Kymin
Financial Planners

GUIDE TO

MANAGING AND MAXIMISING YOUR WEALTH

Create a secure financial future for yourself and your family

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Your home may be repossessed if you do not keep up repayments on your mortgage. The value of investments (including property) and the income derived from them may go down as well as up.

WELCOME

There's never been a better time to take control of your financial future than today. Building wealth for the future is important, but increasingly people want their finances to do more than make money. Many investors today want to quantify the impact their holdings have on society and the environment.

Good financial and lifestyle planning, along with open and regular discussion with the important people in your life, should help ensure you're able to make the most of your money, meet your current needs and long-term goals, and negotiate any unexpected future life events.

Although everyone's circumstances are different and there is no one-size-fits-all approach to financial wellbeing, by understanding what you want to achieve, how much investment risk you are comfortable with, your relationships, lifestyle and all the other personal factors that make each of us different, we will create an investment strategy that is individual to you.

When growing your wealth, it's essential to look at the big picture. Your wealth should work in all the ways you want it to. This means looking at what your wealth is now and what it might be. Our approach is to work with you to create a strategy for your investments that match your needs, and we'll do whatever it takes to keep your investment portfolio running smoothly.

No matter where you are in your life or where your finances are at, we are here to help you understand the options available to allow you to make more informed financial decisions to create a more secure future for yourself, your family and your world. ●

Individual solutions.
Ready to find out more?
Whether you are looking to grow your capital, generate an income or preserve your wealth, we'll put your money to work for you in tailored portfolios designed to give you confidence in achieving the future you want. To discuss your requirements, or to find out more about our services, please contact us – we look forward to hearing from you.

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THE IMPORTANCE OF SETTING CLEAR INVESTMENT GOALS

Creating a realistic plan for achieving your objectives within a certain time frame

No matter where you are in life, you probably have financial goals you want to achieve. Planning your investment goals is essential if you're going to have a real chance of achieving them.

To begin setting your own goals, it's good to gain an understanding of the things you need to afford now and would like to afford in the future. You will need to consider factors such as your income, age and future outlook, all of which will influence your motivations for investing.

When investing for your financial future, you are essentially allocating your money to an asset that is created with the intention of allowing your money to grow over time. The wealth you create can be used for a variety of objectives such as meeting shortages in income, saving up for retirement, or fulfilling certain specific obligations such as repayment of loans, payment of tuition fees or purchase of other assets.

While the gains from investing can be greater than from saving, the value of investments can go down as well as up. 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.

1. GOALS

Be clear about what you're investing for. Investing is generally most appropriate for medium and long-term goals (at least five years). If you want access to your money before that, you might want to think about saving instead.

2. PAYMENTS

Before you start investing, first make sure that you can afford your essential living costs, as well as any debts. It's also a good idea to make sure you have some savings to cover emergencies.

3. INVESTMENT RISK

Have a think about how much risk you feel comfortable taking with your money. You should also consider your other financial commitments when deciding how much risk to take. If you don't want to or can't take any risk with your money, then investing may not be for you right now.

4. TIMESCALE

The longer your money is invested, the more opportunity it has to grow in value and reach your goal. Each year, not only will the

money you invest potentially grow in value, you'll also potentially get growth on any previous growth. This is commonly known as 'compounding', and over longer time periods it can make a significant difference to the value of your investments.

5. WHAT YOU'LL GET BACK

The final value of your investments will depend on three main factors: how much you pay in, how your investments perform, and how long you're invested for. Generally speaking, the more you pay in, the better your investments perform. And the longer you can keep your money invested, the more you're likely to get back at the end.

6. MIX IT UP

Putting all your money in one type of investment can be a risky strategy. You can help reduce that risk by spreading your money across a mix of investment types and countries. Different investments are affected by different factors: economics, interest rates, politics, conflicts, even weather events. What's positive for one investment can be negative for another, meaning when one rises, another may fall.

7. BE TAX-EFFICIENT

You can do this by putting your money into your pension or using up your Individual Savings Account (ISA) allowance.

8. REVIEW, REVIEW, REVIEW

Make time to regularly review your investments to check they're on track to meet your goals.

DEFINE YOUR INVESTMENT GOALS

Everybody has investment goals in their life, from the old adage of saving for a rainy day to planning a comfortable retirement. It's worth taking the time to really plan out how you'll invest and what you want to get out of it.

Knowing what your goals are, how much you'll need and the level of risk you're happy to accept in order to get there will help you build your investment plan and stick to it. ●

> **“BE CLEAR ABOUT WHAT YOU'RE INVESTING FOR. INVESTING IS GENERALLY MOST APPROPRIATE FOR MEDIUM AND LONG-TERM GOALS (AT LEAST FIVE YEARS). IF YOU WANT ACCESS TO YOUR MONEY BEFORE THAT, YOU MIGHT WANT TO THINK ABOUT SAVING INSTEAD.”**

WHY CASH ISN'T KING WHEN INFLATION REIGNS

Is now the time to look for long-term alternatives?

The relentless effect of inflation over time can be detrimental for those keeping large sums in cash and attracting interest at a low or even zero rate. The combination of rising inflation and low interest rates make holding cash unappealing. Many people underestimate the damaging effect of low interest and high inflation on their cash savings.

A continued period of low interest rates on cash savings and rising inflation could pose a real risk to savers in 2022, even if the Bank of England (BoE) moves to increase interest rates further in the coming months.

