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NOVEMBER 2023

GUIDE TO

EFFECTIVE WEALTH CREATION STRATEGIES

How to build a more secure financial future

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GUIDE TO

EFFECTIVE WEALTH CREATION STRATEGIES

How to build a more secure financial future

Welcome to our Guide to *Effective Wealth Creation Strategies*. There's no one-size-fits-all answer to how to build a plan for financial freedom.

Building wealth is a cherished ambition for many, yet it can often feel daunting. Success in this endeavour requires time, commitment and self-discipline, so be wary of promises of instant wealth and opportunities that seem too good to be true, as they can lead you astray.

The silver lining here is that tried-and-true principles and strategies can aid anyone in accumulating and maintaining wealth over the long haul. Furthermore, the sooner you begin applying these principles, the higher your chances of success.

This comprehensive guide delves into the fundamental principles for wealth creation. These include goal setting and plan development, investing in education and skills, debt management, savings and investments, asset protection and shielding your investments from tax implications. As we progress through this guide, we will explore these principles to help you reach your financial aspirations.

It is a significant step if you are venturing into investments for the first time. This guide will assist you in determining whether this financial move aligns with your goals and circumstances. ■

ARE YOU READY TO TAKE CONTROL OF YOUR FINANCIAL FUTURE?

If you're interested in learning more about wealth creation and how it can help you achieve your goals, we're here to help. If you need further information or wish to discuss your unique requirements, please get in touch with us. We're happy to help you understand and navigate the world of wealth creation.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED. PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

THE FINANCIAL CONDUCT AUTHORITY DOES NOT REGULATE TAX ADVICE.

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PLANNING FOR A SECURE FUTURE

Financial freedom begins with a roadmap

The journey to financial freedom begins with a roadmap. This crucial tool outlines your current financial situation and paves the way towards your desired destination – your financial goals. It's time to ask yourself, what are these goals? Saving for retirement, building an investment portfolio or establishing an emergency fund? The more precise your goals, the more tailored your roadmap can be.

CHARTING YOUR COURSE: THE POWER OF GOAL-BASED PLANNING

Once you've defined your objectives, the magic begins. Goal-based financial planning allows you to invest systematically and in a disciplined way. It keeps you focused on your destination, unswayed by the market's short-term turbulence.

While everyone's goals vary depending on their life stage, they can generally be bucketed into three categories: essential needs, lifestyle wants and legacy aspirations.

ACHIEVING FINANCIAL SUCCESS: A COMPREHENSIVE APPROACH

Navigating the terrain of financial success in these areas can be challenging. It demands a holistic understanding of everything from complex retirement plans and investment products to risk management strategies and tax laws.

Your financial roadmap should be your beacon of clarity. It should encapsulate every facet of your vision – your hopes, fears and goals, vividly depicting your financial future.

WHAT ARE SOME OF THE QUESTIONS YOU NEED TO ASK YOURSELF?

- Can I sleep soundly knowing my future is financially secure?
- Do I have a clear direction for my financial journey?
- Will my current lifestyle be sustainable in retirement?
- Am I financially equipped to live the life I want now and in the future?
- Have I planned adequately to ensure I don't run out of money?
- Do I fully understand my financial position?
- What is my financial 'magic number' to secure my current and future lifestyle?

THE COST OF YOUR FUTURE LIFESTYLE: UNDERSTANDING 'YOUR NUMBER'

Start by identifying your financial goals and the time frame to achieve them. Determine their current cost, factor in a reasonable inflation rate, and voila – you'll know what they'll likely cost when you aim to achieve them.

This exercise helps you uncover 'your number' – the money you need to secure your future lifestyle without fear of running out of funds.

Your financial roadmap is your guide to making informed financial decisions, striking a balance between current responsibilities and future aspirations. It's designed to help you sustainably achieve your lifestyle goals and objectives over time. ■

ARE YOU READY TO INVEST?

Establishing safeguards before embarking on an investment journey

Investing comes with its share of risks, which can sometimes lead to partial or total loss of your savings. Assessing your financial situation and establishing safeguards before embarking on an investment journey is essential.

The decision to invest should hinge on your financial goals. Are you looking to increase your wealth, generate regular income or both? Do you have a specific growth target for your savings or a minimum required income?

Generally, investments require a minimum commitment of five years to overcome market fluctuations. This is especially important if you're nearing retirement. Clearly defined goals will guide your risk-taking limits to achieve your desired outcomes.

INVESTMENT CONSIDERATIONS FOR DIFFERENT LIFE GOALS

Here are some common life goals and related investment considerations:

Property purchase: If you intend to buy within the next five years, consider keeping your savings in a Cash Individual Savings Account (ISA) or Lifetime ISA. If you've got a longer timeline and it's your first home, an investment Lifetime ISA might be worth considering for government bonuses.
Marriage plans: Cash savings might be more suitable unless you're tying the knot five years from now.
Child's university fees: A Junior ISA can be a good option as the money will have up to 18 years to withstand market volatility.
Retirement: Making additional voluntary contributions to your pension could only be beneficial as long as you're not at risk of exceeding your Annual Allowance.

ASSESS YOUR DEBT SITUATION

Before you invest, ensure you are in control of any debts. Aim to reduce any borrowing to manageable levels or clear all debt before investing, especially if the interest payments on your debt will likely outweigh potential investment returns. Mortgages and certain types of student debt might be exceptions if the interest rates are low.

EMERGENCY SAVINGS

Do you have a financial safety net? Before taking investment risks, you should have emergency savings in place. A general rule of thumb is to save up at least three to six months' salary before investing. Consider upcoming expenses, too, as quick withdrawals from investments could result in losses.

PROTECTING YOUR FUTURE

Ensure you're safeguarded against prolonged work absences. Review your employer's sick-pay scheme and consider income protection insurance if you're self-employed. Other insurance, like critical illness cover or life insurance, is essential if you have a mortgage or dependents.

UNDERSTANDING INVESTMENT RISKS

Comprehending the risks involved in investing and deciding your risk tolerance level is key. Even with a long investment horizon and ample cash reserves, high-risk investments may not suit you if market volatility keeps you awake at night. Understanding what you're investing in is essential to evaluate the associated risks accurately.

While some investments, like corporate and government bonds, are considered less risky, no investment is entirely risk-free. For instance, if a corporate bond issuer goes bankrupt, they won't be able to pay interest or repay the loan, rendering the bond worthless. The risk level of a bond largely depends on the issuer's creditworthiness, indicated by a credit rating.

BALANCING RISK AND RETURN

If you aim to boost your potential returns, you'll likely need to accept an additional layer of risk. Hence, it's crucial to diversify your portfolio with a mix of investments that align with your risk tolerance. ■

“SETTING GOALS ISN'T A ONE-SIZE-FITS-ALL EXERCISE. HOWEVER, ADHERING TO SOME FUNDAMENTAL PRINCIPLES CAN PUT YOU ON THE RIGHT PATH.”

NAVIGATING THE INVESTMENT LABYRINTH

Plotting your financial journey with goals-based investing

In a world where investors are flooded with many choices and investment routes, picking the path that aligns perfectly with your needs can be daunting. That's where goals-based investing comes to your rescue.

