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Green
FINANCIAL ADVICE LIMITED

FACTSHEET

Election 2017

What next for investors?

Prime Minister Theresa May's announcement that she would call for a snap UK general election on 8 June 2017 surprised many people. After weeks of campaigning, there was no outright winner, with both the Conservatives and the Labour Party failing to secure a majority, resulting in a hung parliament.

Even though the Conservatives remain the largest party in the House of Commons, Mrs May won 318 seats, meaning she was eight short of the majority target of 326. The Conservatives lost 13 seats, while Jeremy Corbyn's Labour gained 30. At the time of writing this article on 9 June 2017, the Prime Minister is looking to rely on the support of the Northern Irish Democratic Unionist Party to form a government.

MARKET UNCERTAINTY

Despite polls narrowing substantially over the course of the election campaign, a Conservative-led government was considered the most likely result from the UK election by markets. But general elections create uncertainty, and markets do not like uncertainty. Markets can be affected by all sorts of economic and social factors, including political decisions, consumer confidence and global events. Changes can make things uncertain, but the rise and fall of market prices are a normal part of investing.

Elections are no exception, and the outcome of this general election will have an impact on market conditions going forward. With this in mind, you may be considering what the result could mean for your investments, but it's important not to panic.

INVESTMENT STRATEGY

General elections have the potential to unsettle markets, given the uncertainty over the outcome and impact on the economy. Political events should not ordinarily prompt you to change your investment strategy over the long term. Market timing is incredibly difficult. You cannot predict for definite which way any currency or stock market index will move next, and many factors aside from politics – such as company events, inflation and deflation – affect how markets move.

LONG-TERM GAINS

Investors ideally need to focus on their long-term strategy and goals rather than any short-term impact that a political event may have on performance. Remaining with a buy-and-hold approach in funds and shares with good-quality underlying businesses should avoid missing out on long-term gains.

Diversifying across several asset classes and currencies is also important. Having a spread of different assets that come with varying degrees of risk will reduce the likelihood of portfolio values being damaged by a fall in one particular market or area.

CONSIDERABLE OPPORTUNITIES

In addition, putting some cash set aside at times of uncertainty can give investors the flexibility to act as more information becomes known over the coming weeks and months. Volatility also brings considerable opportunities, and investors should avoid knee-jerk reactions.

The unexpected general election result has a number of implications, including what this means for Brexit negotiations and whether a hung parliament may result in a 'softer' Brexit than markets had been anticipating. A 'softer' Brexit would also be welcomed by business, and a fall in sterling could offset market falls given the significant proportion of overseas earnings for large-cap companies.

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PORTFOLIO REVIEW

Investors who are concerned about the impact of the election result may want to review their portfolio and ensure their investments are spread across a range of assets, including cash, bonds and equities, alongside different industry sectors and geographical regions. This may help reduce any volatility that could result from UK economy jitters if investors fear Brexit could lead to a recession over the next few years. The longer investors stay invested in the stock market, the greater the potential for future positive returns.

No one can predict for definite which way any currency or stock market index will move next, whatever form the next government takes. Besides which, aside from politics, there are many factors that may affect market movements. These may include inflation, monetary policy and specific company events.

We've provided a summary of different approaches private investors can take to protect and grow future wealth.

DON'T TIME THE MARKETS

Trying to time the market without the benefit of hindsight is hard. This involves making investment decisions at the moment when you believe markets will rise to benefit from any upturn, effectively speculating on the outcome. This is a very high-risk strategy and extremely difficult for investors to do successfully. The impulse to act can lead to mistakes and mismanagement of investments. Selling during periods of weakness in the market creates a guaranteed loss. The trouble for investors is that trying to time the market during rough periods can further compound losses in their portfolios.

ACHIEVE SMOOTHER RETURNS

Investors should have a well diversified portfolio – with a mixture of assets such as shares, bonds, cash and property, and a mixture of different sectors and countries within this group of 'assets'. By being invested in assets that fall less in a crisis and spreading the investments, investors can achieve smoother returns than investing in just one type of asset, without reducing the expected level of returns. As a result, diversification improves the risk and return profile of a portfolio over an economic cycle. It's essential to obtain professional advice to ensure your portfolio is well balanced for the amount of risk you're comfortable taking – and can afford to take.

KEEP YOUR LONG-TERM GOALS IN MIND

One of the main concerns for any type of investing is market volatility. It is important to note that short-term volatility is not necessarily indicative of a long-term trend. The advantage of long-term investing is found in the relationship between volatility and time. Investments held for longer periods tend to exhibit lower volatility than those held for shorter periods. If you have a particular goal in mind with a deadline, stick to that. Don't be distracted by the short-term noise of the markets.

TAKE ADVANTAGE OF TAX-EFFICIENT VEHICLES

Minimising taxes on your investments is a key part of earning better returns. It's sensible for investors to continue making use of existing tax-efficient investments, such as Individual Savings Accounts (ISAs) and pensions allowances. If appropriate, it's important investors do not overlook the effect that tax wrappers – such as ISAs and a Self-Invested Personal Pension (SIPP) – can have on a portfolio. It makes sense to use all of one's tax allowances every year.

REGULAR INVESTMENTS

For investors concerned about where the market may move next, regular investing may help to take the emotion out of investment decisions. This means investors buy more shares when prices are low and fewer when they are high. Making regular investments, perhaps on a monthly basis, is a good way to deal with volatile markets. This is called 'pound cost averaging'. By investing regularly, investors smooth out the highs and lows of the markets by purchasing investments when their prices have fallen and benefiting when prices rise. ■

Date article written 9 June 2017.

WANT TO OBTAIN PROFESSIONAL FINANCIAL ADVICE?

When reading this factsheet, please bear in mind that this is for information purposes only and is not personal advice. It is not a recommendation to act. Investment decisions need to be taken with regard to your individual circumstances, and you should obtain professional financial advice. Levels and the basis of tax can change. These changes may affect both future opportunities and your existing arrangements. The value of tax relief and tax-efficient accounts depends on your personal circumstances.

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