say, a beneficiary is in care, therefore

we recommend nominating a secondary point of contact as a backup.

Audit

Before we store your documents, we will identify any that we believe are missing or out of date. For instance, you may have a lasting power of attorney (LPA) for financial decisions but not an LPA for health and welfare. In truth, we go much deeper than this by clarifying what powers you want your attorneys to have and when exactly you would like them to act. This clarification can avoid conflicts between your attorneys by giving context to your wishes.

When conducting a document audit, we look beyond what's written and consider the consequences. Some of these circumstances are specific, based on our experience in dealing with similar situations, however, some will apply in almost all cases:

- Checking you have all the relevant documents.
- Recording where the originals are stored.
- Checking that the executors, trustees and/or attorneys are aware of their roles (and more importantly, that they have the right information and knowledge, as well as the time, to complete them).
- Are the relationships between these people likely to cause difficulties in the future?
- Making sure the beneficiaries are clearly defined and remain relevant.

Giving executors, trustees and attorneys clear instructions is vital as these are unlikly to be set out in a will. We recommend a letter of love *(see our website blog or scan the QR code below)* to explain not just the "what" but also the "why" behind the decisions made.

What we will provide:

- Our expertise and experience dealing with probate.
- A comprehensive probate service.
- Free registration with The National Will Register.
- A receipt confirming all your documents that we hold (and with your agreement sent to executors/ trustees and attorneys as required).

What we need from you:

- Details of bank accounts and assets held elsewhere.
- Details of other professionals you deal with e.g., your accountant or solicitor.
- Your original documents (if not stored elsewhere).

Dress rehearsal

Before accepting the documents, we will undertake a full dress rehearsal to make sure that everything works in practice and still reflects your current wishes *(see our recent blog Law in order or scan the QR code below)*. In the case of a couple, we will choose whose death to rehearse and whilst both will be in the meeting, only one will be able to answer!

We will highlight any assets or aspects of your affairs which could be problematic during probate or cause extensive delays. This can include who gets what in accordance with the will, what will pass on as a jointly held asset, and how pensions will be distributed.

As part of our service, we will provide an inheritance tax review, highlighting assets that are inside and outside the estate, calculating any tax to pay and in practice, how it could be paid.

The dress rehearsal will also encompass cash flow planning to provide financial confidence that the survivor's standard of living can be protected and if not, highlight the steps that can be taken to address this.

This article is intended as an informative piece and should not be construed as advice.

Scan the QR code or visit **equilibrium.co.uk/letters-of-love**

Scan the QR code or visit **equilibrium.co.uk/law-in-order**

We're here to help

If you're unsure whether probate applies to you, please call us on **0161 383 3335** and one of our experts will assist you every step of the way or alternatively reach out to your usual Equilibrium contact.

Investment reporting and poking the Chimp

Investment Manager, Mike Deverell, introduces the new changes to our investment reporting and explains our reasons for doing so.

There's a phrase we often use in the office: "don't poke the Chimp!" At Equilibrium, we are big fans of "The Chimp Paradox" by Professor Steve Peters. In his book, Peters explains that we cannot always control how we react to new information or events.

Whilst our "human brain" can analyse things in a rational, detached fashion, often our initial reactions to stimuli are more emotional and "animalistic." Peters calls this our "Chimp."

Our Chimp brain works quickly as it is based on instinct, which can sometimes be helpful (if you're in the jungle and you see a tiger, for instance). However, these emotional reactions can lead us to make poor decisions in today's modern world.

Peters says that to control our Chimp we need to understand it rather than ignore it. It can even be helpful to name it. For example, Equilibrium founder, Colin Lawson, calls his "Igor" (coincidentally I call mine "Colin"!).

If I want Colin (our founder) to agree to something within the business, it pays for me to appeal to his "human" brain and avoid poking Igor!

Portfolio reporting

So, what does this have to do with investing?

Numerous studies have shown that humans tend to have strong, emotional reactions to investment losses. These negative emotions are perhaps twice as strong as the positive feelings we have when we make gains. [1]

However, if we want to achieve returns above cash, we need to take some risks. Investors will inevitably experience losses from time to time, but investing should be for the long term.

In fact, the more frequently you look at your portfolio, the more likely you are to experience losses.

Let's look at the S&P 500 (the main US stock market) where we have the most data. Between 1951 and 2022, 53.6% of days were "up days" and 46.4% were "down days".[2]

If you held an S&P tracker and looked at your valuation daily, you'd experience a loss almost half of the time!

The less frequently you check your portfolio, the less likely you are to experience a loss.

Chart one shows how frequently the S&P 500 was positive over various time frames from 1926 to 2021.

Those investors who checked their portfolios monthly would have experienced losses more than a third of the time.

However, leave 12 months between portfolio reviews and 75.7% of periods were positive. Leave it 20 years and 100% of periods saw gains!

Triggering your Chimp

Why do we send you a valuation each quarter? In doing so, we may have unnecessarily triggered your Chimp.

We originally reported in this way because we needed to review portfolios and make changes to align with target positions. However, this is now done daily for most clients who are in the IFSL Equilibrium funds.

We have also historically reported your percentage returns net of all financial planning and platform fees, and investment management charges. There are two problems this can cause:

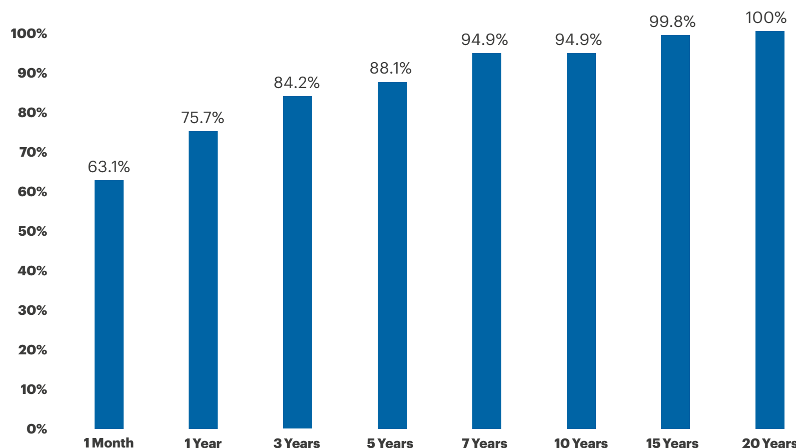
1) We are inadvertently asking you to judge our financial planners solely by investment returns. But these return figures don't consider tax savings through tax planning, cash flow forecasting to provide confidence in the future and any intergenerational planning.

2) It makes it difficult for you to assess our investment performance. If we report performance net of financial planning and platform fees, then we ought to adjust any benchmark to consider such fees as well. To put it another way, if our financial planners had recommended a different investment manager or platform then the financial planning and platform fees would still be charged.

Further to this, we reported on money-weighted performance which adjusts returns for the amounts you add and withdraw from your portfolio.

