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Guide to

Lifestyle Planning

Helping you create the life you want

Capital Tower Ltd, 85 Yarmouth Road, Norwich, NR7 0HF
Tel: 01603 701420 • Email: admin@capitaltower.co.uk • Website: www.capitaltower.co.uk

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Guide to Lifestyle Planning

Helping you create the life you want

Welcome to our Guide to Lifestyle Planning. Making provision for a secure future, be it for yourself, your family or your business, is one of the most important steps you will ever take. Changes in your circumstances or the effects of inflation will require you to regularly review and act upon your financial situation.

Whatever your goals are along life's journey, we'll help you keep them within sight. You may want to protect your wealth, grow it, or spend it in your lifetime. We'll explore every aspect of your financial world, taking everything into account to create a financial plan that works for you.

In our guide, we look at why it's important to understand your ambitions, your concerns and your investment attitude to create a joined-up approach that works as your priorities change and you go through different life events.

Creating a lifestyle planning approach should bring order and coordination to all areas of your finances, so you can achieve your lifestyle goals without fear of running out of money.

SUPPORTING YOUR LIFESTYLE GOALS

In our guide, we'll help you identify where you are today and where you want to be, and what process to follow to create a plan that helps you achieve what matters most in your life. To find out more or to discuss how a comprehensive financial plan can support your lifestyle goals, please contact us – we look forward to hearing from you.

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Creating a financial roadmap

Planning for success can be complicated in today's world

No two people have identical financial circumstances, which is why it's essential you have a custom financial planning solution that meets your individual needs and goals. Planning for financial success can be complicated in today's world. A broad knowledge of everything from complex retirement and investment products to risk management strategies and tax laws is required.

Your financial roadmap should provide you with clarity about your future. It should detail every aspect of your vision – your hopes, fears and goals. It should also describe exactly how your future will look and help you to know exactly where you are headed and when you are likely to arrive.

Take some time and ask yourself these questions:

- Can I sleep comfortably knowing I'll have enough money for my future?
- Do I have the security of knowing where I'm heading financially?
- Am I going to be able to maintain my current lifestyle once I stop working?
- Do I feel empowered financially to live the life I want today and tomorrow?
- Have I made sufficient financial plans to live the life I want and not run out of money?
- Do I have a complete understanding of my financial position?
- What is 'my number' to make my current and future lifestyle secure?

UNDERSTANDING 'YOUR NUMBER'

Part of this process is to understand 'your number' – in other words, the amount of money you'll ultimately need to ensure complete peace of mind in knowing your future lifestyle is secure and making sure you don't run out of money before you run out of life.

By getting to know you and what you want to achieve, we'll be able to provide you with a detailed action plan that is focused on you. Using a holistic financial planning process, we can get a clear view of your current lifestyle and the life you want to live.

Initially, you need to create a financial roadmap which enables you to make the right financial choices and get the balance right between current responsibilities and future aspirations. All of this should be designed in a way so that you can achieve your desired lifestyle goals and objectives reliably over time. ■

Unwritten goals are just wishes

Making wise financial decisions and rewarding for your efforts

If you do not know where you are going, how will you know when you get there? This is very true about financial goals. You need to set financial goals to help you make wise financial decisions, and also as a reward for your efforts. Goals should be clear, concise, detailed and written down. Unwritten goals are just wishes.

In order to achieve all your goals, you will need a plan. Starting from assets you already have available, you will need to determine how much more you need to accumulate and when you will need it. Don't neglect to consider that the price of your goal items might actually increase as well. Depending upon how you invest your savings over time, you might receive interest, dividends or capital gains to help you along – you should consider this as well.

SPECIFIC

Your financial and personal goals need to be as specific as possible, because otherwise they won't give you enough direction to follow through. Look at your goals like a lamp lighting the way – the brighter the light, the clearer the road ahead. If you don't have clearly defined goals, you procrastinate. Think about your life and what you want to achieve, and what action you need to take to achieve the outcomes you want.

MEASURABLE

Give yourself realistic deadlines. Adding specific dates, amounts, etc. makes your progress quantifiable to complete your goal and visualise a finish line.

