



CHILTERN  
CONSULTANCY

INDEPENDENT FINANCIAL ADVISERS

# MONEY MATTERS

GUIDE TO

## THE PRINCIPLES OF BUILDING WEALTH

*Securing your future and achieving  
long-term financial aspirations*

NOVEMBER 2024

GUIDE TO

# THE PRINCIPLES OF BUILDING WEALTH

*Securing your future and achieving long-term financial aspirations*

Welcome to our *Guide to the Principles of Building Wealth*.

Investing is a formidable tool for pursuing financial goals and building wealth. Whether you aim to grow your wealth, generate income or achieve a balance of both, creating the right investment strategy is paramount to success. In an era where the financial landscape is evolving unprecedentedly due to economic, geopolitical and regulatory events, recognising the significance of investing in building wealth has become increasingly essential.

Investing transcends the mere act of making money; it is a strategic approach to building wealth over time, securing your future and achieving long-term financial aspirations. However, the journey through the complex world of investments can be daunting, given the myriad of options available. Understanding this landscape and selecting the right path is essential.

This guide was published before Chancellor Rachel Reeves announced the Autumn Budget Statement 2024 on Wednesday 30 October. Please note that some details may change following the announcement. ●

## ARE YOU READY TO TAKE THE NEXT STEP IN YOUR WEALTH-BUILDING JOURNEY?

In our guide, we consider some of the ways to potentially make your financial goals a reality. If you would like to discuss the different ways to save and invest in building your wealth or reviewing your specific requirements, please contact us to explore how we can help secure the financial future you want.

THIS GUIDE DOES NOT CONSTITUTE TAX, LEGAL OR FINANCIAL ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH. TAX TREATMENT DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF EACH CLIENT AND MAY BE SUBJECT TO CHANGE IN THE FUTURE. FOR GUIDANCE, SEEK PROFESSIONAL ADVICE.

THE VALUE OF YOUR INVESTMENTS CAN GO DOWN AS WELL AS UP, AND YOU MAY GET BACK LESS THAN YOU INVESTED.

THE TAX TREATMENT IS DEPENDENT ON INDIVIDUAL CIRCUMSTANCES AND MAY BE SUBJECT TO CHANGE IN FUTURE.

THE FINANCIAL CONDUCT AUTHORITY DOES NOT REGULATE TAX AND TRUST ADVICE.

## CONTENTS

### 02 WELCOME

Guide to the Principles of Building Wealth

### 04 STEERING YOU TOWARDS YOUR FINANCIAL OBJECTIVES

A well-drawn roadmap to act as your guide

### 06 MAKING YOUR MONEY WORK FOR YOU

Precisely understanding what you wish to accomplish financially is key

### 07 CASH FLOW MODELLING

Constructing a detailed representation of your income and expenditure

### 08 BUILD AND GROW YOUR WEALTH OVER TIME

Understanding your investment objectives, risk tolerance and timelines is crucial

### 10 INVESTING TO BEAT INFLATION FOR THE LONG TERM

Being aware of potential pitfalls that could undermine your financial security

### 12 UNDERSTANDING INVESTMENT RISK

How to identify your personal risk threshold

### 13 ASSET ALLOCATION IS NOT A ONE-TIME DECISION

Maximise potential returns while minimising risk

### 14 A PATH TO RESPONSIBLE WEALTH CREATION

Environmental, Social and Governance (ESG) Investing

### 16 KEY PRINCIPLES FOR INVESTING SUCCESS

A reliable guide through the ever-shifting financial landscape

### 24 HARNESSING THE POWER OF POOLED INVESTMENT FUNDS

Aggregating resources from numerous investors to maximise potential returns

### 26 INVESTMENT BONDS

Exploring why they are an attractive option to mass-affluent investors

### 27 INVESTMENT TRUSTS

Utilised to acquire a diverse array of shares and assets

### 28 INDIVIDUAL SAVINGS ACCOUNTS (ISAs)

Safeguarding your interest, dividends and capital gains from taxation

### 30 ADJUSTING YOUR INVESTMENT PORTFOLIO WITH AGE

Is your asset allocation aligned with your risk tolerance?

### 18 PITFALLS OF MARKET TIMING

A concept that can undermine even the most well-intentioned investment goals

### 19 HELPING TO MITIGATE RISK AND WEATHER MARKET VOLATILITY

A disciplined approach that removes the pressure of market timing

### 20 ACTIVE AND PASSIVE MANAGEMENT STRATEGIES

Making informed decisions that align with your investment strategy

### 22 BONDS VS EQUITIES

Understanding the differences in making informed investment choices



04



19

# STEERING YOU TOWARDS YOUR FINANCIAL OBJECTIVES

*A well-drawn roadmap to act as your guide*

Embarking on the journey of building wealth requires a well-drawn roadmap to act as your guide. By thoroughly understanding your current financial position and visualising your future aspirations, you can devise a sound strategy to steer you towards your financial objectives. This roadmap outlines where you are and defines the path to where you wish to be.

## CLEARLY DEFINING YOUR FINANCIAL TARGETS

The first step in creating a comprehensive financial plan is clearly defining your specific financial targets. Are you saving for retirement or planning to build an investment portfolio that provides income, growth or a combination of both? Perhaps establishing an emergency fund is your priority. Once your objectives are crystal clear, you can formulate a plan to achieve them tailored to your unique circumstances.

## SETTING DISTINCT FINANCIAL GOALS

Adopting a goal-oriented approach to financial planning fosters systematic and disciplined investing habits crucial to achieving your aims. This method allows you to maintain focus, undeterred by

temporary market fluctuations. While individual goals vary depending on life stages, they generally fall into three categories: essential needs, lifestyle desires and legacy aspirations.

## NAVIGATING THE PATH TO FINANCIAL SUCCESS

Achieving prosperity in these areas in today's complex world demands a deep understanding of various topics, from intricate retirement and investment products to risk management strategies and tax laws. A well-crafted financial roadmap should encompass your aspirations, providing a vivid picture of your future and guiding you towards your destination.

## REFLECT ON THESE QUESTIONS

Q: Can I rest easy knowing I've secured sufficient funds for my future?

Q: Am I confident in my financial path?

Q: Will I be able to maintain my current lifestyle after retirement?

Q: Am I financially equipped to lead the life I want now and in the future?

Q: Have I made adequate financial preparations to live my life without depleting my funds?

Q: Do I fully comprehend my financial status?

Q: What monetary value is needed to secure my current and future lifestyles?

## SECURING THE LIFE YOU WANT

Begin by identifying the goals you are investing in and calculating the time required to achieve them. Estimate the current cost of these goals and adjust for inflation to understand their future cost. This process helps you determine 'your number' – the sum needed to ensure peace of mind, secure your future lifestyle and prevent you from running out of money before time.