Savers with large amounts of money sitting in cash should not to be lulled into a false sense of security if interest rates creep up, because of the threat of higher inflation throughout 2022. The damaging effects of high and rising inflation will likely more than wipe out any uplift a higher interest rate will give to the value of cash savings. Currently 8.6 million consumers hold over £10k of investable assets in cash[1].

INTEREST 'BASE RATE' INCREASE

Inflation is expected to average over 4% this year, peaking at close to 5% in the spring[2]. The BoE may look to dampen the effects of soaring prices by further increasing the interest 'base rate'. While this may offer some relief if passed on to savers, the average easy access savings account is currently sitting at just 0.19%[3] and any upward change is expected to be small.

As the economy continues to recover from the COVID-19 pandemic last year, we are experiencing a sharp rise in the cost of living. During a period of high inflation, people will notice a dramatic decrease in their purchasing power over time, particularly if their wages don't keep pace or if they have savings in cash.

DAMAGING HIGH INFLATION

The threat of inflation this year and beyond could far outweigh any small changes in interest rates for those with large amounts of money in cash savings. Following many years of low inflation, people may have forgotten how damaging high inflation can be. But in the coming months and years savers should think carefully about where they put any additional cash that is not needed in the short term.

For money beyond your emergency fund, you may want to consider investing, which offers the potential for inflation-beating returns. If appropriate to your particular situation, you should be prepared to take some risk to preserve the value of your money if inflation continues to eat away at the value of your cash in savings accounts. We are best placed to recommend the best investment option based on your attitude to risk. ●

Source data:
[1] https://www.fca.org.uk/publications/corporate-documents/consumer-investments-strategy
[2] https://obr.uk/overview-of-the-october-2021-economic-and-fiscal-outlook/
[3] https://moneyfacts.co.uk/news/savings/savings-rates-continue-to-rise/

RETHINKING RISK

Investment goals and timescales that influence your choices

Whether you're investing with a goal in mind, or simply saving for retirement, it's important to understand risk. Specifically, you should understand your own attitude to risk. If you understand the risks associated with investing and you know how much risk you are comfortable taking, you can make informed decisions and improve your chances of achieving your goals.

Risk is the possibility of losing some or all of your original investment. Often, higher-risk investments offer the chance of greater returns, but there's also more chance of losing money. Risk means different things to different people.

How you feel about it depends on your individual circumstances and even your personality. Your investment goals and timescales will also influence how much risk you're willing to take. What you come out with is your 'risk profile'.

You can invest directly in investments, like shares, but a more popular way to invest in them is indirectly through an investment fund. This is where your money is pooled with other investors and spread across a variety of different investments, helping to reduce risk.

DIFFERENT TYPES OF INVESTMENT

None of us likes to take risks with our savings, but the reality is 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.

As a general rule, the more risk you're prepared to take, the greater returns or losses you could stand to make. Risk varies among the different types of investments. There are many different ways to access investment funds, such as through Individual Savings Accounts (ISAs) and workplace pensions.

LOSING VALUE IN REAL TERMS

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.

INFLATION AND INTEREST RATES OVER TIME

Stock market investments might beat inflation and interest rates over time, but you run the risk that prices might 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.

You can't escape risk completely, but you can manage it by investing for the long term in a range of different things, which is called 'diversification'. You can also look at paying money into your investments regularly, rather than all in one go. This can help smooth out the highs and lows and cut the risk of making big losses.

WHEN YOU INVEST, YOU'RE EXPOSED TO DIFFERENT TYPES OF RISK

CAPITAL RISK

Your investments can go down in value, and you may not get back what you invested. Investing in the stock market is normally through shares (equities), either directly or via a fund. The stock market will fluctuate in value every day, sometimes by large amounts. You could lose some or all of your money depending on the company or companies you have bought. Other assets such as property and bonds can also fall in value.

INFLATION RISK

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

CREDIT RISK

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

LIQUIDITY RISK

You are unable to access your money when you want to. Liquidity can be a real risk if you hold assets such as property directly, and also in the 'bond' market, where the pool of people who want to buy and sell bonds can 'dry up'.

CURRENCY RISK

You lose money due to fluctuating exchange rates.

INTEREST RATE RISK

Changes to interest rates affect your returns on savings and investments. Even with a fixed rate, the interest rates in the market may fall below or rise above the fixed rate, affecting your returns relative to rates available elsewhere. Interest rate risk is a particular risk for bondholders. ●

DIVERSIFIED PORTFOLIO

Essential to any long-term investment strategy

Even if you are a sophisticated investor, one of the most important tools available is diversification. Whether the market is bullish (rising) or bearish (falling), maintaining a diversified portfolio is essential to any long-term investment strategy.

Diversification allows an investor to spread risk between different kinds of investments (called 'asset classes') to potentially improve investment returns. This helps reduce the risk of the overall investments (referred to as a 'portfolio') underperforming or losing money.

With some careful investment planning and an understanding of how various asset classes work together, a properly diversified portfolio provides investors with an effective tool for reducing risk and volatility without necessarily giving up returns.

INVESTMENT DECISION PROCESS

Understanding investment risk and determining what level of risk you feel comfortable with before you invest is an important part of the investment decision process. Your potential returns available from different kinds of investment, and the risks involved, change over time as a result of economic, political and regulatory developments, as well as a host of other factors.

Your overall asset allocation needs to reflect: your future capital or income needs; the timescales before those capital sums are required or the level of income sought; and the amount of risk you can tolerate.