Goals-based investing is a unique investment strategy focusing on realising specific financial milestones. Whether you're amassing funds for retirement, planning to purchase a dream home or earmarking savings for your child's education, this approach will enable you to plan toward achieving your goals.

YOUR FINANCIAL PATH: CLEAR AND DETAILED GOALS

It would be best to establish clear, concise and detailed financial goals to steer your finances in the right direction. These aren't just markers of your journey and the rewards of your diligent efforts. Remember, if it's not written, it's just a wish. So, jot them down.

ENLIST IN GOALS-BASED INVESTING AND REAP THESE BENEFITS:

Sharper vision: Investing with a specific target sharpens your understanding of what's required to reach that milestone. It keeps you on track and enables you to make informed investment decisions.
Long-term perspective: Goals-based investing encourages you to keep your eyes on the horizon, not getting swayed by short-term market turbulence. It helps you stay invested for the long haul, preventing impulsive decisions that could derail your financial journey.
Bolstered discipline: Having a distinct goal fosters disciplined investing – a key to long-term success.
Boosted motivation: A tangible goal fuels your motivation, inspiring you to stay committed even when the going gets tough.

But to achieve all your targets, you'll need a well-defined plan. Starting with the assets you possess, you'll need to calculate how much more you need to amass and when you'll need it.

DEFINE YOUR PATH TO FINANCIAL SUCCESS

Setting goals isn't a one-size-fits-all exercise. However, adhering to some fundamental principles can put you on the right path. The first step is to crystallise what you aim to achieve. This might seem straightforward, but investing time in contemplating your objectives is crucial. What are your immediate aims? What about your long-term aspirations?

Once you've homed in on your targets, you must establish realistic and achievable goals. That means framing goals that are specific, measurable, attainable, relevant and time-bound (SMART).

Specific: Your financial and personal goals should be precise to provide clear direction. Think of your goals as a beacon illuminating your path – the brighter the light, the clearer the journey ahead.
Measurable: Set realistic deadlines. Incorporating specific dates, amounts, etc. helps quantify your progress and visualise the finish line.
Attainable: Be truthful with yourself and set realistic goals. Start with the objectives that top your priority list. It's easy to feel overwhelmed, so begin with simple steps.
Relevant: Align your goals with your life's intended direction. Striking a balance between long-term and short-term goals will provide the focus you need.
Time-bound: Having an end date allows you to celebrate when you achieve your goal. Setting deadlines instils a sense of urgency that's missing in open-ended goals.

SETTING REALISTIC GOALS

Every goal should have an assigned amount, investment period, risk level and priority order. Do you have the means to make additional investments to gather the required assets to achieve your goals? Additionally, pay attention to the impact of taxes on your savings and investments.

After considering these factors, you can accomplish some goals more quickly or take longer than expected. The time horizon plays a crucial role in setting realistic goals. ■

MONETARY MATTERS

Decoding investment strategies for better financial decisions

Entering the investment world can feel like deciphering an enigma, particularly for beginners. The vast array of options and approaches can often lead to bewilderment. However, the first crucial step on this journey is to identify your financial aspirations.

Are you aiming for long-term wealth accumulation or more immediate returns? Pinpointing your specific goal will aid in selecting suitable investments and fostering wiser financial decisions.

HARNESSING THE POWER OF CASH FLOW MODELLING

Cash flow modelling emerges as a potent tool that assists in navigating your financial ship towards your investment goals. By crafting a model that outlines your earnings and expenditures, you gain a comprehensive view of your financial situation, enabling you to make informed decisions regarding your monetary resources.

Among the many benefits of cash flow modelling are:

- Achieving a transparent understanding of your financial standing
- Identifying potential areas of extravagant spending
- Unearthing opportunities to conserve money
- Making informed decisions about investments and other fiscal commitments
- Establishing achievable financial targets

VISUALISING YOUR FINANCIAL FUTURE

Cash flow modelling offers a picture of your financial future, providing insight into how various life events might impact it. This enables you to plan ahead, ensuring you optimise your money to reach your financial objectives.

The model offers a comparative analysis of your current and desired financial status and goals. It considers your present and projected wealth, along with income inflows and expenditure outflows, painting a vivid picture of your finances now and in the future.

DETERMINING THE PERFECT ASSET ALLOCATION MIX

Cash flow modelling lets you ascertain the best course of action and recommendations suited to your unique circumstances, including the ideal asset allocation mix. It calculates the growth rate necessary to meet your investment objectives. It cross-references this with your risk tolerance to ensure your expectations align with the asset allocation required for the desired growth rate.

REGULAR REVIEWS AND REASSESSMENTS

Keeping your financial plan up-to-date is crucial. Assumptions made in the cash flow model need regular reviews and reassessments to ensure you stay on track. This includes deciding how much to save, spend, invest and manage funds to achieve the required return.

SPECIFICITY IS KEY

As you navigate each financial milestone, it's vital to 'run through the numbers'. Being specific about your needs and goals will help you make the right financial decisions and establish a plan to achieve them. If these needs aren't accurately defined, the cash flow model may not resonate personally with you, reducing its perceived value.

Remember, your financial plan and cash flow model are only as good as the information provided. They're based on projected inflation and growth rates, which must be clarified. ■

UNRAVELLING YOUR INVESTMENT DECISIONS

Pinpointing potentials to enhance your savings and investments

Regular financial health checks are vital to maintain a firm grip on your monetary resources. By conducting a personal financial audit, you can uncover areas ripe for increased savings and investment.

Such a review offers an in-depth look at your overall financial status, ensuring alignment with your long-term fiscal goals.

This process is critical to understanding what you hope to achieve with your investments. A comprehensive financial review also helps you manage your overall asset distribution and individual shares in line with your comfort level regarding risk exposure.

RECOGNISING THE 'WHY' BEHIND YOUR INVESTMENT DECISIONS

Understanding your motivation to invest is key. Begin by analysing your financial circumstances and the reasons prompting you to invest.

You may be:

- Seeking higher returns compared to standard cash savings
- Creating a fund for specific objectives, such as your children's or grandchildren's education or perhaps their future nuptials

Identifying your investment motives will help set clear goals and guide future investment management strategies.

DETERMINING YOUR INVESTMENT TIMELINE

Investment goals often come with a target date. If you have multiple goals, each may require a unique strategy based on its timeline. It's wise to use cash savings for short-term objectives and invest for long-term ones due to the fluctuating nature of investments.

SHORT TERM

Consider options like cash savings for goals that don't require a lengthy commitment.

MEDIUM TERM

If a five-year commitment is feasible, various investments might be suitable. Your portfolio could include a blend of funds, bonds, shares and other professionally managed and performance-monitored assets.

LONG TERM

Suppose you're planning for retirement well in advance. High-risk funds offering higher returns might appeal to you, given the extended time frame. You may shift to safer investment options as retirement nears to secure your returns.

Your investment timeframe significantly influences your decisions. Generally, long-term investments tend to outperform cash, but this isn't guaranteed.

CRAFTING AN INVESTMENT BLUEPRINT

With clear goals, risk assessment and an understanding of your needs, we can assist in identifying suitable investment options.

CONSTRUCTING A DIVERSIFIED PORTFOLIO

A balanced portfolio comprising varied investments can safeguard against market volatility. Different investments thrive under various economic conditions. By diversifying, you can leverage these performance variations.