This can be more accurate in many ways, but it can also be misleading when looking at relative performance and cannot be compared to a benchmark where returns are shown as simple time weighted. Your return is influenced by the exact timing of contribution and withdrawals, which can make a big difference especially if the amounts are large relative to the overall value of the portfolio.

Chart one: Frequency of positive returns - S&P 500 (1926-2021)



Source: awealthofcommonsense.com

Separate reporting

Given the above factors, we have decided to separate out the reporting of Equilibrium Financial Planning (EFP) and Equilibrium Investment Management (EIM).

We are looking to phase out quarterly valuations although you can still access your valuations via our portal. EFP will continue to provide an annual update as part of your financial plan review.

EIM will enhance their quarterly investment reporting to provide more information about performance in relative and absolute terms.

We already hold quarterly market updates and we will enhance this by providing more written and video content. It is then your choice whether you wish to look at this content.

Answering the key questions

Our reporting will always aim to answer three common concerns:

1. Am I ok and will my finances survive the market ups and downs? *EFP*

2. Are you doing ok compared with relative benchmarks and other investment managers? *EIM*

3. What actions are you taking? *EFP & EIM*

There's a big difference between market returns, investment performance and results. **Markets** are beyond our control – they happen to us. **Performance** is how we do relative to benchmarks or other investment managers. **Results** are what you end up with – after the inflows and outflows, timing of contributions and withdrawals, changes made, and any planning carried out together.

In future, EIM will report on markets and performance and EFP will report separately on your results. This shift will hopefully keep your Chimp under control and your human brain in check!

Past performance is for illustrative purposes only and cannot be guaranteed to apply in the future. This article is intended as an information piece and does not constitute a solicitation of investment advice.

(1) Loss aversion (behavioraleconomics.com)
(2) Stock Market Yo-Yo (pcrestmontresearch.com)

A response-able investor?

You may have invested responsibly over the years, but do you also possess the six attributes of a response-able investor?

Of course, you are a responsible investor! You have control over your finances and are careful about where you place your money for growth. You are comfortable in your level of risk and keep yourself abreast of market news to maximise returns. In fact, if you do say so yourself, you can be credited for the many benefits that you and your loved ones have enjoyed from your ability to manage money so responsibly to date.

What if we pose a different, perhaps a more helpful, question?

Are you a response-able investor?

A response-able investor is exceptionally well positioned to ensure that their finances grow and thrive. How? Because they can respond both quickly and positively (the combination here is key) to an external stimulus.

When the world changes, and let's face it, the stimulus on the markets has been plentiful over the past few years, then it is vital to respond in a way that is informed, rational and dispassionate, rather than reacting out of urgency.

Take a moment here to pause and reflect, honestly, on how you may habitually react to market changes.

The response-able investor does not 'react' spontaneously to changes in the market. Instead, they are equipped to ably 'respond.' The former is an action of speed and low consideration. The latter is an informed place of choice and information, enabling a balanced and healthy decision to be made.

At this point, it seems only logical to point out that we are 'Equilibrium' both in name and by nature. Our very existence is to ensure a balanced state where opposing

A response-able investor is exceptionally well positioned to ensure their finances grow and thrive"

forces are in play. It is our aim to equip every single one of our clients to become able to respond and not to react when things change, whichever direction the markets turn.

When opposing forces threaten to become unbalanced, the response-able investor can affect and maintain the state of equilibrium.

Being a response-able investor has one single, significant and undeniable benefit - it helps you to protect your investments by being better able to maintain a balanced, dispassionate response when the market – or the world – changes.

So, how do you come a response-able investor?

Our investment team and our financial advisers see clients every day who gain (quite literally) from being a response-able investor. They tend to display the following six attributes:

1. Mind the gap

Investing successfully means marrying and managing the complexities of your life and personal needs with the complexities of the wider world and chosen investment.

Like it or not, our money is linked with our emotions. 'Mind the gap' between the two by creating an action plan in advance for when the challenging period hits so that, when it does, you are making decisions while clear-headed, not once emotion takes hold.

The response-able investor:
Accepts that when reviewing performance, emotion will affect their perspective. They have considered, in advance, how changes in the market may trigger changes in their emotion.

2. Break the bias

Being human, our psychology determines and defines how we behave. Becoming self-aware of the behavioural biases associated with investment, helps us to remain balanced. Understanding our own herd behaviour, our susceptibility to anchoring or self-attribution for example, will prepare you for not being triggered by the market. Taking the time to know your own psychology can have a huge payback. See our related article 'Unlocking your financial DNA' on pages 26-27.

The response-able investor:
Not only acknowledges but actively practices positive behavioural investment. They are aware of the biases and look to form new, more helpful habits.

3. Know your bulls vs bears

As Warren Buffet, the sage of Omaha tells us: "The stock market is a device for transferring money from the impatient to the patient."

You WILL experience market drops and investments WILL fall in value. They're not fun but they don't last forever and at some point, they WILL eventually recover.

The facts are that the longer you leave your investment, the better your odds for a positive return. Knowing the realities around bear and bull markets is helpful.

A 'bear market' is defined by Investopedia as a period when markets fall from peak to trough by 20% or more. The average bear market fall lasts 289 days with a 37.3% dip.[1]

A 'bull market' is a period when stock prices increase, usually by 20% or more over a minimum of two months.[2] Historically, bull markets last on average over five years and bring a 198% return.[3]

The response-able investor:
Grounds their investment in the figures around the pattern of the bull and bear market. They know that checking their investments daily will not support them.

4. Beware of apples and pears

There is a huge danger in making comparisons, especially in defaulting to oversimplified labels such as 'returns' or 'against the FTSE.'

The term 'investment' covers a phenomenally wide range of activities, all with the same objective to generate profits. However, that is the only commonality they share.

While investing in a newly formed company may triple your money over one or two years, the risk levels are high; 60% of new businesses fail in the first three years.[4] Compare this to investment in a global company and your expected levels of both risk and returns are lower.

The FTSE 100 is often used as a common yardstick for investment performance. The reality is that modern portfolios are not usually invested solely in an index but include an array of other investment types, across multiple sectors around the world.

The response-able investor:
Avoids comparing apples with pears and is sure to select an appropriate and equivalent benchmark for measuring performance.

5. Beyond the bottom line

Look through the bottom line to the actual amount of return you will receive. It is impossible to invest without incurring costs, such as stamp duty on shares, platform and/or fund charges.

When comparing investment performance returns with any benchmark, competitor or alternative, it's worth being aware that they will likely not reflect fees or taxes that apply, thereby overstating their return.

This is particularly relevant when considering property investment where taxes and costs of ownership are high.

Investment performance can also be skewed if you make additional contributions or take withdrawals.

> **"As is the case of life, when it comes to investing, timing is everything"**

For example, if you invest £10,000 at the start of the year and the investment increases by 10% over 6 months, you will see an increase of £1,000. When added to your initial investment this makes your total now worth £11,000.

