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Carpenter Rees

Financial planning for people and business.

FINANCIAL GUIDE

GUIDE TO

INVESTMENT PLANNING

WHAT DOES THE FUTURE LOOK LIKE FOR YOUR WEALTH?

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WELCOME

What does the future look like for your wealth?

Money, of course, plays an important role in our lives. While it's not everything, it can help you achieve your goals and gives you greater choices and freedoms. That's why it's important to increase our financial intelligence to learn how to build greater wealth.

In this *Guide to Investment Planning*, we consider the process of organising investments as a whole and explore the key principles and techniques behind effective portfolio construction, so that you have the best chance of constructing a portfolio that meets your investment objectives.

As an individual, you are entirely different from everyone else around you, and hence you must create your own unique investment approach. But, as all investments carry some degree of risk, we recommend you always seek professional advice to build the best strategy to achieve your long- or short-term goals.

Is it time to discuss your requirements or review your current portfolio?
It's important to evaluate and adjust your investment strategy regularly. The products you use and the percentage of your portfolio they comprise will change over time as a result of market conditions, investment performance and other factors. We provide the professional advice and ongoing service needed to help you achieve your financial goals and keep your investments on track. To discuss your requirements or to review your current portfolio, please contact us.

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In this Guide to Investment Planning, *we consider the process of organising investments as a whole and explore the key principles and techniques behind effective portfolio construction, so that you have the best chance of constructing a portfolio that meets your investment objectives.*

WHAT ARE YOUR INVESTMENT OPTIONS?

Helping you reach your long-term financial goals

In the current economic climate, with interest rates still around record lows, investing in the markets could enable you to achieve an inflation-beating return and help you reach your long-term financial goals.

If you've got sufficient money in your cash savings account – enough to cover you for at least six months' worth of living expenses – and you want to see your money grow over the long term, then you should consider investing some of it.

The right savings or investments for you will depend not only on your current finances and future goals but also on how prepared you are taking risks.

Before even considering investing your money, you need to be comfortable with the risks involved. The action or process of investing money for profit can take many forms, but most people typically choose from four main types of investment, known as 'asset classes'.

- **Cash** – the savings you put in a bank or building society account
- **Fixed interest securities (also called 'bonds')** – you loan your money to a company or government
- **Shares** – you buy a stake in a company
- **Property** – you invest in a physical building, whether commercial or residential

There are also other higher-risk types of investments available too, including:

- Commodities like oil, coffee, corn, rubber or gold
- Foreign currency
- Contracts for difference, where you bet on shares gaining or losing value
- Collectibles like art and antique

Investment returns

Depending on where you put your money, it could be paid in a number of different ways:

- Interest (from cash deposits and fixed interest securities)
- Dividends (from shares)
- Rent (from properties)
- The difference between the price you pay and the price you sell for – capital gains or losses

There's no such thing as a 'no-risk' investment

Understanding the risks you'll encounter when investing and deciding how much risk you are willing to take is fundamental. You might have a long time frame, and plenty of cash to fall back on, but if you don't think you would be comfortable if the markets became volatile, a high-risk approach probably isn't for you.

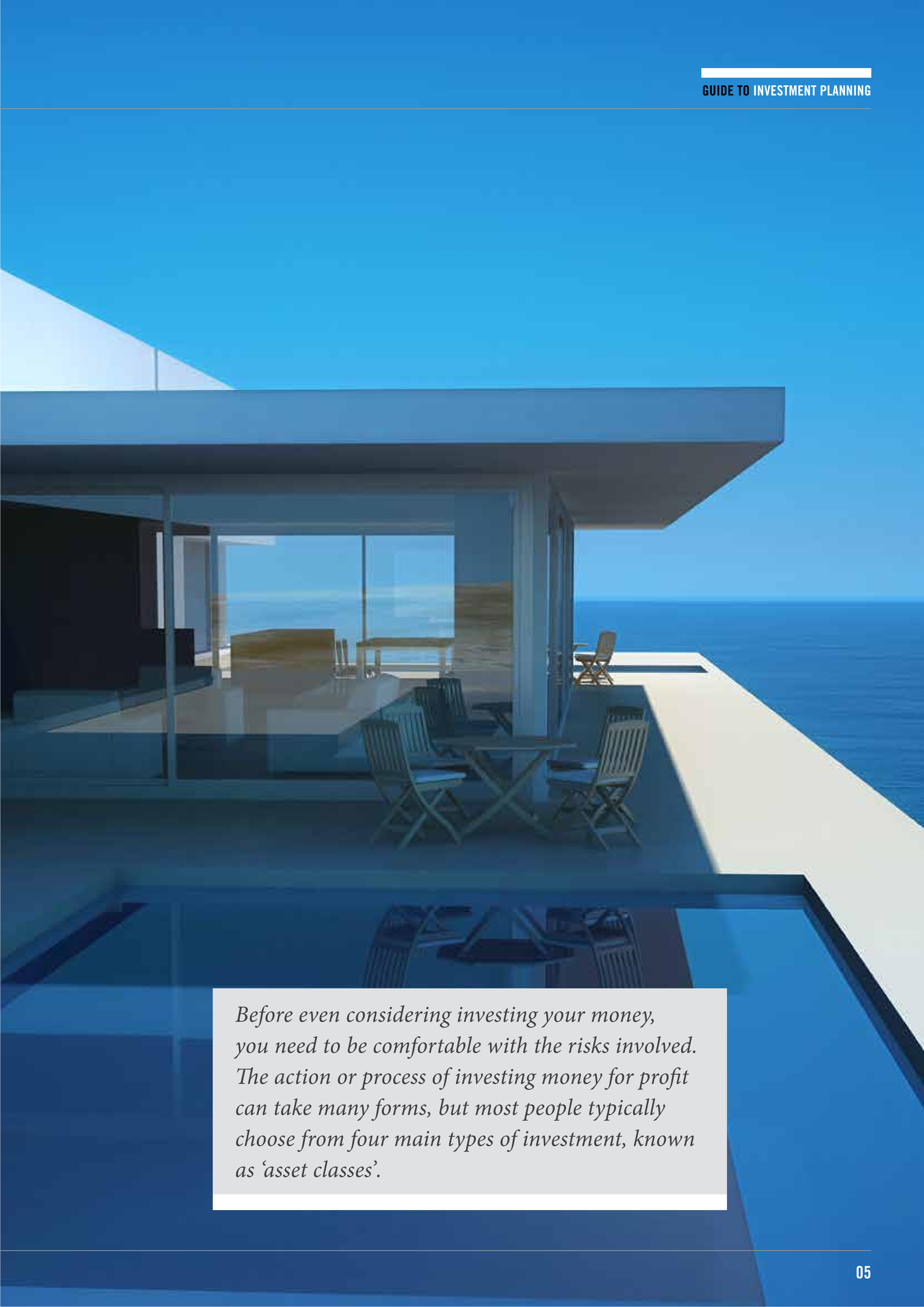
There's no such thing as a 'no-risk' investment. You're always taking on some risk when you invest, but the amount varies between different types of investment.

