Our Guide to Investing

ArmstrongWatson®

Financial Planning & Wealth Management

www.armstrongwatson.co.uk

Most individuals invest to put their money to work, to generate a source of income and capital for the future. This could be saving for your first home, investing in your children's future, ensuring you enjoy your retirement or creating a legacy for your family.

The starting point for any investment strategy should be to think carefully about what you want your money to do in the short, medium and long term as your objectives for each of these could be different.

Short-term (emergency reserve)

The cornerstone for most financial plans is an emergency reserve - an easily accessible fund to cover unexpected problems such as damage to your roof in a storm or your boiler breaking down. This capital should be held on deposit with easy access to it

You might also have planned expenditure in the near future, for example, paying for a wedding, a holiday, a new car or home improvements. Given the short timeframe it make sense to keep this capital on deposit, but any cash you don't need to cover short term needs should be put to work with aim of achieving better returns.

Medium and longer term

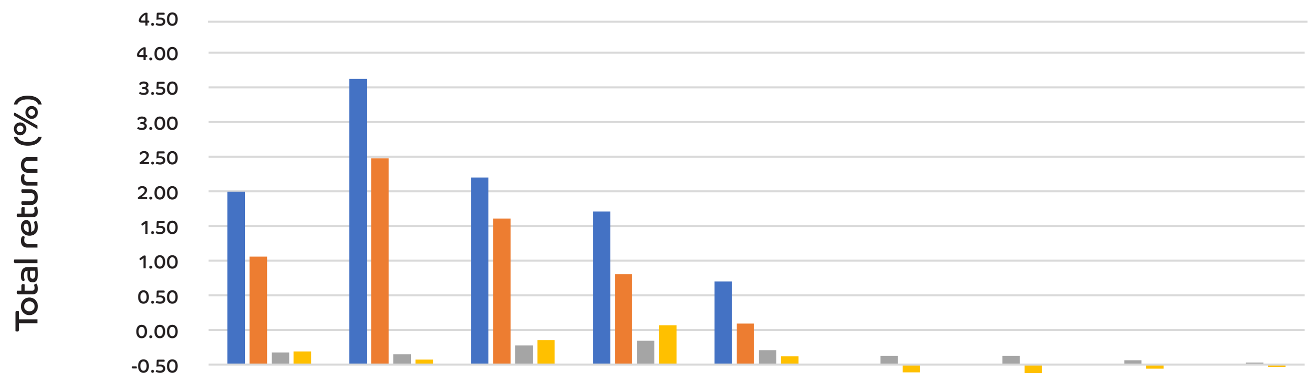
Capital you don't need access to in the foreseeable future can therefore be invested. This means investing in other types of assets beyond cash and involves exposing it to a degree of risk. How much risk is very much dependent upon the individual and this aspect needs careful consideration, which we cover later in this guide.

Why invest rather than simply save?

It is common for people to feel the need to retain cash. Bank and building society accounts are the ideal place for your savings and emergency money as they are easily accessible and tend to be the safest place to put your money, but doing so exposes your capital to the enemy of the investor - inflation. In turbulent times it's natural to respond cautiously, but some investors can over react and sell an investment at the wrong time, or others are discouraged from investing in the future, which is why it is important to understand how investments work.

Cash itself is not risk-free. Although the capital value may be secure, it is easy to overlook the impact of inflation which reduces the purchasing power of each pound. Investing in cash may lead to long-term financial disappointment as savings rates tend to be lower than inflation, meaning prices rise faster than the value of your savings. The graph below shows the 2 measures of inflation that are often referenced, which is a measure of the cost of goods and services. If your cash does not keep pace with at least CPI then you may not be able to buy the same goods and services in the future.

