A Beginner's Guide to Investing



LONSDALE

Contents

4 What are investments?
4 What is a portfolio?
4 What choice of asset classes do you have?
5 What is a stock market and how does it work?
7 What is a return or reward?
7 What is volatility?
7 What is investment risk?
8 What is a diversified portfolio?
8 What are fees?
8 How much risk should you take with your investments?
9 What is the role of a financial adviser?
10 What are tax efficient investment products?
11 About us

We value the long-term partnerships we establish with our clients, and the importance we place on working with clients to achieve their financial goals. We always make sure our clients understand all the different financial products on offer before we provide financial advice, and we will recommend a range of investment products depending on their risk profile. Having the 'Beginner's Guide to Investing' will be helpful as our clients can read up about investment products and the available options in their own time.

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Introduction

We often get clients referred to us who are new to investing. They may save into a company pension or a self-invested personal pension that invests in equities and bonds, but they may not have invested any other savings in any products other than cash.

When we meet new clients our primary focus is to educate them about the products available to them through financial planning. Our financial consultants are qualified to give investment advice which includes explaining how you can use these different financial instruments in your financial planning.

The Beginners Guide to Investment considers the basic investment questions including:

- What are investments?
- What is a portfolio?
- Choice of asset classes?

The Guide focuses on the four main types of asset classes – property, cash, bonds and shares. It gives examples of different ways you can invest in each. It also explains the difference between active and passive investing. We also explain key investment terms that often confuse clients, for example, volatility, diversified portfolio and investment risk.

What are investments?

An investment is the action or process of investing money for profit. The main type of investments are referred to as asset classes and are listed below.

What is a portfolio?

A portfolio is the combined assets owned by an investor for example (cash, pensions, bonds, shares).

What choice of asset classes do you have?

Cash

Savings in a bank or building society account. Although cash offers the least risk of all the asset classes it does deliver relatively low returns so the value of your cash may be reduced in times of high inflation.

Property

Investing in residential or commercial (buy-to-let) property. Most people do not view their own home as an investment but the value of any property you own will fluctuate over time. If you invest in commercial property or own a buy-to-let portfolio you will receive rental income. However, some commercial property can be 'illiquid' so if you need to access your money you could not guarantee when and at what price you could sell your property.

Bonds or fixed interest securities

With an investment in a bond or fixed interest security you receive a yield or return when you lend money to a bond issuer. Most bonds and gilts are issued at £100 each and they pay back the same amount at their redemption date. The holder is also entitled to receive a coupon (interest) at a fixed rate every year until the bond redeems.

Bonds can be traded on a secondary market. The price of bonds is dictated by interest rates and the supply and demand for various bonds. The bond issuer is normally either a government, a municipality or a corporation. Investing in government bonds known as gilts is considered to be a relatively low risk fixed income investment as you are normally guaranteed to receive your capital back and an income. However, there is more likely to be credit or default risks if you choose corporate bonds, high yield bonds or invest in foreign government bonds.

Shares (stocks/equities)

In order for companies to grow they must invest in their business so larger companies often raise money from investors by selling off part of their business as shares. If you buy shares in a company you become a shareholder because you own part of the company. If you own shares you will normally receive a company dividend. This is a sum of money paid regularly (often annually or half yearly) by a company to its shareholders from profits or reserves. The price of individual company shares fluctuates daily depending on external economic, social or political influences. For example currency movements, inflation figures, interest rate moves can all affect share prices. Company news can also move share prices especially when a company announces its results which it does twice yearly. Company shares are traded on a stock market.

What is a stock market and how does it work?

For publically traded companies their shares are quoted on a stock market where investors can trade by buying or selling these individual shares. Many of the UK's largest companies are traded on the FTSE All Share Index stock market, and the largest 100 companies in the UK make up the FTSE 100 Index. All the share prices in a stock market are amalgamated daily to produce an overall stock market value. You can invest in companies in the UK stock market or invest in overseas stock markets, but investing in overseas markets does carry a currency risk. Buying shares in non-developed markets is also higher risk. For example the shares listed on emerging markets such as China, India or Brazil are likely to be more volatile than developed markets.