Even money you place in secure deposits such as savings accounts risks losing value in real terms (buying power) over time. This is because the interest rate paid won't always keep up with rising prices (inflation).

On the other hand, index-linked investments that follow the rate of inflation don't always follow market interest rates. This means that if inflation falls, you could earn less in interest than you expected.

Stock market investments may beat inflation and interest rates over time, but you run the risk that prices may be low at the time you need to sell. This could result in a poor return or, if prices are lower than when you bought, losing money.

Spreading your risk (called 'diversifying') by putting your money into a number of different products and asset classes is one way to reduce risk, so if an investment doesn't work out as you had planned you've still got exposure to others.



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Cash you put into UK banks or building societies (that are authorised by the Prudential Regulation Authority) is protected by the Financial Services Compensation Scheme (FSCS).

PORTFOLIO DIVERSIFICATION

Spreading your money between different kinds of investments

Diversification, the spreading of your money between different kinds of investments ('asset classes') and different kinds of investment product, helps reduce the risk of your overall investments (referred to as your 'portfolio') under-performing or losing money.

Protection for your money
Cash you put into UK banks or building societies (that are authorised by the Prudential Regulation Authority) is protected by the Financial Services Compensation Scheme (FSCS). The FSCS savings protection limit is £75,000 (or £150,000 for joint accounts) per authorised firm. It is worth noting that some banking brands are part of the same authorised firm. If you have more than the limit within the same bank, or authorised firm, it's a good idea to move the excess to make sure your money is protected.

Each kind of asset behaves differently. For example, when stock prices fall, the prices of fixed interest securities may go up. If you have a mix of investments in your portfolio, it will minimise the risk that they'll all lose value at the same time.

Diversifying within an asset class
There are many opportunities for diversification, even within a single kind of investment.

For example, with shares, you can spread your investments between:

- The UK and overseas markets
- Different sectors (industrials, financials, oils, etc.)
- Large and small companies

Do you need to improve your diversification?
If all your cash is in a single savings account, you should think about spreading it between an instant access savings account and other alternatives, like cash bonds or an investment fund. You should also think about moving some of it where your cash within one particular UK bank or building society exceeds the FSCS protection limit of £75,000.

Consider if you have access to more than six months' worth of living expenses putting some of that excess into investments like shares and fixed interest securities, especially if you're looking to invest your money for at least five years and are unlikely to require access to your capital during that time.

Also, if you're heavily invested in a single company's shares – perhaps your employer – start looking for ways to add diversification to your exposure.

Multi-asset funds
Multi-asset or mixed investment funds invest in a range of assets, typically shares, bonds and cash, with the allocation between the different types of assets left to the discretion of the fund manager. The fund manager will aim to build a portfolio with a mix of assets that is consistent with an investor's identified risk objective.

They are typically designed for investors with different risk appetites, for example, Cautious, Balanced and Adventurous. For those with smaller amounts of money to invest, or who do not have the time or expertise to structure their own portfolio, multi-asset funds may be an attractive option.

Investing in only a single type of asset, such as shares or bonds, can mean the value of your investment goes up and

These are the main asset classes, with the first four being the most common:

Asset class	Example products	Risk profile
Cash	Savings and current account balances, savings bonds, premium bonds and other NS&I products, Cash Individual Savings Accounts (ISAs) and any other cash you hold.	Low, but your money's buying power is eroded over time if inflation is higher than the interest rates paid. Cash you put into authorised UK banks or building societies is protected by the Financial Services Compensation Scheme up to £75,000.
Fixed interest securities – also called 'bonds'. Essentially a loan to a company or government for a fixed period.	Gilts (Government bonds), overseas bonds, local authority bonds and corporate bonds (loans to companies).	Relatively low and returns predictable if held to maturity; however, traded prices can be volatile. Your money's buying power can still be eroded over time if inflation is higher than the interest rate paid on the bond.
Shares – also known as 'equities'. A stake in a company.	You can hold shares directly or through an investment fund where you pool your money with other people's, like with a unit trust, OEIC (open-ended investment company) or life fund.	Investing in a single company is high risk. Investing in a fund provides more diversification, but risk levels will depend on the type of shares in the fund.
Property	Includes residential or commercial property and buy-to-lets, and investments in property companies or funds.	Price can vary and be more volatile than with bonds. Potential for gains but also losses. You may not be able to access your capital quickly if you have invested into property directly. Access to capital may also be restricted through property funds if closed to redemptions, meaning you will not have access until the redemption restriction has been lifted.
Alternative investments	Includes gold, art, antiques, collectibles, fine wines and other investments that do not fall into the four main asset classes.	Risk profile unpredictable – very much depends on prevailing (niche) market conditions and quality of asset.

down more than if you spread your risk by investing in several types of assets. Multi-asset funds offer investors a portfolio with a spread of assets within a single fund.