Investing is all about risk and return. Not only does asset allocation naturally spread risk, but it can also help you to boost your returns while maintaining, or even lowering, the level of risk of your portfolio. Most rational investors would prefer to maximise their returns, but every investor has their own individual attitude towards risk.

INVESTMENT CHARACTERISTICS

Determining what portion of your portfolio should be invested into each asset class is called 'asset allocation' and is the process of dividing your investment(s) between different assets. Portfolios can incorporate a wide range of different assets, all of which have their own characteristics, like cash, bonds, equities (shares in companies) and property.

The idea behind allocating your money among different assets is to spread risk through diversification, and to understand these characteristics and their implications on how a portfolio will perform in different conditions – the idea of not putting all your eggs in one basket.

LOOKING INTO THE FUTURE

Investments can go down as well as up, and these ups and downs can depend on the assets you're invested in and how the markets are performing. It's a natural part of investing. If we could look into the future, there would be no need to diversify our investments. We could merely choose a date when we needed our money back, then select the investment that would provide the highest return to that date.

ASSET CLASSES

When putting together a portfolio, there are a number of asset classes, or types of investments, that can be combined in different ways. The starting point is cash – and the aim of employing the other asset classes is to achieve a better return than could be achieved by leaving all of the investment on deposit.

CASH

The most common types of cash investments are bank and building society savings accounts and money market funds (investment vehicles which invest in securities, such as short-term bonds, to enable institutions and larger personal investors to invest cash for the short term).

Money held in the bank is arguably more secure than any of the other asset classes, but it is also likely to provide the poorest return over the long term. Indeed, with inflation currently above the level of interest provided by many accounts, the real value of cash held on deposit is falling.

Your money could be eroded by the effects of inflation and tax. For example, if your account pays 5% but inflation is running at 2%, you are only making 3% in real terms. If your savings are taxed, that return will be reduced even further.

FIXED INTEREST SECURITIES

Fixed Interest Securities (also called 'bonds') are effectively IOUs issued by governments or companies. In return for your initial investment, the issuer pays a pre-agreed regular return (the 'coupon') for a fixed

term, at the end of which it agrees to return your initial investment. Depending on the financial strength of the issuer, bonds can be very low or relatively high risk, and the level of interest paid varies accordingly, with higher-risk issuers needing to offer more attractive coupons to attract investment.

As long as the issuer is still solvent at the time the bond matures, investors get back the initial value of the bond. However, during the life of the bond, its price will fluctuate to take account of a number of factors, including:

- **Interest rates** – as cash is an alternative lower-risk investment, the value of government bonds is particularly affected by changes in interest rates. Rising base rates will tend to lead to lower government bond prices, and vice versa.
- **Inflation expectations** – the coupons paid by the majority of bonds do not change over time. Therefore, high inflation reduces the real value of future coupon payments, making bonds less attractive and driving their prices lower.
- **Credit quality** – the ability of the issuer to pay regular coupons and redeem the bonds at maturity is a key consideration for bond investors. Higher-risk bonds such as corporate bonds are susceptible to changes in the perceived credit worthiness of the issuer.

SHARES

Shares, or equities in companies, are regarded as riskier investments than bonds, but they also tend to produce superior returns over the long term. They are riskier because, in the event of a company getting into financial difficulty, bond holders rank ahead of equity holders when the remaining cash is distributed.

However, their superior long-term returns come from the fact that, unlike a bond (which matures at the same price at which it was issued), share prices can rise dramatically as a company grows.

Returns from shares are made up of changes in the share price and, in some cases, dividends paid by the company to its investors. Share prices fluctuate constantly as a result of factors such as:

- **Company profits** – by buying shares, you are effectively investing in the future profitability of a company, so the operating outlook for the business is of paramount importance. Higher profits are likely to lead to a higher share price and/or increased dividends, whereas sustained losses could place the dividend or even the long-term viability of the business in jeopardy
- **Economic background** – companies perform best in an environment of healthy economic growth, modest inflation and low interest rates. A poor outlook for growth could suggest waning demand for the company's products or services. High inflation could impact companies in the form of increased input prices, although in some cases companies may be able to pass this on to consumers. Rising interest rates could put strain on companies that have borrowed heavily to grow the business
- **Investor sentiment** – as higher-risk assets, equities are susceptible to changes in investor sentiment. Deterioration in risk appetite normally sees share prices fall,

while a turn to positive sentiment can see equity markets rise sharply

PROPERTY

In investment terms, property normally means commercial real estate – offices, warehouses, retail units and the like. Unlike the assets we have mentioned so far, properties are unique – only one fund can own a particular office building or shop.

The performance of these assets can sometimes be dominated by changes in capital values. These unusually dramatic moves in capital value illustrate another of property's key characteristics, namely its relative illiquidity compared to equities or bonds. Buying equities or bonds is normally a relatively quick and inexpensive process, but property investing involves considerable valuation and legal involvement.

The more normal state of affairs is for rental income to be the main driver of commercial property returns. Owners of property can enhance the income potential and capital value of their assets by undertaking refurbishment work or other improvements. Indeed, without such work, property can quickly become uncompetitive and run down. When managed properly, the relatively stable nature of property's income return is key to its appeal for investors.