Mutual funds/exchange traded funds/unit trusts

There are risks associated with investing in individual shares so many people invest in pooled funds, especially if they are new to investing. These funds typically own between 30 to 100 individual stocks or securities. The combined shares or holdings of these mutual funds or unit trusts are called a portfolio and investors buy shares in them the same way they would buy individual shares.

These funds benefit individuals as they allow you to diversify your investment in different companies, sectors and/or countries which reduces your risk.

You also benefit from professional management and the expertise of a fund manager who will research the individual shares or bonds and make buy and sell recommendations for the portfolio. These funds also have the advantage of being easily bought and sold in small amounts. One of the main differences between mutual and ETF funds is that mutual funds are priced daily at the end of the trading day but ETF's trade throughout the day.

There are two types of funds active and passive.

What is active investing?

The investment team research the relevant markets, stocks, sectors and decide which stocks to hold in the investment portfolios. The aim with active fund management is to deliver a superior return to the overall market or benchmark. If you invest in an actively managed fund you have the opportunity to make higher investment returns than the fund benchmark, although the investment fees for active investment management are considerably higher. By investing in active funds you accept the risk that you may underperform the market or benchmark.

What is passive investing?

A passive investment replicates the market constituents so the investment return reflects the performance of the market or benchmark that is being tracked. Passive investment funds are considerably cheaper because there is no active investment as computers can be used to generate stock weightings. However, there is no opportunity for the fund to outperform the market or benchmark. In some situations you may also experience more volatility of returns in a passive fund because these investments must replicate sectors that subsequently underperform the market or benchmark. For example the growth in the technology sector between 1997-1999 and subsequent 'tech bubble.'

Investment trusts

Like mutual funds and unit trusts investment trusts allow you to pool your investment with other investors and invest in several hundred different companies operating in various markets or countries. However, investment trusts are set up as companies and in the UK they trade on the London Stock Exchange. As a result they have a board of directors and publish annual accounts and audited reports. When you purchase an investment trust you become a shareholder in the same way you would if you owned shares in an individual company.

Structured products

This is a type of fixed-term investment designed to give you income, growth or both. The amount you will earn often depends on the performance of a certain market. For example the FTSE All Share Index. The main types of structured products are structured deposits and structured investments.

Structured deposits

These are savings accounts offered by National Savings & Investment and some banks or building societies. The rate of interest you receive depends on how a particular stock market performs. If the index falls you normally don't receive any interest but your original investment has the same protection as you get with other savings products. This type of investment is popular with anyone new to investing in equity markets.

Structured deposits give you the chance of receiving a stock market return without risking your original investment as you would with direct share purchases or mutual fund investment. However, depending how the product is set up you could receive less interest than you would have with an ordinary savings account. These products are complicated and anyone purchasing them should be clear about how any return is calculated.

Structured investments

These products are often offered by banks and insurance companies. Your investment buys two underlying investments - an investment to protect your original investment (capital) and the other to provide a bonus. The return you get depends on the performance of the stock market index which the structured investment invests in. However with structured investments your original capital and any income and growth is not guaranteed. If the structured investment underperforms you could lose some or all of your original investment.

What is a return or reward?

Any profit made on an investment (bonds, cash, property, shares) is called a return. This return includes any interest or dividends and other cash flow which you receive from the investment, or rent from commercial property. It also includes any change in the underlying value of the asset.

With most cash accounts your original investment will be secure and you can access your money when it is required. However, when you invest cash in bonds, shares or property the underlying value of the asset can go up and down so you make capital gains or losses when you sell the asset.

What is volatility?

Volatility is a measure of the variability of returns of an asset, for example the difference in the returns of a stock market or an individual company share price. Often the higher the volatility the riskier the security.

What is investment risk?

This is the probability that the actual return you achieve on any investment you make will be different from the outcome you expected. Understanding that there is a chance that you could lose some or all of the original capital you invest and not receive any interest or income on the investment.