Although multi-asset funds aim to spread risk across different types of assets, your capital is still at risk. The value of your investment may go down as well as up and you may not get back the money you invested.

Some types of multi-asset funds buy and sell investments more often than other types of fund, which will cost the fund more in dealing fees. Multi-asset funds may typically be offered through an Individual Savings Account (ISA) or as a default choice in a pension, or directly through a fund manager.

APPETITE FOR RISK

Striking the right balance is important to avoid losses

While diversification is important, you should keep in mind how much risk you are prepared to accept on your money. If it is important to you to avoid losses, you may want a portfolio that has less in shares and more in cash and fixed interest securities held to maturity, for example.

Know your risk appetite
Saving and investing involves a variety of risks, for example, the risk your money will not keep up with rising prices (inflation risk), the risk that comes with share prices going up and down (volatility risk), the risk that an institution will fail (default risk), and the risk that you could have earned better returns elsewhere (interest-rate risk).

The aim is to strike a balance between these different risks. What is a good balance for you will depend on:

- Your personal circumstances – how much you can afford to lose (your capacity for loss)
- Your investment goals, time frame and need for returns
- Your personal attitude to risk

Taken together, these make up what's called your 'risk appetite'. Of these three things, your capacity for loss and your investment goals are most important.

Personal attitude to risk is hard to measure and can be changeable – what feels comfortable one day may not the next.

How to assess your risk appetite

The following steps should be considered when deciding your risk appetite:

Know what you can afford to lose
Ask yourself what would happen if you lost some or all of the money you're putting into investments. This will depend on your circumstances and how much of your money you're investing.

Think about people who depend on you financially and any other important financial commitments you need to be sure of meeting.

Work out your goals and timings
Your saving and investing choices will depend on your goals and timescales. The bigger your goal in relation to the assets or income you wish to invest, the greater the rate of return required to beat inflation and hit your goal. Taking no volatility risk at all may make your goals impossible to achieve; taking too much may lose you your investment.

Short-term goals – under five years – such as a car or a house deposit are best saved for in cash. If you have a short-term goal, your appetite for volatility risk would usually be low, and cash products will be the best place to invest. You don't want to be worrying about the state of the financial markets when you need your money to be readily accessible. However, cash savings run the risk of not keeping up with rising prices (inflation risk).

Inflation-beating returns
With longer-term goals, it's more usual to put your money into investments that have a better chance of giving you inflation-beating returns, such as shares, but which carry the risk of prices going down. A longer time frame gives your investment more time to recover if it falls in value. So if you have a long-term goal, it makes sense to be prepared to take on volatility risk for the opportunity of higher returns.

However, as a long-term goal moves closer, the risk balance should change. For example, you may want to start moving into less volatile assets a few years before the goal date, to start 'locking-in' gains, and to protect your investment against events like market falls. At any one time, you may have a mixture of short-term or critical goals

for which you want low volatility (such as saving up to move house), and some non-critical or long-term goals for which you have a higher appetite for volatility (for example, saving towards retirement).

Understand your personal risk attitude
A good way to manage risk is to spread your money across a range of different investment types. Risk attitude is subjective and is likely to be influenced by current events or recent experiences. When stock markets are rising, we tend to feel comfortable with market risk; when they are falling, we do not.

Most people are not comfortable with the idea of losing money. On the other hand, we may regret it if we've been very cautious and our long-term investments don't produce the returns we need. You can keep risks in line with your risk appetite by spreading your money across a range of different investments.

With longer-term goals, it's more usual to put your money into investments that have a better chance of giving you inflation-beating returns, such as shares, but which carry the risk of prices going down.

CHOOSING INVESTMENTS

What you need to know to become a more confident investor

Before you choose or make any investment decisions, you need to know that investing involves the possibility of loss. These key considerations help you become more confident about your investment decisions.

Review your needs and goals
It's well worth taking the time to think about what you really want from your investments. Knowing yourself, your needs and goals and your appetite for risk is a good start.

Consider how long you can invest
Think about how soon you need to get your money back. Time frames vary for different goals and will affect the type of risks you can take on.

For example, if you're saving for a house deposit and hoping to buy in a couple of years, investments such as shares or funds will not be suitable because their value goes up or down. Keep to cash savings accounts like Cash Individual Savings Accounts (ISAs).

If you're saving for your pension in 25 years' time, you can ignore short-term falls in the value of your investments and focus on the long term. Over the long term, investments other than cash savings accounts tend to give you a better chance of beating inflation and reaching your pension goal.

Make an investment plan
Once you're clear on your needs and goals – and have assessed how much risk you can take – you need to obtain professional advice to identify the types of product that could be suitable for you.

A good rule of thumb is to start with low-risk investments such as Cash ISAs. Then, add medium-risk investments like unit trusts if you're happy to accept higher volatility. Only consider higher-risk investments once you've built up low- and medium-risk investments. Even then, only do so if you are willing to accept the risk of losing the money you put into them.

Diversifying to accept more risk
It's an accepted rule of investing that to improve your chance of a better return, you have to accept more risk. But you can manage and improve the balance between risk and return by spreading your money across different investment types and sectors whose prices don't necessarily move in the same direction. This helps you to smooth out the returns while still achieving growth and reduce the overall risk in your portfolio.

Decide how hands-on to be
If you need help understanding a financial product, it's essential that you obtain professional financial advice before you proceed.

Investing can take up as much or as little of your time as you'd like. So if you want to be hands-on and enjoy making investment decisions, you might want to consider buying individual shares – but make sure you understand the risks.

If you don't have the time or inclination to be hands-on – or if you only have a small amount of money to invest – then a popular choice is investment funds, such as unit trusts and Open Ended Investment Companies (OEICs). With these, your money is pooled with that of lots of other investors and used to buy a wide spread of investments.
If you're unsure about the types of investment you need, or which investment funds to choose, seek professional financial advice.