Cash versus inflation



	2016	2017	2018	2019	2020	2021	1 year	6m	3m
UK RPI	2.49	4.12	2.70	2.21	1.20	4.1%	4.1%	5.9%	6.8%
UK CPI	1.56	2.97	2.10	1.30	0.59	2.6%	2.6%	4.25%	4.9%
UK Savings 2500+ invt GR	0.17	0.15	0.28	0.34	0.21	0.12	0.12	0.06	0.03
IA Short Term Money Market	0.19	0.07	0.35	0.56	0.12	-0.11	-0.12	-0.06	-0.03

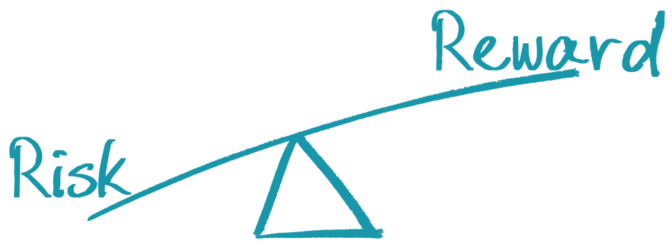
Source data: Defaqto using Morningstar Workstation data

In order to invest successfully, a clear understanding of your financial goals will help you decide how to balance current against future spending. You also need to decide how long you are prepared to invest for, the risk you are prepared to take and most importantly, whether you can tolerate any losses in the short term. Many people find this aspect of financial planning difficult and prefer to work with a financial professional to help them design their own plan.

Armstrong Watson Financial Planning & Wealth Management can help you to establish an investment portfolio which will provide you with the best chance of achieving your goals, at a level of risk you are able to accept. Our Financial Planning Consultants can also help you allocate the right amount of capital to meet your short, medium and long term objectives.

Understanding the principles of investing

All savings and investments involve some degree of risk, but by making an informed decision to accept risk creates the opportunity for greater returns, known as the risk/reward trade-off.



Your ability and willingness to accept risk will determine the most suitable range of assets for your investment. If you are not comfortable with, or do not understand the risk you're taking, you should not invest.

There are techniques for managing risk and the most common is through asset class diversification.

Broadly, there are four main asset classes:

Cash - This includes deposits with the banks and building societies (investments backed by Financial Services Compensation Scheme and within the protection limit are the most secure). The ability to get your money out of an investment is a risk factor, so generally the more liquid an investment the lower the return. Hence instant access accounts tend to offer lower returns than those which lock in your money.

Fixed Interest – are in fact loans that are repayable at a certain date in the future after a series of interest payments are made. There are two types:

UK Government bonds, called Gilts as they used to be backed by gold, are perhaps the most secure of these and are almost certain to be repaid on schedule. Other than index-linked variants, they usually pay a fixed rate of return. Debt instruments issued by other countries which are not rated as financially strong as the UK carry greater capital risk, as well as currency fluctuations - not to mention interest rate risk.

Corporate bonds are loans to companies, so carry a greater risk of non-repayment than gilts. The capital value of the bond can also fluctuate and could fall if interest rates rise. Whenever investors buy bonds that offer a fixed rate of return, they are exposing themselves to interest rate risk.

Property - Investing in property can include direct or indirect investments in UK residential and commercial property, or property abroad. The returns come from both rents and capital appreciation. The underlying risks are that tenants may not pay their rent or that properties may be left vacant. Direct investments in property tend to be much less liquid than cash, bonds or equities, as buying and selling buildings can be a lengthy and time consuming process. Therefore, a key risk with direct property investments is that investors may not be able to withdraw their money when they need to.

Equities (Stocks/Shares) – Equities mean an ownership in a company. The returns are influenced by a wide variety of factors but the main ones are the underlying performance of each company and the wider economic environment. There is another factor which can influence returns - dividends. The profits of companies are usually paid out to shareholders in the form of dividends. Within investment funds these can be reinvested to help boost the overall returns especially when the capital value suffers losses.

