Truly Independent Ltd®
Atlantic House, Parkhouse
Carlisle, Cumbria CA3 0LJ

Tel: 01228 587588
Email: info@trulyonline.co.uk
Web: www.trulyifa.co.uk

FACTSHEET

Investing for the future

Higher inflation and near-zero interest rates mean the responsible thing to do could be to invest rather than to save

Many of us have been brought up to believe that saving is the responsible thing to do. But in today's environment of low interest rates and rising inflation, savers may need to consider becoming investors to prevent the erosion of their assets.

Since the global financial crisis of 2007/08, the world's central banks, including the Bank of England (BoE), have responded by cutting interest rates to record lows. This reduces the cost of borrowing, encouraging spending by consumers and businesses, but it also discourages saving.

ECONOMIC RECOVERY

The BoE has acknowledged this is a problem, and in its efforts to keep Britain's economic recovery on track, the central bank has prioritised growth over the needs of savers. Savers currently hoard over £60 billion[1] in cash for long-term savings and investments, which stands to be eroded by £1.5 billion this year as a result of higher inflation.

That pressure has intensified following the UK's recent vote to leave the European Union. The pound has fallen considerably against most other major currencies, which means imports have become more expensive. So savers are not only facing lower interest rates, but they are also facing higher prices.

INTEREST RATES

Higher inflation and near-zero interest rates mean the responsible thing to do could be to invest rather than to save. You might even question whether it is better to splash out on some extravagant purchase instead – a new car or a long foreign holiday perhaps. But when you have your entire lifestyle, family and retirement needs to consider, splashing out on luxuries is unlikely to be the best solution, and the joys of doing so may prove short-lived.

So what are the alternatives? Government bonds are often considered to be one of the safer investments after cash, but the prices of government bonds have risen so much in recent years that the income they provide (their yield) is now close to zero – prices and yields move in the opposite direction.

INVESTMENT ASSETS

Different types of investment assets offer differing degrees of protection against the effects of inflation, although it is important to understand that the behaviour of asset classes can and does change over time.

There are plenty of other options to consider, although the search for higher yields will often entail higher risk. That risk, however, needs to be set against the likelihood of inflation eroding your savings in the longer term.

RELIABLE PROFITS

Equities are traditionally regarded as riskier than government bonds. However, many of the shares paying the best dividends are often found in areas generating reliable profits. For example, utilities companies usually have reliable income streams, as people still need to switch the lights on and heat their homes. And while the value of shares can fall as well as rise, successful companies can still increase their dividends – in contrast to the fixed income offered by bonds.

Then there are corporate bonds, which fall into two categories. Investment grade corporate bonds are reckoned to represent a lower risk of failing to pay investors, or 'defaulting'.

REWARD INVESTORS

Meanwhile, high-yield corporate bonds are more risky, but reward investors for taking on this risk by offering a higher income (or yield). A carefully selected portfolio of investment grade and high-yield bonds could provide an attractive income stream for appropriate investors, while keeping the amount of risk within the limits that many will find acceptable.

Given these varied opportunities, investors could be well advised to look at the merits of higher-yielding investments that offer the prospect of both higher income and the possibility of long-term growth. ■

Source data:

[1] BlackRock's Investor Pulse survey, polling 4,000 people in the UK. Savers typically have £8,700 in cash, of which a quarter (£2,270) is set aside for long-term savings and investments.

DON'T WATCH YOUR MONEY ERODE AWAY

While looking to make plans for the years ahead, resigning all our money to cash is not the answer. We are approaching a decade of record low interest rates which have been giving us little to no return on our money. We have to decide whether we are prepared to watch our money erode away or try and grow our savings through investing. To discuss your investment plans, please contact us – we look forward to hearing from you.