Higher-risk products have their place
There's no reason not to invest in higher-risk products if they suit your financial goals and attitude to risk and you already have a safety margin in low-risk investments such as a Cash ISA. But only consider higher-risk products once

you've built up sufficient money in low- and medium-risk investments. Before investing, it's essential that you fully understand their specific risks and are happy to take them on.

Review investments periodically
Investors who watch their investments day to day could have a tendency to buy and sell too often and subsequently achieve poorer returns than investors who leave their money to grow for the long term.

Annual reviews will ensure that you keep track of how your investments are performing and adjust your savings as necessary to reach your goal. You will get regular statements to help you do this.

However, don't be tempted to act every time prices move in an unexpected direction. Markets rise and fall all the time, and if you are a long-term investor you can just ride out these fluctuations.

Different 'styles' of investing
Some assets are said to be 'negatively correlated', for instance, bonds and property often behave in a contrarian way to equities by offering lower but less volatile returns. This provides a 'safety net' by diversifying many of the risks associated with reliance upon one particular asset. It is also important to diversify across different 'styles' of investing, such as growth or value investing, as well as across different sizes of companies, different sectors and different geographic regions.

Growth stocks are held as investors believe their value is likely to grow significantly over the long term, whereas value shares are held because they are regarded as being cheaper than the intrinsic worth of the companies in which they represent a stake. By mixing styles that can out- or under-perform under different economic conditions, the overall risk rating of the investment portfolio is reduced. Choosing the right combination of these depends on your risk profile, so it's essential to seek professional advice to ensure that your investment portfolio is commensurate with your attitude to investment risk.

Currency risk
You should also be aware of currency risk. Currencies (for example, sterling, euros, dollars and yen) move in relation to one another. If you are putting your money into investments in another country, then their value will move up and down in line with currency changes as well as the normal share price movements.

If you don't have the time or inclination to be hands-on – or if you only have a small amount of money to invest – then a popular choice is investment funds.

INVESTMENT FUNDS

Expanding your investment opportunities

You can invest directly in investments, like shares, but a more popular way to invest in them is indirectly through an investment fund. Individual investors do not make decisions about how a fund's assets should be invested.

Once you choose which fund to invest in based on your goals, risk, fees and other factors, a fund manager actually oversees the fund and decides which securities it should hold, in what quantities and when they should be bought and sold.

There are many different ways to investment. Opposite are some examples.

You can invest directly in investments, like shares, but a more popular way to invest in them is indirectly through an investment fund.

Direct investments	How they work
Shares	Shares offer you a way of owning a direct stake in a company – also known as 'equities'. Their value rises and falls in line with a number of factors which may include the company's performance or outlook, investor sentiment, and general market conditions.

Investment funds (indirect)	How they work
Unit trusts and open-ended investment companies (OEICs)	Funds managed by a professional investment manager. There are lots of different strategies and risk levels to choose from, and they can invest in one or more different asset classes.
Investment trusts	Investment trusts are companies quoted on the stock exchange whose business is managing an investment fund, investing in shares and/or other types of investment. You invest in the fund by buying and selling shares in the investment trust either directly or through the products listed in the next table. Once again, there are lots of different strategies and risk levels to choose from.
Insurance company funds	Investment funds run by life insurance companies. When you invest through an insurance or pension product, you often choose how your money is invested. The choice may be from the insurance company's own funds or investment funds, such as unit trusts, run by other managers.
Tracker funds	Some investment funds adopt a 'tracker' strategy. The value of the fund increases or decreases in line with a stock market index (a measure of how well the stock market is doing). Tracker funds often have lower charges than other types of fund.

Direct investments	How they work
Real estate investment trusts (REITs)	REITs are a special type of investment trust that invests in property. Similar OEICs are called 'property authorised investment funds' (PAIFs).

WHAT INVESTMENT APPROACH IS RIGHT FOR YOU?

Your decision can have a big impact on your returns

Should you invest all of your money in one go or drip-feed it into the stock market over time? The answer will ultimately depend on whether you have a lump sum to invest or not, but it can have a big impact on your returns. Your decisions will invariably be based around your circumstances, attitude to risk and where you are investing your money and why.

If, for example, you're comfortable with the risks and have strong conviction in your choices, you may want to invest a lump sum. However, if you don't have a lump sum, or if you're cautious about going all in, you might prefer to adopt a regular savings strategy.

Investing a lump sum
If you have, for example, £100,000 to invest and you invest all of it straight into the stock market, your capital has the greatest potential for growth, as it's immediately fully exposed to the market. The assets in which you invest, be they shares, bonds or units in a fund such as a unit trust, are bought at the same price, and you can benefit from any price increases straight away.

The potential downside of investing a lump sum is that you're exposed to potential downward movements in the market. So, if you invested all of your money in the FTSE 100 (the stock market index that tracks share performance of the top 100 companies in the UK), for example, and it dropped by 20%, your investment would follow suit. Staying invested in the stock market over a long period gives you the opportunity for your money to recover – but this could take a long time and would require a lot of nerve and patience on your part as an investor.

You also have to think about market timing – are you investing at a peak or at a low?

Regular savings and 'pound cost averaging'
Regular savings offers the opportunity to make market fluctuations work in your favour. This approach is known as 'pound cost averaging.'

Pound cost averaging describes the process of regularly investing the same amount, usually on a monthly basis, to smooth out the impact of the highs and lows of the price of your chosen investment.

The effect of pound cost averaging is that you're buying assets at different prices on a regular basis, rather than buying at just one price. And while riding out the movements of the market, you could also end up better off than if you invested with a lump sum.

