

| TURNER LITTLE

Planning and preparation
for the next normal



ASSET PROTECTION:

Planning And Preparation For The Next Normal.

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Britain is facing the deepest recession of any nation in the developed world, according to the forecasts from the OECD (Organisation for Economic Cooperation and Development)¹.

The predicted recession is even considered to be the steepest economic downturn since the Great Depression. As fears surrounding the lasting impact of lockdown on the economy continue to grow, official figures show public debt is bigger than GDP for the first time in 57 years, after the government borrowed £55 billion in May, whilst GDP shrank 20.4% in April – the steepest monthly decline since records began, according to the Office of National Statistics (ONS)².

The lockdown measures put in place may have successfully managed to reduce the spread of the virus and reduce the death toll, but they have also frozen business activity in many sectors, widened inequality, disrupted education and undermined consumer and economic confidence. But as restrictions begin to ease, the path to economic recovery remains highly uncertain and still vulnerable to a second wave of infection.

What will the future look like? Is rapid economic recovery likely? Will the business and economic repercussions be with us for years? What will be the new normal, and what are the implications to both individuals and business interests?

The OECD has set out two forecasted scenarios for recovery³ – a double hit scenario, in which there is a second major virus outbreak later in 2020, and a single hit scenario, in which the virus is kept under control. Each forecast is equally possible, and both show the economy won't be back to pre-COVID levels for at least two years.

The double-hit scenario shows the possibility of the world economic output plummeting by 7.6% this year, whilst unemployment rates nearly double, with little recovery in jobs by 2021.

The single-hit scenario shows global economic activity falling 6% in 2020 whilst unemployment climbs to 9.2% as living standards fall less sharply than they would with a second wave.

¹ <http://www.oecd.org/economic-outlook/>

² <https://www.ons.gov.uk/>

³ <http://www.oecd.org/economic-outlook/>

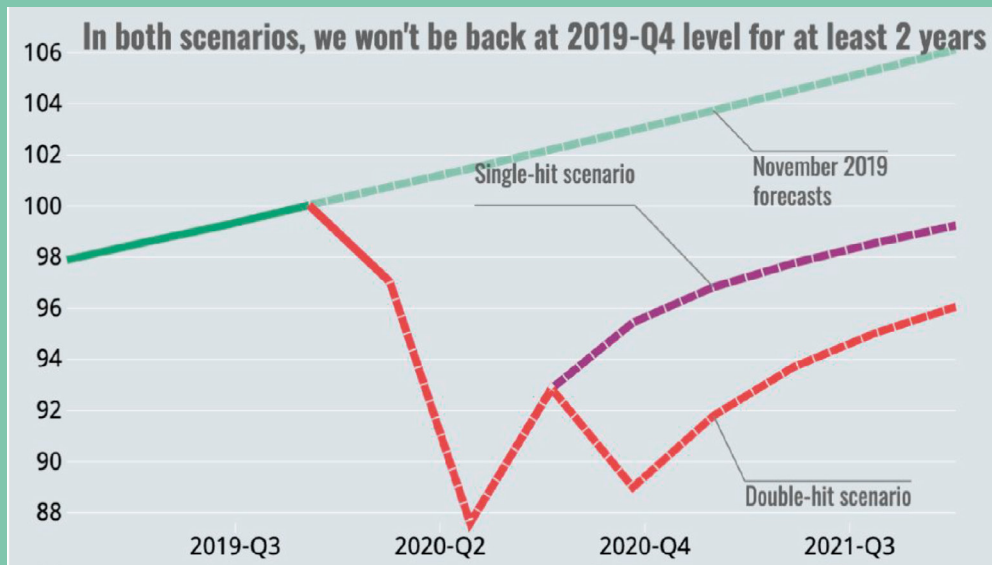


Figure 1: OECD Economic Outlook⁴

The reality is, either scenario will impact all sectors of the UK economy, directly affecting employment and living standards, and the government is under huge pressure to help businesses in the UK get back to normal as lockdown begins to ease. Whilst there is economic damage, people are starting to learn how to cope, whilst businesses are learning how to adjust. What we expect to see, is the businesses that survive, will be more resilient and productive than ever before. People and organisations can be innovative, adaptable and resilient, and an understanding of the broader economic outlook will be crucial in shaping the future.

“The time to be greedy, is when everyone else is fearsome”

– Warren Buffett

SO, WHAT DOES THAT MEAN FOR YOU?

While there's no fool proof way to 'recession-proof' your personal finances or your business, establishing a solid base now will put you in a better position to weather the storm. We've seen some of the most innovative, forward-thinking business models that can not only survive uncertain times, but also thrive during them. It's important to plan for the future in uncertain times.

The economic fallout has forced the Bank of England to cut interest rates more than once, and The World Bank predicts that the global economy will shrink by 5.2%, its worst performance since 1946 and the aftermath of WW2 in its latest Global Economic Prospects report⁵. The PRA also requested that banks suspend dividends and share buybacks until the end of 2020.

