Funding the Future

Fix your finances now

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The Bank of England has warned that serious financial risks are building, and I think people need to pay attention.

An AI stock bubble, war in Iran, and risks in shadow banking could trigger a major financial correction.

In this video, I explain:

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Why I think the risks are real

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What the Bank of England is actually saying

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How to protect your pension

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Whether now is the time to move into cash

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What to do about debt

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Why certainty matters more than chasing returns right now

This is not financial advice. Please seek regulated advice where appropriate.

But doing nothing may be the biggest risk of all.

https://www.youtube.com/watch?v=-nwYryNrQdU?si=4Kyv3_I096fZXBm_

This is the audio version:

https://www.podbean.com/player-v2/?i=cdxzp-1aaeef5-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

A financial storm may be heading our way, and my message in this video is that you need to prepare for that possibility now. You need to get your personal finances in order, and this video suggests what you should be doing.

The Bank of England has warned of serious risks building in the economy. Three threats are converging. The AI stock market bubble, combined with the war in Iran and a risk from the shadow banking system, all make the Bank of England worried at this moment. They are talking about a major economic adjustment happening, what I would call a crash, but they're much too nice to say such words, and that is the risk that we are facing. Nobody can say exactly when this is going to happen, but the direction of risk is clear. The time to act on your finances is before the storm hits, and not afterwards.

Now, this video is not regulated financial advice. I want to make that very clear. Your situation is unique. You will need to take advice upon it, and if the sums involved are significant to you, that is essential. But what follows is a discussion on the basic principles of what people should be doing now that a financial advisor and I both agreed upon.

The core message is simple: head for caution.

Doing nothing at this moment is itself a choice and possibly the wrong one. Use this as a prompt to think seriously about your financial position.

If you have a personal pension with an insurance company, you might need to act now. Most such providers allow you to switch to a defensive or cash fund free of charge to minimise your risk from what the Bank of England sees is coming our way. Ask your pension provider if that is possible, and that includes if you are in an employer-provided scheme mandated by the government. This might reduce your exposure to falling stock markets. Check your provider's options. This is usually straightforward to do online and you do not need to close your pension or take your money out to achieve these changes. A defensive switch is usually low-cost, reversible if the situation changes, and sensible in uncertain times, and these are uncertain times.

If you instead have a self-invested personal pension plan, or SIPP, as they're commonly called, you have more flexibility. You can move your money into money market funds, NS&I products provided by the government, or cash deposit accounts. These options preserve capital rather than chasing growth in a volatile market. You will lose out on income. You will gain in certainty. That is the trade-off of the moment, and if your SIPP administrator does not offer these options, consider switching to one that does. The ability to reach safety matters. Your provider needs to give you that access if that is what you want. Don't stay, then, with a provider that leaves you exposed with no safe alternatives. They are not acting in your best interest, and it is your best interest that matters to me.

Next, tidy up any scattered pensions that you have, but be careful. Most of us, along the way through life, pick up a number of pension pots. We change employers, we change schemes that we pay into, and all of those things mean that we have a range of pensions available to us, and very often we are not very good at keeping an eye on what they are, where they are, or how much they are worth. Consolidating them into a single, modern low-cost pension plan can make a lot of sense, including at moments like this, because you need to know where you are and you need to minimise your costs. But costs are a particular point to take into account when doing this.

Some old pension schemes have outrageously high fees if you wish to switch your fund to another provider, and so check that before you do anything rash. It may be worth staying if you're going to be penalised heavily for moving right now. The goal is to reduce the number of hands in your pocket at the end of the day, but if one hand is particularly expensive to get rid of, it may be worth retaining. Only consolidate if the new plan is genuinely better value and offers safe-haven options is the advice to follow.

And if by chance you happen to be around my age and retirement is approaching, now is the time to prioritise security over growth. Pension annuities are good value at current interest rates. They are at their highest levels now since around the time of the global financial crisis in 2008. An annuity converts your pension pot into a guaranteed income for life.

There are lots of factors to take into account. Let me assure you, I have just done what I'm talking about, and in my view, annuities remain a good retirement income product for most people, which is why I've opted for one. This removes the risk of your income falling if a market crash is to happen. If you're thinking about this, get on with it now. Talk to your financial advisor.

Meanwhile, if you have debt, getting it paid down now should be your top priority. I'm not talking about your mortgage. Nobody can pay off your mortgage overnight. I'm talking about things like credit card debts, personal finance charges, personal loans, and all those things. In a crash, cashflow becomes critical. Debt repayments can quickly become unmanageable if your income becomes uncertain, and that's something that none of us can be sure about when a crash is coming our way. Start with paying off your most expensive debt first, the one with the highest interest rate charge is the one that you obviously need to get rid of most of all. But if you cannot clear your debt in a reasonable time, consider consolidating it.

A single loan at a lower rate repaid over a manageable period is better than multiple expensive debts. But you have to choose your loan provider carefully, and this point is something that I cannot emphasise enough. Reputation for flexibility will matter more at this moment than just about anything else because your circumstances could change. So, be aware that not all lenders are equal. Check the reputation of any consolidation provider and look specifically for their flexibility if you are forced to miss a payment.

Heavy penalties for missed payments can turn a manageable situation into a crisis for you. That's not what you're looking for. You want a provider willing to work with you when you are in difficulties if they come, and that's worth more than a marginally lower interest rate. Avoid lenders with rigid terms and punitive default clauses, then. Getting this right now could make a significant difference if hard times come.

My overwhelming message is this: go for certainty. In a crisis, the right instinct is to minimise risk and go for those things that you can control. You can't control what is happening in global markets or geopolitics, but you can get your own finances into the best possible order. That means reducing exposure to risk by, for example, changing your pension arrangements, reducing your debts, and building a buffer if that is possible. The goal is resilience and not profit at a moment like this. A mad world does not mean you have to have chaotic personal finances.

This may mean that this is the perfect moment to conduct a serious audit of your own financial life and, indeed, your lifestyle. Look honestly at what you spend and what you genuinely need. Could you survive on less? Could a lifestyle change reduce your financial exposure? Are there things you are able to sell to raise cash and simplify your life? Do you need the car that you've got? Would a simpler, older model still work for you? Can you get rid of those spare things hanging around your house? And I'm not talking about the children here, but those things that you bought a while ago, which have been sitting on a shelf unused for ages. Might you be able to sell them and accumulate cash now? That would make sense. Bringing your finances back under control is an act of self-protection at this moment. Think about what you can do.

The signals from the Bank of England and financial markets are serious at this moment. What I'm saying here is not scaremongering. It is a proper reading, in my opinion, of what the institutions themselves are warning. A major economic adjustment, at a minimum, appears increasingly likely. The steps outlined here are cautious, sensible, and available to most people. Some of them will not be relevant to you. Some will. Think about what applies to you, and get advice if you need it. The cost of acting now is low. The cost of being unprepared could be high.

Head for caution, reduce your risk and take back control of what you can. That’s my message, but what do you think? You might disagree. There’s a poll down below. Let us have your opinions. We do read them even when there’s quite a lot. We try to scan them all, and if you like this video, please would you share it? Please would you subscribe to our channel? And if you want to support our work, if you would like to make a donation, there’s a link to do that down below. Click the Ko-fi button, as I say.

Hat tip: My thanks to Mark Meldon for inspiration

Poll

[poll id="382"]