

SAPS in 2009



As I sit down to write this article each year, I look back at what I wrote last year and years gone by and I am very much reminded that the months and years pass very quickly. If I may hijack a phrase, 'a year is a long time in pensions!'. The financial world, and indeed the real world, is shifting about at such an incredible rate that many professionals in our industry are bewildered. As I look back at previous years' articles, I am reminded of the pure volume of events which occur each year and its pretty safe to say that 2009 is going to be even more turbulent than the last. You may remember as last year dawned, the phrase doing the rounds was, "the only good thing about 2008 is that it will be over in a year". Now as the new year dawns, we are starting to see the inevitable bloodletting from the contraction in the financial system. The year is going to be harsh and so, in this unforgiving environment, what will it be like for self administered pensions?

The model client for the self admin scheme is the SME owner/director, a valued member of the community, and very much at the sharp end of what is going on. Those whose businesses aren't being brought to their knees, or whose investments haven't brought them to earth with a thump are treasuring the cash they have. Business people don't know what calls they are going to face in the next twelve months and beyond, and so, with income generation under such threat, they need to be defensive. Many are taking the view that cash they may retain in their businesses is best left there, to be availed of in any range of eventualities. In my experience that applies even to those who have cash reserves accumulated in healthy trading to date. Cost cutting and cash management is the order of the day. And so with SME's under threat even those who are doing okay are necessarily tight with their cash. There certainly won't be an expansion of the market and I believe maintaining the existing numbers of active schemes will be an achievement in 2009.

Having said that, if I was to paraphrase what the typical SME owner director, who has been relying on insured funds to provide

for retirement, has been saying to me in recent times, it is that he is disappointed with the inability of fund managers to manage his funds! Many feel they could have done as well themselves, and that medium risk funds have done as badly as many investments which were considered higher risk. As a result, in my view, more clients seem to be driven towards taking control of their funds, driven by an initial instinct to see their funds "stabled" in a bank account with a stable bank and with a view to subsequently making investments at some stage in the future intended to recover some of the wealth lost in the last eighteen months. And so I suspect that while there will be very little new SAP business, there will be a trend for some pension investors to move from insured arrangements to self administered.

As each SAP is required to have an operating bank account, the lack of confidence in the banking system has been of major concern to SAP clients. However, the introduction of the Government Guarantee scheme, confirmation that government is prepared to recapitalise AIB and Bank of Ireland and the nationalisation of Anglo Irish Bank has, to a large extent settled that nervousness. Perhaps it could be argued that they enjoy more security than pension investors who invest in insured cash funds?

Investment options are thin on the ground now. Recent carnage has seen the marketplace becoming much less crowded and a pattern has emerged where the investment options which seem to appeal to many investors the greatest, apart from cash, centres around structured deposit products with capital guarantees. While these products will sell, the guaranteed element of the products will seriously curtail the performance of the working part of the investment and I am concerned the lack of performance of these bonds will further alienate investors who justifiably feel let down. Downward pressure on interest rates is going to exacerbate this further.

Depending on how many structural shocks to the system we are destined to

experience, there will come a point where investors are going to take the view that opportunities are arising. At some point they will take the view that the drop in asset prices has been too great and I suspect the first moves will be back into stocks. While the herd instinct may not be as mindless as it was in the bubble, the fickle nature of investor psychology will prevail I'm sure. Investors will move back into real assets when they see others doing so. Unfortunately, the lessons of history tell us that as a result many investors are likely to miss a substantial chunk of growth from the trough as a result. While I believe it will continue to be extremely difficult to choose individual stocks, investing in stock market indices to my mind, at some stage will be a very logical step and for my money, growth is likely to come from the US first.

While there are many reasons why this might be the case, I think the simple fact is that the rest of the world's markets still wait for the US stock market to open to decide what mood they are in. The old adage of "If the US catches cold, the world catches flu" is true. While there had been a view that the BRIC economies had developed to the point where they were independent of the US, was blown out of the water with the sudden drop in commodity prices late last year.

The US economy represents 25% of the world economy. The S & P, which comprises the largest cap companies across all sectors of the economy in the U.S., was down 38% in 2008. That was its worst annual performance since an earlier version of the S&P fell 47% in 1931. This, combined with the Obama factor and the concerted government efforts to rectify the financial system, suggest to me that this may be a time of opportunity.

I know Warren Buffet is being quoted to death these days but he has said "Attempt to be fearful when others are greedy and to be greedy only when others are fearful." Sometimes I think he is free with his wisdom because he knows that it is so instinctively difficult to follow... but it's hard to argue with him!

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...Kevin Coghlan, Director, Bespoke Trustees