An Introduction to INVESTING

ArmstrongWatson®

Financial Planning & Wealth Management

www.armstrongwatson.co.uk

AN INTRODUCTION TO INVESTING

When you invest, you are not just saving money for a rainy day, but creating a vision of what you want your life to be like in the future and very often, that of your family too.

For most, investing is about putting your money to work to generate a source of income and/or capital for a later date. This could include saving for your first home, investing in your children's future, ensuring you enjoy your retirement or creating a legacy for your family.

In this guide we look at why you might choose to invest, explain the different types of investments available, how your attitude to risk and loss influences the type of investments you should choose, and how we can help determine the best investment solution to meet your needs.

CONTENTS

1. Why Invest rather than save?
2. Investing – where should you start?
3. Types of Investment Assets
4. Which Asset Classes 'perform best'?
5. Helping you make the right Investment decisions
6. Our Investment Philosophy and Solutions
7. Why choose Armstrong Watson for your Investment Solutions?

1 | WHY INVEST RATHER THAN SAVE?

It is common for people to feel the need to retain cash and there is a good reason to do this. We always recommend you have an emergency fund for things that go wrong such as your boiler breaking down, roof repairs, or should you find yourself between jobs. This should be kept on deposit with easy access.

Bank and building society accounts are often the ideal place for short term savings or emergency money as they are easily accessible and don't fluctuate in value in the short term, but returns tend to be limited, therefore not necessarily the best choice for your entire wealth.

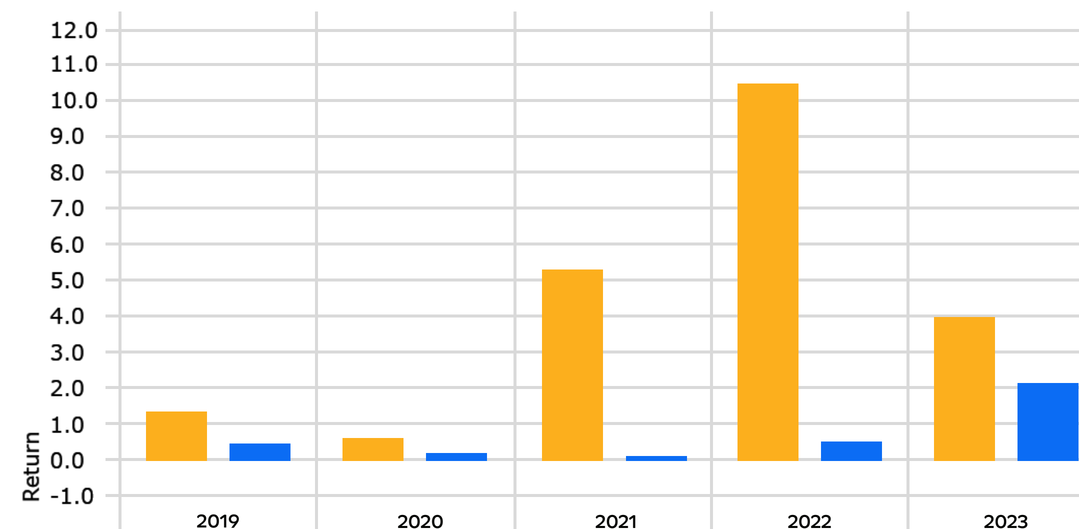
CASH SAVINGS AND THE IMPACT OF INFLATION

Cash itself is not risk-free. Although the capital may be secure (subject to certain limits), it is easy to overlook the impact of inflation which reduces the purchasing power of each pound. Investing in cash may lead to financial disappointment as historical trends show savings rates tend to be lower than inflation, meaning prices rise faster than the value of your savings.

The graph below shows the most often referenced measure of UK inflation, Consumer Price Index (CPI), which is a measure of the cost of goods and services. The blue bars represent average deposit account interest rates for the corresponding periods.

Returns

Currency: Pound Sterling   Source Data: Total Return



UK CPI   UK Savings 2500+ Invt GR

	2019	2020	2021	2022	2023
UK CPI	1.3	0.6	5.4	10.5	4.0
UK Savings 2500+ Invt GR	0.3	0.2	0.1	0.5	2.1

Source: Morningstar Direct

2 | INVESTING - WHERE SHOULD YOU START?

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

Short-term (emergency reserve) savings

This should be easily accessible and is there to cover unexpected problems or known spending needs, such as damage to your roof in a storm or paying for a wedding, or a new car. This capital should be held on deposit with easy access to it.