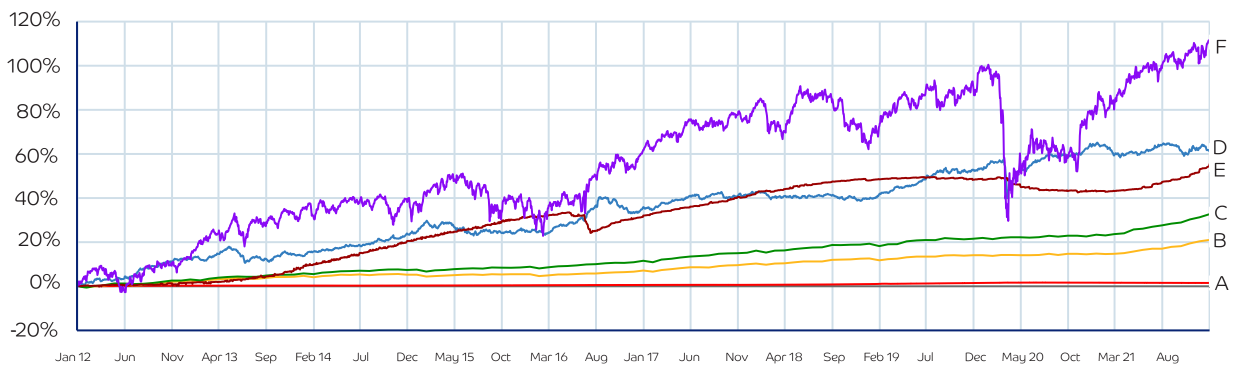
Risks that can affect a portfolio can be defined in several different ways. One basic way of considering risk is that it originates from two sources: Idiosyncratic Risk and Systematic Risk.

Idiosyncratic risk – risk arising from specific circumstances of an investment, for example business risk facing a supermarket retailer in the UK can affect the value of its equity.

Systematic risk – broad market based risk, such as general economic cycles.

You can invest in UK or international equities, such as USA, Europe, Asia, Emerging Markets etc. Equities tend to carry the highest form of risk, but also the greatest potential for return.

The graph below shows the returns over 10 years of the different asset classes and their volatility versus inflation:



30/12/2011 - 31/12/2021 Performance Data from FE fundinfo

Cumulative performance

	1m	3m	6m	1y	3y	5y	10y
A - IA Short Term Money Market	0.0%	0.0%	-0.1%	-0.1%	0.4%	0.9%	1.5%
B - UK Consumer Price Index	-	1.3%	3.4%	5.6%	8.3%	13.5%	21.7%
C - UK Retail Price Index	-	1.8%	4.0%	7.8%	12.3%	19.7%	33.5%
D - IA Sterling Corporate Bond	-2.5%	-2.3%	-4.2%	-3.5%	10.9%	16.6%	54.9%
E - IA UK Direct Property	0.7%	4.0%	6.3%	9.6%	5.5%	17.7%	56.0%
F - FTSE All Share	1.2%	3.1%	6.4%	18.6%	22.7%	31.4%	103.3%

These assets can be held directly, such as shares of a company or as part of a pooled investment with other investors where you own units in a fund that holds that asset class or a blend of classes. These can be held in various tax efficient tax wrappers, such as ISAs and pensions to help with your financial plans.

Each asset class has many sub classes which are more focussed in a particular area. For example equities can be broken down in to geographical areas such as North America, Japan, and Europe etc. In these sectors you only invest in companies listed in that region. Overseas equities also retain currency risk.

Past performance is no guarantee of future performance. The value of investments can fall as well as rise and investors may not get back their original investment.

Which assets do you choose?

No-one can predict which will be the best asset class each year. The table below shows the performance of individual asset classes over the last decade. It highlights the variability of asset class returns and also shows the risk created by taking investment decisions based on past performance.

Investment Returns (%)