ATTAINABLE

Be honest with yourself and set realistic goals. Decide what you want to accomplish. So, start with the goals that are highest on your priority list. It's easy to be overwhelmed by everything that needs to be done, so start simple.

RELEVANT

Align your goals with the direction you want your life to take. Balancing the alignment between long term and short term will give you the focus you'll need.

TIME-BOUND

Having a finish line will mean you'll get to celebrate when you accomplish your goal. Having set deadlines gives you a sense of urgency that is lacking when goals are open-ended.

MAKING ADDITIONAL INVESTMENTS

Do you have the means to make additional investments necessary to accumulate the required assets to achieve your goals? Don't neglect to consider the effects of taxes on your savings and investments. After considering the foregoing, you might determine that you can achieve some goals in less time. Or you might find that it could take longer. The time horizon is important to setting realistic goals. ■

Financial decisions

Realistic expectations of what your financial resources can achieve

It's important to have realistic expectations of what your financial resources can achieve, to give you peace of mind that you can achieve what you want, when you want, without putting your future plans at risk. Key to this is understanding how each financial decision can affect other areas of your financial plans.

You also need to visualise that if there are any future bumps in the road on your journey, you've considered different 'what if' scenarios and have taken the right approach to protecting yourself and your family against the consequences.

Regular reviews of your personal plans and financial circumstances will also help you to adapt to your life changes and make you feel more financially secure and independent. ■

LIFESTYLE

Your financial plan should start with you – your hopes, fears, goals and vision for the future, incorporating both your current lifestyle and your desired lifestyle.

RETURN

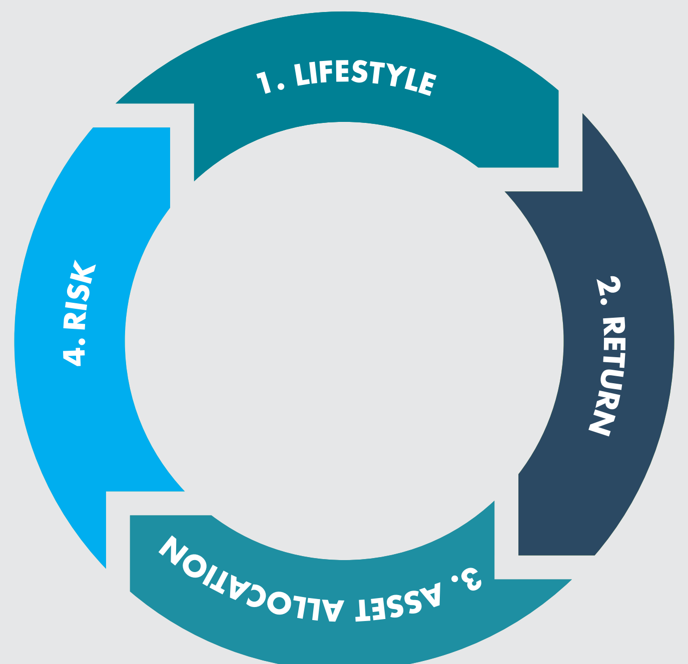
Once you have a better understanding of your goals and what you want to achieve, together we can determine the required investment return in order to achieve your lifestyle goals.

ASSET ALLOCATION

Your required investment return will determine the asset allocation of your investment strategy, taking the associated investment risks into account.

RISK

It's important to look at risk holistically in the context of what you are trying to achieve, including how realistic your lifestyle goals are based on your financial circumstances and what it is that you are trying to achieve. We'll spend time understanding your risk profile in detail – this is not limited to investment risk, but also includes inflation risk and behavioural risk.



Establishing your financial goals

Gathering information and developing your strategy

Evaluating your goals in greater depth is essential if you want to get a picture of your responsibilities and aspirations.

With a full understanding of your circumstances and priorities, we'll provide you with advice that is custom-tailored to suit your specific lifestyle goals, and together you can develop a strategy based on your personal circumstances.