Medium and Longer term investment

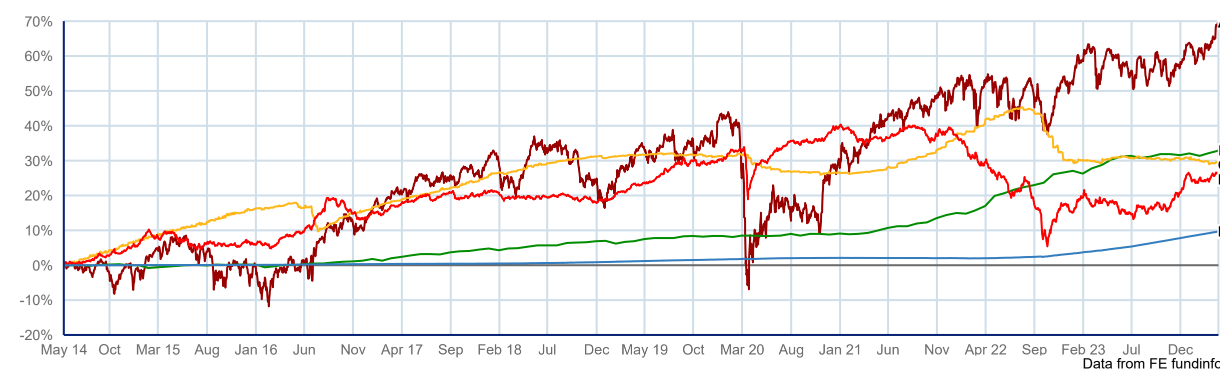
This is capital you don't need access to in the foreseeable future and it can therefore be invested with the aim of obtaining a better return. This potentially means investing in other types of assets beyond cash and often involves exposing it to a degree of investment risk. How much risk is very much dependent upon the individual and this aspect needs careful consideration.

RISK V REWARD

All savings and investments involve some degree of risk. Increasing the risk you take can provide the opportunity for greater returns, but can also increase the chances of experiencing falls in value. This is know as the risk/reward trade-off and highlights the importance of understanding what you are trying to achieve and the options you have to get there.

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

The below chart shows the returns over 10 years of the main asset classes and their volatility versus inflation. However, it is also very important to note that past performance is no guarantee of future performance. The value of investments can fall as well as rise, and investors may not get back their original investment.



	Cumulative performance	1m	3m	6m	1y	3y	5y	10y	Start of Data
A	FTSE All Share	6.2%	12.5%	17.0%	13.0%	26.0%	38.4%	81.2%	2642.1%
B	UK Consumer Price Index	-	1.1%	0.8%	2.0%	20.8%	23.6%	32.9%	174.8%
C	IA UK Direct Property	0.6%	0.3%	-0.2%	-0.6%	2.3%	-1.3%	30.2%	223.8%
D	IA Sterling Corporate Bond	0.9%	1.9%	6.4%	7.0%	-6.7%	2.4%	26.3%	439.3%
E	IA Standard Money Market	0.4%	1.3%	2.6%	5.3%	8.1%	9.0%	10.3%	145.5%

3 | TYPES OF INVESTMENT ASSETS

FOUR MAIN ASSET CLASSES:

Cash

This includes National Savings and Investments, as well as banks and building society deposits which are usually backed by the Financial Services Compensation Scheme and are therefore the most secure. The liquidity of your investment is a risk factor, so generally the more easily accessible an investment, the lower the return. This is why instant access accounts tend to offer lower returns than those which lock in your money.

Fixed Interest (Government and Corporate Bonds)

These are in fact loans provided by you, which are repayable at a certain date in the future after a series of interest payments are made. There are two main types:

- **Government Bonds** are perhaps the most secure of these. An example is UK Government Bonds, known as Gilts, which are almost certain to be repaid on schedule and often pay a fixed rate of return. Bonds issued by other countries which are not rated as financially strong as the UK carry greater capital risk. Most foreign government bonds will be exposed to currency fluctuations.

- **Corporate Bonds** are loans to companies, so tend to carry a greater risk of non-repayment than Government Bonds.

The capital value of the bond can also fluctuate. Whenever investors buy bonds that offer a fixed rate of return, they are exposing themselves to interest rate risk.