Currency: Pound Sterling Source Data: Total Return

BEST

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
UK Small Cap 35.0	UK Small Cap 44.2	North America 19.6	Japan 17.6	Emerging Markets 35.4	Asia ex Japan 23.4	Property 2.9	UK Mid Cap 30.8	Asia ex Japan 19.4	UK Small Cap 31.6
UK Mid Cap 28.7	UK Mid Cap 34.9	Gilts 13.9	UK Small Cap 13.6	North America 34.1	Emerging Markets 21.1	North America 0.8	North America 26.5	North America 16.4	North America 28.1
High Yield 18.9	North America 28.3	World ex UK 12.3	UK Mid Cap 12.0	World ex UK 30.4	UK Mid Cap 18.2	Cash 0.6	World ex UK 23.1	World ex UK 14.2	World ex UK 22.2
Asia ex Japan 17.5	Japan 24.9	Property 11.8	Property 7.3	Asia ex Japan 28.7	Europe ex UK 16.9	Gilts 0.6	Europe ex UK 21.2	Emerging Markets 11.9	UK Large Cap 18.4
Europe ex UK 17.4	Europe ex UK 24.0	Asia ex Japan 10.0	Europe ex UK 5.5	Japan 22.7	UK Small Cap 16.3	Corporate Bonds -2.2	UK Large Cap 17.3	Japan 11.1	UK Mid Cap 18.4
Corporate Bonds 13.3	World ex UK 22.7	Corporate Bonds 9.8	North America 5.3	Europe ex UK 21.2	Japan 14.4	World ex UK -2.7	UK Small Cap 16.3	Gilts 8.3	Europe ex UK 17.6
Emerging Markets 12.8	UK Large Cap 18.7	Emerging Markets 7.9	World ex UK 4.8	UK Large Cap 19.1	World ex UK 13.5	High Yield -3.6	Emerging Markets 15.9	Corporate Bonds 7.9	Property 7.4
World ex UK 11.9	Property 7.6	UK Mid Cap 2.8	Gilts 0.6	UK Small Cap 12.7	UK Large Cap 11.9	Japan -7.6	Japan 14.8	Europe ex UK 7.8	High Yield 4.2
North America 10.7	High Yield 6.9	Japan 2.7	Cash 0.5	High Yield 10.1	North America 11.3	Emerging Markets -7.6	Asia ex Japan 14.5	High Yield 3.5	Japan 2.5
UK Large Cap 10.0	Asia ex Japan 1.3	High Yield 1.0	Corporate Bonds -0.4	Gilts 10.1	Property 7.6	Asia ex Japan -8.5	High Yield 11.4	UK Small Cap 2.1	Emerging Markets 1.0
Japan 3.3	Corporate Bonds 0.6	UK Large Cap 0.7	High Yield -0.9	Corporate Bonds 9.0	High Yield 6.1	UK Large Cap -8.7	Corporate Bonds 9.5	Cash 0.2	Cash 0.1
Gilts 2.7	Cash 0.5	Cash 0.5	UK Large Cap -1.3	UK Mid Cap 5.1	Corporate Bonds 5.1	Europe ex UK -9.1	Gilts 6.9	Property -3.8	Asia ex Japan -0.1
Property 1.2	Gilts -3.9	Europe ex UK -1.4	Asia ex Japan -3.5	Cash 0.4	Gilts 1.8	UK Small Cap -13.5	Cash 0.8	UK Mid Cap -8.5	Corporate Bonds -1.9
Cash 0.5	Emerging Markets -5.3	UK Small Cap -1.7	Emerging Markets -10.3	Property -2.0	Cash 0.3	UK Mid Cap -15.2	Property -0.8	UK Large Cap -11.5	Gilts -5.2

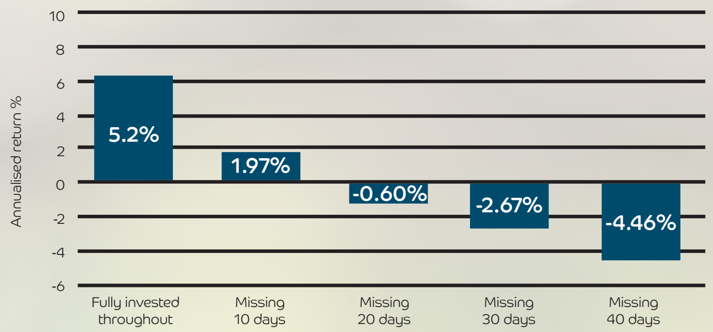
WORST

Source: Morningstar Direct

By investing in products that contain a range of asset classes you can reduce the overall risk to which your capital is exposed, as when one area is performing less well, another area may produce higher returns.

Time in, not Timing!