> **"DIVERSIFICATION HELPS TO ADDRESS UNCERTAINTY BY COMBINING A NUMBER OF DIFFERENT INVESTMENTS. IN ORDER TO MAXIMISE THE PERFORMANCE POTENTIAL OF A DIVERSIFIED PORTFOLIO, MANAGERS ACTIVELY CHANGE THE MIX OF ASSETS THEY HOLD TO REFLECT THE PREVAILING MARKET CONDITIONS."**

DIVERSIFICATION

Diversification helps to address uncertainty by combining a number of different investments. In order to maximise the performance potential of a diversified portfolio, managers actively change the mix of assets they hold to reflect the prevailing market conditions. These changes can be made at a number of levels, including the overall asset mix, the target markets within each asset class, and the risk profile of underlying funds within markets.

As a rule, an environment of positive or recovering economic growth and healthy risk appetite would be likely to prompt an increased weighting in equities and a lower exposure to bonds. Within these baskets of assets, the manager might also move into more aggressive portfolios when markets are doing well, and more cautious ones when conditions are more difficult. Geographical factors such as local economic growth, interest rates and the political background will also affect the weighting between markets within equities and bonds.

In the underlying portfolios, managers will normally adopt a more defensive positioning when risk appetite is low. For example, in equities, they might have higher weightings in large companies operating in parts of the market that are less reliant on robust economic growth. Conversely, when risk appetite is abundant, underlying portfolios will tend to raise their exposure to more economically sensitive parts of the market and to smaller companies. ●

TIME IN THE MARKET, NOT MARKET TIMING

Volatility is less frightening if you take a longer-term view

Although past performance is no indicator of future performance, market corrections can be healthy and result in even stronger growth in the future. This is why holding a diversified portfolio for the long term makes good investing sense. It's time invested in the market, and not the timing of the market, that dictates long-term returns.

MISSING OUT ON OPPORTUNITIES

The relentless and continual rise in value over the very long term is typically punctuated by falls. It's important not to let global uncertainties affect your investment strategy for the years ahead. Individuals who stop investing, particularly during market downturns, can often miss out on opportunities to invest at lower prices. This is one of the biggest costs of market timing, being out when the market unexpectedly surges upward, potentially missing some of the best-performing moments.

Such volatility is less frightening if you take a longer-term view. It's important to stick to your strategy and keep moving ahead consistently by spreading risk and growing your wealth. It's volatility in stock markets that makes investors nervous. But on the flipside, not all volatility is bad: without volatility, stock prices would never rise.

AVOID BEING BLOWN OFF COURSE

In practice, everyone's investment goals are different. By deciding on your long-term financial priorities – whether it's funding your children's education or saving enough to be able to retire early – you can avoid being blown off course by short-term events.

Trying to second-guess the impact of events – both national and international – rarely pays off. Instead, investors who focus on long-term horizons (at least five to ten years) have historically fared much better.

CONSIDERED AND STRATEGIC APPROACH

Sensible diversification – owning a mix of assets, including shares, bonds and alternative investment such as property – can help protect investors over the long term. When one area of a portfolio underperforms, another part should provide important protection – and it's never too early or too late to start taking this considered and strategic approach.

Volatility, risk and market declines are a normal part of the investing cycle, but the media likes drama. Reports will use words that make these market fluctuations sound alarming, so be cautious about reacting to the unnerving 24/7 news cycle.

REFLECTING RISK TOLERANCES AND TIMELINES

If you have a well-diversified portfolio, then it's more important than ever to stay the course. You have a strategy in place that reflects your risk tolerance and timeline, so stay committed. However, if you reacted and sold in a previous market decline or have not implemented a strategic asset allocation, then now is the time to have a discussion about your investment options.

Be aware of the psychological effect this type of volatility has on you as an investor, and resist the urge to be reactive. The recent decline was expected and is coming after financial markets as a whole have experienced a historic bull phase for close to ten years now. No one knows how severe any market turbulence will be or what the market will do next. It could be over quickly or linger for a while. But no matter what lies ahead, proper diversification and perseverance over the long term are what's most important. ●

MANAGING YOUR MONEY

Investing through a fund

If you feel you do not have the time, knowledge or inclination to manage your own portfolio of investments, you can delegate responsibility for managing your money to a professional fund manager. Funds are collective investments, where your and other investors' money is pooled together and spread across a wide range of underlying investments, helping you spread your overall risk.

You pick the asset class, geography or theme and then the fund managers invest the money for you. One of the major advantages of funds is that they enable you to build a diversified portfolio. In addition, funds enable you to gain access to an array of geographical markets around the world, a variety of specialist asset classes and a range of industry sectors.

INVESTMENT CHOICES

You receive reports on the fund's performance but have no influence on the investment choices short of removing your money from the fund and placing it elsewhere. Spreading risk is one of the main reasons for investing through a fund. Even if you have a small amount to invest, you can have a lot of different types of assets you're investing in – you're 'diversified'.

You can spread risk across asset classes (such as bonds, cash, property and shares), countries and stock market sectors (such as financials, industrials or retailers). Funds will typically focus on either growing or generating an income for you.

> **“ETHICAL INVESTMENTS TEND TO FOCUS ON THINGS LIKE THE ENVIRONMENT, PROJECTS THAT SUPPORT SOCIAL DEVELOPMENT, OR BUSINESSES THAT SUPPORT AN INCLUSIVE WORK CULTURE.”**

FINANCIAL GOALS

Which approach you choose depends on your financial goals and future plans. Ask yourself this: are you in a position to leave your money alone for a while in the hope that it grows as much as possible, or would you rather get some money back regularly? If it's the former, you should look at growth funds; if it's the latter, it might be better to focus on income funds.

