

## Lifestyling: It's a Risky Business

Published on: 2 February, 2024 | Author: Investment Team

---

“And one man in his time plays many parts,

His acts being seven ages.”

Few of us these days wear “slipper’d pantaloons,” but we still play a variety of roles as we travel through life: the dependent child, the lingering teenager, the thrusting entrepreneur, the stressed-out parent, and the grateful grandparent. Each of those roles places a different burden on our finances.

In financial terms those periods roughly coincide with debt accumulation, mortgages, and funding education; then asset accumulation, success at work and career; and finally asset decumulation, as we enjoy the benefits of a lifetime of work in pleasant retirement. The challenge to each of us as we progress through the lifecycle is how to navigate the risks and opportunities to secure our futures and those of our families.

The collective marketing muscle of the finance industry has, of course, latched onto this and has developed the notion of “lifestyle investment.” As so often, the industry has correctly understood a real and genuine problem, but the solution offered has often proven to be industrial and mechanical, lacking the flexibility to attend to individuals’ needs at the appropriate time in their lives.

“Lifestyling” has delivered an unexpected shock to many individuals as regulatory and market definitions of safety have diverged. After the rich catalogue of market failures and financial scandals of the last forty years, financial institutions, rightly, run scared of the Regulator. But to deem something “safe” does not necessarily make it so. Furthermore, safety on one dimension can turn out to be risk in another.

What is “Lifestyling?”

Time and investment run hand-in-glove with each other. But, of course, as we get older time is generally not on our side, consequently the standard advice is to “de-risk” as time passes. Lifestyle investment programmes sell shares for gilts or bonds as clients get older.

There are two problems with the standard view: what exactly is the timeframe we’re talking about and secondly, what is the nature of the risk we are taking?

1. Time: not all of our investments are necessarily designed with “ourselves” in mind. Indeed, many portfolios, pensions, and trusts, for example, have horizons that are expected to outlive us, often for many decades or even more. The wrong asset allocation in these situations can lead to large losses for beneficiaries down the inter-generational waterfall. Too little exposure to growth and, even, moderate inflation will seriously erode the value of capital in the long run to the detriment of younger family cohorts.
2. Risk: institutional risk-management can have pernicious consequences. Gilts and corporate bonds are deemed senior assets. Gilts, of course, are backed by the government which is to say the taxpayer. They are thus regarded as “safer” than shares or equities. Lifestyle investing programmes have propelled investors, as they get older, into these assets out of equities on the narrow argument that the volatility of equity markets is the primary threat to older investors. Yet, an individual this week was reportedly horrified to see that his pension scheme had declined

by 1/3 despite being in a “lifestyle” pension. A poor understanding of “financial risk” in tandem with regulatory “risk-management” by institutions can lead to poor outcomes for individuals.

The problem with the top-level perspective, which, as far as it goes is true, is that in recent years financial markets have been coming off not only low interest rates but the lowest rate of interest that has ever been seen in the modern historical period. This represents a systemic risk to fixed interest investments which lifestyle investing has not accounted for.

Mechanically shifting funds from equities into fixed income exposed investors to the highest level of interest-rate risk, technically “duration” risk, that has ever been seen. Long-dated index-linked stock in the UK, regarded as “ultra-safe,” fell by up to 80%. That, by any standard, is a financial crash.

The reason is that as interest rates rise, the price of bonds and gilts fall. This effect is amplified the longer the term of the bond or gilt before it comes to maturity. The effect is further turbo-charged as “real” interest rates rise which affects index-linked bonds disproportionately badly.

The impact of the regulatory definition of “safe investment” was to push individuals into assets that were as expensive as they had ever been at a time when rising inflation was forcing central banks to raise interest rates.

Gilts are, of course, ultra-safe but they come in three different flavours: short, medium, and long. A risk reduction strategy would focus only on the short-dated variety whereas lifestyle investing made an over-simplified top-level distinction between bond and equity.

Understanding what an investor is seeking to achieve and ensuring that investors have a full grasp of the different types of risk that dominate at different points in the economic cycle is crucial. The reason Tacit services exist is to acknowledge and manage this gap between the individual need for specific advice throughout a lifetime and the financial institutions’ requirements for large-scale, top-level, industrial solutions which can, and do, lead to pernicious unintended consequences for individuals we manage money for.

**Important Information:** Any views, insights, or commentary are for general information only, do not constitute personal investment advice or research, and are intended for UK residents. They may not be appropriate in all jurisdictions. While sourced from information we believe to be reliable, we make no guarantee as to accuracy or completeness. Past performance is not a guide to future results, and the value of investments can go down as well as up.

**Regulatory Disclaimer:** Tacit Investment Management is the trading name of TIML Limited (No. 9228395), part of Tacit Holdings Limited (No. 10611211). Both companies are incorporated in England and Wales, with the registered office at 14 Hanover Square, London W1S 1HN. TIML Limited is authorised and regulated by the Financial Conduct Authority (FCA ref. 670184) and approves and issues this communication under Section 21 of the Financial Services and Markets Act 2000. Please note, tax and estate planning services are not regulated by the FCA.