No one can predict the peaks and troughs of financial markets and it is extraordinarily difficult to time when the best days (peaks) are. As the chart shows, missing just the ten best days over this period would have cut your annual return substantially. Timing the stock market is extremely difficult, the best policy is usually to stay fully invested over the long term according to your time horizon.



Source: Datastream, from 30.09.16 to 30.09.21, annualised return.

Returns based on the performance of the FTSE All-Share, with initial lump sum investment of £1,000 on a bid to bid basis with net income reinvested.

The role a financial adviser can play to help you understand your risk outlook

When considering investing, understanding how much risk you are prepared to take is crucial. Too much or too little risk can compromise your investments. Your attitude to risk is a very personal and emotional thing. However, when it comes to investing it pays to be objective too and think about how much risk you are prepared to take within the context of your financial goals and your investment time frame so it is very important to keep it under review.

The second element of assessing your overall risk is Capacity for Loss. Your own capacity for loss is dependent on your time horizon i.e. when you are likely to need your money to purchase what you have saved for or, reached retirement. It could be defined as the risk level you are able to cope with without materially impacting your standard of living, should the financial climate worsen. Other things to consider are your state of health and dependents.

Our Financial Planning Consultants carry out a detailed assessment of how much risk you are prepared to take with your money and, very importantly, they establish your tolerance for losses.

Our advisers ask clients to complete risk profiling and capacity for loss questionnaires to help establish their initial views. This provides an outcome which generates a natural risk score which provides a starting point to form the basis of our discussions in this area of your financial planning.

The results will help us:

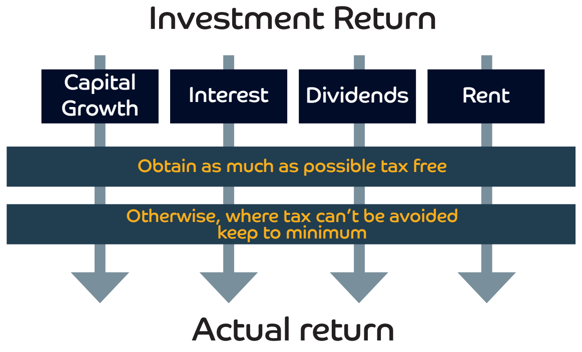
- Explain the risks that come with your financial decisions
- Explore trade-offs that you might need to make between risk and return in order to achieve your financial goals
- Help choose the most suitable investment strategy in line with your agreed level of risk tolerance and capacity for loss.

Your risk tolerance and capacity for loss may change over time so it is important that it is regularly reviewed.

The importance of tax planning

Tax planning can be equally as important as asset allocation when recommending an investment portfolio. After all, there is little point in taking the time to search out the best funds for your objectives if tax then wipes out the return.

Each client's circumstances are different, so we take care to ensure that the most appropriate tax wrapper(s) are selected. This does not compromise asset allocation, but helps to maximise return by minimising tax.



Pensions

Pensions are currently one of the most tax efficient ways to invest for the long term and often the principal way to save for retirement. Although your funds are tied up until you retire, pensions offer considerable tax benefits in comparison to most other investment vehicles.

The principal benefits of a personal pension are:

The amount you contribute attracts income tax relief at your highest marginal rate.

The funds into which contributions are invested benefit from tax advantaged growth. Income from rents, deposits and gilts remains free of tax, as do capital gains.

Pension benefits can be drawn currently from the age of 55.

Individual Savings Accounts (ISAs)

There are currently 4 main types of ISA: Cash, Stocks & Shares, Lifetime and Innovative Finance.

You must be a UK tax resident to invest into an ISA and there is a cap on the amount that can be invested, which currently stands at £20,000 per annum. This can be any combination of cash or stock and shares.

All gains, income and dividends earned by the investments in the wrapper are tax exempt. As such, an ISA provides tax-free growth on your investments.

There's a version of the ISA for children called a junior ISA (JISA). Just like the adult version, it allows you to save tax-free, on behalf of a child up to the age of 18. The limit is £9,000 currently.

