Getting your finances back on track

Your finances may have seen some volatility during the Covid-19 crisis. From sudden downturns in the markets and interest rate cuts, to falling salaries and job losses. Plenty of factors could have impacted your overall finances and plans for the future.

Here, we look at steps you could take to get your finances back on track.

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Consider your priorities

The pandemic and lockdown may have prompted you to re-evaluate your financial priorities. You may have had plans to travel the world, or start your own business, for example, but find that your personal ambitions have shifted. Perhaps your finances are no longer able to support your goals, or you want to change these in light of the crisis.

Taking some time to reconsider your priorities is a wise first step, and then you can work out how to build your finances around these.

Evaluate your spending

You may have dipped into savings during the crisis if your circumstances have changed. In this case, rebuilding your savings will be a priority to get back on track with your finances. Draw up a budget detailing your monthly income and outgoings. Consider whether you could be spending money more effectively, and what might be cut to boost your cashflow and savings potential.

The pandemic has highlighted the need for a cash fund and, ideally, you want enough put away to cover three to six months' worth of living expenses.

Save tax-efficiently

Any spare cash needs boosting however possible. Remember that income and growth on investments within an Individual Savings Account (ISA) are tax free. Over time, as the value of your investment grows, the tax benefits can significantly boost your returns. You can save up to £20,000 a year in an ISA in the 2020/21 tax year.

You could increase your pension contributions towards retirement saving. You may benefit from so-called pound cost averaging while the market is down, buying more shares when the price is lower and fewer shares when the price is higher. This has the potential to increase and smooth returns over the long term.

Protect your investments

Your investment portfolio will most likely have fallen in value. It is probably already invested in a mix of assets, including stocks, shares, funds, industrial sectors and geographical regions, but you may want to re-evaluate what you hold, and how broad your asset mix is, to protect from further shocks.

For example, you could add funds that are designed to minimise downside risk, such as absolute return funds, or increase your exposure to corporate bonds and gilts. A wealth manager can help you build a broad spread of investments to suit you, and weather any further shocks.

Hold your nerve

History shows that markets typically rebound, given time, so hold your nerve. There may be further bumps ahead but cashing in your investments during a downturn will cement losses on those that have fallen, without giving them time to recover. If you have been making regular contributions to your investments try to continue doing so to benefit from long term returns, and gradually help to get your finances back on track.

If you are uncertain about getting your finances back on track, a financial adviser will be happy to advise you on how to achieve your long-term ambitions.

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