## EMPOWER YOUR INVESTMENT JOURNEY

Your investment journey map empowers you to make informed financial decisions, balancing present obligations and future dreams. This plan should enable you to meet your desired lifestyle goals and objectives over time, guiding you confidently towards financial security. ●

“

YOUR INVESTMENT JOURNEY MAP  
EMPOWERS YOU TO MAKE INFORMED  
FINANCIAL DECISIONS, BALANCING  
PRESENT OBLIGATIONS AND  
FUTURE DREAMS.

”



# MAKING YOUR MONEY WORK FOR YOU

*Precisely understanding what you wish to accomplish financially is key*

In today's financial landscape, saving and investing are not merely about accumulating wealth. They are about empowering your money to achieve your aspirations. The foundation of successful investing begins with defining clear financial goals. Before embarking on your investment journey, you must precisely understand what you wish to accomplish financially. A goals-based saving and investment strategy will help you remain focused and disciplined, even during market fluctuations.

## **BENEFITS OF A GOALS-BASED STRATEGY**

A well-structured, goals-oriented approach helps you make informed saving and investment decisions and keeps you motivated throughout your wealth creation journey. You can make financial choices that lead to desired outcomes by aligning your financial targets with your personal ambitions. This means setting realistic objectives that resonate with your personal and financial circumstances.

## **SPECIFICITY IS THE KEY TO CLARITY**

Your financial goals need to be specific. Vague intentions like 'I want to save more money' lack direction. Instead, pinpoint your saving purpose, the amount

required and the timeline for acquisition. For instance, save £200,000 for a house deposit within five years. This specificity prevents procrastination and provides a clear roadmap.

## **MEASURING SUCCESS**

Next, ensure your goals are measurable. Establishing precise targets and deadlines enables easy tracking and assessment. For example, if you want to save £200,000 in five years, break this down into manageable monthly savings targets. This approach facilitates progress tracking and adjustment, ensuring you remain on course.

## **ATTAINABLE YET AMBITIOUS GOALS**

While ambition is commendable, setting unattainable goals can lead to frustration. When defining your financial objectives, consider your income, expenses and other obligations. Start with smaller, achievable goals, gradually escalating them as your financial situation improves. This balance ensures sustained motivation and success.

## **ALIGNING WITH LIFE'S PRIORITIES**

Relevance is another crucial aspect of goal setting. Your financial ambitions should align with your broader life plan. If you

envisage starting a family, your goals may include saving for a larger home or funding education. You must channel your resources towards what matters most by synchronising your financial and personal goals.

## **IMPORTANCE OF TIME-BOUND GOALS**

Time-bound goals create a sense of urgency and drive action. Whether saving for a summer holiday or planning for retirement in two decades, a well-defined timeline helps maintain focus and momentum. By establishing deadlines, you commit to taking the necessary steps towards achieving your aspirations.

## **JOURNEY OF GOAL-SETTING**

Setting financial goals is not a one-time event but an evolving process. As circumstances and market conditions change, regular reviews and adjustments are necessary. Reflect on what you truly want to achieve with your investments. Set clear, realistic, measurable objectives, then develop a strategy aligned with these ambitions. This proactive approach positions you for investment success. ●

# CASH FLOW MODELLING

*Constructing a detailed representation of your income and expenditure*



For many, investing can resemble venturing into uncharted territory, particularly for those new to personal finance. The cornerstone of successful investing lies in comprehending your investment objectives, whether aiming for long-term growth or seeking immediate returns. A critical instrument in managing your finances and achieving these objectives is cash flow modelling, which can transform uncertainty into clarity.

## **ESSENTIAL ROLE OF CASH FLOW MODELLING**

Cash flow modelling involves constructing a detailed representation of your income and expenditure, offering a comprehensive view of your overall financial health. This process highlights areas where you might need to spend more and uncovers potential savings opportunities. Furthermore, it aids in informed investment decision-making

and plays a pivotal role in setting realistic and attainable financial goals.

## **PROJECTING YOUR FINANCIAL FUTURE**

By forecasting future finances, cash flow modelling serves as a visual guide, enabling you to plan effectively for your financial objectives. It evaluates both current and prospective wealth, as well as income inflows and expenditure outflows, providing a thorough depiction of your financial status. This model calculates the growth rate necessary to achieve your investment goals while aligning with your risk tolerance and preferred asset allocation.

## **IMPORTANCE OF REGULAR REVIEWS AND ADJUSTMENTS**

Financial planning requires ongoing reviews and alterations to reflect changes in your personal circumstances

and market conditions. Cash flow modelling facilitates this dynamic process, ensuring you remain on course to achieve both your lifestyle and financial aspirations. Regular reassessment allows you to adapt your financial strategies, maintaining alignment with your evolving goals.

## **LIFELONG JOURNEY TO FINANCIAL SUCCESS**

Achieving financial success is a continuous journey that begins with a deep understanding of your financial situation, making informed decisions and regularly monitoring your progress. Cash flow modelling and strategically aligned asset allocation are indispensable elements of this journey. These tools help you evaluate various scenarios and synchronise your liabilities with income and capital, ensuring financial stability throughout your life. ●







## BUILD AND GROW YOUR WEALTH OVER TIME

*Understanding your investment objectives,  
risk tolerance and timelines is crucial*

---

Investing is a lifelong journey that promises a more secure financial future. The earlier you begin this journey, the greater the potential to build and grow your wealth over time. Whether you are a seasoned investor or just starting, understanding your investment objectives, risk tolerance and timelines is crucial. These elements are pivotal in shaping your investment strategy, determining how much risk you can bear and aligning your investments with your long-term goals.

### UNDERSTANDING RISK AND TIMELINE

Your choice between savings and investments hinges on your risk profile, current financial situation and future aspirations. Unlike saving, investing carries the potential for both higher returns and losses. For instance, placing all your savings into high-risk investments may not be prudent if you are nearing retirement. Safer options, such as cash accounts or bonds, can help preserve capital, while a smaller portion can be allocated to growth-oriented shares.

Conversely, if you are a young professional with time on your side, you might opt for higher-risk investments with greater potential returns. This approach works if you don't need immediate access to these funds.

For those planning a major purchase, such as a first home, in the near future, cash or term deposits might be advisable to keep savings secure in the short term.

### IMPORTANCE OF A DIVERSE PORTFOLIO

A well-diversified portfolio is vital to safeguarding your wealth from market volatility. There are four principal types of investments, or 'asset classes', each with unique benefits and risks. Defensive investments, such as cash and fixed-interest securities, primarily aim to generate regular income rather than grow significantly over time. These include high-interest savings accounts and term deposits, which provide stable income but may lose value due to inflation.

### DEFENSIVE VS GROWTH INVESTMENTS

Fixed-interest investments, like government and corporate bonds, offer regular interest over a set period but can fluctuate in value. These bonds are a form of debt where the lender receives a coupon of interest each year and the value of the bond at maturity. Growth investments, including shares and property, aim to increase in value over time and may provide dividend or rental income.

Shares represent ownership in a company and can yield profits through selling at higher prices or receiving dividends. Company profits are re-invested into the business or passed to shareholders in the form of dividend income. Property can also rise in value, but it might be harder to sell quickly, and prices are not guaranteed to increase.