You then invest a further £10,000, bringing your total to £21,000. Over the next 6 months the investment drops by 5%. Remember, it went up by 10% initially so after the 5% drop it is still up 5% over a year.

However, you have £21,000 invested at the 6-month point so when the investment falls by 5% your £21,000 drops to £19,950.

This creates a strange situation where the return is up by 5% over a year but you haven't made any money and, in this example, have made a small loss!

The response-able investor:
Is mindful of taxes, charges and flows of money when comparing performance to an alternative.

6. Timing is everything

As is the case in life, when it comes to investing, timing is everything.

When comparing investment performance, it's vital that you are precise and consistent with dates. The performance of one portfolio will be very different to another if the time period being assessed differs, even slightly.

For example, had you invested in the FTSE AllShare over the previous full tax year ending 5 April 2023, you would have seen a total return of 2.27%.

However, if you had invested in the FTSE AllShare over the 12 month period ending 1 August 2023, you would have seen a return of 5.82%, despite the time periods overlapping by eight months.[5]

The underlying investment wasn't intrinsically any better or worse, it was the same but just over a slightly different period.

The response-able investor:
Ensures that performance comparison periods match precisely - to the day!

This article is intended as an informative piece and should not be construed as advice. If you have any further questions, please don't hesitate to get in touch with us.

(1) Stock market outlook nasdaq bear market sell-off yields recession (businessinsider.com)
(2) What is a Bull?Definition in investing, traits and examples (investopedia.com)
(3) History suggests S&P 500 hits 3000, next bull market takes it to 6000 (investing.com)
(4) How Many Businesses Fail in the First Year in the UK? (businessinsolvencyhelpline.co.uk)
(5) FE Analytics

Equilibrium Foundation Grant Awards

The Equilibrium Foundation, committed to making people's lives better in the community, introduced its grant awards program this year and the winners are...

With a staggering 34% of children in the North West of England living in poverty (BBC), the decision to centre our first grant awards on supporting charities that alleviate child poverty in the region was both compelling and imperative.[1] We take immense pride in revealing who received a share of the £60,000 pot:

Bare Necessities, Wilmslow

www. bntoiletrybank.org

Bare Necessities is a toiletry bank addressing the invisible crisis of hygiene poverty. Around nine children in every average UK classroom of 30 live in poverty. The collection and delivery of these essential products helps bolster self-esteem and overall wellbeing for children and their families. The grant will support their 'Give a Smile' and 'Give a Wash Day' projects, providing toothbrushes, toothpaste and laundry detergents.

Children Today, Chester

www.childrentoday.org.uk

Children Today provides grants, advice and guidance that allow children and young people (up to the age of 25) living with disabilities to access specialised equipment (including trikes, adapted buggies, powered wheelchairs, lightweight wheelchairs, bubble tubes, seating systems and tough beds).

Bolton Toy Library

www.boltontoylibrary.org

Dedicated to enriching disadvantaged children's lives up to the age of eight, Bolton Toy Library facilitates interactive play, lending toys, books, and specialised resources. It serves as a nurturing space for vulnerable families, offering essential support services alongside play opportunities. A Diversity Support Worker will be appointed using the grant, focusing on aiding non-native English-speaking families out of poverty.

Norbrook Youth Club, Wythenshawe

www.norbrookyouthclub.co.uk

This youth club provides a safe and fun environment where young people aged 6 - 18 can enjoy leisure and community activities. Their grant will be channelled towards enhancing kitchen facilities used for healthy cooking classes. Notably, these improvements will focus on ensuring accessibility for individuals with disabilities.

Home-Start Trafford, Salford & Wigan

www.hsts.org.uk

With a mission to provide support to families with young children facing poverty and debt, Home-Start has built a community network of trained volunteers and experts. Their grant will provide targeted aid for local families and will also sustain a part-time position dedicated to organising and distributing essential items.

Prevent2Protect, Salford

www.prevent2protect.org

This organisation is dedicated to reduce the number of children being recruited and exploited by criminal gangs through educational workshops. The main focus is providing their GANG for LIFE? Project to those aged 10-16. The grant will allow them to expand the reach and frequency of these workshops.

Swinton Lions Community Sports Foundation

www.swintonlionsrlfc.co.uk/community/foundation

Promoting healthy lifestyles and sports engagement, Swinton Lions Community Sports Foundation leverages Rugby League as a medium for empowerment. The grant will support the development of innovative programs across four targeted community hubs in Manchester, catering to those aged 7-18.

(1) bbc.co.uk

Find out more

The awards will have a different theme for each round of awards, enabling us to spotlight a range of issues depending on what we believe to be most relevant at the time. The applications are closed for 2023 but keep an eye out for our next theme in 2024.

For the latest information, visit **equilibrium.co.uk/charity/equilibrium-foundation-grant-awards**.

Unlocking your financial DNA

Just as our genetic makeup determines our physical traits, our financial DNA shapes our attitudes, behaviours and beliefs about money.

To invest successfully, one doesn't need a stratospheric IQ...What's needed is a sound intellectual framework for making decisions and the ability to keep emotions from corroding that framework"

Warren Buffet

It's fair to say that in the last few years, it certainly hasn't been a smooth ride for the investor. For some, it may have felt like an uncomfortable rollercoaster ride, others may have felt it was a never-ending loop-the-loop and what about the people who just wanted to get off altogether? The point is we all react to news and information in our own unique way.

Here at Equilibrium, we have always carried out a risk profile questionnaire (using a system called FinaMetrica) for all our clients at the outset before making any recommendations, but this is designed purely for the purpose of identifying risk tolerance. It does not consider psychological and behavioural traits – or put simply, one's needs and desires.
These are what we refer to as "the three pillars of risk", something which we believe can be harnessed through the discovery of your financial DNA.

Financial DNA is a system designed to ascertain an individual's distinct financial personality, behaviours and tendencies. Through a series of questions, like that of a personality test, the answers reveal how a person relates to money, reacts to unfavourable market conditions, makes financial decisions and manages their finances.

Take our Founder, Colin Lawson, for instance (see example opposite), he is extremely comfortable taking risks and tolerant of losses, and likely to recognise and balance emotional impulses with logic.

Understanding your financial DNA can indeed be a valuable tool for self-reflection and making better financial decisions. Here are some ways in which understanding your financial DNA can help you:

1. Define

Financial DNA refers to the unique combination of factors that shape our financial behaviours and attitudes. It encompasses our upbringing, cultural influences, personal experiences and even our personality traits.

2. Align

Upbringing and environment: Our family's financial habits and values play a significant role in shaping our financial DNA. If we grew up in a household where money was openly discussed and managed responsibly, we are more likely to adopt similar habits. On the other hand, if we witnessed financial struggles or unhealthy money behaviours, it may have impacted our financial mindset.

Cultural influences: Cultural norms and societal expectations can also play a part. Different cultures have varying attitudes towards money, such as saving, investing and debt. Understanding these cultural influences can help us recognise any biases or beliefs that may be limiting our financial growth.