POOLED INVESTMENT SCHEMES

Investing in one or more asset classes

Investing in funds provides a simple and effective method of diversification. Because your money is pooled together with that of other investors, each fund is large enough to diversify across hundreds and even thousands of individual companies and assets. A pooled (or collective) investment is a fund into which many people put their money, which is then invested in one or more asset classes by a fund manager.

There are different types of pooled investment but the main ones are:

- Open-ended investment funds
- Unit trusts
- Investment trusts
- Investment bonds

Good return for investors

Most pooled investment funds are actively managed. The fund manager researches the market and buys and sells assets to try and provide a good return for investors.

Trackers, on the other hand, are passively managed; they simply aim to track the market in which they are invested. For example, a FTSE100 tracker would aim to replicate the movement of the FTSE100 (the index of the largest 100 UK companies).

Trackers might do this by buying the equivalent proportion of all the shares in the index. For technical reasons, the return is rarely identical to the index, in particular because charges need to be deducted.

Actively managed fund

Trackers tend to have lower charges than actively managed funds. This is because a fund manager running an actively managed fund is paid to invest so as to do better than the index (to beat the market) or to generate a steadier return for investors than tracking the index would achieve. Of course, the fund manager could make the wrong decisions and under-perform the market. And there is no guarantee that an actively managed fund that performs well in one year will continue to do so. Past performance is no guarantee of future returns.

Trackers do not beat or under-perform the market (except as already noted), but they are not necessarily less risky than actively managed funds invested in the same asset class. Open-ended investment funds and investment trusts can both be trackers.

For income, there is a difference in the tax position between funds investing in shares and those investing in bonds, property and cash.

OPEN-ENDED INVESTMENT FUNDS

Acting in the investors' best interests at all times

Open-ended investment funds are often called 'collective investment schemes' and are run by fund management companies.

There are many different types of fund. These include:

- Unit trusts
- OEICs (Open-Ended Investment Companies, which are the same as ICVCs – Investment Companies with Variable Capital)
- SICAV (Société d'Investissement à Capital Variable)
- FCPs (Fonds Communs de Placement)

This list includes certain European funds, which are permitted under European legislation to be sold in the UK.

Open-ended funds

There are many funds to choose from, and some are valued at many millions of pounds. They are called 'open-ended funds', as the number of units (shares) in issue increases as more people invest and decreases as people take their money out.

As an investor, you buy units/shares in the hope that the value rises over time as the prices of the underlying investments increase. The price of the units depends on how the underlying investments perform.

You might also get income from your units through dividends paid by the shares (or income from the bonds, property or cash) that the fund has invested in. You can either invest a lump sum or save regularly each month.

Different asset classes

Open-ended investment funds generally invest in one or more of the four asset classes – shares, bonds, property and cash. Most invest primarily in shares, but a wide range also invest in bonds. Few invest principally in property or cash deposits. Some funds will spread the investment and have, for example, some holdings in shares and some in bonds. This can be useful if you are only taking out one investment and, remembering that asset allocation is the key to successful investment, you want to spread your investment across different asset classes.

The level of risk will depend on the underlying investments and how well diversified the open-ended investment fund is. Some funds might also invest in derivatives, which may make a fund more risky. However, fund managers often buy derivatives to help offset the risk involved in owning assets or in holding assets valued in other currencies.

Trustee or depository protection

Any money in an open-ended investment fund is protected by a trustee or depository, who ensures the management company is acting in the investors' best interests at all times.

For income, there is a difference in the tax position between funds investing in shares and those investing in bonds, property and cash. Whichever type of open-ended investment fund you have, you can reinvest the income to provide additional capital growth, but the taxation implications are as if you had received the dividend income.

No Capital Gains Tax (CGT) is paid on the gains made on investments held within the fund. But, when you sell, you may have to pay CGT.

Each OEIC has its own investment objectives, and the fund manager has to invest to achieve these objectives. The fund manager will invest the money on behalf of the shareholders.

OPEN-ENDED INVESTMENT COMPANIES

Expanding and contracting in response to demand

Open-Ended Investment Companies (OEICs) are stock market–quoted collective investment schemes. Like investment trusts and unit trusts, they invest in a variety of assets to generate a return for investors. They share certain similarities with both investment trusts and unit trusts, but there are also key differences.

Pooled collective investment vehicle
OEICs are a pooled collective investment vehicle in company form and were introduced as a more flexible alternative to established unit trusts. They may also have an umbrella fund structure, allowing for many sub funds with different investment objectives. This means you can invest for income and growth in the same umbrella fund, moving your money from one sub fund to another as your investment priorities or circumstances change.

By being ‘open ended’, OEICs can expand and contract in response to demand, just like unit trusts. The share price of an OEIC is the value of all the underlying investments divided by the number of shares in issue. As an open-ended fund, the fund gets bigger and more shares are created as more people invest. The fund shrinks and shares are cancelled as people withdraw their money.

Share allocation
You may invest into an OEIC through a Stocks & Shares Individual Savings Account (ISA). Each time you invest in an OEIC fund, you will be allocated a number of shares. You can choose either income or accumulation shares, depending on whether you are looking for your investment to grow or to provide you with income, providing they are available for the fund you want to invest in.

Like unit trusts, OEICs provide a mechanism for investing in a broad selection of shares, thus aiming to reduce the risks of investing in individual shares.

Therefore, you have an opportunity to share in the growth potential of stock market investment. However, do remember that your capital is not secured and your income is not guaranteed.

Investment objectives
Each OEIC has its own investment objectives, and the fund manager has to invest to achieve these objectives. The fund manager will invest the money on behalf of the shareholders.

The value of your investment will vary according to the total value of the fund, which is determined by the investments the fund manager makes with the fund’s money. The price of the shares is based on the value of the investments in which the company has invested.

UNIT TRUSTS

Participating in a wider range of investments

Unit trusts are collective investments that allow you to participate in a wider range of investments than can normally be achieved on your own with smaller sums of money. Pooling your money with others also reduces the risk.