Ethical investments tend to focus on things like the environment, projects that

support social development, or businesses that support an inclusive work culture. Funds can also aim to be ethical by excluding so-called 'sin stocks' – such as investments in tobacco and weapons.

TAX-EFFICIENT WRAPPERS

There is also a tax benefit with funds. In the UK, switches between shares within funds are free of capital gains tax (CGT) for the saver. This is not the case if you manage a portfolio of shares unless these are held in tax-efficient wrappers such as Individual Savings Accounts (ISAs).

There are two main structures of funds – open ended and closed ended. The former are split between unit trusts and open-ended investment companies (OEICS), while the latter comprise investment trusts.

OPEN-ENDED FUNDS

You can invest in or redeem cash from open-ended funds at any time. Fund managers create shares or units for new investors and cancel them when they are redeemed. This means that the size of the fund can increase and decrease depending on investor demand – they are open to subscriptions and redemptions. The price an investor pays is based upon the actual value of the underlying assets (called the 'net asset value' or NAV).

CLOSED-ENDED FUNDS

The closed-ended funds, also known as investment trusts, are structured as listed companies and trade like any other equity on the stock market. They are 'closed' in the sense that, once created, they are typically not open to subscriptions and redemptions. They have a limited amount of shares available and any buying and selling has to be carried out in the open market.

This means these funds' prices can differ from the NAV. The price of the fund is determined by investor demand as well as by gains or losses in the underlying assets. The price you can pay for a share, therefore, can either be more or less than what it is actually worth (known as trading at a premium or a discount to NAV). For a fund manager, a closed-ended fund has the benefit of stabilising the amount of money with which they invest and can make this structure a better fit for slower-moving, less liquid asset classes such as property. ●

COLLECTIVE INVESTMENT FUNDS

Portfolio of holdings

Collective investment schemes are a way of combining sums of money from many people into a large fund spread across many investments and managed by a professional fund manager. Your money is invested on a pooled basis by an investment manager in return for a fee.

There are a diverse range of funds that invest in different things, with different strategies – high income, capital growth, income and growth, and so on.

RISK DIVERSIFICATION

Collective or pooled investments allow for risk diversification by providing you with access to different sectors via one or more unit or share purchases. There are hundreds of pooled investment funds available, focusing on different sectors and countries.

Specialist funds are designed to concentrate on a very specific area, sector or type of investment. At the other end of the scale, you can choose a generalist fund with a global mandate that is able to invest in any type of company in any sector.

OTHER HOLDINGS

Obviously, a very general fund will be able to provide a high level of diversification by investing across a number of regions and countries, so that volatility in one area can be balanced out by other holdings.

But even specialist funds provide some diversification. For example, if you wanted to invest in UK smaller companies, it might be impractical (in terms of costs and research time) to invest in more than a few different companies.

RELEVANT SECTORS

A fund manager, on the other hand, can bulk buy shares and spread the investment further. He or she is also likely to have an in-depth knowledge of the sector and sometimes even a team of researchers at their disposal to keep an eye on relevant sectors for new opportunities and potential problems.

In addition, fund managers can gain access to markets and instruments that individual investors don't have the knowledge, capital or perhaps even legal right to invest in, for example, hedge funds, companies listed in emerging markets, private equity situations or complex derivatives.

MARKET INDEX

Most collective funds are actively managed, which means that the fund manager investigates all the potential opportunities available before buying and selling assets to provide a return for the investors.

Alternatively, you can also invest in a tracker fund, which will track a market index such as the FTSE 100. This type of fund is passively managed. It will aim to imitate the movements of a specific index, typically by buying a similar proportion of all the shares in the index to their index weighting. The charges are usually lower than for actively managed funds because you don't have to pay a fund manager to beat the market or generate a steady return. ●

TRACKER FUNDS AND EXCHANGE-TRADED FUNDS

Market index following the overall performance of a selection of investments

Tracker funds and exchange-traded funds (ETFs) are investments that aim to mirror the performance of a market index. A market index follows the overall performance of a selection of investments. The FTSE 100 is an example of a market index – it includes the 100 companies with the largest value on the London Stock Exchange.

INDEX PERFORMANCE

These are financial instruments you buy from a fund company that aim to track the performance of an index. ETFs do the same but are listed on a stock exchange and can be bought and sold like shares. Trackers and ETFs are available to track many indices.

Trackers and ETFs work either by physically buying a basket of investments in the index they're tracking or by using more complicated investments to mimic the movement in the index.

LOWER CHARGES

Investment decisions are made automatically according to the fund's rules. This passive trading makes index trackers cheaper to run than actively managed funds, so many have lower charges.

With index trackers, you own a share of the overall portfolio – if the value of the assets (shares, etc.) in the fund rises, the value of your share will rise. If the value of the assets falls, then so will the value of your share.

ASSET CLASS

Index trackers are a way to spread your risk within an asset class without having to spend a lot of money.

The tracked index can go down as well as up, and you may get back less than you invested. Because of charges, a tracker will usually underperform the index somewhat, and over a long period that underperformance could be more noticeable.

GOOD FIT

Before investing, make sure you understand whether the index tracker is physical or synthetic and whether it is a good fit for your goals and risk appetite. A synthetic tracker is an investment that mimics the behaviour of an ETF through the use of derivatives such as a swap.

