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Natural order prevails in time

Nothing has really changed among the core principles of saving, says Barry O'Neill, investment director at Carbon Financial Partners in Aberdeen

Barry O'Neill

BARTER: If you can't trust banks, you may be as well to start breeding pigs, as you will need them to pay for goods and services in this new world, writes Barry O'Neill

"Yes, but that was in the past and it's different this time" – a phrase I have heard regularly over the 25 years plus that I've been doing this job.

Most of the time, it relates to so-called experts saying the fundamental rules of investing have changed and things will work differently in future.

Granted, if you focus on the short-term, the immediate future does look more uncertain in a post-Brexit vote world.

There is, of course, a chance that the doomsayers might actually be right for once. But what if they're not? What if, over the long-term, the natural order of things prevails and it's not different this time?

How are you feeling if, in advance of the Brexit vote, you battened down the hatches and retreated from any non-deposit based forms of savings? My guess is that you're hurting.

Deposit rates, which virtually everyone thought couldn't go lower after eight years of a 0.5% base rate, did indeed drop to 0.25% and the world's stock markets took off like a rocket to the moon.

So what can we learn from history? History shows us that even the simplest, low-cost investment portfolio, with 60% invested in global equity markets and 40% in 10-year global government bonds, beats cash and inflation hands down.

It would have delivered more than enough to meet most investor's objectives over the past 25 years.

In fact, even a portfolio with the opposite asset allocation – for example, with only 40% invested in global equities – would have delivered a very healthy cash and inflation-beating return. Are we really saying things will be so different over the next 25 years and that the long-established risk and reward model inherent in a capitalist society is broken?

> **"Are we really saying things will be different over the next 25 years?"**

The rules work like this. Bondholders deserve to earn more than bank customers receive as a return on cash for the additional risk they take due to the possibility of default.

Equity owners deserve a greater return as a reward for their injection of capital, because their rights to capital on default rank below those of bondholders.

If you believe these rules no longer apply, you might as well start breeding pigs, sheep and cows as you will need them to pay for goods and services in this brave new world.

If on the other hand, you feel like me, that the natural order of things tends to prevail over the long-term, then make sure you are not hoarding all your money in the bank as this is a surefire way to devalue your future purchasing power.

● Barry O'Neill is Investment Director with award winning financial planning, investment and pension advice firm Carbon Financial Partners Limited and can be contacted on 01224 633263.