A unit trust fund is divided into units, each of which represents a tiny share of the overall portfolio. Each day, the portfolio is valued, which determines the value of the units. When the portfolio value rises, the price of the units increases. When the portfolio value goes down, the price of the units falls.

Investment decisions
The unit trust is run by a fund manager, or a team of managers, who will make the investment decisions. They invest in stock markets all round the world and, for the more adventurous investor, there are funds investing in individual emerging markets, such as China, or in the so-called BRIC economies (Brazil, Russia, India and China).

Alternatively, some funds invest in metals and natural resources, and many put their money into bonds. Some offer a blend of equities, bonds, property and cash and are known as 'balanced funds'. If you wish to marry your profits with your principles, you can also invest in an ethical fund.

Multi-manager funds
Some funds invest not in shares directly but in a number of other funds. These are known as 'multi-manager funds'. Most fund managers use their own judgement to assemble a portfolio of shares for their funds, which are known as 'actively managed funds'. However, a sizeable minority of funds simply aim to replicate a particular index, such as the FTSE All-Share Index. These are known as 'passive funds' or 'trackers'.

A split-capital investment trust (split) is a type of investment trust that sells different sorts of shares to investors depending on whether they are looking for capital growth or income.

INVESTMENT TRUSTS

Reflecting popularity in the market

An investment trust is a company with a set number of shares. Unlike an open-ended investment fund, an investment trust is closed ended. This means there are a set number of shares available, which will remain the same no matter how many investors there are. This can have an impact on the price of the shares and the level of risk of the investment trust. Open-ended investment funds create and cancel units depending on the number of investors.

The price of the investment trust shares depends on two main factors:

- The value of the underlying investments (which works in the same way as open-ended investment funds)
- The popularity of the investment trust shares in the market

Closed-ended funds

This second point applies to investment trusts but not to open-ended investment funds or life assurance investments. The reason is because they are closed-ended funds. The laws of economics say that if there is a high demand for something, but limited supply, then the price goes up. So, if you own some investment trust shares and there are lots of people queuing up to buy them, then you can sell them for more money. On the other hand, if nobody seems to want them, then you will have to drop the price until someone is prepared to buy.

The result is that investment trust shares do not simply reflect the value of the underlying investments: they also reflect their popularity in the market. The value of the investment trust's underlying investments is called the 'net asset value' (NAV). If the share price is exactly in line with the underlying investments, then it is called 'trading at par'. If the price is higher because the shares are popular, then it is called 'trading at a premium', and if lower 'trading at a discount'. This feature may make them more volatile than other pooled investments (assuming the same underlying investments).

Improving performance

There is another difference that applies to investment trusts: they can borrow money to invest. This is called 'gearing'. Gearing improves an investment trust's performance when its investments are doing well. On the other hand, if its investments do not do as well as expected, gearing lowers performance.

Not all investment trusts are geared, and deciding whether to borrow and when to borrow is a judgement the investment manager makes. An investment trust that is geared is a higher-risk investment than one that is not geared (assuming the same underlying investments).

Split-capital investment trusts

A split-capital investment trust (split) is a type of investment trust that sells different sorts of shares to investors depending on whether they are looking for capital growth or income. Splits run for a fixed term. The shares will have varying levels of risk, as some investors will be ahead of others in the queue for money when the trust comes to the end of its term.

The tax position is largely the same as for open-ended investment funds. You should be aware that tax legislation changes constantly, and you should find out the most current position.

INVESTMENT BONDS

A range of funds for the medium to long term

Investment bonds are designed to produce medium- to long-term capital growth, but can also be used to give you an income. They also include some life cover. There are other types of investment that have 'bond' in their name (such as guaranteed bonds, offshore bonds and corporate bonds) but these are very different. With an investment bond, you pay a lump sum to a life assurance company, and this is invested for you until you cash it in or die.

Medium- to long-term
Investment bonds are not designed to run for a specific length of time, but they should be thought of as medium- to long-term investments, and you'll often need to invest your money for at least five years. There will usually be a charge if you cash in the bond during the first few years.

The bond includes a small amount of life assurance and, on death, will pay out slightly more than the value of the fund. Some investment bonds offer a guarantee that you won't get back less than your original investment, but this will cost you more in charges.

Range of funds
You can usually choose from a range of funds to invest in, for example, UK and overseas shares, fixed interest securities, property and cash. Investment bonds can also offer a way of investing in funds managed by other companies, but this may lead to higher charges.

Investment risk can never be eliminated, but it is possible to reduce the ups and downs of the stock market by choosing a range of funds to help you avoid putting all your eggs in one basket. Different investment funds behave in different ways and are subject to different risks. Putting your money in a range of different investment funds can help reduce the loss should one or more of them fall.

Tax payments
Depending on your circumstances, the overall amount of tax you pay on investment bonds may be higher than on other investments (such as a unit trust, for instance). But there may be other reasons to prefer an investment bond. Or you may want to set up the investment within a trust as part of your Inheritance Tax planning (but note that you normally lose access to at least some of your money if you do this).

You can normally withdraw up to 5% of the original investment amount each year without any immediate Income Tax liability. The life assurance company can pay regular withdrawals to you automatically. These withdrawals can therefore provide you with regular payments, with Income Tax deferred, for up to 20 years.

INDIVIDUAL SAVINGS ACCOUNTS

Tax-efficient investment wrapper holding a range of investments

Individual Savings Accounts (ISAs) have been around since 1999 and are tax-efficient investment wrappers in which you can hold a range of investments, including bonds, equities, property shares, multi-asset funds and even cash, giving you control over where your money is invested.

ISAs are a highly tax-efficient way to save or invest your money because you don't pay Income Tax on your interest or Capital Gains Tax on any profits.

Tax year 2016/17 ISA allowance
Between 6 April 2016 and 5 April 2017, you have an ISA allowance of £15,240. The rules now mean you can split the ISA allowance as you wish between a Stocks & Shares ISA and a Cash ISA.