⁴ <http://www.oecd.org/economic-outlook/>

⁵ <https://www.reuters.com/article/us-worldbank-outlook/world-bank-says-coronavirus-to-shrink-2020-global-output-by-5-2-idUSKBN23F21E>

IS NOW REALLY A GOOD TIME TO BE INVESTING IN BUSINESS?

Whilst the current economic downturn presents an opportunity to review your investments and manage the risks you're exposed to, in order to avoid suffering agonising losses, it also presents an opportunity to build a more diverse portfolio, with a mix of investments that suit your attitude to risk, in order to weather the downturn.

General Motors, Burger King, CNN, Uber and Airbnb were all founded during economic downturns. GM in 1908, when the US economy was in turmoil after the 1907 financial crisis; Burger King in 1953, when the US was again in recession, and CNN started broadcasting in 1980, when US inflation hit 15%. Both Uber and Airbnb were set up during the 2007-2009 global financial crisis. It may seem counterintuitive, but history proves that successful companies can be born out of tough times, and there is already evidence of history repeating itself. Even in the last three months of the pandemic, businesses in the technology and pharmaceutical sectors have gained significantly, including the likes of Apple, Microsoft, Netflix, Bayer and Pfizer.

In the US, almost 70,000⁶ applications were filed to set up new companies in the last week of May 2020 – a 21% rise on the same period in 2019.

Now is an incredibly opportune time to invest in fixed business assets, such as machinery, land, buildings, vehicles or technology. Essentially, we're talking about items of value, which a company owns or leases in order to operate. These assets also help businesses generate revenue and increase value.

Fixed assets are often an essential resource for small businesses, but as a surge in unemployment continues to shake the workforce in the current economic climate, combined with the fact that smaller businesses typically operate on paper-thin margins, lack cash flow and capital, there is opportunity for investment.

No matter what you are acquiring or investing in, ensuring you put it in the right structure, will enable you to protect, future-proof and recession-proof your investment and assets. With so many different structures available, it's essential that you choose the right structure from the start, to better your chance of building a business that thrives.

The pandemic has presented governments, companies and individuals with an extraordinary challenge, creating an inverse correlation between the desire to 'flatten the curve' of infection rates, and the depth of economic disruption. But its effects extend far beyond economics. Overnight, how we work, shop, save and spend all changed. Since March, we've seen a number of businesses experience an unprecedented increase in sales, including those selling bikes, exercise gear, outdoor and indoor games, home and garden products, electrical goods and even coffee.

“Opportunities come infrequently. When it rains gold, put out the bucket, not the thimble”

– Warren Buffett

⁶ <https://www.census.gov/econ/bfs/index.html>

BUT IS THIS SUCCESS SHORT-LIVED?

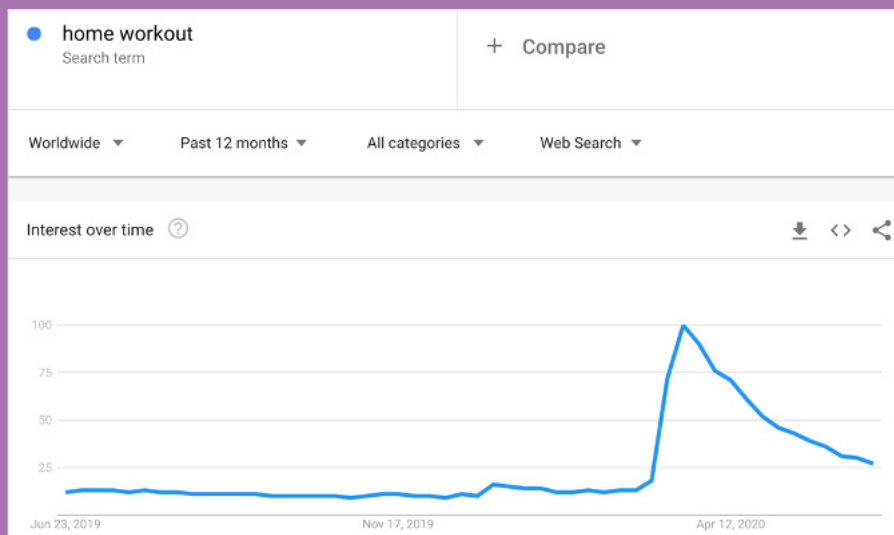
As gyms closed their doors, home workout options grew in popularity and since lockdown began, bicycle manufacturers and shops across the country have reported an increase in demand, and many expect a further increase in sales as people consider resuming journeys to work as restrictions ease.

Take Brompton, the UK's largest bike manufacturer, producing almost 50,000 folding cycles a year, the brand has seen a fivefold increase in online sales since the start of April. According to the Association of Cycle Traders⁷, the sudden demand from essential workers and the significant adoption of cycling for exercise, travel and family leisure during the pandemic, further fuelled by unseasonably good weather, placed increased demand on the industry.

Sportswear, activewear and loungewear are also emerging from lockdown as winners. Sales of activewear in the US and the UK were up 40% and 97%⁸ respectively during the first week of April, according to retail analytics company Edited. This is in line with an increased interest in home workouts and online classes, as evidenced by a spike in Google searches in the first weeks of global lockdowns.