### MAXIMISING RETURNS FROM YOUR INVESTMENTS

Investment returns come from various sources: dividends from shares, rent from properties, interest from cash deposits and bonds, and capital gains from selling assets at a profit. Understanding these components is essential for maximising investment returns and building a resilient portfolio.

### ROLE OF INFORMED DECISION-MAKING

Investing is a fundamental part of financial planning. By comprehensively understanding your current financial situation and setting clear future goals, you can make informed investment decisions that align with your objectives and risk tolerance. Remember, investing is a long-term journey; starting early amplifies your potential for financial growth. ●

# INVESTING TO BEAT INFLATION FOR THE LONG-TERM

*Being aware of potential pitfalls that could  
undermine your financial security*

“  
**DIVERSIFICATION CAN BE A KEY STRATEGY  
IN PROTECTING AGAINST INFLATION. BY  
SPREADING INVESTMENTS ACROSS VARIOUS  
ASSET CLASSES, SUCH AS EQUITIES, BONDS AND  
PROPERTY, YOU CAN MITIGATE THE RISKS OF  
INFLATION ERODING YOUR PORTFOLIO'S VALUE.**

”

**FINANCIAL SECURITY AT RISK**  
For those who have not factored inflation into their financial planning, the long-term effects can be detrimental. Fixed-income investments, such as savings accounts with low interest rates, may not provide sufficient returns to keep up with inflation, leading to a gradual decrease in real value.

## **STRATEGIES TO COMBAT INFLATION**

**DIVERSIFYING YOUR PORTFOLIO**  
Diversification can be a key strategy in protecting against inflation. By spreading investments across various asset classes, such as equities, bonds and property, you can mitigate the risks of inflation eroding your portfolio's value. Equities, in particular, have historically outpaced inflation over the long term, offering growth potential to help preserve purchasing power. We'll look at this in more detail later in this guide.

**INVESTING IN INFLATION-LINKED ASSETS**  
Consider incorporating inflation-linked securities into your portfolio. These financial instruments, such as inflation-linked bonds, are designed to provide returns that rise with inflation, offering a hedge against the decreasing value of money.

**REGULAR FINANCIAL REVIEWS**  
Consistent assessment of your financial strategy is essential in the fight against inflation. Regularly reviewing and adjusting your portfolio ensures that your investments are aligned with current economic conditions and inflationary trends. This proactive approach helps maintain the real value of your assets over time. ●

**Source data:**  
[1] <https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/czoh/mm23/previous/v107>

[2] <https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/healthandlifeexpectancies/articles/lifeexpectancycalculator/2019-06-07>



**E**mbarking on your investment journey is a significant milestone filled with possibilities and new beginnings. However, being aware of potential pitfalls that could undermine your financial security is essential. One of the most prevalent issues is failing to protect against inflation. Known as the ‘silent thief’, inflation can gradually erode your savings and income purchasing power.

Inflation represents the rate at which prices for goods and services rise, leading to a decrease in the purchasing power of money. Over time, inflation can erode the value of your savings if your investment returns do not match or exceed the inflation rate. This erosion means that the same amount of money will buy fewer goods and services in the future, potentially jeopardising your financial stability.

For example, the average price of a white loaf of sliced bread (800g) has soared from just 10p in January 1971 to 140p in August 2024<sup>[1]</sup>. Therefore, ensuring that your investments and income grow at a pace that outpaces inflation is vital. With our professional advice, we can help mitigate the impact of inflation on your pension and other investments, preserving your buying power.

**PREPARING FOR A LONGER LIFE**  
Another crucial aspect of investment planning is accounting for longevity risk. Many underestimate their life expectancy, leading to a potential shortfall in their savings and investment duration. According to the Office for National Statistics, a 60-year-old man today has an average life expectancy of 85, but there is, however, a chance he might live longer:

92 years (1 in 4 chance), 97 years (1 in 10 chance) and 100 years (3.5% chance)<sup>[2]</sup>.  
A 60-year-old woman today has an average life expectancy of 87, but there is, however, a chance she might live longer: 94 years (1 in 4 chance), 98 years (1 in 10 chance) and 100 years (6.2% chance)<sup>[2]</sup>.  
A realistic financial plan is essential to avoid prematurely depleting your savings and investments.

# UNDERSTANDING INVESTMENT RISK

*How to identify your personal risk threshold*

Investment risk is unavoidable in the financial market, yet the degree of risk one should embrace isn't universally prescribed. It hinges on individual circumstances, goals and one's comfort level with uncertainty.

Each investor has a unique tolerance for risk: some are willing to endure more to achieve their objectives, while others prefer a cautious approach. Before investing, it's vital to grasp the concept of investment risk and identify your personal risk threshold.

## ASSESSING YOUR RISK TOLERANCE

Risk tolerance can be evaluated in several ways. Consider how you would react if your investments experience short-term losses. If a declining account balance causes anxiety, you might lean towards risk aversion. Conversely, if you're comfortable with temporary setbacks for potential long-term gains, you may be more open to taking risks. Additionally, the level of volatility you're willing to accept is crucial.

Volatility measures price fluctuations over time. More volatile investments experience more significant value swings, whereas less volatile ones offer steadier growth. Understanding your risk tolerance is key to making sound investment decisions and ensuring you take on appropriate risk relative to your goals.

## TYPES OF INVESTMENT RISKS

No investment is devoid of risk. Always consider the potential downsides when investing.

### CAPITAL RISK

Investment values can decline, potentially resulting in losses. This is notably true in stock markets, where values fluctuate daily. You might lose part or all of your investment depending on the specific stocks or funds. Other assets, like property and bonds, are also susceptible to value reductions.

### INFLATION AND CREDIT RISKS

Inflation risk occurs when the purchasing power of your savings diminishes. Even if investments grow, you might not gain 'real' value if your purchasing capacity doesn't keep pace with inflation. Low-return cash deposits are particularly prone to this risk. Credit risk involves a borrower failing to meet loan repayments, which is closely linked to investment yields, especially in bonds.

### LIQUIDITY AND CURRENCY RISKS

Liquidity risk emerges when you can't access your money when needed. This is notable in fixed property investments or when bond market demand wanes. Currency risk

entails potential losses from foreign exchange rate fluctuations, especially with foreign currency investments.

### NAVIGATING INTEREST RATE RISK

Interest rate changes can impact returns on savings and investments. Fixed rates might become less favourable if market rates shift. Bondholders are particularly vulnerable to this risk. When interest rates rise, bond prices fall. When interest rates fall, bond prices rise. Higher interest rates make new bonds more attractive, so old bonds with lower rates drop in price. Lower interest rates make old bonds with higher rates more attractive, so their prices go up.

