Plan for the unexpected

As a chartered financial planner, I spend my days talking to clients about their money — usually, what they plan to do with it and, most importantly, when they plan to spend it

I never imagined 2020 would look like this, and I didn't have a Pandemic Plan in place. What I do have, though, for all my clients, is a crash strategy. When the virus hit and markets fell, we were ready.

Do you have a crash strategy, or have you been left asking:

Should I be concerned about my investments?

There's no one answer to this. If you're 45 in a dual income household, the answer is very different to that of a 65-year-old managing his or her own investments and living off the income.

IMAGE BY NATTANAN KANCHANAPRAT FROM PIXABAY

Most people know that risk and return go together. But risk comes in many forms and it's not dealt with by simply answering a questionnaire — with a magic number appearing at the end. It's different for everyone and with each investment.

So how would I evaluate whether you need to be concerned or not? Well, initially I'd want to know:

- The necessity of accessing money — 'cashflow is king' isn't just true for businesses, household bills need paying too.
- When would you like to spend the money? Next year is very different to 15 years' time.
- What other money do you have?
- How secure is your work?
- What is your ability to borrow money?

Answer these questions and a few others, and I'll answer the question for you.

We've never seen a pandemic before — what's going to happen?

We've all read the disclaimer 'investments can go down as well as up'. The thing is, it's true. Every so often, something happens, and markets fall. Here are a few choice examples: the Dotcom Bubble, 9/11, Black Monday and the 1970s recession; If we go further back, WWII, the Great Depression. The coronavirus itself may be unexpected, but the impact is not. Markets will always have something that hits them, and for this we can plan.

Which leads you to realise that I've not answered the question. That's because I, nor anyone else, can see into the future. What I can tell you and with some authority is the probability of certain investment outcomes. We have the data. I can use Monte Carlo simulators (yes that is a casino reference) and try to see how random events may impact your plans. What I can also tell you is that I know how to ensure the outcome is the best it can be given what we don't know.

We're chartered financial planners, and anticipating and planning for these events is when we really separate ourselves from the crowd.

What if there's another crash?

The best defence is a suitable portfolio, usually with a range of assets, invested across global markets. Always built to account for your plans. Use the quantitative data; take account of the scientific research that tests the strategies; use those Monte Carlo scenarios to stress test the outcomes. What you can't do is influence the global economy and nor can we, but what we can do is work with the evidence to insulate you from the impact.

How has coronavirus affected my pension?

A pension is first and foremost an investment. It may be an investment an employer is making for you: a defined benefit, or final salary pension, or an investment you're making yourself: a SIPP, personal pension or GPP, to name but a few.

The rules of pension investing are the same as for any other investment. How far you are from accessing a pension should influence your choices (not always how you may think, though). Even if retirement is 20 years away, it shouldn't mean we don't consider our pension pots. What's happened to your pension and how it recovers can also benefit from some effective planning.

I was just about to retire. What should I do?

Don't panic; if you can delay, giving yourself a bit of extra planning time, then this should be the first thing you do. The second is contact me and I will answer Question 1 for you.

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