Activewear brands from Gymshark to Lululemon and Nike began publishing regular online workouts and live classes. Despite retail stores being closed, Nikes revenues increased by 5%, with online sales up 36% .

But it isn't just the bicycle and activewear industries that have seen success, there has been a surge in DIY and gardening sales as well as electricals, beer, wine and spirits. In fact, UK online retail sales growth was up 32.7% year-on-year in May according to research by IMRG and Capgemini.



⁷ <https://www.cycleassociation.uk/news/?page=1&news-searchterm=&news-type=CategoryCycles&news-searchtype=any&id=2893>

⁸ <https://edited.com/resources/activewear-market-and-covid-19/>

⁹ <https://www.retaildive.com/news/nike-sees-china-as-a-playbook-to-tackling-covid-19-in-the-us/574854/>

BUT WILL BUSINESSES BE ABLE TO MAINTAIN THIS MOMENTUM?


Now is the time for those who have had success due to COVID-19 to plan for the future. It's clear that industries and companies that provide goods or a service which fulfils people's basic needs are less likely to flounder in periods of recession. And understanding how a business will likely perform during a recession is an important consideration. Asset protection measures don't work if you're already in trouble, so the most effective protection must be put in place before you even think you need it.

Unexpected shocks and volatility in assets can often provide temptation to trade and invest around news flow and emotion, but effective planning ensures that no matter what happens, you're always in control. Having a robust plan in place employs legal strategies and can separate legal structures or arrangements such as corporations, partnerships or trusts.

According to Deloitte, 90% of finance directors believe there is a high or very high level of uncertainty facing their business. With over 9 million people furloughed, uncertainty surrounding the continuing spread of coronavirus has made people fear for their health and their lives. 69% of those furloughed have said this is the most stressful time of their careers. Uncertainty about their livelihoods has made them cautious about spending. Under high uncertainty, business leaders can find it impossible to make reliable plans for investment.

But the future belongs to those who plan for it, and when it comes to safeguarding your assets against unforeseen circumstances, planning is key. In times of uncertainty, trusts can be set up for asset preservation, as trusts may help protect wealth from events outside your control. Offshore trusts are most commonly used for asset protection, as it keeps assets protected from debtors. And despite what the media will have you believe, there are numerous, legitimate reasons to set up an offshore trust or use an offshore company, including better infrastructure and legal frameworks.

With Britain's budget deficit estimated to hit £337bn this year, following an increase in public spending to cushion the economic fallout from the pandemic, and the government having borrowed more in April this year, than they did throughout the whole of 2019, Tax rises are inevitable.

 **“Risk comes from not knowing what you are doing ”**

– Warren Buffett

Early estimates suggest these could apply to all income brackets and range from a 1% rise in the basic rate of income tax, to 21%, while the pensions triple lock could also be scrapped. Raising income tax would be one of the quickest and most far-reaching ways of raising revenue, with pressure for increases to target some of the highest earners. But pre-crisis attempts to reform taxation of the self-employed, including changes to IR35 have been put on hold. The government is also considering scrapping IHT, replacing it with a system where capital tax is levied whenever assets are transferred.

What this means is it's more important than ever to protect your assets in advance of significant tax increases, facilitating tax efficient planning and ensuring appropriate structures are put in place to protect your assets, whether they are business, or personal.

Setting up and using an offshore company can provide you with the ability to mitigate risks that arise from uncertainty. We have already seen businesses starting to register European entities in order to limit their exposure to the fallout that results from Brexit. Whatever the reason, spreading your operations across jurisdictions may be the best long-term business strategy you can adopt to secure future growth.

As we consider the scale of change that the coronavirus has engendered, we feel compelled to reflect not only on a health crisis of immense proportions, but also on our innate need to protect, no matter whether it's protecting ourselves, our families or our businesses.

Whilst we transition to this 'new normal', we know one thing is certain – when it comes to wealth management, succession planning or safeguarding your assets, it's never too early to start planning. In an uncertain world, it's our view that you need to take time to garner a complete view of your assets, and take the time to maximise opportunities and build a long-term strategy.

Whether you're considering business investment opportunities, looking to expand and grow, facing business uncertainty, or planning for retirement, we can help. Every individual we work with is unique, so our approach is built around you. We use proven consultative processes and models to discover how best we can help you – finding the ideal way to structure your business, protect your assets, and provide for your loved ones, now and in the future. No hold-ups, no nasty surprises, just effective bespoke solutions or one-off services, whatever your challenge.

Our Discovery process is the perfect solution – delivered quickly, and reliably. We take the time to understand your needs before providing a clear, bespoke asset protection that will be key to future-proofing your success.

The journey begins with an in-depth consultation, where we get an understanding of your business, circumstances, anything you own or control, and most importantly, what your personal financial goals are. We then analyse and identify your unique challenges, and guide you through the options that are available for you.

To find out more about how we can help you safeguard your future, get in touch today.

[CONTACT US](#)

Alternatively, visit turnerlittle.com or call James Turner on **01904 783 101**