There are several types of investment risk. Market risk - the risk that the market you invest in can go down as well as up. You will see on all forms of financial communication 'the value of your investments can go down as well as up.' Overseas markets in general tend to carry higher risk because your returns are affected by currency movements. Shortfall risk – is the chance that you don't achieve your financial goals because you don't invest in the right assets or mix of products, or you don't save enough. Longevity risk – financial advisers calculate your financial planning on the probability that you live to one hundred but if you base your calculations on living twenty five years after you retire and you live longer than this your money may not last.

What is a diversified portfolio?

Diversification is achieved by having your portfolio invested across a wide range of assets and carefully researched investments. Not all asset classes or investment strategies move in the same direction at the same time. A financial adviser will recommend you invest in different assets and a wide range of investments that tend to behave differently from one another to smooth out your returns.

What are fees?

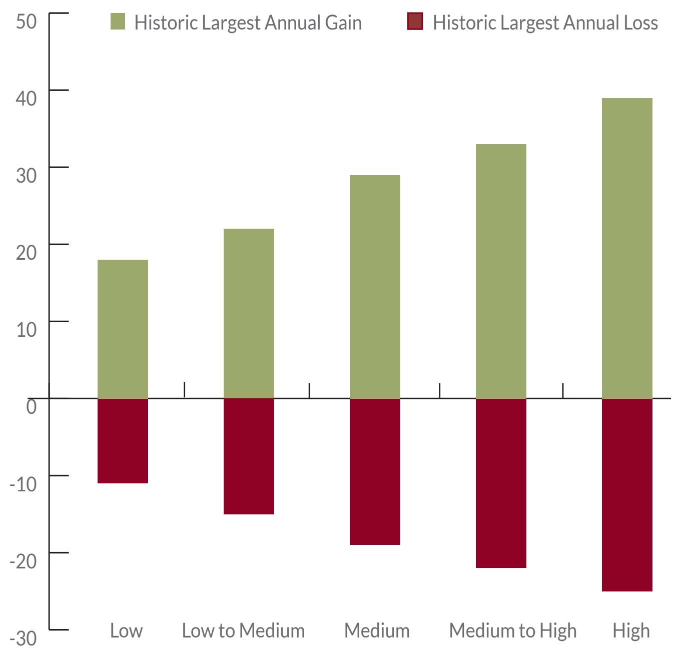
Managing investments costs money so service providers who manage investments will charge you a fee. The fee is normally subtracted from any returns you make on your investment.

How much risk should you take with your investments?

When financial advisers discuss risk we ask you to complete a risk assessment questionnaire so we can assess your attitude to risk, reward and volatility. This is an important step before we make an investment recommendation.

When discussing your risk profile, we provide you with an upper and lower range of probable returns that you might expect for different levels of risk. You will need to consider your risk tolerance and be comfortable with the different levels of loss you could expect.

The table below demonstrates the best potential gains and the worst potential losses over the previous 30 years relative to a given risk profile over a one year period. Note: the portfolio with the best potential gain also has the largest potential loss. Although past performance is not a guarantee of future returns and there is no guarantee that losses might not be higher in the future, the table provides a useful reference.