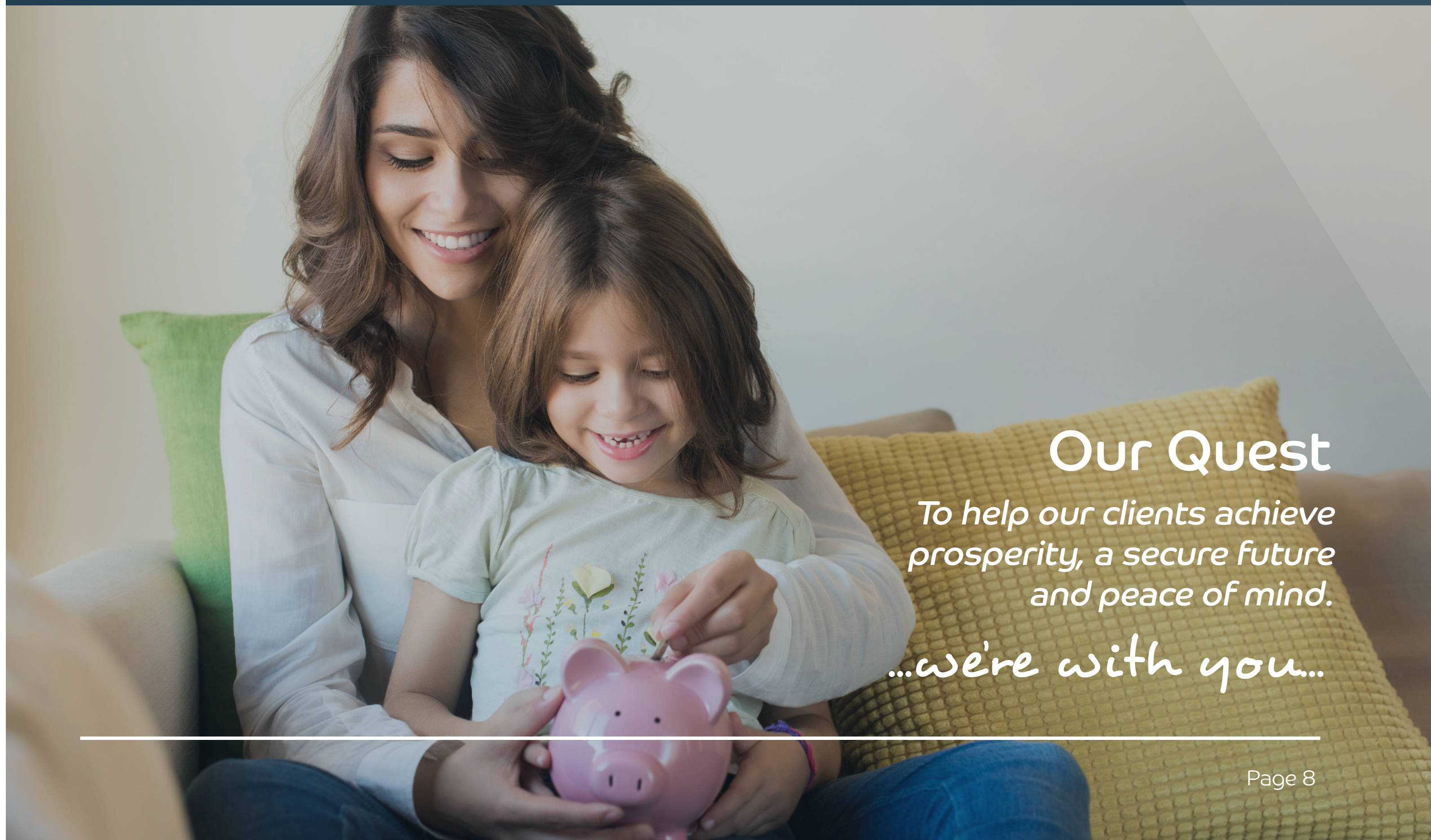
General Investment Account (GIA)

A GIA is an investment without an upper limit, although Capital Gains Tax may be payable on the growth made. GIAs can prove highly tax efficient as each individual also receives an annual Capital Gains Tax (CGT) exemption, which means that gains below the exemption limit will not incur a CGT liability.