Property

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

Equities (Stocks/Shares)

Equities mean an ownership in a company. You can invest in UK or international equities, such as North America, Europe, Asia or Emerging Markets. Equities tend to carry the highest risk of volatility, but also the greatest potential for return. Returns are influenced by a wide variety of factors including the underlying performance of each company and the wider economic environment. Another factor which can influence returns is dividends - the profits of companies are usually paid out to shareholders in the form of dividends. Within investment funds dividends can be reinvested to help boost the overall returns.

4 | WHICH ASSET CLASSES 'PERFORM BEST'?

No-one can predict with certainty which will be the best asset class each year.

The following table shows the performance of individual asset classes over the last decade and highlights the risk created by taking investment decisions based on the past performance of one particular asset class, rather than being diversified across many asset classes. If you look at each asset class defined by unique colour you can see how its position can fluctuate from best to worst (indicated on the left of the table) year by year.

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

Investment Returns (%) Currency: Pound Sterling Source Data: Total Return

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
BEST	North America 19.6	Japan 17.6	Emerging Markets 35.4	Asia ex Japan 23.4	Property 2.9	UK Mid Cap 30.8	Asia ex Japan 19.4	UK Small Cap 31.6	UK Large Cap 4.7	North America 19.4
	Gilts 13.9	UK Small Cap 13.6	North America 34.1	Emerging Markets 21.1	North America 0.8	North America 26.5	North America 16.4	North America 28.1	Cash 1.5	World ex UK 17.5
	World ex UK 12.3	UK Mid Cap 12.0	World ex UK 30.4	UK Mid Cap 18.2	Cash 0.6	World ex UK 23.1	World ex UK 14.2	World ex UK 22.2	Japan -4.8	Europe ex UK 15.7
	Property 11.8	Property 7.3	Asia ex Japan 28.7	Europe ex UK 16.9	Gilts 0.6	Europe ex UK 21.2	Emerging Markets 11.9	UK Large Cap 18.4	Asia ex Japan -5.9	Japan 13.3
	Asia ex Japan 10.0	Europe ex UK 5.5	Japan 22.7	UK Small Cap 16.3	Corporate Bonds -2.2	UK Large Cap 17.3	Japan 11.1	UK Mid Cap 18.4	Emerging Markets -6.4	High Yield 10.9
	Corporate Bonds 9.8	North America 5.3	Europe ex UK 21.2	Japan 14.4	World ex UK -2.7	UK Small Cap 16.3	Gilts 8.3	Europe ex UK 17.6	World ex UK -7.7	UK Small Cap 10.5
	Emerging Markets 7.9	World ex UK 4.8	UK Large Cap 19.1	World ex UK 13.5	High Yield -3.6	Emerging Markets 15.9	Corporate Bonds 7.9	Property 7.4	Property -7.8	UK Mid Cap 10.0
	UK Mid Cap 2.8	Gilts 0.6	UK Small Cap 12.7	UK Large Cap 11.9	Japan -7.6	Japan 14.8	Europe ex UK 7.8	High Yield 4.2	North America -8.8	Corporate Bonds 9.3
	Japan 2.7	Cash 0.5	High Yield 10.1	North America 11.3	Emerging Markets -7.6	Asia ex Japan 14.5	High Yield 3.5	Japan 2.5	Europe ex UK -9.4	UK Large Cap 7.9
	High Yield 1.0	Corporate Bonds -0.4	Gilts 10.1	Property 7.6	Asia ex Japan -8.5	High Yield 11.4	UK Small Cap 2.1	Emerging Markets 1.0	High Yield -9.8	Cash 4.7
	UK Large Cap 0.7	High Yield -0.9	Corporate Bonds 9.0	High Yield 6.1	UK Large Cap -8.7	Corporate Bonds 9.5	Cash 0.2	Cash 0.1	Corporate Bonds -16.4	Gilts 3.7
	Cash 0.5	UK Large Cap -1.3	UK Mid Cap 5.1	Corporate Bonds 5.1	Europe ex UK -9.1	Gilts 6.9	Property -3.8	Asia ex Japan -0.1	UK Small Cap -17.1	Emerging Markets 2.9
	Europe ex UK -1.4	Asia ex Japan -3.5	Cash 0.4	Gilts 1.8	2015 UK Small Cap -13.5	Cash 0.8	UK Mid Cap -8.5	Corporate Bonds -1.9	UK Mid Cap -18.4	Asia ex Japan 2.3
WORST	UK Small Cap -1.7	Emerging Markets -10.3	Property -2.0	Cash 0.3	UK Mid Cap -15.2	Property -0.8	UK Large Cap -11.5	Gilts -5.2	Gilts -23.8	Property -0.4

