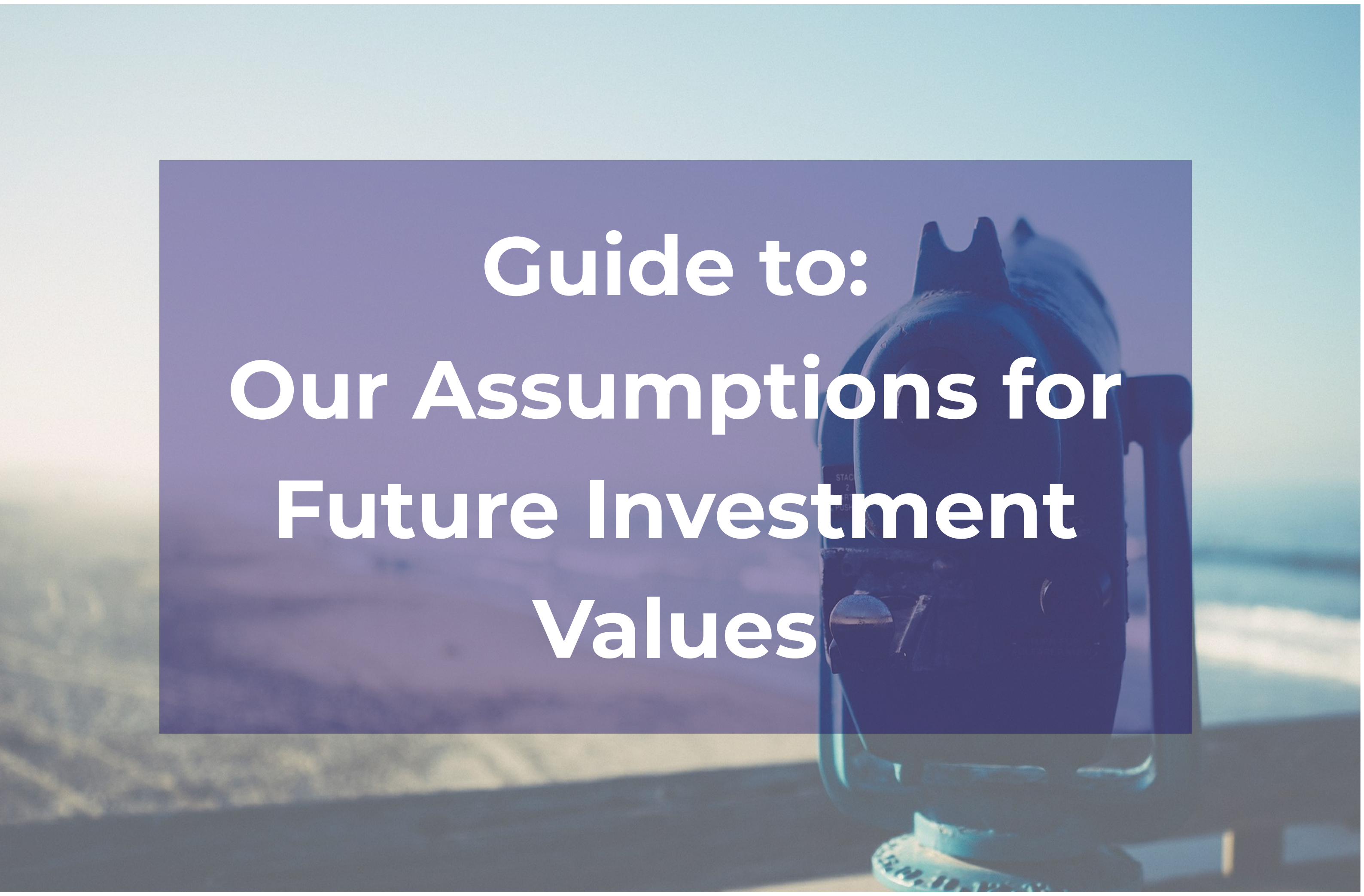
Atkins Bland

Investments • Pensions • Financial Planning



Guide to: Our Assumptions for Future Investment Values

Introduction

What to consider when thinking about future investment values

Introduction

There are various reasons why we would like to predict the value of our capital in the future, and other various reasons why doing this with any level of reliability is pretty much a forlorn hope.