You don't have to declare any investments held in ISAs on your tax return. This may not seem like much, but if you have to file an annual tax return, you'll know that any way of simplifying your financial administration can be very helpful.

ISAs are becoming an important part of financial planning, and they offer a unique range of benefits. These include:

- No income is tax payable on interest payments – which are made by bond funds
- No higher rate tax is payable on dividends, which are paid by equity funds (you can't claim back the 10% dividend tax paid by the fund in an ISA)
- You can access your money whenever you need to but it cannot be returned (if you withdraw your ISA, you will automatically lose all of its associated tax benefits – unless you need to liquidate your cash, you should transfer it between providers to retain its tax-efficient status)
- Income from an ISA doesn't affect your personal allowance or age-related allowance
- No Capital Gains Tax is payable on any growth you may achieve, so you could use withdrawals to increase your income when necessary (any losses

	Cash ISA	Stocks & Shares ISA
How much can I save or invest each year?	£15,240 less any amount held in a Stocks & Shares ISA.	£15,240 less any amount held in a Cash ISA.
Who can apply for one?	UK residents aged 16 and over.	UK residents aged 18 and over.
Is there risk involved?	The value of your initial investment cannot decrease. However, the current low rates of interest could mean that the return on your money does not outpace inflation.	While the long-term potential returns are greater, the value of your investment can go down as well as up, and you could get back less than you have paid in.
Can I switch between ISAs?	You can transfer funds between Cash ISAs or from a Cash ISA into a Stocks & Shares ISA.	You can transfer funds between Investment ISAs or from an Investment ISA into a Cash ISA.

made in the ISA cannot be used to offset gains made elsewhere)

It is important to remember that an ISA is just a way of sheltering your money from tax – it's not an investment in its own right.

Transferring your investment between providers

If you want to change your existing ISA provider or are looking to consolidate your investments under one roof, with an ISA you can transfer your investment between providers to suit your individual needs. However, your current provider may apply a charge when you transfer your investment. While your investment is being transferred, it will be out of the market for a short period of time and will not lose or gain in value.

Control over your retirement income

ISAs can give you control over your retirement income, as you can take as much money out as you require, whenever you want. Savings in an ISA and withdrawals from an ISA are tax-efficient, but, if you withdraw money and put it back later, it will count towards your ISA annual subscription limit in the year that you re-invested your money.

Junior ISAs – a straightforward way to save for a child's future

Junior ISAs offer investors a straightforward way to save for a child's future and offer similar tax advantages to 'adult' ISAs, but with a lock-in – making the child's investment inaccessible until they turn 18. Like an ISA, Junior ISAs can invest in bonds, equities, cash, property and even multi-asset funds, giving you even more flexibility over the future of your child's long-term savings.

Since April 2015, it is possible for existing Child Trust Funds (CTFs) to be transferred into Junior ISA accounts. You can invest up to £4,080 in the current tax year and switch from a Cash Junior ISA to a Stocks & Shares Junior ISA and back again.

As long as investments are held within the offshore bond wrapper, you don't pay any Income Tax or Capital Gains Tax (CGT) on them, and you can switch between different funds tax-free.

OFFSHORE BONDS

Utilising tax deferral benefits to minimise tax liabilities

Finding the right offshore investments can be a key factor in making the most of your wealth, and it's not only for the wealthiest of investors. With a few well-advised decisions, you could broaden your investment portfolio.

If appropriate, offshore bonds may provide an opportunity for your assets to grow in a tax-free environment. They also allow you to choose when any tax liability becomes payable. There are a number of other tax benefits with offshore bonds, especially if you have spent time living abroad. But they are complex structures that require professional financial advice.

International finance centres
While many investors will be aware that investing in an Individual Savings Account (ISA) or pension can help reduce their tax bill, you may be less familiar with offshore bonds. Like pensions and ISAs, offshore bonds are effectively 'wrappers' into which you place your investments, for example, funds or cash. They are offered by life insurance companies which operate from international finance centres.

The main tax benefit of investing in an offshore bond is gross roll-up. This means that any underlying investment gains are not subject to tax at source – apart from an element of withholding tax. With an onshore bond, life fund tax is payable on income or gains made by the underlying investment. This means your offshore investment has the potential to grow faster than one in a taxed fund.

Tax deferral
As long as investments are held within the offshore bond wrapper, you don't pay any Income Tax or Capital Gains Tax (CGT) on them, and you can switch between different funds tax-free. While you do have to pay tax on any gains when you withdraw assets, there are a number of ways you can potentially reduce the amount you pay.

You can withdraw up to 5% of your initial investment every year for 20 years, and defer paying tax until a later date. If you are a higher-rate taxpayer now but expect to become a basic-rate taxpayer when you retire, you can defer cashing in your assets until retirement and possibly pay half the tax due on any gain realised.

New owner's tax rate
You can assign (transfer ownership) an offshore bond – or parts of it – as a gift without the recipient incurring any Income Tax or CGT, although this may cause an Inheritance Tax (IHT) liability if you were to die within seven years. All future tax on withdrawals will be charged at the new owner's tax rate, if any. This can be a tax-efficient way to help fund your children's university fees, for example, since your children are likely to be low or non-earners as students. Putting an offshore bond in a trust could help your family reduce or avoid IHT, provided you live for seven years after setting it up.

Understand each jurisdiction
Investor compensation schemes tend not to be as developed as in the UK, so you should always obtain professional advice to ensure that you fully understand each jurisdiction. It is also important to ensure that you are investing in an offshore investment that is appropriate for the level of risk you wish to take.

If you are an expatriate, you should make sure that you are aware of all the investment opportunities available to you and that you are minimising your tax liability. Investing money offshore is a very complex area of financial planning, and you should always obtain professional advice. Currency movements can also affect the value of an offshore investment.