Portfolio diversification can be achieved through funds investing across:

- Diverse types of investments
- Various countries and markets
- A range of industries and companies

A diversified portfolio typically includes a broad mix of investment types, markets and sectors. The proportion you invest in each is known as your 'asset allocation'.

> **"IN THE EVER-EVOLVING WORLD OF FINANCE, PERIODIC REVIEWS ARE YOUR COMPASS, GUIDING YOUR INVESTMENTS THROUGH THE ROUGH AND UNPREDICTABLE TERRAINS."**

MAXIMISING TAX ALLOWANCES

Consider how you'll hold your investments and what you'll invest in. Some tax-efficient accounts can help retain more of your returns. Ensure you're maximising your tax allowances whenever possible.

Remember, tax rules are subject to change, and any specific tax treatment's value depends on your circumstances.

REGULAR PORTFOLIO REVIEWS

In the ever-evolving world of finance, periodic reviews are your compass, guiding your investments through the rough and unpredictable terrains. These assessments ensure that your portfolio, with its diverse mix of investment types and markets, is still in sync with your financial goals.

THE FLUIDITY OF FINANCIAL GOALS

Life happens, and when it does, it can significantly change your financial plan. Changing circumstances have shifted your risk tolerance or altered your time horizon. In such instances, a comprehensive portfolio examination becomes vital to ensure it resonates with your updated financial aspirations.

REALIGNING YOUR ASSET ALLOCATION

Asset allocation is a pivotal part of investment planning, setting the tone for a portfolio you can feel comfortable with. However, depending on how your portfolio performs over the year, your asset allocation may shift from its original plan. If your allocations have strayed from your targets, it might be time to recalibrate your portfolio to realign it with your initial objectives.

ACHIEVING DIVERSIFICATION

A well-balanced portfolio isn't just about proper asset class balance – it's about achieving diversification within each asset class. Diversification is about owning various assets that behave differently over time, ensuring not all your eggs are in one basket.

The four main asset classes – cash, fixed-interest securities, property and equities – offer unique benefits. Having a slice of all these pies can help mitigate overall risk in your investment portfolio. If one area underperforms, the others can pick up the slack, offsetting potential losses.

MAINTAINING A HEALTHY PORTFOLIO

Performance evaluation is key to maintaining a healthy portfolio. There may be areas in your portfolio that need rebalancing or assets that need to be sold to offset potential capital gains throughout the year.

Rebalancing is not about chasing maximum returns but minimising risk relative to a target asset allocation. As different asset classes yield varying returns over time, they can skew your portfolio's asset allocation. To restore your portfolio's original risk-and-return attributes, rebalancing becomes necessary. ■

CHARTING YOUR FINANCIAL FUTURE

Setting the course for your investment journey

Starting your investment journey can be daunting, especially when you have a significant amount saved. You've been prudent enough to set aside three to six months' worth of emergency funds and now you're ready to explore how to grow your wealth over the long haul. Investing isn't just a one-time event but a lifelong journey.

The key to successful investing lies in understanding your financial goals, your time horizon for each and your risk tolerance. How soon you start can make a significant difference to your financial wellbeing in the future.

BALANCING ACT: PRESENT FINANCES AND FUTURE ASPIRATIONS

The investment strategy that suits you best will largely depend on your comfort level with risk, your current financial situation and your future aspirations. Unlike saving, investing has the potential for higher returns and increased risk.

As you approach retirement, it may not be the best time to go all-in on high-risk investments. Instead, a more balanced approach could involve opting for safer options like cash accounts or bonds while allocating a smaller portion to growth-oriented options such as stocks.

WHEN CASH OR TERM DEPOSITS MAKE SENSE

If you're considering making a deposit payment for your first home, consider cash or term deposits. These conservative investment options can keep your savings safe in the short term.

Conversely, if you're at the beginning of your career and saving journey, you might be willing to take on more risk for higher potential returns, especially if you don't need immediate access to your funds.

SHIELDING YOUR WEALTH FROM MARKET VOLATILITY

Having a diversified investment portfolio can help shield your wealth from market fluctuations. Understanding the four main types of investments or 'asset classes' is crucial, each with its unique set of benefits and risks.

> “THE INVESTMENT STRATEGY THAT SUITS YOU BEST WILL LARGELY DEPEND ON YOUR COMFORT LEVEL WITH RISK, YOUR CURRENT FINANCIAL SITUATION, AND YOUR FUTURE ASPIRATIONS. UNLIKE SAVING, INVESTING HAS THE POTENTIAL FOR HIGHER RETURNS AND INCREASED RISK.”

THE APPEAL OF DEFENSIVE INVESTMENTS

Defensive investments prioritise regular income over growth. The most common types are cash and fixed-interest investments.

Cash investments, such as high-interest savings accounts, offer stable, regular income through interest payments. While they carry the least risk, the value of your cash could decrease over time due to inflation.

Fixed-interest investments, including term deposits, government bonds and corporate bonds, can also provide a regular income. Term deposits lock up your money for a certain period at an interest rate often higher than a cash account. Bonds function as loans to governments or corporations, providing investors with regular interest payments and repayment of the bond's price at the end of a fixed period.

THE POTENTIAL OF GROWTH INVESTMENTS

Growth investments, like shares and property, aim to increase in value over time, potentially providing income. While these investments may offer higher returns than defensive investments, they also come with a higher risk of loss.

SHARE OWNERSHIP

In its most basic form, a share is a single piece of ownership in a company. These shares are typically traded on a stock exchange and are considered growth investments due to their potential to increase in value. This increase allows for a profit opportunity if you sell your shares at a higher price than what you initially paid.

Shareholders may also reap the benefits of dividends, a payout from a company's profit distributed to its shareholders.

However, it's important to note that the value of shares can also decrease, falling below your initial investment. Share prices are prone to daily volatility, making them more suited to long-term investors who can handle these fluctuations. Despite the potential for high returns, shares are often viewed as one of the riskier investment options.

INVESTING IN PROPERTY

Property investment holds similarities to share investing, with the potential for property values to rise over time. This increase presents the chance to make a profit by selling a property for more than its purchase price in the medium to long term.

Investments in property can take many forms, including:

- Residential properties like houses and units
- Commercial properties such as offices or office blocks
- Retail premises such as shops or hotels
- Industrial properties like warehouses

However, property prices are only sometimes likely to rise, and properties can be harder to sell quickly compared to other types of investments. Property investment might not be your best choice if you need easy access to your funds.

UNDERSTANDING RETURNS

Returns are the profits you earn from your investments. These returns can come in various forms depending on where you've invested your money:

- Dividends from shares
- Rent from properties
- Interest from cash deposits and fixed-interest securities.

UNDERSTANDING INVESTMENT RISK

A crucial component of any investment strategy

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CREDIT RISK IS CLOSELY TIED TO THE POTENTIAL RETURN OF AN INVESTMENT, MOST NOTABLY THAT THE YIELDS ON BONDS CORRELATE STRONGLY TO THEIR PERCEIVED CREDIT RISK.

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The question of how much investment risk one should take on has a variety of answers. It's contingent on your unique circumstances, objectives and comfort zone when it comes to risk. Some individuals are more at ease with risk, and others may be willing to take on more risk to reach their goals. Everyone has varying degrees of tolerance for different types of risk.