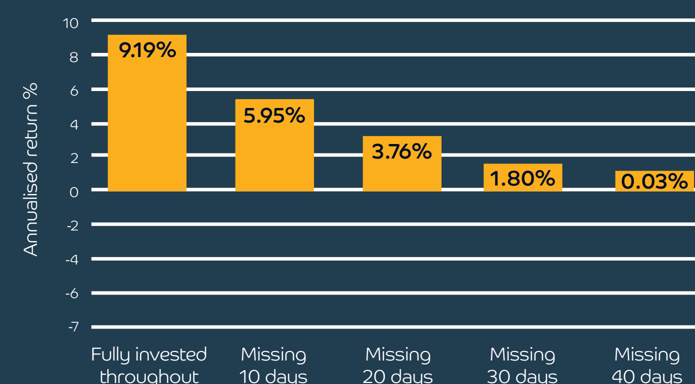
Source: Morningstar Direct

TIME IN, NOT TIMING!

As you'll see from the asset class performance table, no year is the same when it comes to investment performance. In turbulent times it's natural to want to respond cautiously, but some investors can overreact and sell an investment at the wrong time, or others are discouraged from investing in the future.

No one can predict the peaks and troughs of financial markets with certainty, and it is extraordinarily tricky to gauge when the best time to invest is. Once invested the best policy tends to be to remain invested and carefully plan when you need to withdraw money from your investments, rather than simply reponding to short term fluctuations or trying to guess what markets will do.

The following chart provides an example of how missing just a handful of the best days over a five year period could affect your annual return substantially.



FTSE All-Share: Effect of missing best days.

Source: Datastream from 31.03.2009 to 31.03.24.

Based on the annualised total return of the FTSE All Share in GBP terms.

5 | HELPING YOU MAKE THE RIGHT INVESTMENT DECISIONS

Your attitude to risk

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

Your capacity for loss

The second element of assessing your overall risk is capacity for loss. Your own capacity for loss is influenced by factors such as when you will need access to your money, state of health and dependants. It could be defined as the risk level you are able to withstand without materially impacting your standard of living, should the financial climate worsen.

OUR APPROACH

We follow a 3 stage plan to enable us to produce an investment strategy that best suits your aims and objectives:

UNDERSTANDING YOUR APPROACH TO RISK, TOLERANCE AND CAPACITY FOR LOSS

Our Financial Planning Consultants will initially carry out a detailed assessment, starting with questionnaires which help them to begin to understand how much risk you are prepared to take with your money and, very importantly, establishing your tolerance for losses.

They then use this information to form the basis of their risk discussions with you, which will extend to:

- Explaining the risks that come with your financial decisions
- Exploring trade-offs that you might need to make between risk and return in order to achieve your financial goals
- Recommending an appropriate risk level and the most suitable investment strategy in line with your agreed level of risk tolerance and capacity for loss. Your attitude to risk, tolerance and capacity for loss may change over time so it is important they are regularly reviewed.

RECOMMENDING THE MOST APPROPRIATE TAX WRAPPER

Your investment strategy will help to meet your objectives, but this must also be aligned to the correct product and/or tax wrapper to help you maximise your wealth and ensure that it can be added to, grow and be withdrawn in the most tax efficient way to meet your needs.

Your Financial Planning consultant will advise you on the most appropriate investment wrapper based on your objectives, circumstances and the current relevant legislation.

Some of the main choices are summarised within the table below:

	JUNIOR ISA	JUNIOR PENSION	FLEXI ISA	PERSONAL PENSION/ SIPP	GENERAL INVESTMENT ACCOUNT	INVESTMENT BOND
Contributions	No Income Tax relief available £9,000 pa limit	Income Tax relief is available £3,600 pa limit	No Income Tax relief available £20,000 pa limit	Income Tax relief is available Multiple limits applicable*	No Income Tax relief available No limit	No Income Tax relief available No limit
Investment Performance	Tax free	Tax free	Tax free	Tax free	Dividends & Interest: Subject to Income Tax on receipt Growth: subject to Capital Gains Tax on disposal	Dividends & Interest: No personal liability Growth: 20% tax credit regardless of what is paid. Taxable under chargeable event rules.

* £3,600, relevant earnings, annual allowance, tapered annual allowance, carry forward and money purchase annual allowance

CASH FLOW MODELS

Having got this far your financial planning consultant can build detailed financial models taking into account your circumstances, life expectancy, objectives, inflation and expected returns. This process brings alive the numbers via a range of intuitive illustrations and graphs helping to demonstrate how the decisions you have made may effect your financial plan and help to keep it on track.