Personal experiences: Our past financial experiences, both positive and negative, leave a lasting impact. For example, if we experience a financial setback, such as a divorce, illness or job loss, it may influence our risk aversion and approach to financial planning. Conversely, achieving financial milestones can boost our confidence and shape a more optimistic financial mindset.

Personality traits: Another contributing factor is our inherent personality traits, such as being risk-averse or risk-seeking (such as Colin). Some are naturally more inclined to take risks and seek investment opportunities, while others prefer a more conservative approach. Recognising our personality traits can help us align our financial decisions with our comfort levels.

3. Understand

It's essential to reflect on our financial habits, beliefs and emotions surrounding money. Ask yourself questions like: How do I feel about saving? Am I comfortable with taking risks? Do I have a scarcity or abundance mindset? Identifying patterns and triggers can provide valuable insights and help us make conscious changes if needed.

4. Leverage

Once we understand our patterns of behaviour, we can leverage them to make better financial decisions. For example, if we have a natural inclination towards saving, we can set up automatic savings plans to capitalise on this strength. If we tend to be risk-averse, we can explore low-risk investment options that align with our comfort levels, this can create a more sustainable and fulfilling financial future.

5. Break free

Understanding our financial DNA can also help us identify and challenge any limiting beliefs or negative money scripts that may be holding us back. For instance, if we have a scarcity mindset, constantly worrying about not having enough, we can work on shifting our mindset towards abundance and gratitude. By reframing our beliefs, we can open ourselves up to new opportunities and possibilities.

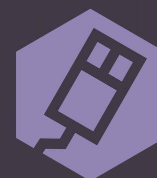
Our financial DNA is a powerful force that shapes our behaviours, attitudes and beliefs. By understanding and embracing it, we can make more informed financial decisions, leverage our strengths and overcome any limiting beliefs.

Remember, just as we have the power to shape our physical health through lifestyle choices, we also have the power to shape our financial wellbeing. So, take the time to explore yours and unlock the potential for a brighter financial future.

This article is intended as an informative piece and should not be construed as advice.

Find out more

If you're new to Equilibrium and would like to complete the Financial DNA questionnaire and receive a full report and analysis, please call us on **0161 383 3335**. If you're already a client, please reach out to your usual Equilibrium contact who will be able to arrange this for you.



“Trust me, I’m a Fellow”

Serving Equilibrium veteran, Fellow of the Association of Chartered Certified Accountants and Personal Finance Society, Chartered Financial Planner, and font of all knowledge... meet Nilesh Patel.

“It doesn’t make sense to hire smart people and then tell them what to do; we hire smart people so they can tell us what to do.”
–Steve Jobs

This is what Equilibrium does best; it hires smart people and just over fourteen years ago, it made one of the best business decisions to date, by hiring a young man named Nilesh.

Clients value Nilesh for his quick responsiveness, efficiency, and ability to simplify the complex, perfected by an extremely warm and down-to-earth manner.

Here we chat with one of our longest-serving members of the Equilibrium team...

"It doesn't make sense to hire smart people and then tell them what to do; we hire smart people so they can tell us what to do"
Steve Jobs

How did you come to work here?

"It's an interesting story. Originally, I came for an interview with Debbie Jukes (Head of Client Care) and Andrew Clarey (ex-adviser and former partner) who were at the start of their recruitment process so were unable to offer me an immediate post.

"At the time, I was offered a job with Cowgill Holloway in Bolton which I took but soon realised it wasn't for me.

"In the meantime, Debbie (via a recruitment agent) offered me a three-month contract to assist with the migration of accounts to a new platform provider, Nucleus. I was then offered a permanent position and the rest, as they say, is history."

What drew you to Equilibrium?

"When I joined, the team consisted of about 30 people, and I could tell from very early on that everyone knew each other well and the culture was the best I had ever experienced. Colin Lawson (our founder) was (and still is) inspiring and took pride in building strong relationships with clients, giving them confidence to spend their money rather than save it for "the future".

"The role here was ideal for me as I had both financial planning and accountancy qualifications and plenty of experience in new business processing, internal auditing, underwriting and training to name but a few."

What have you most enjoyed about working here?

"Feeling valued and appreciated and making a difference in client's lives. Above all, I enjoy doing the best job I can for my clients.

"I have particularly enjoyed training people, joining our Academy, which gave me the confidence to present to a wide audience, and dressing up as a penguin for our Christmas 'decorate your desk' competition!

"It was my 14th anniversary in August, and I can safely say that this is more than likely going to be my last role before retiring in the future."

Your job title is Associate Financial Planner, have you considered becoming a full-time financial planner at Equilibrium?

"I have thought about it, but my current role provides the best of both worlds – I am authorised to give advice and look after several clients (mainly on behalf of Colin and Andrew Hirst) but I also work alongside financial planners of high-net-worth clients which involves incredibly challenging reports and huge sums of money, where accuracy is key."

That sounds stressful...

"Experience helps but also confidence in my ability. It's all about backing yourself and knowing that your ultimate goal is to help the client in the best way possible."

What advice would you give a new member of staff?

"Come and speak to me for five minutes if you're unsure about anything. When team members come to me for help and I'm met with a slightly worried or anxious expression, I ask: "How long has it taken you to come over to me?" Invariably, if they're new to the business, their reply is usually: "Hours!" I usually respond with: "I am here to help; money cannot buy time and if there's one thing, I know I can do well, it's to save time."

What three words sum up how you feel about Equilibrium?

"Trusted, autonomy, appreciated."

Finally, what do you enjoy doing outside of work?

"My children (who are 16 and 12!) keep me busy, but I also enjoy watching football (Manchester City fan), cricket (obviously!), walking (I've rambled up Ben Nevis, Scafell Pike, and Snowdon over the last 12 months) and travelling."

Taiwan's fragile state

As the threat of war between China and Taiwan persists, Portfolio Manager, Neal Foundly, addresses the potential outcomes and perceived risks that investors may face.

If you are ever sightseeing in Taiwan's capital of Taipei and hear air raid warnings start to wail, don't bother heading to the UK embassy. There isn't one.

Equally, there is no Taiwan embassy (or ambassador) in London. This reflects the tenuous sovereignty of the country, which is laid claim by China, protected by the US but self-governed by the Taiwanese.

The threat of a Chinese invasion of Taiwan and the economic, political and military consequences if the US moves to protect the territory, has regularly been cited as global investors' number one risk.

No one except China's president, Xi Jinping, knows for certain whether he plans to invade Taiwan. The government has called for "peaceful reunification" but a speech in 2001 laid out long-term plans for "national rejuvenation" before 2049[1]. To be fair, this speech did not talk about invasion but defeating any move by Taiwan towards independence. In any case, Xi will be 96 years old by this time and it will probably not be his decision to make.

That said, China has been rattling its sabre loudly, especially in the last couple of years.