CASH FLOW MODELING

In order to develop your financial plan, you need clarity over your goals, your objectives and your motivations. An integral part of the lifestyle financial planning process includes cash flow modeling. This illustrates what might happen to your finances in the future and enables you to plan to ensure that you make the most of your money to achieve your financial objectives.

Cash flow modelling shows your current position relative to your preferred position and your goals by assessing your current and forecasted wealth, along with income inflows and expenditure outflows to create a picture of your finances, now and in the future. This detailed picture of your assets includes investments, debts, income and expenditure, which are projected forward, year by year, using calculated rates of growth, income, inflation, wage rises and interest rates.

In order to implement a detailed plan that outlines how to deliver your financial future, communication is vital. To ensure that, over time, you achieve your desired lifestyle goals, it is important for us to regularly review your financial plan and make any necessary amendments should your personal circumstances change.

ASSET ALLOCATION MIX

Cash flow modelling can determine what recommendations and best course of action are appropriate for your particular situation and the right asset allocation mix. The growth rate you require is calculated to meet your investment objectives. This rate is then cross-referenced with your attitude to risk to ensure your expectations are realistic and compatible with the asset allocation needed to achieve the necessary growth rate.

Where cash flow modelling becomes particularly useful is the analysis of different scenarios based on decisions you may make – this could be lifestyle choices or perhaps investment decisions.

By matching your present and expected future liabilities with your income and capital, recommendations can be made to ensure that don't run out of money throughout your life.

HOW MUCH TO SAVE, SPEND AND INVEST

A snapshot in time is taken of your finances. The calculated rates of growth, income, tax and so on that are used to form the basis of any cash flow modelling exercise will always be assumptions. This is why regular reviews and reassessments are required to ensure you remain on track.

Nearly all decisions are based on what is contained within the cash flow: from how much to save and spend, to how funds should be invested to achieve the required return, so there is a lot that needs to be managed.

A lifetime cash flow plan should enable you to:

- Produce a clear and detailed summary of your financial arrangements
- Define your family's version of the 'good life' and begin working towards it
- Work towards achieving and maintaining financial independence
- Ensure adequate provision is made for the financial consequences of the death or disablement of you or your partner
- Plan to minimise your tax liabilities
- Produce an analysis of your personal expenditure planning assumptions, balancing your cash inflows and your desired cash outflows
- Estimate future cash flow on realistic assumptions
- Develop an investment strategy for your capital and surplus income in accordance with risk/reward, flexibility and accessibility with which you are comfortable
- Become aware of the tax issues that are likely to arise on your own death and that of your partner

RIGHT FINANCIAL DECISIONS

With every financial corner you turn, it is important to 'run through the numbers', which will help you make the right financial decisions. It is important to be specific. For example, it is not enough to say, 'I want to have enough to retire comfortably'. You need to think realistically about how much you will need – the more specific you are, the easier it will be to come up with a plan to achieve your goals.

If your needs are not accurately established, then the cash flow will not be seen as personal, and therefore you are unlikely to perceive value in it. Some years, there may not be any change, or just small tweaks. However, in other years, there may be something significant; either way, you will need to ensure things are up to date and to keep your own peace of mind knowing your plans are still on track.

It is vital that you are made aware that certain assumptions have been made in the making of your plan. Projected inflation and growth rates need to be made clear, and it should be explained that the plan and cash flow model is only as good as the information provided, so it is critical that it is reviewed. ■

Reviewing your needs and goals

Take the time to think about what you really want from your investments

You need to consider what you really want from your investments. Knowing yourself, your needs and goals, and your appetite for risk is a good start.

1. CONSIDER YOUR REASONS FOR INVESTING

It's important to know why you're investing. The first step is to consider your financial situation and your reasons for investing.

For example, you might be:

- Looking for a way to get higher returns than on your cash savings
- Putting money aside to help pay for a specific goal such as your children's or grandchildren's education or their future wedding

PLANNING FOR YOUR RETIREMENT

Determining your reasons for investing now will help you work out your investment goals and influence how you manage your investments in future.

2. DECIDE ON HOW LONG YOU CAN INVEST

If you're investing with a goal in mind, you've probably got a date in mind too. If you've got a few goals, some may be further away in time than others, so you'll probably have different strategies for your different investments. Investments rise and fall in value, so it's sensible to use cash savings for your short-term goals and invest for your longer-term goals.