### STRATEGIES FOR INFORMED INVESTMENT DECISIONS

While risk can't be entirely eliminated, it can be managed through diversification and consistent investment contributions over time. Diversifying your portfolio helps mitigate losses by spreading risk across various assets. Regular investments can smooth out market volatility, reducing the impact of adverse market conditions. Understanding your risk profile is crucial in making informed investment decisions and achieving financial goals. ●



# ASSET ALLOCATION IS NOT A ONE-TIME DECISION

*Maximise potential returns while minimising risk*

Asset allocation is a cornerstone of successful financial planning. It offers a strategy to maximise potential returns while minimising risk. By spreading investments across various asset classes, such as equities, bonds, property and cash, investors can safeguard their wealth, particularly in volatile markets. The essence of asset allocation lies in creating a balanced portfolio that can weather market fluctuations and protect wealth over time.

## DYNAMIC NATURE OF ASSET ALLOCATION

Asset allocation is not a one-time decision but an evolving process that adapts to your changing circumstances, goals and risk tolerance. As life progresses, so too should your investment strategy. For instance, as you near retirement, you might shift towards more conservative investments focusing on income generation with lower risk. This dynamic approach ensures that your asset allocation remains aligned with your financial objectives throughout different stages of life.

## CRAFTING A PERSONALISED ALLOCATION STRATEGY

There is no universal asset allocation strategy that guarantees success. The key is to tailor your allocation to reflect your future capital and income needs, timescales, income level

desired and risk appetite. Balancing risk and return is fundamental, and a well-considered asset allocation can help maximise returns while potentially reducing overall portfolio risk. Each investor's attitude towards risk is unique, and asset allocation should mirror this individuality.

### EXPLORING ASSET CLASSES: CASH AND BONDS

Deciding how much of your portfolio to allocate to each asset class is critical. Each class – cash, bonds, equities and property – has distinct characteristics. Cash is considered safe but typically offers lower returns, making it ideal for short-term needs or emergency funds. Bonds, on the other hand, typically provide regular income but are sensitive to interest rate changes. The risk associated with bonds varies based on the issuer's financial strength, with higher-risk issuers offering more attractive yields.

### EQUITIES AND PROPERTY: HIGH POTENTIAL RETURNS

Equities, or shares, are riskier than bonds but can offer superior long-term returns. They provide profit through price appreciation and dividends. Property, including commercial real estate, is another significant asset class known for its potential to deliver steady income and capital

appreciation. However, property requires a substantial initial investment and can be less liquid compared to equities or bonds.

### ROLE OF DIVERSIFICATION

Diversification is essential in mitigating investment risk. You spread risk and optimise potential returns under varying market conditions by allocating assets across various classes. This strategy involves regularly reviewing and adjusting the composition of your investment portfolio to align with market trends and your personal financial goals.

### ADAPTING TO MARKET CONDITIONS

Investment strategies must adapt to economic cycles and market conditions. During times of economic growth and healthy risk appetite, a higher weighting in equities might be appropriate. Conversely, a conservative shift towards bonds or large, stable companies may be prudent in challenging times. Regular adjustments ensure that your portfolio's asset blend remains optimal.

### BUILDING A RESILIENT PORTFOLIO

A well-crafted asset allocation strategy is instrumental in achieving financial goals and protecting wealth. Regularly reviewing and adjusting your asset allocation ensures it aligns with your evolving needs and risk tolerance. ●



# A PATH TO RESPONSIBLE WEALTH CREATION

*Environmental, Social and Governance (ESG) Investing*

Over recent years, Environmental, Social and Governance (ESG) investing has emerged as a pivotal strategy in the financial world. This approach prioritises companies that integrate ESG factors into their operations, thus supporting responsible practices and contributing to a sustainable future. For investors, investing in firms that promise potential returns and commit to ethical and sustainable business practices presents an opportunity.

## ENVIRONMENTAL FOCUS

At the heart of ESG investing is a keen focus on environmental impact. Companies are evaluated on factors such as energy consumption, sustainability policies, carbon emissions and resource conservation. Firms with strong environmental practices often exhibit reduced environmental risks and a firm commitment to reducing their ecological footprint. This helps the planet and bolsters the company's reputation and long-term viability.

## SOCIAL RESPONSIBILITY

The social aspect of ESG investing scrutinises how a company treats its employees and engages with the communities it operates within. Companies prioritising employee welfare, workplace safety and community involvement will likely have a positive social impact. Supporting businesses with strong social values can promote fair labour practices

and foster a more inclusive society, thus enhancing a company's reputation and stakeholder trust.

## GOVERNANCE STANDARDS

Governance factors pertain to a company's leadership and management structures. Key considerations include executive compensation, audit processes, internal controls, board independence, shareholder rights and transparency. Companies with robust governance frameworks are more accountable and trustworthy, often managing potential risks more effectively. Strong governance is a testament to a company's integrity and operational excellence.

## ALIGNING VALUES WITH FINANCIAL GOALS

Incorporating ESG factors into investment decisions allows investors to support companies committed to sustainability and ethical practices. This alignment resonates with personal values and offers long-term financial benefits. ESG-focused companies are typically better equipped to navigate evolving regulations, mitigate risks and capitalise on emerging opportunities, providing a solid pathway to future-proof investments.

## IMPORTANCE OF ESG SCORES

High ESG scores indicate a company's dedication to sustainability, ethical conduct and sound governance, which can lead to long-term success and reduced risk

exposure. These companies are often more resilient to market fluctuations and other challenges. Conversely, businesses with low ESG standards may face declining share prices and reputational damage, especially if they engage in environmentally harmful or unethical practices.

## CHALLENGES IN ESG INVESTING

Despite its benefits, ESG investing has challenges. The subjectivity in evaluating companies based on their ESG policies can be a hurdle. What one investor considers responsible, another might view as unethical. Additionally, 'greenwashing' – where companies falsely market themselves as environmentally friendly – complicates the landscape. This deceptive practice can mislead investors into supporting businesses not aligning with their ethical criteria.

## NAVIGATING THE ESG LANDSCAPE

To successfully navigate these challenges, investors should clearly define their ESG priorities and conduct thorough research. Utilising third-party ESG ratings and other resources can aid in making informed decisions. Investors should be cautious of companies making bold sustainability claims without evidence and diversify their portfolios across ESG-focused firms to mitigate risk. ●

“

COMPANIES PRIORITISING EMPLOYEE WELFARE, WORKPLACE SAFETY AND COMMUNITY INVOLVEMENT WILL LIKELY HAVE A POSITIVE SOCIAL IMPACT.

”





“

WHILE KEEPING ALL YOUR FUNDS IN CASH MIGHT APPEAR SECURE, INFLATION CAN STEADILY ERODE YOUR SAVINGS.

”



## KEY PRINCIPLES FOR INVESTING SUCCESS

*A reliable guide through the ever-shifting financial landscape*

Investing is a nuanced blend of art and science, with successful outcomes often hinging on the consistent application of sound principles. These principles provide a reliable guide through the ever-shifting financial landscape, offering a roadmap to achieving financial goals. Understanding and applying these foundational principles is crucial whether you're a seasoned investor or embarking on your investment journey.