INVESTING FOR INCOME

Safeguarding your money at a time of low interest rates

How do you generate a reliable income when interest rates are stuck at all-time lows and the Bank of England's quantitative easing policy of 'printing' money is squeezing yields on government bonds (gilts) and other investments? Investors today can still rely on a well-balanced portfolio to meet their needs for income. However, they must be open-minded about the sources of that income and recognise that low-risk income generation is a thing of the past.
If you are an income seeker, much will come down to your attitude to risk for return. If you want no or very low risk, you may wish to consider a traditional cash bank account and accept that income levels are likely to remain low for the foreseeable future. However, if you're further up the risk scale, you may wish to opt for some of these other alternatives.

Gilts
If you're willing to take on a slightly higher degree of risk and you need the extra income, you may wish to consider gilts (or gilt-edged stocks), which are bonds issued by the Government that pay a fixed rate of interest twice a year. Gilts involve more risk than cash, because there's a chance the Government won't be able to pay you back. It's highly unusual for a government to default on a debt or default on the interest payments, so they have been considered safe. But, in this current economic climate, this risk increases.

You are not guaranteed to get all your capital back under all circumstances. Not all gilts are bought from the Government and held to maturity; some are bought and sold along the way, so there's a chance for their value, and the value of gilt funds, to rise and fall. There are other types, such as index-linked gilts, which form the largest part of the gilt portfolio after conventional gilts. Here the coupon is related to movements in the Retail Prices Index (RPI) and is linked to inflation.

Corporate bonds
Next along the risk scale, if you are looking for a higher yield, are corporate bonds. These are issued by companies and have features that are exactly the same as gilts except that, instead of lending money to the Government, you're lending to a company. The risk lies in the fact that companies may go bust and the debt may not be repaid. They have a nominal value (usually £100), which is the amount that will be returned to the investor on a stated future date (the redemption date). They also pay a stated interest rate each year, usually fixed. The value of the bonds themselves can rise and fall; however, the fact that bonds are riskier at the moment means companies are paying more in order to induce people to buy their debt. There are an increasing number of global bond funds entering the market that may enable you to get value from a lot of different markets.

Equity income
If your primary objective is the preservation of income, you may not consider the stock market as the obvious place for your money. However, for investors who are prepared to see their investments fluctuate in value while hopefully providing a stable income that grows over time, you may wish to consider equity income funds. These invest in shares, focusing on the big blue-chip firms that have a track record of good dividend payments. The dividends will be your income.

Global equity income funds
Further up the risk scale are global equity income funds. These are similar to UK funds, except that there are only a handful of the big blue-chip firms that pay reliable dividends in the UK, whereas global diversification offers a significant range of companies to choose from. Investing in other currencies brings an added level of risk, unless the fund hedges the currency.

Equity income investment trusts
Equity income investment trusts are higher risk but similar to other equity income investments. They are structured differently from unit trusts and open-ended investment companies. Investment trusts are closed ended. They are structured as companies with a limited number of shares. The share price of the fund moves up and down depending on the level of demand, so the price of the trust depends not only on the value of the underlying investments but also on the popularity of the trust itself. In difficult times, when investors are selling up, trusts are likely to see their share price fall more than the value of their underlying investments. This means they also have more potential for greater returns once better times resume. Investment trust share prices are therefore often at a 'discount' or 'premium' to the value of the assets in the fund.

SOCIALLY RESPONSIBLE INVESTING

Not sacrificing your life principles in exchange for chasing the best financial returns

For investors concerned about global warming and other environmental issues, there are a plethora of ethical investments that cover a multitude of different strategies. The terms 'ethical investment' and 'socially responsible investment' (SRI) are often used interchangeably to mean an approach to selecting investments whereby the usual investment criteria are overlaid with an additional set of ethical or socially responsible criteria.

Ethical criteria
The Ethical Investment Research Service (EIRIS) defines an ethical fund as 'any fund which decides that shares are acceptable, or not, according to positive or negative ethical criteria (including environmental criteria)'.

Funds that use negative screening, known as 'dark green funds', exclude companies that are involved in activities that the fund manager regards as unethical. Each fund group has a slightly different definition of what is unethical, but this typically includes gambling, tobacco, alcohol and arms manufacturing. It could also cover pollution of the environment, bank lending to corrupt regimes and testing of products on animals.

Positive screening funds
Positive screening funds use positive criteria to select suitable companies. Funds that take this approach look for companies that are doing positive good, such as those engaged in recycling, alternative energy sources or water purification. So an ethical fund of this type might buy shares in a maker of wind turbines or solar panels.

Engagement funds
Engagement funds take a stake in companies and then use that stake as a lever to press for changes in the way that the company operates. This could mean persuading oil and mining companies to take greater care over the environmental impact of their operations or pressing companies to offer better treatment of their workers.

In addition, this process may involve making judgements regarding the extent to which such investments are perceived to be acceptable and about the potential for improving through engagement the ethical performance of the party offering the investment.

Best financial returns
Ethical investors will believe that they should not (or need not) sacrifice their life principles in exchange for chasing the best financial returns, with some arguing that in the long term ethical and SRI funds have good prospects for outperforming the general investment sectors.

Since ethical investment by definition reduces the number of shares, securities or funds in which you can invest, it tends to increase the volatility of the portfolio and therefore the risk profile. This can be mitigated by diversifying between funds, and between different styles of funds and fund managers. Like their non-ethical equivalents, some ethical funds are much higher risk than others.

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IS IT TIME TO PLAN AND CREATE A PERSONALISED INVESTMENT STRATEGY TO ACHEIVE YOUR GOALS?

Planning your investments with a professional financial adviser, rather than taking an ad hoc approach, will enable you to reach your investment objectives in a more strategic way. The world of investing can be a little intimidating. We can help you plan and create a personalised investment strategy that will help you achieve your goals.

To discuss your situation, please contact us for further information.

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