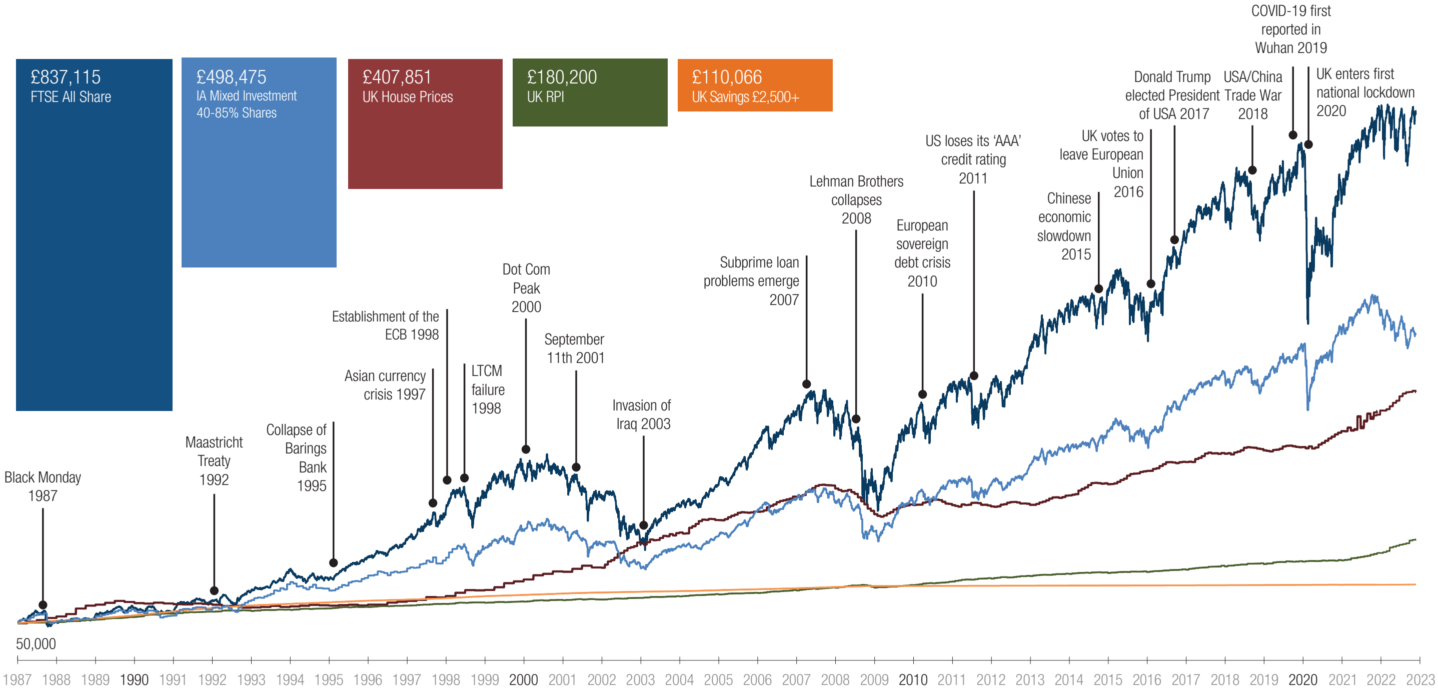
You need to decide what you want to achieve with your money and consider how long you want to invest for. Generally the longer you can invest for the more market risk you can take, as over the longer term equities have outperformed most asset classes. We recommend Investing for the longer term (over five years) as it also reduces the timing effect associated with when you invested.

All investments can fall as well as rise in value, so you could get back less than you invest. We need to understand your capacity for loss as we recommend you don't invest money that you are likely to need at short notice.

When we meet you we will discuss the products available that match your risk profile to make sure you make the right financial choices. We will also arrange annual reviews to ensure the risk we take is being managed correctly.

£50,000 Hypothetical Investment (1987-2023)

The graph shows what a hypothetical investment of £50,000 invested in 1987 would be worth by 2022. Despite the equity market performance being relatively volatile during the period due to worldwide events such as the financial crisis and Covid, equities produced superior returns over the period. The graph shows that a £50,000 investment in the FTSE All Share Index would be worth £837,115 at 31/12/22.



Graph Source: Morningstar and HM Land Registry All data from 30 01 1987 to 31 12 2022 The information provided is for illustrative purposes only and is not meant to represent past or future performance of any particular investment It is not possible to invest directly in an index All returns are in sterling terms and are based on daily closing prices of the respective indices The above graph is provided for illustrative purposes only and does not take into account the impact of fees and taxation.

What is the role of a financial adviser?

A financial adviser is required to build a diversified portfolio of assets which matches your level of risk. Remember that the greater return you want to achieve within your portfolio the greater level of risk you will have to accept. Also the more risk you take with your portfolio of investments the more chance you have of losing some of your original investment. Your financial adviser should regularly review your attitude to risk as it may change as your personal circumstances and your financial goals alter.