### ESTABLISHING A FINANCIAL PLAN

Creating a solid investment strategy is paramount to reaching financial goals rather than relying on chance. A well-defined plan serves as a compass, guiding your decisions amidst market fluctuations. Regularly reviewing your strategy with a professional financial adviser ensures it remains aligned with your objectives, allowing for necessary adjustments. By focusing on your strategy, you can resist the temptation to react impulsively to short-term market volatility, maintaining a steady course toward your goals.

### STARTING EARLY

Beginning your investment journey early offers significant advantages. The power of compound growth – where reinvested earnings generate further returns – can significantly enhance your wealth over

time. However, this requires patience and time to unfold. Starting early maximises the potential for long-term growth, allowing your investments to benefit from the compounding effect. The optimal time to invest is after crafting a clear financial plan that outlines your growth needs and objectives.

### SPREADING RISK

While keeping all your funds in cash might appear secure, inflation can steadily erode your savings. This is particularly relevant in the UK, where inflation rates are climbing alongside rising energy costs. For those with long-term investment horizons, balancing cash holdings with investments across various asset classes is essential. Diversification mitigates the impact of inflation and enhances growth potential by spreading risk across different investments. A diversified portfolio can smooth out market volatility, as different asset classes may perform differently under the same market conditions.

### UNDERSTANDING RISK AND RETURN

Navigating the investment terrain effectively requires understanding the trade-off between risk and return. Accepting that all investments carry some risk is crucial, but so is recognising the potential for higher returns with

increased risk. Striking the right balance involves aligning your risk tolerance with your financial goals. Remember that markets experience cycles, with periods of growth and decline. Staying the course during downturns and avoiding the temptation to sell off assets prematurely can lead to healthier long-term returns.

### AVOIDING ACTIVITY BIAS

Investors often fall prey to 'activity bias', the tendency to take action during crises, regardless of whether it's beneficial. In times of market depreciation, abandoning your plan and liquidating assets might be tempting. However, this reaction could lead to missing out on potential recoveries. Understanding that market cycles include both good and bad years is crucial. Despite short-term dips, maintaining a long-term perspective can yield substantial returns over time.

### TAILORING YOUR INVESTMENT STRATEGY

Every investor has unique needs, and while general principles provide valuable guidance, they cannot replace a strategy tailored to your specific situation. Professional financial advice is invaluable. We can help remove emotional biases from decision-making, offering a balanced perspective that aligns with your goals. ●



## PITFALLS OF MARKET TIMING

*A concept that can undermine even the most well-intentioned investment goals*

In investing, timing the market – buying low and selling high – appears enticing. This strategy promises lucrative returns by capitalising on market fluctuations. However, in practice, it resembles a high-stakes gamble, fraught with potential pitfalls that can undermine even the most well-intentioned investment goals.

### CHALLENGE OF PREDICTING THE MARKET

Market timing involves making buy or sell decisions based on anticipated market movements. The aim is to invest at market lows and exit at highs. Yet, this approach is fundamentally flawed due to its heavy reliance on prediction – a feat even seasoned investors and financial analysts find daunting. Many factors, including geopolitical events, economic indicators, corporate earnings and investor sentiment, influence financial markets. Predicting how these variables will interact and drive market trends is nearly impossible.

### IMPACT OF MARKET VOLATILITY

Adding to the complexity, studies consistently show that the market's best days typically occur in close proximity to its worst days, rendering the task of timing the market even more hazardous. Missing just a handful of these best days can significantly diminish overall returns. Rather than attempting to time the market, a more dependable investment approach is the buy-and-hold strategy.

### EMBRACING THE BUY-AND-HOLD STRATEGY

The buy-and-hold strategy entails purchasing a diversified portfolio and holding onto it long-term, irrespective of market fluctuations. This approach is underpinned by the belief that, despite short-term volatility, the value of quality investments generally appreciates over time. By adopting this strategy, investors are safeguarded against the risks associated with market timing while also reaping the benefits of compounding – earning returns on their returns – which can substantially enhance investment growth over the long term.

### SETTING REALISTIC EXPECTATIONS

Investors must establish realistic expectations regarding potential returns. Staying committed to a long-term investment plan, particularly during periods of market downturns, is vital to achieving investment success. Short-term market movements can be unpredictable and dramatic. Still, investors who remain focused on their long-term objectives are more likely to weather these storms and emerge in a stronger financial position.

### LONG-TERM PERSPECTIVE

Timing the market is a risky strategy that often leads to disappointing results. Instead, investors can better navigate the path to their financial goals by adopting a long-term perspective, maintaining realistic expectations and adhering to an investment plan through market ups and downs. Ultimately, successful investing is not about timing the market – it's about time in the market. ●

## HELPING TO MITIGATE RISK AND WEATHER MARKET VOLATILITY

*A disciplined approach that removes the pressure of market timing*

In the ever-fluctuating world of investing, market volatility is an unavoidable challenge. Yet, having a strategy that mitigates these fluctuations and reduces overall risk is invaluable. One such effective strategy is pound cost averaging, which advocates making regular investments over time rather than a single lump sum.

### EMBRACING DISCIPLINE IN INVESTING

Pound-cost averaging is a disciplined approach that removes the pressure of market timing, which is notoriously difficult and risky. Investing a fixed amount at regular intervals, regardless of market conditions, can potentially lower your investments' average cost over time. The advantage is purchasing more shares when prices are low and fewer when they are high.

Consider this scenario: you have £200,000 to invest. Instead of committing it all at once, you invest £20,000 monthly over ten months. This strategy doesn't rely on predicting

market peaks or troughs but focuses on maintaining a consistent investment schedule to spread risk over time.

### INSTILLING INVESTMENT DISCIPLINE

Alternatively, you might choose an open-ended strategy, such as investing £2,000 monthly. This approach ensures you invest regardless of market conditions, fostering discipline and allowing you to benefit from lower prices during market downturns. By committing to this regular investment schedule, you potentially limit losses and avoid the stress of market timing.

### FRAUGHT WITH ANXIETY AND UNCERTAINTY

Pound-cost averaging eliminates the need to time the market, an activity often fraught with anxiety and uncertainty. Regularly investing avoids the risk of committing a large sum at a market peak or withdrawing at a low point in the cycle.

This strategy also smooths out market volatility. Since investments occur at various stages of the market cycle, the highs and lows average over time. Consequently, this method can yield better overall returns than a lump sum investment made at an inopportune moment.

### BUILDING WEALTH OVER TIME

Pound cost averaging has the potential to grow your savings significantly. Even modest regular investments can accumulate into a substantial sum over the long term. As your financial situation improves, increasing the amount you invest monthly can provide your savings with a valuable boost, accelerating your wealth-building journey.

While pound cost averaging is beneficial, it is essential to consider potential costs associated with frequent investments. Transaction fees and other charges could erode returns, mainly if they are high relative to the investment size. Therefore, comprehending and incorporating all associated costs into your investment strategy is crucial. ●



## ACTIVE AND PASSIVE MANAGEMENT STRATEGIES

*Making informed decisions that align with your investment strategy*



When it comes to investment funds, the choice between active and passive management strategies is a pivotal decision that can significantly impact your investment outcomes and long term investing will see investment styles and structures go in and out of fashion. Each approach has its unique benefits and drawbacks, making it essential to understand them thoroughly to make informed decisions that align with your financial goals.