A crucial step in the investment decision-making process is understanding investment risk and determining your comfort level before investing. The potential returns from various types of investments and associated risks fluctuate over time due to economic, political and regulatory changes, among other factors.

ASSESSING RISK TOLERANCE

There are several ways to gauge your risk tolerance. One approach is to contemplate how you would react if your investments lost value in the short term. If the prospect of a dwindling account balance causes anxiety, you might be risk-averse.

MARKET VOLATILITY

Conversely, you might be more open to taking risks if you're okay with short-term losses for potentially higher long-term gains. Another way to evaluate risk tolerance is to consider your comfort level with market volatility, which refers to the rate at which prices of investments increase or decrease.

MARKET FLUCTUATIONS

Investments with high volatility will see more significant price swings, while those with low volatility will see more gradual, steady price changes. Some investors are drawn to the prospect of significant gains from volatile investments, while others prefer investments that offer stability and slower growth.

RISK PROFILING

Knowing your risk tolerance can guide you to make smarter investment decisions and help you avoid taking too much or too little risk for your objectives. Your investment goals and timelines will also influence your risk tolerance. The result of this process is your 'risk profile'.

INVESTMENT RISKS

It's natural to be wary of financial risks, but the truth is, there's no such thing as a 'no-risk' investment. Every investment carries some degree of risk. For instance, funds holding bonds are typically less risky than those with shares, but there are always exceptions.

UNDERSTANDING REAL-VALUE RISKS

Money stashed in secure deposits like savings accounts runs the risk of losing value in real terms (purchasing power) over time. The paid interest rate may only sometimes keep pace with inflation. Conversely, index-linked investments that match the inflation rate only sometimes track market interest rates. This means if inflation dips, you could earn less interest than anticipated.

INFLATION AND INTEREST RATES

Investments in the stock market might outpace inflation and interest rates over time, but you run the risk of low prices when you need to sell. This could lead to a poor return or even a loss if prices are lower than when you bought. While risk can't be avoided entirely, it can be managed by diversifying investments over the long term and making regular contributions rather than a lump sum. This can help balance the highs and lows and reduce the risk of substantial losses.

DIFFERENT KINDS OF RISKS

Capital risk is when your investments can decrease in value and you may not recoup what you invested. Investments in the stock market, whether directly or via a fund, will see daily fluctuations in value. You could lose some or all of your money depending on the company or companies you have invested in. Other assets like property and bonds can also lose value.

Inflation risk is when the purchasing power of your savings declines. Even if your investment increases in value, if the things you want to buy with the money have increased in price faster than your investment, you may not be making 'real' money. Cash deposits with low returns may expose you to inflation risk.

Credit risk is the risk of not achieving a financial reward due to a borrower's failure to repay a loan or meet a contractual obligation. Credit risk is closely tied to the potential return of an investment, most notably that the yields on bonds correlate strongly to their perceived credit risk.

UNDERSTANDING LIQUIDITY, CURRENCY AND INTEREST RATE RISKS

Liquidity risk is not being able to access your money when needed. Liquidity can be a significant risk if you hold assets like property directly and in the bond market, where the pool of buyers and sellers can dry up.

Currency risk is the potential risk of loss from fluctuating foreign exchange rates when investments are exposed to foreign currency or in foreign-currency-traded investments.

Interest rate risk is when interest rate changes affect your savings and investment returns. Even with a fixed rate, the market interest rates may fall below or rise above the fixed rate, affecting your returns relative to rates available elsewhere. Interest rate risk is a particular risk for bondholders. ■

DYNAMICS OF ASSET ALLOCATION

Balancing investment risks and returns

Asset allocation plays a crucial role in shaping your financial future. It's the strategic distribution of your investments across various asset classes, aiding in risk minimisation while bolstering potential returns.

The art of asset allocation is not a one-time affair but a dynamic process that needs revisiting as your financial circumstances and objectives evolve. For instance, nearing retirement may necessitate a shift towards a more conservative asset allocation.

Remember, there's no one-size-fits-all when it comes to asset allocation. It's about finding a strategy that aligns with your financial goals and staying consistent over time.

Allocation involves deciding how to distribute your funds among different asset classes (like equities, bonds, property and cash) and determining the proportion you want to hold in each.

FUTURE NEEDS

Your asset allocation should reflect your future capital or income requirements, the timeframes for these needs, and your risk tolerance. Investment is a balance between risk and return. Not only does asset allocation help mitigate risk, but it can also optimise your returns without necessarily amplifying portfolio risk. While all investors aim to maximise returns, individual risk appetites vary.

UNDERSTANDING INVESTMENT CHARACTERISTICS

'Asset allocation' refers to dividing your investments among different assets. Your portfolio can feature diverse assets, including cash, bonds, equities (company shares) and property, each with unique characteristics.

The rationale behind diversifying your investment across different assets is to spread risk and grasp the implications of these characteristics for portfolio performance under varying conditions – embodying the principle of not 'putting all your eggs in one basket'.

NAVIGATING THROUGH UNCERTAINTIES

Investments are subject to market fluctuations, and their performance hinges on the asset classes and prevailing market conditions. Such volatility is part and parcel of investing.

Moreover, the potential returns and associated risks of different investments change over time due to economic, political and regulatory shifts, as well as numerous other factors. Diversification helps navigate this uncertainty by amalgamating various investments.

Your risk tolerance will evolve, influenced by your life stage and responsibilities. Younger investors might withstand a more significant market dip, confident in their ability to recover. In contrast, those in their 40s with commitments like mortgages and families may prioritise safeguarding against such losses.

EXPLORING ASSET CLASSES

Building a portfolio involves blending various asset classes or investment types. Cash is the foundation, with the goal of outperforming what could be earned by leaving all investments on deposit.

CASH INVESTMENTS

Popular cash investments include savings accounts in banks, building societies and money market funds (investment schemes investing in short-term bonds for institutions and large personal investors).

While cash held in banks is arguably safer than other asset classes, it typically offers the lowest return over the long term. However, maintaining some liquidity is crucial to cover unexpected expenses or income loss without dipping into your core portfolio.

Protecting your money from inflation isn't guaranteed. Generally, cash savings accounts are not the best long-term option – interest rates are often lower than inflation, resulting in continuous loss of value.

BOND INVESTMENTS

In simplest terms, bonds are IOUs issued by entities like governments or corporations. As an investor, you provide an initial investment and, in return, the issuer pays a pre-agreed regular return, also known as the 'coupon'. This occurs over a fixed term, at the end of which your initial investment is returned.

Bond risk can vary widely, depending on the issuer's financial stability. Riskier issuers often offer more attractive coupons to entice investors.

BOND MARKET DYNAMICS

As long as the issuer remains solvent when the bond matures, you'll receive the bond's initial value. However, several factors, including interest rates, inflation expectations and the issuer's credit quality, cause the bond's price fluctuation during its lifetime.

For example, the value of government bonds is particularly affected by changes in interest rates. Similarly, high inflation can reduce the real value of future coupon payments, making bonds less appealing and driving their prices lower.