6 | OUR INVESTMENT PHILOSOPHY AND SOLUTIONS

Once your needs, objectives and risk profile have been identified we then look at the most appropriate products and solutions that fit your requirements and preferences.

Our Investment Committee, supported by extensive external research and expertise, monitors the whole of the market to choose the best options available across different risk profiles and asset allocations.

Our philosophy is to utilise active management solutions as we believe in the skill and judgment of professional fund managers to choose where to invest and have the ability to manage the underlying assets according to economic and market conditions.

Although we adopt this approach, depending on a client's investment preferences and experience, we also provide advice on other strategies such as passive solutions.

We cover our investment philosophy and the methodology used to select the best solutions in greater detail within our Investment Committee Brochure.

To find out more about our Investment Committee and to request a copy of our brochure please speak to one of our Financial Planning Consultants or email: help@armstrongwatson.co.uk

WHAT IS ACTIVE MANAGEMENT?

As the name suggests, active management involves active input and influence by a fund manager (or managers) over the mix of asset classes within funds, whether to buy, sell or hold them and by taking full account of geographical and economic conditions that drive the overall fund strategy.

Based upon extensive experience and data to support their decisions, active fund managers will try to predict how markets and sectors are likely to react and will take positions within portfolios to reflect their views.

This doesn't necessarily mean that active fund management will deliver better returns over other solutions, but when market conditions are adverse, the fund manager will try to cushion the investor from exposure to full market or economic risk conditions that prevail, by making changes to the underlying portfolio to take account of these factors.

Because of the additional management involved, actively managed funds are likely to be more costly than passively managed alternatives, but many investors believe that this is a cost worth bearing.

THE THREE MAIN STYLES OF ACTIVE FUND MANAGEMENT WE RECOMMEND

Multi Asset Funds

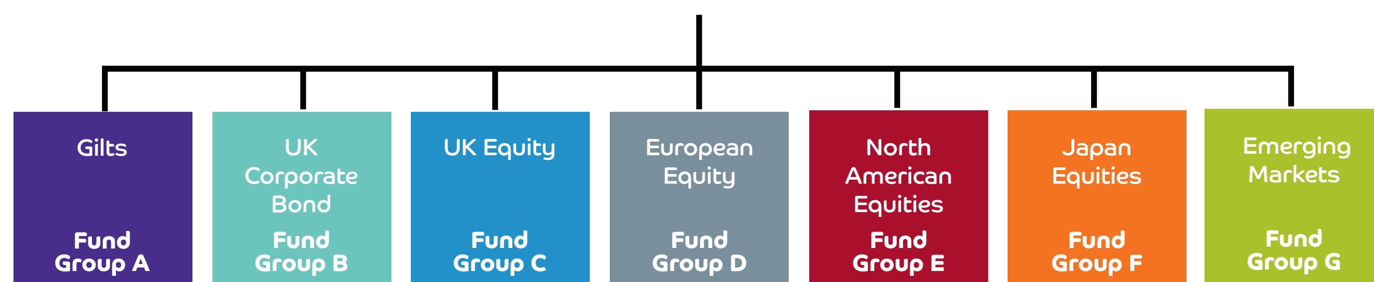
This is where a single fund management team invests in many asset classes by buying stocks/securities directly rather than via other fund managers' funds.
The investment style of the fund is the view of the overriding investment company and affects the construction of the portfolio.

Multi-Manager Funds

The fund manager invests in different underlying funds to provide the range of assets they believe will produce the best results for investors. Where the fund manager believes conditions are right, they can change strategy and substitute the funds within different asset classes/sectors in order to make sure they are delivering against expectations.

Our philosophy is to use 'unfettered' funds (rather than 'fettered') due to their ability to select specialist underlying fund managers regardless of which company they work for, rather than being limited to those underlying managers who are part of just one company.

Funds available from many different fund groups



Discretionary Fund Managers (DFMs)

Discretionary Fund Managers operate in a similar way to multi-manager funds but can provide exposure to individual shares and bonds directly, as well as holding conventional investments such as Open Ended Investment Companies (OEICs), unit trusts, investment trusts and Exchange Traded Funds (ETFs) within the portfolio.