### ACTIVE MANAGEMENT

#### SEEKING MARKET OUTPERFORMANCE

Active management is characterised by a hands-on approach where fund managers leverage their expertise, research and market analysis to select assets they believe will outperform the market. The primary objective is to achieve superior growth or provide more stable returns than those offered by following market trends.

“  
IT'S ESSENTIAL TO ASSESS YOUR RISK TOLERANCE. ACTIVE MANAGEMENT MIGHT BE MORE APPEALING IF YOU'RE COMFORTABLE WITH HIGHER VOLATILITY AND THE POSSIBILITY OF UNDERPERFORMANCE.  
”

The potential advantage of active management lies in its ability to adapt to market changes and exploit investment opportunities that might not be evident in passive strategies. Fund managers can make informed decisions based on economic indicators, geopolitical events and corporate developments, which might lead to enhanced returns.

However, this approach has higher costs due to the need for constant research and management. Management fees for actively managed funds tend to be higher than those for passive counterparts, and these costs can

reduce investment returns. Additionally, the success of active management largely depends on the skill and experience of the fund manager, and not all active funds consistently outperform their benchmarks.

### PASSIVE MANAGEMENT

#### EMBRACING MARKET TRACKING

Passive management, in contrast, involves the strategy of tracking a market index. Index funds or tracker funds aim to replicate the performance of a specific index, such as the FTSE 100 in the UK, by

holding a portfolio of assets that mimics the index composition.

The main advantage of passive management is its cost-effectiveness. Since these funds require minimal trading and management, they incur lower fees, which can enhance net returns over time.

However, passive management does not seek to outperform the market; it aims to match it. This means investors miss out on potential excess returns that active management might capture. Additionally, in times of market downturns, passive funds will mirror the market's decline without the protective measures that a skilled active manager could implement.

### MAKING THE RIGHT CHOICE FOR YOUR INVESTMENT GOALS

Choosing between active and passive management depends on several factors, including your investment objectives, risk tolerance and financial goals. For investors seeking potentially higher returns and who are willing to accept higher costs, active management might be suitable. Conversely, those prioritising lower costs and simplicity may prefer passive management.

It's essential to assess your risk tolerance. Active management might be more appealing if you're comfortable with higher volatility and the possibility of underperformance. For risk-averse investors, passive funds' steady, predictable nature might be more attractive.

Consider your investment horizon as well. Long-term investors may benefit from passive strategies' lower fees, while those seeking to capitalise on short-term market inefficiencies lean towards active management.

Ultimately, your decision should be based on a comprehensive evaluation of these factors, and professional financial advice can be invaluable. We can help tailor a strategy that aligns with your personal circumstances, ensuring you make choices that support your long-term financial wellbeing.

By understanding the intricacies of active and passive management, you can make informed decisions that align with your investment strategy, helping you confidently navigate the complexities of financial markets. ●

# BONDS VS EQUITIES

*Understanding the differences in making informed investment choices*

Navigating the world of investments can be challenging, especially for UK income-seekers who often grapple with the decision between bonds and equities. Both asset classes offer distinct advantages and risks, and understanding these differences is crucial for making informed investment choices.

## UNDERSTANDING BONDS: STABILITY AND PREDICTABILITY

Bonds are fixed-income securities issued by governments, corporations or other entities to raise capital. These instruments pay periodic interest, known as 'coupons', and return the principal amount at maturity. Bonds are often favoured for their perceived lower risk and stability.

One of the primary attractions of bonds is their lower risk profile. They provide regular income and a predetermined return on investment, making them less volatile compared to equities. This stability can add a layer of security to your portfolio, as bond values generally fluctuate less dramatically than stock prices.

The predictability of bond income is another significant advantage. Coupon payments offer a reliable income stream, which is particularly appealing to income-seeking investors. However, it's important to weigh the potential downsides.

Despite their benefits, bonds come with certain disadvantages. They typically offer lower returns than equities due to their reduced risk levels. Additionally, bond prices are sensitive to interest rate changes; when rates rise, bond prices can fall, leading to potential capital losses.

Inflation risk is another consideration. Over time, inflation can erode the purchasing power of the fixed income generated by bonds, diminishing their attractiveness for long-term investors.

## EXPLORING EQUITIES: GROWTH AND DIVIDENDS

Equities, or stocks, represent ownership shares in a company. As a shareholder, you can benefit from the company's growth and profitability, which can result in higher returns. Historically, equities have delivered superior long-term returns compared to bonds, appealing to those seeking capital appreciation.

Many companies also distribute dividends, providing an additional income source. Unlike bond interest, dividends can grow over time, further enhancing equity investment appeal. Moreover, equities are often considered an effective hedge against inflation, preserving your investment's purchasing power.

Equities, however, are not without risk. Their prices can be highly volatile, subject to significant fluctuations that can lead to substantial gains or losses. This volatility necessitates a higher risk tolerance from investors.

Company-specific risks also play a role. The performance of individual companies can greatly influence your investment, making careful stock selection essential. Diversification within equity investments can mitigate some of these risks.

## CRAFTING A DIVERSIFIED PORTFOLIO

For UK income-seekers, deciding between bonds and equities hinges on personal goals, risk tolerance and investment horizon. If stability and predictable income are your priorities, bonds may align better with your needs. Conversely, if you're open to embracing more volatility for the possibility of higher long-term returns and inflation protection, equities could be more suitable.

A diversified portfolio that includes both bonds and equities may offer the best of both worlds. This balanced approach can help manage risk while accessing multiple income sources, providing a more robust and resilient investment strategy. ●



“  
**COMPANY-SPECIFIC RISKS ALSO PLAY A ROLE. THE PERFORMANCE OF INDIVIDUAL COMPANIES CAN GREATLY INFLUENCE YOUR INVESTMENT, MAKING CAREFUL STOCK SELECTION ESSENTIAL.**  
 ”



# HARNESsing THE POWER OF POOLED INVESTMENT FUNDS

*Aggregating resources from numerous investors to maximise potential returns*

For individuals with relatively modest investment capabilities, pooled investment funds provide a gateway to a diverse range of asset classes and the advantages of professional fund management. Known as 'collective investment schemes', these funds aggregate resources from numerous investors to maximise financial impact and potential returns.

## A STRATEGIC APPROACH

Pooled investment funds are essentially large portfolios constructed by combining smaller investments from multiple individuals. A professional fund manager, or a team thereof, takes responsibility for selecting and purchasing the assets within these funds. This collective approach allows investors to leverage combined capital to achieve

results that might be unattainable on an individual basis.

Offering a variety of investment strategies, such as high income, capital growth and income combined with growth, these funds cater to a broad spectrum of financial goals and risk appetites. Investors can select a fund that aligns with their personal financial objectives and tolerance for risk.