EQUITIES INVESTMENTS

Equities, also known as shares in companies, are generally considered riskier than bonds. However, they tend to yield higher returns over an extended period. This is because share prices can significantly increase as the company expands.

Returns from equities are primarily derived from changes in the share price and, occasionally, dividends paid by the company to its investors.

FACTORS INFLUENCING EQUITY PERFORMANCE

Share prices are constantly fluctuating due to various factors such as company profits, economic background and investor sentiment. For instance, a company's future profitability prospects can affect share prices. Similarly, a poor outlook for economic growth could indicate declining demand for the company's products or services, affecting share prices.

PROPERTY INVESTMENT

When investing, property usually refers to commercial real estate – offices, warehouses, retail units, etc. Unlike equities or bonds, properties are unique; only one fund can own a specific property.

DYNAMICS OF PROPERTY INVESTMENT

Changes in capital values can sometimes dominate property performance. Also, property investment involves considerable valuation and legal involvement, making it less liquid than equities or bonds.

Rental income is usually the main driver of commercial property returns. Property owners can enhance their asset's income potential and capital value through refurbishment or other improvements. With proper management, the stable nature of the property's income return makes it an attractive option for investors.

DIVERSIFICATION

Predicting the future of investments is a game we cannot win. If possible, we would pinpoint the exact date when we need our money back and opt for the investment promising the highest return at that time. This return could come from many assets - company shares, bonds, gold or any other asset class. The challenge lies in our inability to foresee what lies ahead.

To counteract this unpredictability, diversification comes into play. By amalgamating a variety of investments, diversification provides a safety net. Portfolio managers, aiming to boost the performance potential of a diversified portfolio, continually adjust the mix of assets they own based on current market trends. These adjustments can occur at multiple levels - the overall asset mix, the targeted markets within each asset class or even the risk profile of underlying funds within these markets.

ADAPTING TO MARKET CONDITIONS

In a climate of positive or rebounding economic growth coupled with a high-risk appetite, it's common for managers to increase their equity weighting while decreasing their exposure to bonds. Within these broad asset categories, managers may also gravitate towards more aggressive portfolios during prosperous market periods and resort to more conservative ones during challenging times. Variables like local economic growth, interest rates and political landscape significantly influence the balance between equity and bond markets.

TAILORING UNDERLYING PORTFOLIOS

Regarding the underlying portfolios, managers typically adopt a defensive stance in times of low-risk appetite. For instance, in equity, they lean towards larger companies operating in sectors less dependent on strong economic growth. Conversely, when risk appetite is high, these portfolios tend to increase their exposure to smaller companies and to sectors more sensitive to economic fluctuations. ■

MAKING BETTER INVESTMENT DECISIONS

Achieving financial goals and gaining the freedom to live the life we want

Investing is no longer a luxury reserved for the very wealthy; it's a financial necessity for everyone. Whether we're saving for retirement or our children's education, personal investing is crucial in securing our financial futures. However, navigating the world of equities, bonds and property can be daunting, especially for beginners.

Personal investing is about more than just making money. It's about achieving our financial goals and gaining the freedom to live the life we want. But like any journey, the road to financial independence can be filled with obstacles and detours. The key to successful investing is understanding the basics, developing a sound strategy and sticking to it, even when market conditions are challenging.

CREATE A PLAN AND REMAIN COMMITTED

Creating a financial target is one step, but having a solid investment strategy can bridge the gap between wishing for favourable outcomes and attaining your financial aspirations. It's beneficial to reassess your investment strategy regularly, obtain professional financial advice and make necessary alterations. However, unwavering dedication to your plan can shield you from distractions caused by short-term market volatility.

RECONSIDER KEEPING ALL YOUR FUNDS IN CASH

The allure of keeping all your money in cash as a secure option can be strong, but it's important to remember that inflation can erode your savings. This has been recently demonstrated with UK inflation reaching a four-decade high. Further, surging energy costs could amplify inflationary impact and drain economic growth. For those with long-term investment objectives, it's crucial to supplement cash with investments in diverse asset categories that can outpace inflation and offer superior capital growth opportunities.

DIVERSIFICATION IS KEY

During market fluctuations, it's easy to become overly concerned about certain underperforming investments, overlooking the broader perspective. While some asset classes may struggle in such scenarios, others could thrive. A diversified portfolio comprising different assets can help smooth out the volatility and prevent excessive risk exposure to your portfolio.

START INVESTING SOONER RATHER THAN LATER

Starting your investment journey early in life enhances your prospects for long-term growth. Compound growth, which allows an investment to grow through reinvested earnings, is a potent tool but requires time to yield results. The optimal time to invest is when you have a clear financial plan that necessitates growth.

RESIST THE URGE TO ACT IMPULSIVELY

Some investors fall prey to 'activity bias', an impulsive urge to take action during a crisis, regardless of whether that action is beneficial or not. When investments depreciate, deviating from your plan and selling them off is tempting. However, this could be detrimental as it prevents you from benefiting from potential price recoveries. Market cycles are inevitable, involving both good and bad years. Short-term market dips usually even out in the long run, increasing the likelihood of robust returns.

PERSONALISED STRATEGIES ARE ESSENTIAL

Every investor has unique needs, and while the tips above provide a general guideline, nothing beats a strategy specifically designed for you. Moreover, during turbulent times, professional financial advice can help remove emotional bias from investment decisions and provide an unbiased perspective. This is the most valuable investment you will ever make. ■

THE PERILS OF TRYING TO TIME THE MARKET

Even the most experienced investors can make costly mistakes

The common adage 'buy low, sell high' might seem like a foolproof strategy for maximising investment returns. However, the reality is far more complex than simply trying to predict market fluctuations. Timing the market involves anticipating its highs and lows to buy when prices are at their lowest and sell when they peak.

Many factors, encompassing both the economic and political spheres, can influence investment markets. Formulating investment decisions by considering all these factors is a formidable task. While it's easy to identify apparent signs retrospectively and missed opportunities in past market trends, it usually needs to be clarified in real time. Consequently, even the most experienced investors can make costly mistakes.

Attempting to time the market consistently is virtually impossible. Even seasoned fund managers, backed by dedicated research teams and resources, can sometimes get it wrong.

'TIME IN THE MARKET' INVESTMENT STRATEGY

So, if market timing isn't an effective strategy for the average investor, then what is? A famous saying among many investors offers a clue: 'It's not about timing the market, but about time in the market.'

Enduring volatile periods can be stressful, especially when the value of investments falls. A 'buy and hold' investment strategy often proves more effective. Building a diversified investment portfolio tailored to your risk profile is critical. Holding these investments over a long period can yield more consistent returns than attempting to time the market.

Market dips can make it challenging to stick to your long-term investment plan. However, for most investors, this approach works. Since market volatility is inevitable, investing with short-term goals in mind isn't advisable. Ideally, it would be best if you planned to invest for a minimum of five years, which allows the ups and downs of the market to even out. ■

POUND-COST AVERAGING

Cultivating a habit of disciplined investing, smoothing out market fluctuations and reducing overall risk

There may come a time in your life when you are fortunate enough to come into a large sum of money. This could result from a matured savings or investment plan, the sale of a business or valuable assets like a house or an inheritance.