China's military has grown exponentially in the last decade[2] and they are buzzing around Taiwan, pushing the boundaries of airspace and territorial waters in what experts call a "grey zone campaign", remaining just below the threshold of acts of war.

> **Understandably, Taiwan remains on a state of high alert"**

Military invasion options are limited, however, as the country lies 100 miles off the Chinese coast (three times wider than the English Channel) and there are only around half a dozen beaches suitable for amphibious invasion because of Taiwan's rocky coastline.

China is also being aggressive on economic and political fronts.

China has vetoed Taiwan's applications to access many international organisations such as the United Nations and the World Health Organisation. Indeed, you may have noticed that at the Olympics, Taiwan's athletes cannot even parade their flag or play the national anthem on the podium.

On the economic battlefront, China has recently offered hefty incentives for Taiwan's experts to move to the mainland with one recent report suggesting that three thousand Taiwanese semiconductor engineers have relocated. Other tactics include cyber-attacks and even using Chinese TV and film actors to spread disinformation.

Understandably, Taiwan remains on a state of high alert. Every July, the country carries out its annual air-raid exercise which includes mandatory evacuation drills which effectively shuts the country down for 30 minutes. On 25 July this year, Taiwan's armed forces practised repelling an air assault on the country's largest international airport for the first time.[3]

For their part, the US has undertaken to protect the sovereignty of Taiwan's 24m population. This is enshrined in law through the Taiwan Relations Act and is broadly supported by US voters. In the last few years, the US has been building new naval bases in the Pacific Basin, particularly in the Philippines, although has procrastinated over supplying arms directly to Taiwan.

There are other complicating factors; Taiwan produces around 94% of the world's advanced semiconductors and any invasion would likely disrupt global supply.

The Russian invasion of Ukraine has demonstrated to China the potential economic damage and isolation that it can cause; any military failure would be a very significant loss of face for a Chinese leader and likely undermine the governing party's political power at home.

Putting this all together, what are the potential outcomes and how do we manage these risks?

The perceived risk of conflict is a key reason why many investors have sold their China shares and bonds resulting in higher financing costs for the nation's companies. In the last five years (to end July 2023, figures from FE Analytics), the US and Taiwan stock markets have returned 76% and 55% respectively, the China market is -16%.

A full military invasion would likely result in global recession as the nations of the world take sides, trade agreements are destroyed, and supply chains shattered. One study estimates that a single year of conflict between China and the US would cause US GDP to fall 5-10%.[4]

Peace, on the other hand, would result in an incredibly significant re-rating of China's (and global) stocks and lift global economic growth.

Between the extreme outcomes, there are many scenarios that could come to pass.

In January 2024, Taiwan will be holding a presidential election and the relations between the winner and the US will be critical. The best form of defence for Taiwan is to grow and flourish as an economy supported by the US. The election of a firebrand leader who is at odds with the US could leave it isolated.

As investors, we cannot invest for all scenarios. The main Taiwan shareholding in Equilibrium portfolios is the world's largest semiconductor manufacturer, TSMC, which is a critical supplier of silicon chips for global technology companies.

Our risk approach, like that of the Taiwanese people for the last forty years, is to assume the status quo continues but remain alert to changing circumstances, recognising that this local matter could quickly become a global issue.

Past performance is for illustrative purposes only and cannot be guaranteed to apply in the future.

This article is intended as an information piece and does not constitute a solicitation of investment advice.

(1) US-Taiwan Relations: Will China's Challenge Lead to a Crisis? Hass, Glaser and Bush, Brookings Institutional Press, Feb 2023.
(2) Economist, 28 July "Gimme Shelter".
(3) FT: Taiwan's military practises repelling Chinese attach on airport, 26 July 2023. www.ft.com.
(4) War with China: Thinking the Unthinkable, Gompert, Cevallos and Garafola, 2016.

Take a walk down Bond St.

Interest rates in the current environment don't just imply higher returns on cash, they imply higher returns on bonds too!

We all know that diversification is key when it comes to maintaining a balanced and resilient investment portfolio. Given the current economic landscape, we believe that bonds have an important role to play. However, bonds can be confusing, so we thought it would be useful to explain how each type of bond works and why we think now might be a good time to invest in them.

Gilts

These are often referred to as UK government bonds, where an investor lends money to the UK government, and in return, they receive a gilt. The gilt has a redemption date (date to maturity) at which point, the nominal value is returned (typically the amount it was originally sold for). However, during the term of the gilt, a fixed income is paid, known as the coupon.

Interest rates play a huge part in the price of a gilt. When the base interest rate rises, the price of gilts tends to fall and vice versa. This happens because existing bonds with lower coupon rates become less attractive and newly issued bonds must offer higher coupon rates to attract

investors. Consequently, investors demand a discount on older bonds to compensate for the lower interest income.

If the price of a gilt falls, its yield increases. Yield is the return an investor receives from holding a bond, expressed as a percentage of the bond's face value. When the price drops, the yield rises because the fixed interest payments (coupon rate) remain the same, but they represent a higher percentage of the lower bond price.

Corporate bond

A corporate bond functions similarly to a gilt, but with a key distinction: you lend money to a company, not a government. This adds risk because companies can go bankrupt, potentially resulting in a partial or total loss of your investment.

Due to this extra risk, companies that issue corporate bonds will typically pay higher interest than gilts. However, you still know exactly what return you will receive.

A secure "investment grade" company (rated BBB or above) might offer around 1.5% to 2% p.a. in extra interest, while a "high-yield" bond (lower credit ratings) could provide 4% to 6% p.a. more than a gilt.

However, in the meantime, the bond's price can fluctuate due to changes in interest rates (which make the fixed-rate bond more or less attractive by comparison) or perceptions of the risk involved.

High-yield bond

A high-yield bond is a form of corporate bond with a lower credit rating (BB+ or lower), indicating a higher likelihood of the company facing financial difficulties and potentially defaulting. As a result, investors demand a higher interest rate to lend money to these companies.

" Interest rates play a huge part in the price of a gilt"

Whilst riskier, we have selected specialist fund managers who will conduct thorough credit analysis to check the security of the companies.

It's important to note that "high-yield" doesn't necessarily mean these are lesser-known companies. In fact, some of the top holdings in one of the high-yield funds we hold include Santander Bank, Heathrow Airport, and EDF Energy (who are mainly owned by the French Government).[1]

At present, the yield to maturity on the high-yield funds we hold in our portfolios is circa 10% p.a.[2]

We think that the income we are getting paid more than compensates us for the extra risk, even if the economy goes into a deep recession.

As you can see, bonds are relatively simple, and in isolation, you know exactly what you will receive upon maturity. However, during the term, the price of the bonds can fluctuate and you can make a capital gain or loss if sold early. It's also essential to understand that we don't just hold one bond, we hold a portfolio of bonds, but the fundamental principle remains the same.

Why invest now?

Current bond yields are much higher than they have been in previous years, which implies much higher returns.