## TYPES OF POOLED INVESTMENT FUNDS

Unit trusts and Open-Ended Investment Companies (OEICs) are among the most prominent pooled investment funds. These funds pool money from many investors to purchase shares, bonds, property, cash assets and other investment vehicles, providing a strong foundation for individual investors aiming to realise their financial aspirations.

Investing in an OEIC or a unit trust involves purchasing shares (in an OEIC) or units (in a unit trust). The fund manager amalgamates your capital with that of other investors and allocates it across the fund's underlying assets. The investments range from British company shares and bonds to international corporate shares and other asset classes.

## OWNERSHIP AND FUND PERFORMANCE

As an investor, you possess a share of the overall unit trust or OEIC. The value of your units or shares will correlate with the performance of the underlying assets – rising when asset values increase and falling when they decrease. The fund's total size will vary as investors buy or sell their holdings.

Funds generally offer options between 'income units' or 'income shares', which provide regular payouts of dividends or interest, and 'accumulation units' or 'accumulation shares', where earnings are automatically reinvested to compound growth.

## COMPREHEND THE ASSET TYPES

Investing in pooled funds inherently involves risks. The value of your investments can fluctuate, and there is a possibility of receiving less than the amount initially invested. Different asset classes within these funds carry varying levels of risk, with higher-risk investments potentially offering higher returns. Before investing, it is vital to comprehend the asset types within a fund and ensure they meet your investment objectives, financial situation and risk tolerance.

## ABILITY TO SPREAD RISK

One significant advantage of unit trusts and OEICs is the ability to spread risk across a multitude of investments without necessitating substantial individual capital. Most of these funds allow for the sale of shares or units at any time, although some funds may have specific dealing frequencies such as monthly, quarterly or biannually.

The recommended duration for holding investments depends on your financial aims and the specific assets within your fund. A commitment of five years or longer is advisable for funds invested in shares, bonds or property. Conversely, money market funds may be more suitable for shorter investment periods. Additionally, shareholding might yield dividends, reflecting the profits the issuing company distributes. ●

“  
**ONE SIGNIFICANT ADVANTAGE OF UNIT TRUSTS AND OEICs IS THE ABILITY TO SPREAD RISK ACROSS A MULTITUDE OF INVESTMENTS WITHOUT NECESSITATING SUBSTANTIAL INDIVIDUAL CAPITAL.**  
”



# INVESTMENT BONDS

*Exploring why they are an attractive option to mass-affluent investors*



Onshore investment bonds appeal to investors for their lower risk profile and contribution to a diversified portfolio. Many investors have traditionally favoured a portfolio allocation of 60% equities and 40% bonds. This approach capitalises on the differing performances of these asset classes across varying economic climates – a particularly advantageous feature during periods of market volatility.

Recent changes in Capital Gains Tax (CGT) regulations have shifted the landscape, making investment bonds an increasingly appealing option. These changes particularly affect those who have traditionally maintained investments in Open-Ended Investment Companies (OEICs) and unit trusts.

Investment bonds offer a range of benefits that enhance their attractiveness. For instance, onshore bonds are not subject to CGT. When calculating a

chargeable gain, these bonds are treated as having already paid a 20% tax on any gains – although in practice, the tax deducted is often less than this amount.

Onshore investment bonds can also play an important role in Inheritance Tax (IHT) planning. If placed in an appropriate trust, these bonds fall outside of the estate for IHT after seven years, an advantage that similarly applies to other assets or investments gifted into trust, such as OEICs and unit trusts. This benefit is invaluable for those looking to optimise their estate planning strategies.

Another key feature of investment bonds is the ability for investors to withdraw up to 5% of their initial investment for up to 20 years without triggering a chargeable event or immediate tax liability. This benefit remains applicable until the total amount invested has been fully withdrawn in this manner.

## TAX EFFICIENCY THROUGH TOP-SLICING RELIEF

Investment bonds also provide tax efficiency through top-slicing relief, which can substantially reduce or eliminate tax liability when a chargeable event occurs. This feature mainly benefits investors in the accumulation phase preparing for retirement. Typically, an investor might be a higher rate taxpayer while holding the bond but a basic rate taxpayer upon encashment, thus reducing tax obligations.

The flexibility of transferring ownership is another feature of investment bonds. For example, bonds can be assigned between spouses as a genuine gift. For tax purposes, this assignment is generally considered as though the new owner had always possessed the bond, potentially resulting in no tax liability upon encashment if the recipient is a basic rate taxpayer and dependent on the size of the gain. ●

# INVESTMENT TRUSTS

*Utilised to acquire a diverse array of shares and assets*

When considering investment options, one intriguing avenue is the investment trust. As a form of public limited company, investment trusts gather capital by issuing shares to investors. This pooled capital is then utilised to acquire a diverse array of shares and assets, with each trust pursuing distinct objectives and containing a varied investment mix.

## BUYING AND SELLING SHARES IN INVESTMENT TRUSTS

Unlike unit trusts, when you wish to sell shares in an investment trust, you must locate another buyer, generally by trading on the stock market. The investment trust manager is not required to repurchase shares until the trust reaches its termination date.

The market price of shares in an investment trust can be either below or above the actual value of the assets they represent. Shares trading below this value are said to be 'trading at a discount',

while those exceeding it are 'trading at a premium'.

## TYPES OF INVESTMENT TRUSTS

### CONVENTIONAL INVESTMENT TRUSTS

Conventional investment trusts operate as closed-ended funds, issuing a set number of shares that are freely traded on the stock exchange, akin to any public company. The share price is influenced by underlying asset value and the market demand for its shares.

These trusts can engage in borrowing, using the funds to purchase additional shares or assets – a practice known as 'gearing'. While gearing can boost returns in a robust market, it may also diminish them when the market falters. It's vital to assess the gearing levels of any trust before investing, as this can significantly impact the risk and return of your investment.

### SPLIT CAPITAL INVESTMENT TRUSTS

Split capital investment trusts have a predetermined lifespan, often between five to ten years, though investors are not bound for this duration. They issue various types of shares, which are paid out in a set order upon the trust's conclusion.

Investors can select shares aligning with their risk tolerance and return expectations. Typically, shares with later payout dates involve higher risk but promise greater potential returns.

### FACTORS TO CONSIDER WHEN INVESTING IN INVESTMENT TRUSTS

When contemplating an investment in trusts, several critical factors should be considered:

#### ASSET TYPE AND RISK

The risk and return of an investment trust are closely tied to the assets it holds. Understanding these asset types is crucial, as some carry more risk than others.

#### DISCOUNT OR PREMIUM

Examine the difference between the trust's share price and the asset value. A widening discount can negatively impact returns.

#### BORROWING PRACTICES

Determine if the trust uses borrowed funds for investment. This can enhance returns but also increase potential losses.

#### TAX-EFFICIENCY

Many investment trusts can be included in an Individual Savings Account (ISA), rendering them Income and Capital Gains Tax-efficient. Profits from shares sold outside an ISA may be subject to Capital Gains Tax. ●





# INDIVIDUAL SAVINGS ACCOUNTS (ISAS)

*Safeguarding your interest, dividends and capital gains from taxation*

For UK residents, one of the most effective ways to minimise tax on investment returns is through an Individual Savings Account (ISA). These accounts are a 'tax-efficient wrapper', safeguarding your interest, dividends and capital gains from taxation. Whether your financial goals are short term or long term, ISAs can provide the flexibility and security you need.