When this happens, if you intend to invest this money, you're presented with a quandary: should you invest all the money at once or gradually introduce it into the market over time? When faced with this choice, many investors opt to distribute their investment over time. This means they don't invest at a single price point, but rather average out their investment level in the market.

SMOOTHING OUT THE MARKET'S FLUCTUATIONS

This strategy is often referred to as 'pound cost averaging'. This strategy can help smooth out market fluctuations and reduce overall risk.

Predicting the perfect time to enter or exit the market can be highly challenging, and investors often face the danger of investing at the peak of a market cycle or withdrawing at the lowest point. The comparison between pound cost averaging and lump sum investing is crucial in investment decisions.

NAVIGATING MARKET VOLATILITY

Regularly investing can result in a lower average purchase price than a single lump-sum investment at the market's peak. Consistent investments over time can help flatten the market's highs and lows.

Pound cost averaging involves consistently investing a set amount, irrespective of the market's ebbs and flows. In contrast, lump sum investing requires deciding when to invest.

The principle behind pound cost averaging is simple. It can be done by gradually investing a large sum – for instance, investing £20,000 each month for ten months from a £200,000 lump sum.

Pound cost averaging can:

- Provide a methodical, disciplined investment strategy
- Alleviate the stress of lump sum investments made at inopportune times
- Offer a more steady and predictable entry into the market
- Assist in lessening the effects of declining asset prices

ADOPTING OPEN-ENDED INVESTMENT STRATEGIES

Alternatively, you could opt for an open-ended pound cost-averaging strategy by investing £2,000 monthly. This approach ensures that you're investing regardless of the market's state. Pound cost averaging can also aid in limiting losses while cultivating a habit of disciplined investing and providing purchases at lower prices during market downturns.

ENHANCING SAVINGS WITH INCREMENTAL INVESTMENTS

However, any costs associated with regular investments may decrease the benefits of pound cost averaging. These costs depend on the charge relative to the investment size and the frequency of investment.

As time progresses, you'll likely be able to increase your monthly investment amount, thereby giving your savings a valuable boost. Regardless of the investment size, committing to regular savings over an extended period can accumulate into a significant sum. ■

INVESTMENT FUNDS

Influencing your investment choices

Rather than purchasing assets individually, another option is to use the services of an expert professional fund manager who makes informed decisions on your behalf. Investment funds amalgamate capital from numerous investors, granting each participant proportional ownership.

These funds are designed to align with their stated objectives, offering many investment avenues. They provide the advantage of diversification, reduced transaction expenses and expert management, thus reducing some of the risks associated with individual investing.

MANAGING YOUR INVESTMENT PORTFOLIO

With this investment approach, you receive periodic updates about the fund's performance but do not have direct control over investment choices. You can, however, withdraw your funds at any time. One primary reason to invest through a fund is to spread the risk. Even with a minimal investment, you can diversify your portfolio across various asset classes such as bonds, cash, property, equities, countries and market sectors.

Pooling your money also reduces operational costs, as you share the expenses with other investors. Moreover, the fund manager handles all the transactions, including purchase, sale and dividend collection, thereby reducing your workload. However, these services incur charges.

ACTIVE MANAGEMENT

The majority of pooled investment funds operate under active management. Here, the fund manager is compensated to study the market and make informed decisions about which assets could yield a significant profit. Depending on the fund's goals, the manager strives to provide superior growth for your investment (outperforming the market) or to secure more consistent returns than those obtained merely by following the markets.

PASSIVE MANAGEMENT – TRACKER FUNDS

Alternatively, you might opt for a tracker fund that mirrors the market's performance. If an index rises, so does your fund value, but it will also decline if the index falls. A 'market index tracker' emulates the performance of all shares in a specific market. For instance, the FTSE 100, comprising the 100 largest companies based on share value, is a popular market index in the UK.

If a fund invests in all 100 companies in the same proportions as their market value, its value will fluctuate in sync with the FTSE 100. Such funds are known as 'tracker funds'.

Tracker funds require less active management, leading to lower fees than those associated with actively managed funds. The fees mean that your actual returns might be slightly lower than the market's growth, but they should be comparable. ■

INDIVIDUAL SAVINGS ACCOUNTS

Ensuring that your savings and investment returns are minimised for taxation

Individual Savings Accounts, or ISAs, are a protective tax-efficient wrapper, ensuring that your savings and investment returns are minimised for taxation. Depending on your financial planning, you can opt for ISAs that offer instant access to your capital, perfect for short-term goals.

Alternatively, an ISA can be a viable option for those with a long-term vision.

BROADENING YOUR CHOICES: CASH ISA

A Cash ISA operates similarly to a conventional savings account. The key differences are the restrictions on the maximum amount you can deposit each fiscal year and the added advantage of earning interest tax-efficiently.

Cash ISAs come in three major types:

Instant-access Cash ISAs: These offer the flexibility to deposit and withdraw cash at any time, although some may have certain restrictions. The interest rates on these accounts are typically variable.
Regular savings Cash ISAs: These accounts typically offer a fixed interest rate over a specified period, provided you make regular monthly deposits. You can deposit up to £1,666 monthly without exceeding the annual limit £20,000.
Fixed-rate Cash ISAs: To earn a fixed interest rate, you must agree to deposit your money for a predetermined period. Generally, the longer the term, the higher the interest you'll receive.

For the 2023/24 tax year, the maximum amount you can deposit in a Cash ISA is £20,000. It's important to note that you can only open and contribute to one Cash ISA each tax year. While you can move your funds to a new ISA, you must transfer all the deposits made during the current tax year. Cash ISAs can be opened by anyone aged 18 or above.

DIVERSIFYING YOUR PORTFOLIO: STOCKS & SHARES ISA

A Stocks & Shares ISA is an investment account where all your proceeds are shielded from Capital Gains and Income Tax. During the 2023/24 tax year, you can deposit as much as £20,000 into a Stocks & Shares ISA.

You have two options when it comes to managing your account. You can choose a managed account, where professionals handle your investments for a fee. Alternatively, you can decide where to invest your money, but be prepared to pay a fee to the provider.

Before making any investment decisions, consider your risk tolerance, as there's a chance you might end up with less money than what you invested. Stocks & Shares ISAs can be opened by anyone 18 years or older.

EXPLORING NEW FRONTIERS: INNOVATIVE FINANCE ISA

An Innovative Finance ISA, often called an IFISA, is a unique ISA that revolves around peer-to-peer loans. For the fiscal year 2023/24, the maximum contribution to an Innovative Finance ISA is £20,000.

This novel approach to lending connects investors directly with borrowers who, for one reason or another, did not opt for or qualify for a conventional bank loan. These borrowers typically include individuals, businesses and property developers.

In return for your investment, the borrower will offer an interest rate. Understanding that a higher interest rate generally implies a more significant investment risk is crucial. There is no guarantee that you will recover all your invested money.

If you're over 18, you can open an Innovative Finance ISA. It's an opportunity to get involved in a different investment that could provide a decent return.

PLANNING FOR THE FUTURE: LIFETIME ISA

A government-backed savings scheme is here to help you secure your future. Whether you want to purchase your first home or prepare for a comfortable retirement, this scheme covers you. It offers Cash ISA and Stocks & Shares options to suit different financial needs and risk preferences.