The truth is that no one can possibly know the future value of capital currently invested, or to be accumulated from future savings, other than at the end of a fixed period with an investment offering a fixed maturity value. This applies to both the nominal value, and the “real” value after adjusting for inflation.

However, the impossibility of achieving a reliable prediction does not negate the fact that it is helpful to try. Indeed, doing so is a fundamental part of planning and assessing our financial future.

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What we can and can’t know

We also probably know how much we can save in a typical year.

Among the fundamental things we don’t know are:

- How much what we have now will grow from investment results.
- How much our future savings will grow from investment results.
- Whether our current savings capacity will increase or reduce.
- How much income a given level of capital will generate in the future.
- How inflation will impact the spending power of our capital or the income it can produce.

While these are necessarily unknowns, as they will be impacted by future factors which are themselves unknowable, we can work with reasonable assumptions.

If doing that, we need to take care to avoid being over optimistic, so should err on the cautious side.

That way, while we know the actual situation will definitely not turn out to be exactly as we had predicted, it is far more likely that the variance will be a positive rather than a negative.

Our approach

Keeping it simple

Reflecting all the above, Atkins Bland takes the approach that investment returns, on capital sensibly invested for the longer term, will equal inflation, and do no more than that.

While past results are no accurate guide to the future, this methodology is conservative based on history and reasonable assumptions for the future.

It is possible that this will prove over optimistic, but it is a cautious approach, so the main risk is of underestimating future values, rather overestimating them.

Underestimating is fine. Overestimating can lead to disappointment and ambitions thwarted, so is not a good outcome. The risk of overestimating future values cannot be avoided entirely, but we feel our assumption that investment growth will match inflation but do no more is sensible.

Clearly, not every asset is the same and an assumption that values will keep pace with inflation may not be suitable, such as with money held on deposit.

However, where capital is deployed in a way designed to at least protect its real value from the impact of inflation over the longer term, assuming it achieves that minimum target seems realistic.

It is also simple.

While it is commonplace to use set assumptions for inflation and investment returns to try to predict the future real value of capital, by subtracting the former from the latter, this doesn't achieve anything more helpful but does add more complexity, and we can't see any benefit in that.

Needless to say, if any of our clients want us to use a different approach, we are happy to do so, but if the outcome proves more optimistic than our normal approach, the risk of disappointment and missing targets is increased, and we feel this is best avoided.

Other guides

Our other guides looking at the subject of income

These are listed below and available on request:

- ***Guide to* Investing for Income**

  This looks at the general subject of what investment options are available and the core features of each.

- **Guide to Investment Income Yields**

  This looks at current income available from different types of investment.

- **Guide to Generating Income from Natural Yield**

  This discusses the benefits of using actual income rather than increasing risks by spending capital as income.

- **Guide to Sustainable Income and Capital Drawdown in Retirement**

  This looks at the subject of how much "income" may be sustainable throughout life from a capital sum, where someone is prepared to spend both the income and the capital itself.

- **Guide to the Risks of Future Yield Compression**

  This looks at the additional uncertainties associated with trying to estimate how much income might be available from capital not yet available and invested for income but expected to be so in the future.

- **Guide to Forecasting Future Retirement Income**

  This looks at how we deal with this pivotal area of pre-retirement financial planning, in terms of assessing what might be needed, and what might be generated from resources already accumulated and those yet to be.

Important notes

Any opinions expressed on the merits or disadvantages of any options are intended as a general comment only and not as specific advice to the reader.

This document is intended as a supplement to full independent advice and not as a replacement for it and should be read in conjunction with any personalised recommendations provided by Atkins Bland Ltd and with any product brochures supplied.

The value of investments will fall as well as rise, as can any income produced or generated. An investor may, therefore, get back less than invested.

Inflation can reduce the real value of capital and the income it generates.

Past investment performance is not a reliable guide to the future.

Any reference to taxation, regulation or legislation is based on our current understanding and details should be checked before any reliance is placed upon its accuracy.

The impact of taxation and tax planning depends on individual circumstances and may be subject to change, which can be retrospective.

Errors and omission excepted.

Prepared by Atkins Bland Ltd. June 2024