SEPTEMBER BUSINESS BULLETIN

SEVENTYSEVEN
WEALTH MANAGEMENT

Cash Is King

By SeventySeven Wealth Management

As a business owner, you will no doubt have heard the expression ‘cash is king’, but what does this really mean and how much is enough?

When running a business, you will naturally hold cash reserves which are accessible to cover any short term expenditure and operating costs. You will then tend to hold a level over and above this, for any emergencies and to make you feel comfortable.

Anything remaining capital that you hold, you may wish to consider investing, whether that be in new staff, training, machinery or just simply marketing.

When it comes to your personal affairs, it is no different. When we are investing for both our business and our individual clients, we’ll undertake an exercise to establish how much exactly they need.

For an individual, we would typically break this down into 4 ‘pots’.

1. Emergency Fund
2. Short term capital requirements
3. Medium term capital requirements
4. Legacy

Emergency Fund

We recommend our clients hold a minimum of 6 months expenditure in cash as an emergency fund for any unexpected bills or loss of income. For individuals this could be a car breaking down, boiler needs replacing, loss of job etc. For a business it may be outstanding invoices, a tax bill or general emergency fund for any slowdowns in revenue. This should be in an instant access account.

Short Term Capital Required

We also recommend that any planned expenditure for the next five years is also catered for. For individuals this could include planned holidays, a new car, a house move or any other significant expenditure. For a business, this may be things such as staff training, expansion, new premises etc. Again, this should be held in reasonably accessible cash based accounts.

Medium Term Capital Required

Any funds that are not included in the above but are likely to be needed at a later date would fall into this category. For example, savings put aside for retirement. We would normally recommend these to be invested in line with your attitude to risk and timescale.

By having your short term capital requirements allocated to the pots above, you are potentially able to then take some risk with your remaining capital, with the aim to produce real growth, net of inflation. By holding cash in the first two pots, you have funds available which would allow you to defer withdrawing from any investments in unfavourable market environments (such as a stock market crash). We would always recommend that you seek professional advice in this area.

Legacy

Once you have established how much of your capital is allocated to each of the first three pots, you can start to plan with the money that you are unlikely to use in your lifetime. This is where Intergenerational and Inheritance Tax Planning start to become relevant.

Any funds allocated to pot 4 is likely to be passed down the generations, or form a part of your business sale.

There can be tax implications both personally and as a business and naturally most people will want to avoid paying unnecessary tax. As this is a potentially complex area of financial planning, with lots of options available, it is crucial to seek expert advice.

Summary

As you can see, holding the right levels of cash is vital when it comes to both your personal and your business financial planning.

‘Cash is king’ is only the first ‘rule’ when it comes to investing. We actually have six golden rules, which we will be sharing with you over our next few editions.

The value of an investment with St. James's Place will be directly linked to the performance of the funds you select and the value can therefore go down as well as up. You may get back less than you invested. An investment in equities does not provide the security of capital associated with a deposit account with a bank or building society.

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What happened in the markets?

Asian stocks hit a 7-month low, as the market was weighed down by a combination of Delta variant Covid-19 outbreaks in several markets combined with ongoing fears around a crackdown from the Chinese Government.

China's crackdown on tech companies and the private tutoring industry combined to spook investors. Chinese regulatory moves also influenced US stocks, especially those affected by Beijing's clampdown.

This was however short lived as US stocks began to bounce back as impressive quarterly profits were announced by Apple, Alphabet and Microsoft.

The FTSE100 experienced growth to levels not seen since early 2020, as the Bank of England's (BoE) Monetary Policy Committee forecasted inflation for the year to hit 4%.

While this is notably above the BoE's 2% target for inflation, and an increase compared to its 3% forecast from May, the central bank maintained the current higher inflationary period was transitory, and that it expected it to return to 2.25% in two years' time.

On a positive note, the BoE also raised its GDP growth forecasts to 7.25% for 2021, 6% in 2022, and 1.5% in 2023.

These figures were not enough to persuade the majority of its Monetary Policy Committee to change the Bank's course of action with regards to interest rates and other forms of economic support, and so voted unanimously to keep the current low interest rates unchanged, and 7-1 to leave the Asset Purchase Facility unchanged.

Past performance is not indicative of future performance.

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