You can save up to £4,000 annually under this scheme. The government rewards your savings efforts with a 25% bonus on whatever amount you save, up to a maximum of £1,000 each year. This bonus is paid directly into your Lifetime ISA account every month.

Using this scheme for retirement planning comes with specific rules. You are permitted to continue contributing to the account until you reach 50 years of age. However, you must wait until you turn 60 to withdraw the funds.

If you are aged between 18-39 and are a first-time home buyer, this scheme is perfect for you. It's time to take that first step towards securing your financial future.

SECURING YOUR CHILD'S FUTURE: JUNIOR ISA

For those eager to start their financial journey early, there are accounts specifically designed for those under 18. These accounts present an opportunity to kickstart Cash or Stocks & Shares savings.

With an allowance of up to £9,000, these accounts offer a substantial wealth-building platform. And the best part? This won't come from your ISA allowance, as the money is rightfully your child's and not yours.

Parents and legal guardians can actively contribute to a Junior ISA each year until the child turns 18. At this milestone age, the account seamlessly transitions into an adult ISA, and they'll gain control of the money carefully saved over the years.

This transition marks a rite of passage and opens up a world of financial independence for your child. They'll have the opportunity to manage the wealth that has been accumulated in their name.

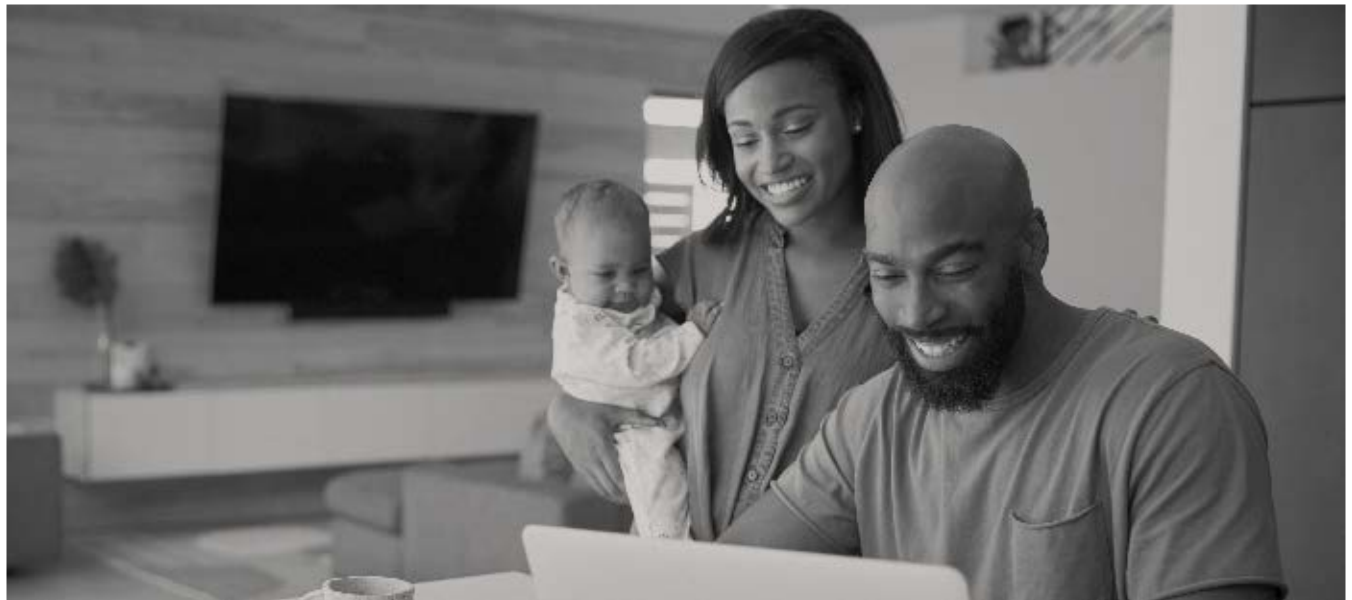
Parents and legal guardians play a crucial role in this process. They have the privilege to open and manage a Junior ISA for the children they're responsible for. This allows them to guide their child's financial journey and instils a sense of financial responsibility from a young age.

INHERITED ISA ALLOWANCE

When a spouse or registered civil partner passes away, the surviving partner may inherit their ISA savings. This is facilitated through what's known as an 'Inherited ISA Allowance' or an 'Additional Permitted Subscription' (APS). The APS provides the surviving spouse with a one-time additional ISA allowance that matches the value of the deceased partner's ISA at the time of their death.

To put it into perspective, if a person's spouse dies leaving behind an ISA worth £40,000, the surviving partner will receive not only the standard £20,000 ISA allowance available to everyone in the 2023/24 tax year but also an additional APS of £40,000 due to inheriting their spouse's ISA.

It's important to note that these rules were only introduced in April 2015. Before this, ISA savings could be passed on to beneficiaries named in your Will or through intestacy laws if you die without a Will. However, these savings lost their tax-efficient 'wrapper' during your lifetime. If your spouse wanted to reinvest the savings, they could only do so up to their maximum ISA allowance for that year. ■



"INVESTMENTS COME WITH THEIR SHARE OF RISKS AND REWARDS. WHILE THE VALUE OF YOUR INVESTMENTS CAN DECREASE, THERE IS ALSO THE POTENTIAL FOR HIGH RETURNS."

UNIT TRUSTS AND OPEN-ENDED INVESTMENT COMPANIES

Pooled funds that offer various investment strategies to choose from

Investment funds, also called 'collective investment schemes', are often large pools of capital created by garnering small investments from many individuals. This fund is then managed by a professional or a team of professionals who decide on the assets to invest in.

Pooling your resources with other investors allows you to be part of an individual investment scale that would otherwise be unreachable. These pooled funds offer various investment strategies – from high-income and capital growth to a mix of income and growth.

DELVING INTO UNIT TRUSTS AND OPEN-ENDED INVESTMENT COMPANIES

Unit trusts and Open-Ended Investment Companies (OEICs) are examples of professionally managed collective investment funds. These funds pool money from various investors to purchase multiple assets such as equities, bonds, property, cash assets and more. They are a robust foundation for individual investors seeking to achieve their financial goals.

UNDERSTANDING THE UNDERLYING ASSETS

When you invest in an OEIC, you buy shares; when you invest in a unit trust, you buy units. The fund manager uses your and other investors' money to invest in the fund's underlying assets. Each fund invests in a unique blend of investments. Some might focus on shares in British companies, while others might invest in bonds, foreign company shares or other investments.

THE DYNAMICS OF BUYING AND SELLING

As an investor, you own a fraction of the overall unit trust or OEIC. If the value of the underlying assets in the fund increases, so does the value of your units or shares. Conversely, if the value of the underlying assets decreases, the value of your units or shares follows suit. The total size of the fund fluctuates as investors buy or sell.

Certain funds offer 'income units' or 'income shares' that make regular payouts of any dividends or interest earned by the fund. Alternatively, there are 'accumulation units' or 'accumulation shares', where earnings are automatically reinvested in the fund.

THE POTENTIAL FOR HIGH RETURNS

Investments come with their share of risks and rewards. While the value of your investments can decrease, there is also the potential for high returns. Some assets are riskier than others, but they also offer the potential for higher returns. It's crucial to understand the kind of assets the fund invests in and whether they align with your investment goals, financial situation and risk tolerance before you invest.

