Funding the Future

Planning for a crash

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I got asked yesterday:

A quick question, which possibly doesn't have an answer: what, if anything, can 'the little people' do to mitigate it? (Because, frankly, I don't see Westminster even trying...)

I am not, of course, permitted to provide financial advice here, and will not do so. However, I can suggest questions you might ask a financial advisor, and comment on other issues, so please understand that what I am saying is offered in that context.

There are two obvious things to do with regard to financial affairs, given that we face the risk of a financial crash.

Bank savings

The first is that if you have significant savings in a bank account, by which I mean a sum of more than £120,000, then this should be split between financial institutions because the government has only guaranteed to refund deposits with any one bank up to that amount.

When doing this, take care to ensure that you really have separated your funds between banks, because many operate under several names. For example, Lloyds Bank is also the Halifax and Marks & Spencer's Financial Services. A little research on this issue is, therefore, important.

In addition, when looking at rates on offer, this might be a moment to be a little cautious about the institution you wish to place your money with. If you have never heard of the organisation offering a good rate, then even though it might be subject to the deposit guarantee scheme, your prospects of recovery might be quicker if you deposit with a mainstream institution.

Questions for your financial advisor

Secondly, there are questions you could ask your financial advisor, if you have one. This is particularly pertinent to people who do, for example, have their own pension savings or funds managed by an advisor or broker.

In particular, you can advise them that you are now very cautious with regard to your risk appetite because you think that a crash might be coming, and you would therefore like to reorganise your savings, recognising that reduced risk appetite, knowing that you might get a lower investment return or gain as a result for the time being.

You could then ask:

* How would they recommend that your savings be reorganised at present?

* Do they have a problem with cash-based savings at this point in time?

* Do they think that you might have more of your funds in government bonds, right now, if they think doing so matches your very low current appetite for risk?

* Do they think you should have any of your savings in shares or corporate bonds at present, and if so, why? Be willing to challenge their opinion if they think you should, given that these are where the greatest risks are right now.

I stress, the decision would have to be yours, working with your advisor, but asking this sort of question at this moment does make a lot of sense.

Changing jobs

Financially, another protection I can suggest right now is that this might not be the moment to change jobs. If you have been in secure employment for some time, having the protections that supplies might be a benefit if the economy were to crash at present, but again, you may have a very good reason why you do want to move on.

Annuities

Finally, when it comes to protecting savings, if you are retired, this might be a moment to discuss taking an annuity, or a guaranteed income for the rest of your life, with your financial advisor, substituting risky savings products for a guarantee in its place. Again, I cannot offer financial advice, and will not, but this is a discussion that may be appropriate.

The rest of life

As to other aspects of life (and I recognise that there are plenty), the biggest risk arising from a potential meltdown is of panic buying.

We saw that to some extent in 2008, and we most certainly saw it in 2020. I am not suggesting buying large numbers of loo rolls. However, if you can afford it, and if you have space, and if any of the foods in question suit your diet, then increasing the number of meals that you might be able to create from what you might keep in a store cupboard is something to consider.

I am told that the average UK family has no more than three days of food in such cupboards at most times. This means that if panic were to spread, it would do so very quickly. Having the ability to survive that period of panic might be a good idea. When saying so, do remember to keep cooking oils or whatever else you might use to start the cooking process in your pans in stock. Without them, having the foodstuffs might not be very useful. And tea and coffee are essential, always.

Finally, and I am well aware that not everybody will be able to do this, if you can keep a little more cash aside, then it might be worth doing so in case there is stress on the banking system. But do be aware of the security risk, and right now, I am not sure that there is much reason for this.

In summary, a little prudence might go a long way right now.

Comments