Synthetic tracker funds and ETFs rely on a counterparty underwriting the risk, and so carry the risk of counterparty failure (for example, Lehman Brothers in 2008). There are various controls which aim to reduce this risk.

MARKET CONDITIONS

Assessing the risks in synthetic tracker funds and ETFs may be difficult. Many ETFs are not based in the UK. You can sell at any time, but the price you get will depend on market conditions on the day.

ETFs offer minute-to-minute pricing because they trade like a share, so may be more appropriate than tracker funds for investors who trade more frequently. However, it is generally better to hold this type of investment for the longer term – you can ride out ups and downs in value and pick your moment to sell. ●

ACTIVE OR PASSIVE FUND MANAGEMENT

Researching the market to give a good profit

ACTIVE MANAGEMENT

Most collective investment schemes are actively managed. The fund manager is paid to research the market, so they can buy the assets that they think might give a good profit. Depending on the fund's objectives, the fund manager will aim to give you either better-than-average growth for your investment (beat the market) or to get steadier returns than would be achieved simply by tracking the markets.

PASSIVE MANAGEMENT – TRACKER FUNDS

You might prefer to track the market. If the index goes up, so will your fund value, but it will also fall in line with the index. A 'market index tracker' follows the performance of all the shares in a particular market. In the UK, the most commonly used market index is the FTSE 100, a group of the 100 biggest companies based upon share value.

If a fund buys shares in all 100 companies, in the same proportions as their market value, its value will rise or fall in line with the change in the value of the FTSE 100.

Tracker funds don't need to be managed so actively. You still pay some fees, but not as much as with an actively managed fund. Because of the fees, your real returns aren't quite as good as the actual growth of the market – but they should be close. ●

“IF A FUND BUYS SHARES IN ALL 100 COMPANIES, IN THE SAME PROPORTIONS AS THEIR MARKET VALUE, ITS VALUE WILL RISE OR FALL IN LINE WITH THE CHANGE IN THE VALUE OF THE FTSE 100.”

WITH-PROFITS FUNDS

Allocating investor's money into different sectors of the market

Investing in with-profits funds means investing in a combination of shares, bonds, property and money market investments. Growth can come in the form of regular and final bonuses from the profits the fund might make.

The money you invest is pooled together with money from other people and invested in the insurance company's with-profits fund. The fund is managed by a professional investment manager, who puts the fund's money into different types of investment, such as shares, property, bonds and cash.

ANNUAL BONUSES

The costs of running the insurance company's business are deducted from the fund, and what is left over (the profit) is available to be paid to the with-profits investors. You receive your share of profits in the form of annual bonuses added to your policy.

The company usually tries to avoid big changes in the size of the bonuses from one year to the next. It does this by holding back some of the profits from good years to boost the profits in bad years – this process is called 'smoothing'.

TERMINAL BONUS

You might also receive a 'terminal bonus' when your policy matures. You can ask the insurance company to give you details about its bonus policy before you buy. With most policies, the amount of profit you earn depends mainly on the performance of the investments in the with-profits fund. Usually, once added, bonuses can't be taken away.

But the insurance company can claw back some or all of the bonuses paid by making a Market Value Reduction (MVR) – or Market Value Adjustment (MVA) – to your policy if you surrender early. This is most likely in times of adverse investment conditions like a stock market crash.

TYPES OF WITH-PROFITS FUND

CONVENTIONAL WITH-PROFITS FUNDS

An initial sum assured (guaranteed minimum sum) is increased by the addition of annual bonuses and a terminal bonus. The size of bonuses depends on fund performance, the costs of the insurance business, and the need to smooth bonuses between good and poor years.

The trend has been for bonus rates to fall as the result of difficult market conditions. Although market value reductions can be applied, this would not normally be the case. Instead, surrender penalties would usually apply if the policy was terminated early with no reductions applied on maturity.

UNITISED WITH-PROFITS FUNDS

A unitised fund is split into units – when you pay into it, you buy a certain number of units at the current price. Unit prices increase in line with bonuses declared and do not fall. Or if additional units have been added, these are not taken away (but market value reductions can be applied).

There might be surrender penalties if you decide to take your cash early. Bonuses are handled differently depending on the type of unitised with-profit fund you have.

A fixed price unit never changes, so bonuses are paid as extra units to your policy, as opposed to a variable price where bonuses are given as an increase in the unit price, so each unit you hold is worth more.

BONUSES

There are two kinds of bonus:

- Annual bonuses, also called 'regular' or 'revisionary' bonuses
- Final bonus, also called the 'terminal' bonus

POLICY TERMS

Once the bonus has been added, an annual bonus can't be taken away – even if the fund performs poorly in future – as long as you continue to meet the terms of your policy. A final bonus might be added at the end of your policy. Whether you receive one and how big it is depends on how well the fund does.

In good years, the fund manager can choose to keep some of the profits to help cover losses in bad years. This means that if there are long stretches without a profit, you might get low annual and final bonuses – or even no bonuses at all.

MARKET VALUE REDUCTION

The insurance company can make a Market Value Reduction to your policy if you surrender early, or in times of adverse investment conditions like a stock market correction.

If you leave a policy early, this reduction might claw back a large part – or even all – of any bonuses that have previously been added.

INHERITED ESTATE

A fund needs to keep enough money on hand to meet its expenses, run the business and pay what it owes to policyholders.

But over time, some funds build up far more than they need – usually through profits that were held back to cover losses that never happened. This extra value is called the 'inherited estate'. The insurance company can use the extra money in one of two ways – for a distribution or a re-attribution.