Investment bonds

Investment bonds are single premium life assurance policies, as they pay out a sum slightly higher than the value of the contract upon death, but their primary purpose is as an investment vehicle with distinct tax advantages.

They provide the ability to withdraw up to 5%, tax deferred, of the original capital invested each year the bond is in force and roll this allowance up if it isn't used, which is useful for investors wishing to generate additional capital or income. If more than this is withdrawn it may result in a tax charge.



Cashflow Forecasting

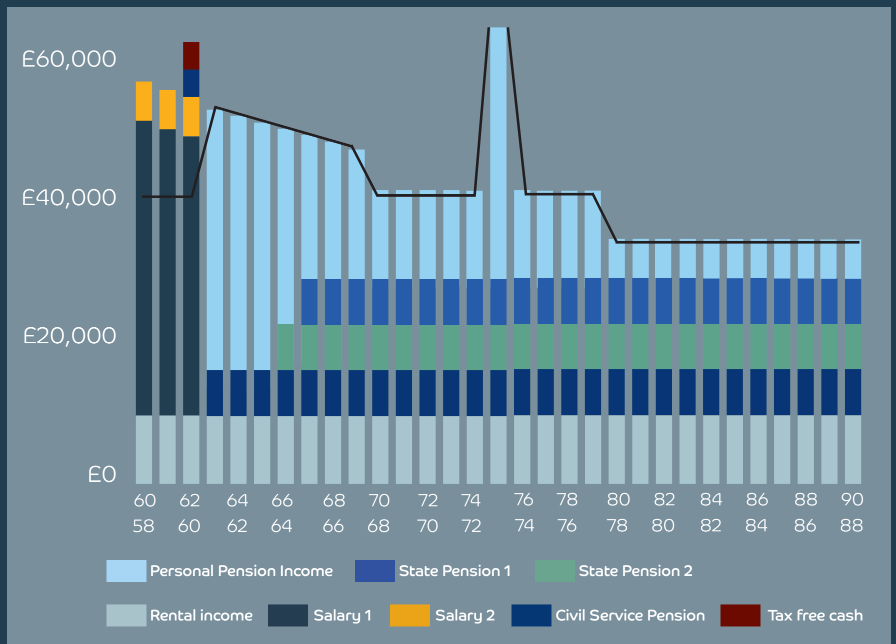
We use technology that allows us to create individual cashflow forecasts for our clients. All assets and income sources (current and known future) are factored in. We then create a 'core' forecast using a 'base' set of assumption – for example inflation, life expectancy, investment returns depending on the level of risk being taken with investments.

Understanding your risk tolerance and capacity for loss also helps us tailor any of the assumptions used to your personal views or circumstances.

Once we have created this initial forecast, we can look at how variations to our assumptions affect things. This means, after some refinement, it becomes a unique, personalised lifetime forecast that best reflects the future we can expect.

This can help provide comfort to clients, particularly in the lead-up to retirement, by helping them to understand the impact that the decisions they make today will have on their future finances. In retirement it helps to understand the impact of withdrawals, both regular and lump sums, and how long your income could potentially last for.

Cashflow modelling can really bring your personal financial situation to life to see a clear visual display of how your future finances will look both from a cashflow point of view.