For example younger investors may be comfortable investing in a portfolio that is higher risk but offers more chance for growth because they are a long way from retirement, but as you approach retirement you may want to move into lower risk investments to preserve your capital.

What investments can we offer you?

At Lonsdale Wealth Management our approach to investment planning utilises a broad range of products including:

- Mutual Funds (active or passive)
- Gilts & Corporate Bonds
- Shares
- Exchange-traded funds
- Investment Trusts
- Appropriate tax wrappers such as ISAs, Trusts and Investment Bonds, Pensions, General Investment Account
- Structured Products

What are tax efficient investment products?

We often recommend our clients invest in tax efficient investment products.

Pensions

A pension is a form of savings plan that has favourable tax treatment compared to other forms of savings. While you work or even if you're not working but have spare funds you could contribute up to £3,600 p.a. You can access these savings when you retire to provide you with an income or a tax-free cash sum. Many different schemes exist, some are organised by your employer or if you are self-employed you can set one up yourself and receive tax relief on the money you invest. The Government has encouraged everyone working to save into a pension by creating workplace pensions. It is a way of saving for your retirement that is arranged by your employer. If you opt into the scheme a percentage of your pay is automatically invested into the pension scheme. In most cases your employer adds money into your pension and the Government may also give you tax relief.

ISAs

- Cash ISA/Help to Buy ISA
- Stocks and shares ISA
- Innovative finance ISA
- Lifetime ISA

There are tax advantages of opening any ISA as you don't pay tax on the interest on cash in an ISA or any income or capital gains from ISA investments. Every year you can save up to £20,000 into one type of ISA or split this investment across different types of ISA. The Lifetime ISA and Help to Buy ISA have lower investment limits but are included within the overall £20,000 figure.

Investment Bonds

Most investment bonds are whole of life and you invest a lump sum. There is generally no minimum term although there may be surrender penalties in the early years. There are two types of funds – with-profits or unit-linked. Both have the same tax rules. With a UK bond, tax is paid on both income and growth accrued in the fund by the insurer. Investment bonds also allow you to make regular withdrawals each year up to a specified limit. Withdrawals of up to 5% each year of the amount that you invested can be taken without triggering any immediate tax liability.

Trusts

A legal agreement between three parties where you give property, cash or investments to a third party to look after for the benefit of someone else. For example you could invest money in trust for your children. The trustmaker is the person who creates the trust agreement. The trustee manages the trust and the beneficiary is the person who is entitled to receive any benefits of the trust. A trust can be a good way to reduce the tax you pay on any inheritance.

Please note: The value of investments can fall as well as rise. You may not get back what you invest.

About us?

Lonsdale Wealth Management has brought together a group of like-minded Independent Financial Advisers to offer individuals and companies a holistic approach to financial advice and planning. As a privately owned business, we can afford to look after your best interests and focus on your long-term financial goals. Our main office is in St Albans and our regional offices support clients across the United Kingdom.

Lonsdale advisers communicate in an open and straightforward manner. Together we deliver results that will achieve your financial goals. Our core values of integrity, reliability and offering value at all times are appreciated by our clients. In 2018 we won the Retirement Planner (RPA) Award for Best Individual Pension Advice firm in the South East and Anglia, and we were 'highly commended' in the Estate Planner Adviser category. In 2017 we won the RPA Outstanding Customer Care award.

Client service is important to us, and our aim is to work with clients on an ongoing basis. As a result we have developed long-term partnerships with many of our wealth management clients. We believe that professional advice can add significant value to you. To maximise this value we also offer you a comprehensive planning and review service. When you become a Lonsdale client you will also benefit from regular face-to-face meetings with your designated adviser.

We are committed to working in partnership with you to achieve your financial goals. We will be open and honest with you at all times and act with integrity in everything we do. We believe you have the right to expect value for money from us, which is exactly what we seek to deliver.

Simon Hawker
Managing Director,
Lonsdale Services

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Because you deserve independent advice and support

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