DISTRIBUTION – HANDING OUT EXTRA FUNDS

Each year, insurance companies must look at their inherited estate to see if they have more than they need to keep the fund running. If they have too much, they can choose – or in some cases be required – to pay out the extra to policyholders. This is called a 'distribution'.

A distribution can be paid out over time or as a one-off payment. The company can use the extra money to either give you a cash payout or increase the value of your policy Distributions are not guaranteed – you won't necessarily receive a distribution even if you hold the policy to the end.

REATTRIBUTION – USING EXTRA FUNDS TO RESTRUCTURE

In rare cases, an insurance company might use the extra funds from the inherited estate to change the structure of the fund, for example, if a different structure would make the fund cheaper to manage.

If the company does this, you'll get compensation for the part of the inherited estate you're giving up to the insurance company. This is normally a one-off cash payment.

If your with-profits fund goes through reattribution, your insurer must write to you with information on:

- **Reattribution process** – including dates and a summary of who is involved
- **Reattribution proposals** – what the insurance company wants you to give up and what benefits and compensation you'll get in return
- **Policyholder advocate's views** – the policyholder advocate negotiates on your behalf with the company – they will write to you about whether the firm's proposals are in your best interest

INVESTMENT TRUSTS

Different aims and different mixes of investments

An investment trust is a public company that raises money by selling shares to investors, and then pools that money to buy and sell a wide range of shares and assets. Different investment trusts will have different aims and different mixes of investments.

Investment trusts, unlike unit trusts, can borrow money to buy shares (known as 'gearing'). This extra buying potential can produce gains in rising markets but also accentuate losses in falling markets. Investment trusts generally have more freedom to borrow than unit trusts that can be sold to the general public.

BUYING SHARES

Unlike with a unit trust, if an investor wants to sell their shares in an investment trust they must find someone else to buy their shares – usually this is done by selling on the stock market. The investment trust manager is not obliged to buy back shares before the trust's winding-up date.

The price of shares in an investment trust can be lower or higher than the value of the assets attributable to each share – this is known as 'trading at a discount' or at a 'premium'.

CONVENTIONAL INVESTMENT TRUSTS

Investment trusts are constituted as public limited companies and issue a fixed number of shares. Because of this, they are referred to as closed-ended funds.

The trust's shares are traded on the stock exchange like any public company. The price of an investment trust's shares depends on the value of its underlying assets and the demand for its shares.

Investment trusts are allowed to borrow money to buy shares (a practice known as 'gearing'). Different investment trusts will do this at varying levels. It's worth checking before you invest, because the level of gearing can affect the return on your investment and how risky it is.

SPLIT CAPITAL INVESTMENT TRUSTS

These run for a specified time, usually five to ten years, although you are not tied in. This type of investment trust issues different types of shares. When they reach the end of their term, payouts are made in order of share type.

You can choose a share type to suit you. Typically, the further along the order of payment the share is the greater the risk, but the higher the potential return. You also need to bear in mind the price of shares in an investment trust can go up or down, so you could get back less than you invested.

ASSET TYPE

The level of risk and return will depend on the investment trust you choose. It's important to know what type of assets the trust will invest in, as some are riskier than others.

In addition, look at the difference between the investment trust's share price and the value of its assets as this gap may affect your return. If a discount widens, this can depress returns.

BORROWING MONEY

You need to find out if the investment trust borrows money to buy shares. If so, returns might be better but your losses greater. With a split capital investment trust, the risk and return will depend on the type of shares you buy.

Many unit trusts can be held in an Individual Savings Account (ISA). In this case, your income and capital gains will be tax-efficient. Any profit you make from selling shares outside an ISA may be subject to Capital Gains Tax.. ●

INDIVIDUAL SAVINGS ACCOUNTS

Minimise the amount of tax you pay on your hard-earned money

From July 2014, Individual Savings Accounts (ISAs) can now be used to hold stocks and shares or cash, or any combination of these, up to the current annual limit. An ISA is a 'wrapper' that can be used to help save you tax.

ISAs enable you to minimise the amount of tax you pay on your hard-earned money. Some ISAs give you instant access to your money and can be used to plan your finances for the short term. On the other hand, if you have longer-term savings goals, you can invest in an ISA for your future.

In the current 2021/22 tax year, you can put £20,000 into your tax-efficient ISA before the end of the financial year on 5 April. The current tax year started on 6 April 2021 and ends on 5 April 2022.

ISA OPTIONS

CASH ISA

If you are a UK resident over the age of 18 (age 16 for a Cash ISA only), you can open one of each type of ISA in a tax year, providing you don't exceed the annual allowance. Cash ISAs are suitable for your short-term savings goals as they don't invest in the stock market but with current low interest rates, your savings won't grow much, and you might not be keeping up with inflation. You might consider a Cash ISA as your 'emergency' pot of money for any unexpected expenses or a last-minute holiday.

STOCKS & SHARES ISA

This is a tax-efficient investment that allows you to invest your money in shares, government bonds (gilts) and property with peace of mind that you won't pay any Capital Gains Tax or Income Tax on the proceeds. This type of ISA is more suitable for your longer-term goals as it has the potential to out-perform Cash ISAs over the medium to long term, but with varying levels of risk.

The three main factors to consider when choosing between a Cash ISA and a Stocks & Shares ISA are the length of time you'll be saving or investing, your appetite for investment risk and the impact of inflation over time.