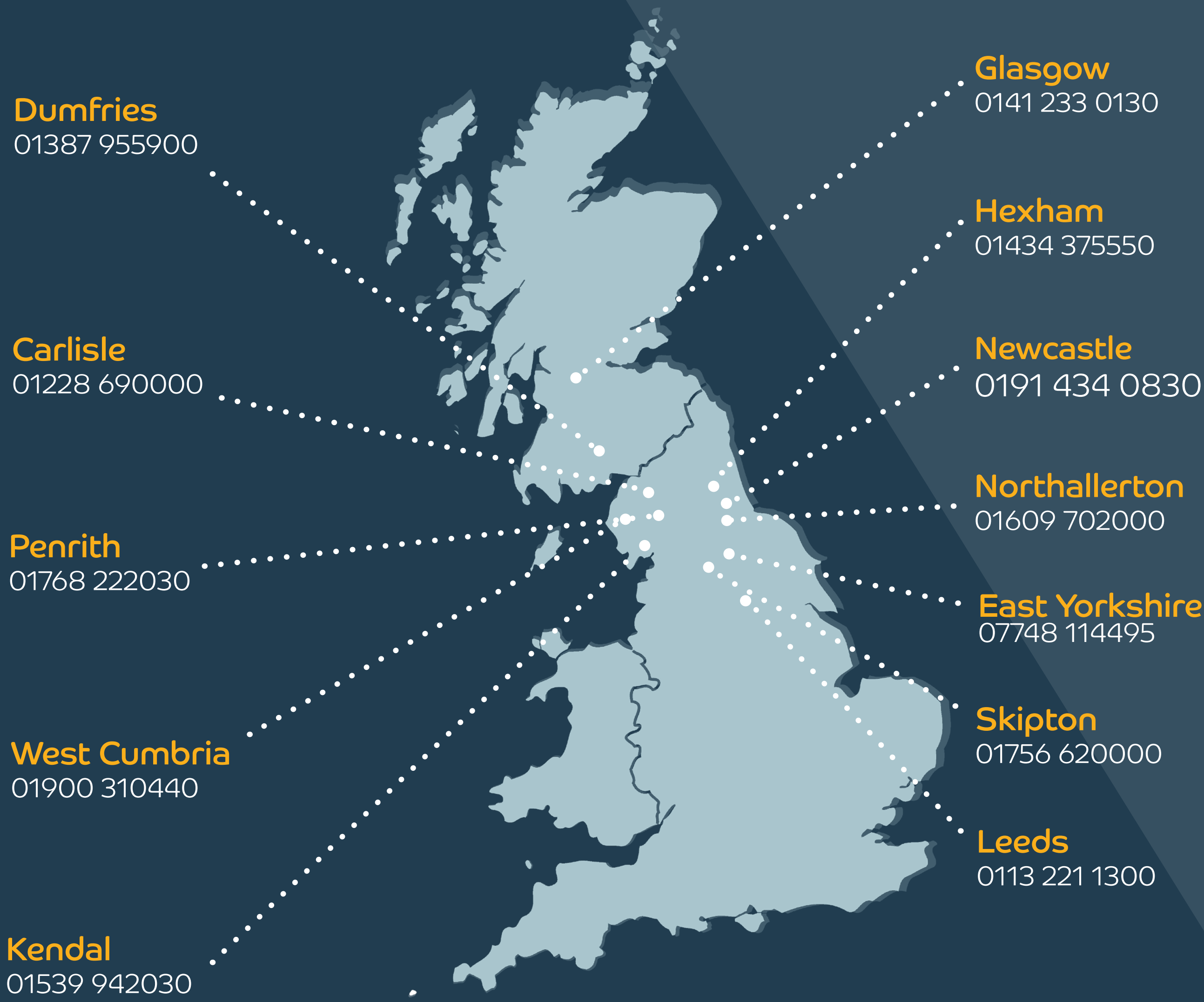


Savings at start (age 60)	Savings at retirement (age 63)	Savings at end (age 90)
£600,000	£712,858	£754,312

Summary

Investing money can be complicated and you need to consider a number of issues before committing your money, but with a clear understanding of how your investments work it needn't be something to fear.

Armstrong Watson Financial Planning and Wealth Management is a Chartered Firm. Our approach is to step into our clients' shoes and see their personal or business situation from their perspective providing us with a clear understanding of their aspirations and objectives. This helps shape our advice and to provide bespoke solutions for investors of all types.



Call 0808 144 5575 to be put through to your local office

Building trust through long term relationships,
protecting individuals, their families and businesses

ArmstrongWatson®
Financial Planning & Wealth Management

www.armstrongwatson.co.uk

Armstrong Watson Financial Planning Limited is authorised and regulated by the Financial Conduct Authority. Firm reference number 542122. Registered as a limited company in England and Wales, number 7208672. The registered office is 15 Victoria Place, Carlisle, CA1 1EW. Armstrong Watson Financial Planning & Wealth Management is a trading style of Armstrong Watson Financial Planning Limited.

OGI_FEB 22