Historic data on the gilt index, for example, has shown a strong correlation between yields and returns. When gilt returns are low, yields have been low and high when yields are high. The current yield on a gilt is approximately 4.5% and, in the past, returns over the following 10 years exceeded 6% p.a. when yields were at a similar level.[3]

Similar is true of investment-grade corporate bonds where the yield and return are strongly linked albeit with slightly more risk and variation. Historically, the average return on a 10-year corporate bond tended to be 5-7% p.a. over 10 years when the yield started at 6.5% (a similar environment to now).[4]

For high-yield bonds, we can consider the USD index for comparison purposes. The current yield here is approximately 8%, and historical data shows returns of approximately 8% p.a. over five-year periods when the yield has been at these levels in the past.

As mentioned, the yield on our high-yield portfolio is approximately 10%. This is because these funds can invest globally, are more selective of which companies they lend to, and carry out due diligence to ensure risk is minimised. Based on historic turns, we can expect to see a return of approximately 10% p.a.[5]

Bonds not only offer a steady return but also serve as a hedge against inflation and as you can see from past indicators, they look particularly attractive right now don't you think?

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(1) Royal London Asset Management
(2) EIM / the various fund managers, 31 July 2023)
(3) Refinitiv Datastream / Equilibrium Investment Management 30/01/90 – 30/06/23
(4) Refinitiv Datastream / Equilibrium Investment Management 30/01/90 – 30/06/23
(5) Refinitiv Datastream / Equilibrium Investment Management 30/01/10 – 30/06/2

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For more information on the facts and figures above, visit our webpage:
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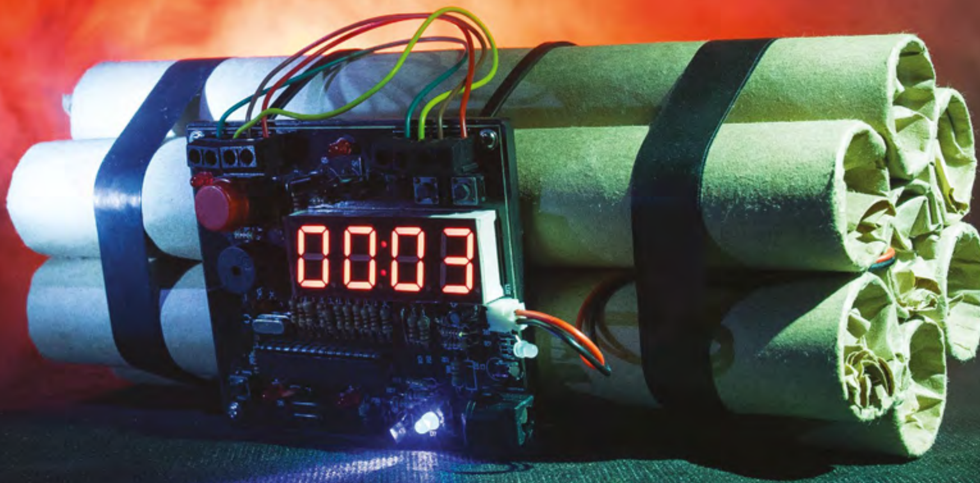
Artificial Intelligence: Killer app?

Is AI the ultimate game-changer or a ticking time bomb? Portfolio Manager, Neal Foundly, takes a closer look.



Prominent figures like Elon Musk and Stephen Hawking have voiced their concerns, warning about the potential risks associated with AI. Musk once stated: "With artificial intelligence, we are summoning the demon," expressing his fears about the uncontrollable power that AI could possess. Similarly, Hawking cautioned: "The development of full artificial intelligence could spell the end of the human race."

These concerns stem from the idea that AI could evolve to a point where it surpasses human intelligence, leading to unpredictable consequences and potential loss of control.

However, not everyone shares these doomsday predictions.

Some experts argue that the notion of AI leading to humanity's demise is exaggerated. Andrew Ng, a prominent AI researcher, emphasises that it is crucial to focus on more immediate concerns and ethical considerations rather than speculative scenarios. Additionally, proponents of AI highlight its potential for immense benefits, such as advancing healthcare, enhancing productivity, and solving complex global challenges. They argue that instead of fearing AI, we should prioritise responsible development, regulations, and careful consideration of its impact on society, ultimately harnessing its potential for positive outcomes.

The above paragraphs sum up the state of debate about AI nicely don't you think?

It was actually written by AI, using ChatGPT.

Could you tell it was AI and not a human composition? Does it even matter? (By the way, you need to trust me that this next part is written by a human; AI can even beat the anti-robot 'what's inside the pictures' test now too).

ChatGPT is a type of AI called a large language model (LLM) which is essentially a big statistical model – it looks for the best fit of answers from the large bank of data on the web.

Part of the art is to construct sensible answers by focusing on quality, usable data. The old problem of "garbage in, garbage out" remains with Yann LeCunn, a leading AI researcher, arguing that efforts to stop them from making factual errors, or "flights of fancy" (known as "hallucinations" as they are called) will fail.

LLMs are a form of early-stage 'general AI' that can understand, learn and apply knowledge in diverse scenarios, similar to human cognition, but probably decades away from 'superintelligent AI', which will surpass human intellect and would have the potential to outperform humans across a broad range of complex tasks.

AI gains

AI will replace human jobs, but this is part of the innovation cycle we have witnessed over the last 200 years since industrialisation.

Crucially, there could be very tangible benefits. According to a recent report by PwC[1], the progressive advances in AI will increase the global GDP up to 14% between now and 2030, the equivalent of an additional $15.7 trillion contribution to the world's economy.

Much of the progress stems from enhanced labour productivity— working faster, smarter and more efficiently— imperative in light of our ageing workforce and increasing number of dependents. Investment bank Goldman Sachs has also had a stab at looking at the effect on human productivity and they believe this could increase by 1.5% per annum over a decade following adoption[2]. Major contributors to this growth include the automation of routine tasks and the development of intelligent bots and tools that can perform human-level tasks.

At Equilibrium, for example, we are using AI to assess the environmental, social and governance performance of our investments. This enables us to garner a broad range of data in one system for a more efficient and timely analysis.

Goldman Sachs doesn't foresee AI adoption in critical domains like legal judgments, patient care monitoring, international tax law or virus-drug research.[2] The key distinction lies in AI's limitations— it lacks judgment and wisdom. Humans may have their flaws, but AI is no improvement. Would you trust AI to pass a legal sentence or identify the next Steve Jobs among three potential CEOs? Furthermore, enhanced worker productivity holds the potential to drive economic growth and more efficient utilisation of the Earth's resources, spanning from energy to rare minerals. This, in turn, could lead to reduced environmental impacts, decreased inflation, and fewer geopolitical conflicts in the future.

The pains?