INNOVATIVE FINANCE ISA

This is a type of investment account that allows you to lend your money through peer-to-peer lending platforms to receive tax-efficient interest and capital gains. You could be lending money to serve personal loans, small

> **IN THE CURRENT 2021/2022 TAX YEAR YOU CAN PUT £20,000 INTO YOUR TAX-EFFICIENT ISA BEFORE THE END OF THE FINANCIAL YEAR ON APRIL 5. THE CURRENT TAX YEAR STARTED ON 6 APRIL 2021 AND ENDS ON 5 APRIL 2022.**

business loans or property loans, or a combination of these.

Interest rates can often be much more attractive than Cash ISA rates, but peer-to-peer lending is a higher-risk form of investing and your capital is entirely at risk as there is no protection from the Financial Services Compensation Scheme (FSCS).

LIFETIME ISA

If you are aged 18 to 39, and are looking to save for your first home or for later life, you could consider a Lifetime ISA. You can hold cash in a Lifetime ISA or choose to invest it just as you would with a Stocks & Shares ISA. You can put in up to £4,000 each year up to and including the day before your 50th birthday but remember that this £4,000 allowance contributes to your full annual ISA allowance.

The government will pay a 25% bonus on your contributions (£1 for every £4 you put in), up to a maximum of £1,000 a year but you must be aware that a charge of 25% will be applied to any withdrawal if it is for any reason other than buying your first home, at age 60 or if you are terminally ill.

JUNIOR ISA

A Cash or Stocks & Shares ISA account, or both, can be opened for a child subject to the annual allowance, which is £9,000 for the 2021/22 tax year.

The account must be opened by the child's parent or guardian but anyone can contribute once the account has been opened. Savings in a Junior ISA account cannot be withdrawn until the child reaches age 18. ●

INVESTMENT BONDS

Investing a lump sum in a variety of available funds

Investment bonds are life insurance policies where you invest a lump sum in a variety of available funds. Some investment bonds run for a fixed term, while others have no set investment term. When you cash investment bonds in, how much you get back depends on how well – or how badly – the investment has done.

When you invest a lump sum, the minimum is usually between £5,000 and £10,000. Most investment bonds are whole of life. There is usually no minimum term, although surrender penalties may apply in the early years.

TERMS AND CONDITIONS

Usually, you have a choice of funds to invest the money into. At surrender or on death (or, if not a whole of life bond, at the end of the term), a lump sum will be paid out. The amount depends on the bond's terms and conditions and may depend on investment performance.

Some investment bonds may guarantee your capital or your returns. These guarantees usually involve a counterparty. If so, they carry the risk of counterparty failure. You have a choice of two types of funds: with-profits or unit-linked. Both have the same tax rules, where tax is paid on both growth and income accrued in the fund by the insurer.

VARIETY OF INVESTMENT FUNDS

Some investments offer a guarantee that you won't get back less than you originally invested. By choosing a bond that allows you to invest in a variety of investment funds and switch funds easily, you may weather the ups and downs of the market better. Because there's an element of life assurance, your investment bond policy may pay out slightly more than the value of the fund if you die during its term.

All gains and income earned within an investment bond are taxed at 20% and paid directly out of the investment bond. Withdrawals of up to 5% a year are allowed for up to 20 years without incurring an additional tax charge. If you don't use your 5% allowance in a given year, the allowance is carried over to the following year – for example, if you make no withdrawals in year one, you could draw up to 10% the following year without incurring a tax liability.

MINIMISE AN INCOME TAX BILL

So if you're a higher rate or additional rate taxpayer, paying 40% or 45% tax on income in the current tax year, an investment bond can minimise your Income Tax bill. However, your tax bill does not disappear entirely. Instead, the tax is deferred, and any additional tax due will be payable at the time you cash in the bond, or when it matures.

All capital gains are treated as income at this point. Although tax at 20% has already been deducted, you may have an additional Income Tax bill if your gains push your income over the higher or additional rate tax threshold in the year they mature.

You may be able to avoid this by using a method known as 'top slicing'. Top slicing works by dividing your profit over the lifetime of your bond (including withdrawals) by the number of years the bond has been held. If the resulting figure, when added to your other income for the tax year, is below the higher rate tax threshold, there is no extra tax to pay. However, if the top-sliced profits still push you over the higher rate tax threshold for the year, then additional tax must be paid on the entire gain. ●

DIFFERENT INVESTMENTS OPTIONS

Assessing which approach is best for your needs

There are many different ways to access investment funds, for example, through products such as an Individual Savings Account (ISA) or your workplace pension. It's important to remember that the price and value of investments and income derived from them can go down as well as up. You may not get back the amount originally invested. You should obtain professional financial advice before making any investment decisions. ●

Direct investments	Overview
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 might include the company's performance or outlook, investor sentiment and general market conditions.
Investment funds (indirect)	**Overview**
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 products listed. 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 might 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.
REITs	These are a special type of investment trust that invests in property. Similar OEICs are called 'property authorised investment funds' (PAIFs).

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

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

THE FINANCIAL CONDUCT AUTHORITY DOES NOT REGULATE TAX ADVICE.

READY TO START YOUR FINANCIAL JOURNEY WITH US?

Pursuing your financial goals is easier when you're not alone. We get to know you and your financial picture to help create a comprehensive financial and lifestyle plan that evolves as your life does.

To discuss your options, please contact us for further information – we look forward to hearing from you.

Kymin
Financial Planners

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