There are often additional costs for this more bespoke service which allows a client to delegate the execution of an agreed overall investment strategy to a discretionary fund management service. We research the whole of the market and have developed strong relationships with a number of DFMs. Where suitable we will advise and support a client to help build a relationship with the DFM whilst also helping to hold them to account against the client's investment mandate. As this is a bespoke service there are usually minimum levels of investment required.

IN ADDITION TO THE STYLES ABOVE, WE HAVE TWO FURTHER OPTIONS FOR OUR CLIENTS:

Responsible Investment - Environment, Social and Governance (ESG)

Some investors are interested not only in the financial outcomes of their investments, but also in the impact of their investments across a range of different themes, named by the United Nations as 'Sustainable Development Goals.' These include key areas of focus such as climate change, tackling world poverty and improving inequalities in society.

We recognise and welcome that responsible investing is a varied, evolving, and growing movement, covering a wide range of diverse approaches and products, designed to meet investors different responsible investment goals. This is another form of active management albeit with specific focusses which can typically be seen within a range from doing nothing, to doing no harm, through to doing better and finally to doing good.

Although this doesn't guarantee investment returns, where appropriate we will work with you to understand your views and preferences when researching suitable investment solutions, whilst also taking account of a range of other factors as set out above.

Passive Management

Passive management is the opposite to active management and passive funds aim to closely follow or track particular investment indices, such as the FTSE 100, FTSE 250 or Dow Jones which is why passive investments are often called index or tracker funds.

Passive investing keeps management costs low, because there is no need to employ the expertise of a fund manager to undertake research and transaction costs are reduced as the underlying investments are bought and sold less frequently.

There can be inherent risks with index funds as investors absorb the full market risk of the index they are tracking (less costs), so whilst they can enjoy positive returns when the index rises, they will also suffer the corresponding falls when market conditions are less favourable. To help address this risk, we are seeing a growing number of fund managers adopt a blended approach, whereby they actively review and make changes to the overall asset classes used, but then invest in tracker funds which represent those different assets. For example, a fund manager could use the FTSE 250 or FTSE 100 trackers to represent the UK equity assets, and the Dow Jones or S&P 500 trackers could be used to represent the North American assets.

7 | WHY CHOOSE ARMSTRONG WATSON FOR YOUR INVESTMENT SOLUTIONS?

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

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

The value of investments and the income from them can fall as well as rise. You may get back less than you originally invested. Past performance is not a reliable indicator of future results.

GET IN TOUCH

To find out more please speak to one of our Financial Planning Consultants or visit our website: www.awfp.co.uk

0808 144 5575

help@armstrongwatson.co.uk

SUMMARY- OUR FOUR STAGES OF ASSURANCE

Stage 1: Independence

We act as independent whole of market advisers to select the appropriate multi-asset solutions that are available in the marketplace.

ArmstrongWatson®
Financial Planning & Wealth Management

Stage 2: Our Investment Philosophy

Our philosophy is to utilise active management solutions as we believe in the skill and judgment of professional fund managers to choose where to invest and have the ability to manage the underlying assets according to economic and market conditions.

Although we adopt this approach, depending on a clients investment preferences and experience, we also provide advice on other strategies such as passive solutions and socially responsible Investing.

Stage 3: Investment Committee

Our Investment Committee, supported by extensive external research and expertise, monitors the whole of the market to choose the best options available across different risk profiles and asset allocations.

Stage 4: Ongoing Support

We want to support you throughout your lifetime by offering a range of ongoing services which can help achieve this. Some of these services are specifically designed to make sure that your funds continue to meet your needs, objectives and risk outlook.

...we're with you

Dumfries
01387 955900

Wigton
01228 690200

Maryport
01900 812893

Cockermouth
01900 822162

Workington
01900 68311

Whitehaven
01946 590012

Kendal
01539 942030

Settle
01729 320960

Manchester
0161 2590260

Glasgow
0141 233 0130

Carlisle
01228 690000

Newcastle
0191 434 0830

Hexham
01434 375550

Tees Valley/North Yorkshire
01609 702000

Penrith
01768 222030

Leeds
0113 221 1300

Skipton
01756 620000

ArmstrongWatson®

Financial Planning & Wealth Management

www.armstrongwatson.co.uk

Armstrong Watson Financial Planning Limited is authorised and regulated by the Financial Conduct Authority. Armstrong Watson Financial Planning & Wealth Management is a trading style of Armstrong Watson Financial Planning. Firm reference number 542122. Registered as a limited company in England & Wales No. 7208672. Registered Office: James Watson House, Montgomery Way, Rosehill, Carlisle, CA1 2UU.

GTI_JUNE24