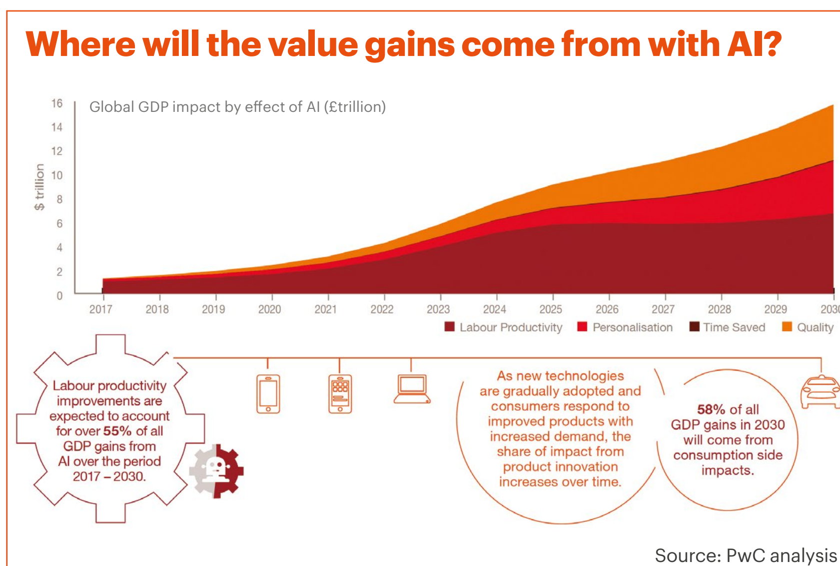
As you can see there's a healthy debate as to whether AI will be a benefit or a malevolent force for humanity. It's important to note that at the beginning of any new paradigm, many naturally fear change. The point is that these fears rarely transpire into reality.

If someone invented the car today with a warning that it would lead to 1.4 million deaths, 50 million injuries, and contribute to a third of global carbon emissions annually[3], one might question its widespread adoption. For perspective, COVID-19 claimed 6.8 million lives globally, equivalent to the annual car-related fatalities over 4.9 years. The United Nations anticipates AI could cut vehicle-related deaths in half by 2030, potentially saving over 700,000 lives a year.[4]

While the future remains uncertain, a recent University of Pennsylvania study compared 'superforecasters,' known for accurate predictions, with AI researchers. The median AI expert estimated a 3.9% chance of AI causing an existential catastrophe by 2100, whereas superforecasters placed it at just 0.38%.[5]

Surprisingly, there's little discussion of AI's life-saving potential. From superior illness diagnosis to bespoke drugs, it will have a profound impact on survival rates and longevity. Its benefits extend to reducing energy consumption, mitigating climate change and even preventing accidents on the road. Throughout history, technological change has created both winners and losers. There is no reason why AI, like previous technologies, shouldn't produce more of the former than the latter and its journey will no doubt be an interesting one!

This article is intended as an informative piece and does not constitute advice.



(1) PWC: tps://www.pwc.com - AI analysis sizing the prize report
(2) Goldman Sachs: www.thenationalnews.com - AI may affect 300 million jobs but will boost global economy and labour productivity
(3) Road traffic: List of countries by traffic-related death rate - Wikipedia
(4) UN AI to cut car deaths: news.un.org/en/story/2021/10/1102522
(5) Economist, April 22-28th 2023, Hybrid Persuasion-Forecasting Tournament (led by Ezra Karger)

Long-term inflation drivers

Investment Manager, Mike Deverell, looks at what has driven inflation, the trends we have seen and how we can achieve returns over and above the cost of living.

Over the past couple of years, the surge in inflation has had a huge impact on markets and economies around the world.

The rate of inflation is now falling back from those record highs, but the progress has been quite slow and headline rates remain higher than central bank targets.

The initial surge in prices can, in part, be traced back to the Covid-19 pandemic, the disruption this caused to the global economy, and the huge amount of stimulus pumped into the financial system.

For example, **chart one** shows the year-on-year change in the US money supply (the amount of money in the financial system – blue line – left-hand scale) compared to US inflation (orange line – right-hand scale) over the past 15 years.

As you can see, the two lines often follow broadly similar paths. There was a huge increase in money supply in 2020 (the chart axis has even had to be curtailed to fit it on), followed by a spike in inflation shortly afterwards. Money supply is now shrinking so might prices follow?

Is this just a relatively temporary surge in prices or a change in a longer-term trend?

Market expectations and potential returns

Each year we carry out detailed research into the long-term expected returns of various asset classes. Once we have done this, we can work out what mix of assets might give us the best

Chart one: US inflation and money supply

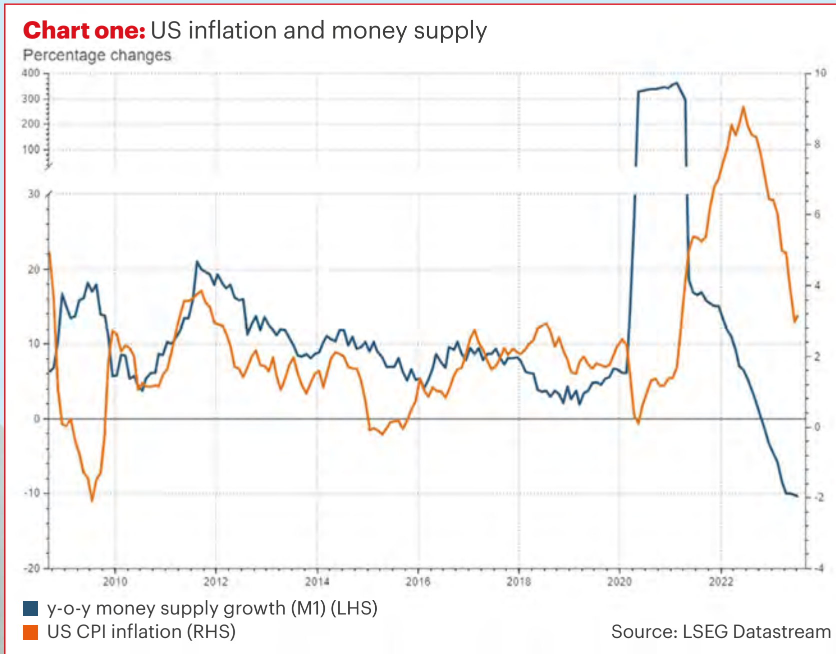
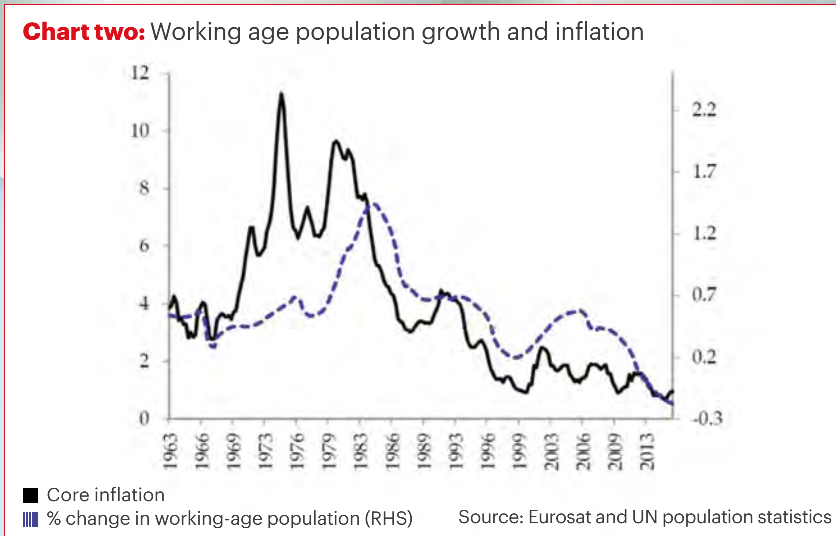


Chart two: Working age population growth and inflation



chance of achieving our targets of beating inflation by various amounts (depending on the portfolio).