MITIGATING RISK THROUGH DIVERSIFICATION

Unit trusts and OEICs enable you to diversify your investments across a wide range of assets without a significant capital outlay. Most unit trusts and OEICs allow you to sell your shares or units at any time. However, some funds may only deal on a monthly, quarterly or twice-yearly basis, especially if they invest in assets like property, which may take longer to sell.

DECIDING ON THE LENGTH OF INVESTMENT

The duration of your investment should align with your financial goals and the nature of the assets your fund invests in. If your fund invests in shares, bonds or property, consider investing for at least five years. Money market funds, on the other hand, may be suitable for shorter time frames.

If you own shares you earn income in the form of dividends, a portion of the profits made by the company you invested in. ■

INVESTMENT TRUSTS

Public limited companies that aim to make money by investing in other companies

Investment trusts are public limited company entities listed and traded on the London Stock Exchange. These trusts are required to publish an audited annual report and accounts, and they also operate under a board of directors who oversee the trust's manager. When you put your money into an investment trust, you essentially buy shares in that company.

UNDERSTANDING GEARING

Investment trusts and unit trusts differ significantly – the former can utilise borrowed capital, a concept called 'gearing'. This factor can significantly influence your investments' value, for better or worse.

Gearing becomes a potent tool when stock markets are on an upward trajectory. It magnifies the profits you garner from your investments. However, the flip side is that gearing also amplifies your losses during market downturns.

A trust that employs high levels of gearing will inevitably take a steeper fall during unfavourable market conditions than trusts with low gearing. Essentially, the higher the borrowing within a trust, the more capital risk you are exposed to. Conversely, this also offers the potential for greater returns. The interplay between gearing and the discount means investment trusts will likely exhibit more volatility than their unit trust counterparts. As an investor in investment trusts, be prepared for a journey fraught with larger peaks and valleys.

"INVESTMENT TRUSTS OFTEN TRADE AT A DISCOUNT, WHICH CAN SEEM LIKE A GOOD DEAL SINCE YOU'RE PAYING LESS THAN £100 FOR £100 WORTH OF ASSETS. BUT THERE'S NO GUARANTEE THAT THIS DISCOUNT WILL BE LESSENED WHEN YOU DECIDE TO SELL."

It's essential to note that not all investment trusts engage in gearing. The Association of Investment Companies (AIC) provides information about each trust's gearing policy. A gearing rating of 100 signifies that the trust has zero borrowing. Conversely, a rating of 110 indicates that your profits or losses will be amplified by 10%. In simpler terms, the trust has a gearing of 10% of its total assets.

INVESTMENT TRUST PRICES

The value of the assets owned by an investment trust is termed the net asset value (NAV), typically expressed in pence per share. For instance, if a trust owns £1m worth of assets and has one million shares, the NAV is 100p.

When a trust's trading price is less than its NAV, it is said to be trading at a discount. Conversely, if it's higher than its NAV, it's trading at a premium.

Investment trusts often trade at a discount, which can seem like a good deal since you're paying less than £100 for £100 worth of assets. But there's no guarantee that this discount will be lessened when you decide to sell. If the discount expands, you'll lose out in relative terms, regardless of the trust's NAV.

On rare occasions, trusts trade at a premium to NAV. This means you're paying more than £100 to own £100 worth of assets. You might choose to do this due to the manager's skill. However, it's essential to consider whether this type of outperformance will continue over time.

TRADITIONAL INVESTMENT TRUSTS

Investment trusts are structured as public limited companies, issuing a set number of shares, leading to their classification as closed-ended funds. These shares are traded on the stock exchange like any other public company. An investment trust's share price is influenced by the value of its underlying assets and the demand for its shares.

SPLIT CAPITAL INVESTMENT TRUSTS

Split capital investment trusts have a predetermined lifespan, typically spanning five to ten years. These trusts issue various types of shares, which, upon reaching their maturity date, offer payouts in accordance with the share type.

Choosing a share type that aligns with your risk tolerance and financial goals is crucial. Generally, shares situated further down the payment order exhibit higher risk but promise higher potential returns. Remember, share prices in an investment trust can fluctuate, meaning you may receive less than your initial investment.

ASSESSING ASSET TYPES

The risk and return associated with an investment trust largely depend on the chosen trust. Understanding what assets the trust invests in is vital, as some carry more risk than others. Furthermore, evaluating the gap between the investment trust's share price and asset value is crucial, as this disparity can impact your returns. A widening discount can potentially dampen returns.

Like unit trusts, investment trusts are classified based on the type of investment they focus on and the geographical area in which they operate. The Association of Investment Companies (AIC) oversees investment trusts and identifies over 30 distinct sectors. These include but are not limited to Growth in the UK, Global Expansion, Europe and Asia Pacific Infrastructure, Real Estate and Private Equity.

The fluctuation of discount or premium is often sector-dependent and is influenced by market sentiment. The risk level associated with a trust is primarily determined by its investment choices. Many leading investment firms have integrated socially responsible or 'ethical' investing into their investment strategies. They typically offer dedicated 'ethical funds' for investors to select.

These trusts invest solely in businesses that meet specific criteria, shunning those whose products or business practices fall short of the required standards. For instance, some ethical funds might exclude meat product manufacturers or companies that contribute significantly to greenhouse gas emissions. ■

> SHOULD YOU SUSPECT AN INVESTMENT SCAM HAS ENSNARED YOU, IT'S CRUCIAL TO REPORT IT TO THE FCA VIA THEIR SCAM SMART WEBSITE.

DECEPTION OF INVESTMENT SCAMS

Often presented as a persuasive opportunity for financial gain

An insidious kind of fraud, the investment scam often presents a persuasive opportunity for financial gain, requiring only your monetary contribution. At first glance, these offers may appear entirely legitimate, fooling even the savviest individuals. Yet, in most instances, victims of such scams lose partial or total amounts of their invested capital.

UNREGULATED INVESTMENTS: A RISKY BUSINESS
Another danger zone is the realm of investments linked to unregulated products. These are not bound by the guidelines the Financial Conduct Authority (FCA) set forth, exposing investors to significantly higher risks. Compared to regulated savings and investments, unregulated ones lack the same level of protection and are typically not recoverable through the Financial Services Compensation Scheme (FSCS).

VERIFICATION AND VIGILANCE: YOUR BEST DEFENCE
To safeguard yourself, ensure that the firm you're investing with is registered with the FCA. Furthermore, it's prudent to consult the FCA's warning list to verify if you're potentially dealing with a recognised scam.

TAKING ACTION: STEPS TO FOLLOW IF TARGETED BY A SCAM
Should you suspect an investment scam has ensnared you, it's crucial to report it to the FCA via their Scam Smart website. If you've lost money due to what appears to be investment fraud, notify Action Fraud immediately at 0300 123 2040 or through their official website. ■

READY TO BEGIN YOUR JOURNEY TOWARDS WEALTH CREATION?

There's much to think about regarding wealth creation, so don't hesitate to contact us if you need further information or guidance.

We're committed to helping you make informed decisions that align with your wealth creation goals.

To find out how we can help you – please get in touch with us.

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