## UNDERSTANDING THE BASICS OF ISAS

For the 2024/25 tax year, running from 6 April 2024 to 5 April 2025, individuals can contribute up to £20,000 across their ISAs. Each type of ISA comes with its own specific benefits and features, catering to diverse investment strategies and risk tolerances.

## EXPLORING DIFFERENT TYPES OF ISAS

### CASH ISA

A Cash ISA functions as a savings account with tax-free interest, ideal for short-term savings objectives. Often dubbed as an 'emergency fund', it provides a financial cushion for unforeseen expenses. However, given the current low-interest environment, the growth potential of Cash ISAs is limited

and may not keep pace with inflation. To open a Cash ISA, you must be at least 16 years old.

### STOCKS & SHARES ISA

For those inclined towards long-term growth and willing to accept higher risk, a Stocks & Shares ISA may be more suitable. This ISA type permits investment in shares, government bonds (gilts) and property without incurring Capital Gains Tax or Income Tax on the returns. Despite the potential for higher returns compared to Cash ISAs, the variability of risk is a consideration. Eligibility starts at 18 years old.

### INNOVATIVE FINANCE ISA

From April 2024, investors can now hold Long-Term Asset Funds (LTAFs) and Property Authorised Investment Funds (PAIFs) in innovative finance ISAs (IFISAs). This is in addition to peer-to-peer loans you could already use. While potentially offering attractive returns, these investments carry heightened risk, as the Financial Services Compensation Scheme (FSCS) does not protect the capital. The minimum age to open this ISA is 18.

### LIFETIME ISA

Targeted at individuals aged 18 to 39, the Lifetime ISA supports saving for

a first home or retirement. You can contribute up to £4,000 annually (within the £20,000 limit) until the age of 50, with the government adding a 25% bonus on contributions. Be aware of the 25% withdrawal charge for funds accessed before age 60, unless for purchasing a first home or due to terminal illness.

### JUNIOR ISA

A Junior ISA is designed for children under 18 without a Child Trust Fund, allowing parents or guardians to save tax-free on the children's behalf. Contributions can reach up to £9,000 for the 2024/25 tax year, with the funds locked until the child turns 18. This does not affect the standard £20,000 ISA limit for adults.

### MAKING THE RIGHT ISA CHOICE

Choosing the correct ISA depends on several factors, including investment horizon, risk tolerance and financial goals. Considering the long-term impact of inflation, the risk-reward balance of various ISA types and your specific financial objectives is crucial. Whether setting aside funds for unforeseen future needs, planning retirement or investing in your child's future, ISAs offer a tax-efficient pathway to achieve your goals. ●

# ADJUSTING YOUR INVESTMENT PORTFOLIO WITH AGE

*Is your asset allocation aligned with your risk tolerance?*

Your retirement portfolio is the backbone of your financial security, ensuring a comfortable lifestyle during your golden years. For those with substantial savings, the dream of living off the returns without touching the principal is achievable. However, many retirees will eventually need to dip into their funds, making effective management crucial.

## WHY REBALANCING MATTERS

Maintaining your desired asset allocation Over time, market dynamics can alter your portfolio's asset allocation, potentially misaligning it with your risk tolerance. Rebalancing helps restore your intended allocation, ensuring your investments align with your long-term objectives and risk preferences.

## MANAGING AND MITIGATING RISK

If left unchecked, a portfolio may become overly concentrated in a particular asset class, subjecting you to higher risks than initially intended. Rebalancing allows you to redistribute investments, maintaining a balanced risk profile tailored to your financial strategy.

## OPPORTUNITIES FOR STRATEGIC REASSESSMENT

### REGULAR PORTFOLIO REVIEWS

Consistent portfolio reviews offer a chance to reassess your investment strategy, which is particularly important

as financial needs and goals evolve during retirement. An honest appraisal can lead to necessary adjustments that better serve your changing circumstances.

## FREQUENCY OF REBALANCING

The frequency of rebalancing your portfolio is not a one-size-fits-all decision. It depends mainly on individual circumstances and preferences. Here are some general guidelines to consider:

### ANNUAL REBALANCING

For most investors, an annual review and rebalance may suffice. This approach allows you to capitalise on market performance while minimising the impact of short-term fluctuations.

### MORE FREQUENT ADJUSTMENTS

Some investors opt for semi-annual or quarterly rebalancing, providing additional opportunities to fine-tune their portfolios in response to market changes.

## PRACTICAL TIPS FOR EFFECTIVE REBALANCING

### SET CLEAR ALLOCATION TARGETS

Establish specific targets for each asset class within your portfolio. If an asset class deviates significantly from its target weight, it may signal time for rebalancing.

### BE MINDFUL OF COSTS AND TAXES

Consider transaction costs and potential

tax implications when rebalancing. These factors can erode returns if not managed carefully, so plan your strategy with these elements in mind.

## STAY DISCIPLINED AMID MARKET MOVEMENTS

Maintain a disciplined approach, avoiding impulsive decisions based on market volatility or emotional reactions. Consistency is vital to achieving your long-term investment goals.

## REBALANCING DURING RETIREMENT

### ADAPTING TO CHANGING RISK TOLERANCE

As you age, your risk tolerance and investment objectives will naturally evolve. Adjusting your portfolio accordingly is essential, particularly once you enter retirement. Unlike younger investors, retirees aim to protect their capital rather than maximise returns.

### SAFEGUARDING CAPITAL IN RETIREMENT

Regularly rebalancing during retirement ensures your portfolio maintains its desired asset allocation, aligning with your reduced risk appetite and financial goals. By adhering to these practices, you can ensure your investment strategy remains well positioned for success. ●

“

AS YOU AGE, YOUR RISK TOLERANCE AND INVESTMENT OBJECTIVES WILL NATURALLY EVOLVE. ADJUSTING YOUR PORTFOLIO ACCORDINGLY IS ESSENTIAL, PARTICULARLY ONCE YOU ENTER RETIREMENT.

”





# ARE YOU LOOKING TO CREATE AN INVESTMENT STRATEGY THAT ALIGNS WITH YOUR WEALTH AND FINANCIAL GOALS?

Discover how our wide range of services can meet your unique investment needs. We have the expertise to adapt to your evolving demands. Contact us today to explore tailored investment strategies that align with your wealth and financial goals.

**To find out how we can help you – please contact us.**

The content of this guide is for your general information and use only, and is not intended to address your particular requirements. The content should not be relied upon in its entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of the content. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts. Levels and bases of, and reliefs from, taxation are subject to change and their value depends on the individual circumstances of the investor. The value of your investments can go down as well as up and you may get back less than you invested. Content based on our understanding of the current 2024/25 tax laws and HM Revenue & Customs practice.