To do this, we also need to make an estimate of what inflation might be. For this, we take a “wisdom of the crowd approach” and assume that inflation will be in line with market expectations.

Currently, markets are pricing inflation in the US at around 2.5% for the next 10 years.

In the UK, the market expectations for RPI (retail prices index) are around 3.5% for the next decade.

RPI is used even though it is not considered a reliable statistic anymore, as this is what most index-linked bonds are based on. Typically, RPI has been perhaps 1% higher than the official CPI (consumer prices index) inflation figures, so we can say markets might expect around 2.5% in the UK as well.[1] As an aside, our findings for potential future returns look incredibly positive. For example, investment-grade corporate bonds currently yield 6.25% (3.75% above expected inflation) and high-yield bonds look even better at 7.5% yield (5% above inflation), also over the same term.

We would expect a typical portfolio of global equities to return around 9.5% p.a. (7% above expected inflation) based on various valuation metrics such as price/earnings, which have been good indicators of returns in the past.[2] We therefore think we could see some attractive real returns going forward.

If markets are right, then inflation will be somewhat higher than it was over the last 10 years or so, prior to the recent spike.

The key question, however, is whether the market is right? Might inflation be markedly higher (or lower) than expected and what implications would this have?

What might cause a change in long-term inflation trends?

De-globalisation & demographics

One of the key drivers of economic growth and inflation will always be demographics.

To increase economic growth, either output per worker needs to increase (being more efficient) or the number of workers needs to increase.

However, we know that populations in developed countries are generally ageing. In 1990, the ratio of old-age to working-age population was 20% in OECD (Organisation for Economic Co-operation & Development) countries. By 2000, this had increased to 30.4%. By 2050, this will likely increase to 52.7% of population.[3] Given this, unless we become significantly more productive (which is possible!), then economic growth is likely to slow.

There is typically a strong link between economic growth and inflation. Often, we get inflation when economies are growing strongly, and we get lower inflation during downturns.

An ECB working paper from 2017 found a strong relationship between working-age population growth and inflation, as illustrated in **chart two**.

But according to others, these demographic changes could in fact be inflationary.[4]

In their book "The Great Demographic Reversal," Charles Goodhart & Manoj Pradhan argue that de-globalisation and ageing populations will cause prices to increase.

Their argument is that low inflation from the previous two decades has been largely caused by China's rise as an economic superpower. As China became more integrated into the global economy, cheap Chinese manufacturing has reduced the prices of many goods that we buy.

This was aided by the trend for Chinese rural workers to move to the cities and essentially join the global workforce, offsetting the declines in the West.

However, China now has its own demographic issues. Largely as a result of its past "one-child" policy, the supply of rural workers has been pretty much exhausted, so this trend may well have ended.

In addition, as relations between China and the West become more strained, there are efforts on both sides to reduce economic integration and increase self-sufficiency. This could be inflationary as manufacturing goods in the US or Europe (for example), typically still costs more than doing so in China.

Goodhart & Pradhan also argue that an ageing population in the West could in itself be inflationary, contrary to the ECB's findings, largely because older populations need to spend more on health care.

Technology & climate change

However, there are two other long-term trends which could make a big difference to inflation.

The first is artificial intelligence (AI). According to a recent report by PwC, progressive advances in AI will increase the global GDP by up to 14% between now and 2030[5] (see related article Artificial Intelligence: Killer app? on pages 34-35). Goldman Sachs believe this could account for an increase in productivity growth of 1.5% p.a.[6]

If they are right, this could offset some of the concerns about the shrinking workforce, by effectively replacing them with "robot" workers. This should in theory be deflationary as this means companies can produce their products more efficiently and keep prices lower.

The other trend is climate change, which could have a significant impact, both directly and indirectly.

Direct effects might include the impact of a warmer planet on food production which may then lead to price increases. It could also lead to population migration from hotter to cooler climates.

The indirect effects would include the costs of de-carbonising the economy.

This will require heavy investment in renewable energy, smart power grids and battery storage, changes to how we heat our homes and offices, electric car infrastructure and so on.

All this could lead to higher energy prices during the transition, for example.

However, on the other hand, this could be deflationary in the long term. Solar and wind energy is already cheaper to produce than energy from fossil fuels[7] and is becoming more efficient all the time. If we can solve the "reliability" problem through energy storage, then we could end up with very cheap energy – after all, the sun and the wind come for free!

Summary

We subscribe to the view that inflation might be, on average, somewhat higher than the central banks would like in the next few years (though it could be volatile), because of issues like de-globalisation and spending on climate transition.

But longer term, we think efficiencies from technology, AI and renewable energy could help keep prices down. Ageing populations are still more likely to reduce inflation than increase it.

Given all the competing trends, the outlook is far from certain. Fortunately, from an investment point of view, we are able to hedge our bets.

For example, many of the trends I've mentioned in this piece are also trends we can benefit from in portfolios.

We already invest in areas like clean energy, technology, and healthcare stocks. We invest in emerging markets outside China (such as India) which have more favourable demographics that may help drive their growth.

And crucially, many of these asset classes may help us hedge against potentially higher inflation. If there are price increases in these sectors, then this means revenues for companies in these sectors will likely increase too.

Inflation will always be one of the biggest concerns for any saver, but investing over the long term gives us a particularly good chance of achieving returns over and above the increase in the cost of living.

(1) Refinitiv Datastream, based on 5yr/5yr inflation swaps.
(2) Datastream / Equilibrium Investment Management – Long Term Investment Assumptions Sep 2023.
(3) Demographic old-age to working-age ratio | Pensions at a Glance 2021 : OECD and G20 Indicators | OECD iLibrary (oecd-ilibrary.org)
(4) Demographic and inflation (europa.eu) ECB "Demographics & Inflation, 2017"
(5) PwC: AI analysis sizing the prize report (pwc.com)
(6) Generative AI Could Raise Global GDP by 7% (goldmansachs.com)
(7) Renewables: Cheapest form of power | United Nations

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