SHORT TERM

Most investments need at least a five-year commitment, but there are other options if you don't want to invest for this long, such as cash savings.

MEDIUM TERM

If you can commit your money for at least five years, a selection of investments might suit you. Your investments make up your 'portfolio' and could contain a mix of funds investing in shares, bonds and other assets, or a mixture of these, which are carefully selected and monitored for performance by professional fund managers.

LONG TERM

Let's say you start investing for your retirement when you're fairly young. You might have 20 or 30 years before you need to start drawing money from your investments. With time on your side, you might consider riskier funds that can offer the chance of bigger returns in exchange for an increased risk of losing your money.

As you get closer to retirement, you might sell off some of these riskier investments and move to safer options with the aim of protecting your investments and their returns.

How much time you've got to work with will have a big impact on the decisions you make. As a general rule, the longer you hold investments, the better the chance they'll outperform cash – but there can never be a guarantee of this.

3. MAKE AN INVESTMENT PLAN

Once you're clear on your needs and goals, and you've assessed how much risk you can take, we'll help you identify the types of investment options that could be suitable for you.

4. BUILD A DIVERSIFIED PORTFOLIO

Holding a balanced, diversified portfolio with a mix of investments can help protect it from the ups and downs of the market. Different types of investments perform well under different economic conditions. By diversifying your portfolio, you can aim to make these differences in performance work for you.

You can diversify your portfolio in a few different ways through funds that invest across:

- Different types of investments
- Different countries and markets
- Different types of industries and companies

A diversified portfolio is likely to include a wide mix of investment types, markets and

industries. How much you invest in each is called your 'asset allocation'.

5. MAKE THE MOST OF TAX ALLOWANCES

As well as deciding what to invest in, think about how you'll hold your investments. Some types of tax-efficient account mean you can normally keep more of the returns you make. It's always worth thinking about whether you're making the most of your tax allowances too.

You need always to bear in mind that these tax rules can change at any time, and the value of any particular tax treatment to you will depend on your individual circumstances.

6. REVIEW YOUR PORTFOLIO PERIODICALLY

Periodically checking to see if your portfolio aligns with your goals is an important aspect of investing.

These are some aspects of your portfolio you may want to check up on annually:

CHANGES TO YOUR FINANCIAL GOALS

Has something happened in your life that calls for a fundamental change to your financial plan? Maybe a change in circumstances has changed your time horizon or the amount of risk you're willing to handle. If so, it's important to take a hard look at your portfolio to determine whether it aligns with your revised financial goals.

ASSET ALLOCATION

An important part of investment planning is setting an asset allocation that you feel comfortable with. Although your portfolio may have been in line with your desired asset allocation at the beginning of the year, depending on the performance of your portfolio, your asset allocation may have changed over the period in question. If your actual allocations are outside of your targets, then perhaps its time to readjust your portfolio to get it back in line with your original targets.

DIVERSIFICATION

Along with a portfolio with a proper asset class balance, you will want to ensure that you're properly diversified inside each asset class.

PERFORMANCE

Consider if there are certain aspects of your portfolio that need rebalancing. You may also want to consider selling to help offset capital gains you might take throughout the year. ■

Investment objectives – a lifelong process

Protecting your wealth from market ups and downs

A lifestyle financial plan has no value unless it is properly implemented through an appropriate investment strategy. If you've got a sufficient amount of money in your cash savings account – enough to cover you for at least six months – and you want to see your money grow over the long term, then you should consider investing some of it.

Investing is a lifelong process, and the sooner you start, the better off you may be in the long run. Regardless of the financial stage of life you are in, you will need to consider what your investment objectives are, how long you have to pursue each objective, and how comfortable you are with risk.

RIGHT SAVINGS OR INVESTMENTS

The right savings or investments for you will depend on how happy you are taking risks and on your current finances and future goals. Investing is different to simply saving money, as both your potential returns and losses are greater.

If you're retiring in the next one to two years, for example, it might not be the right time to put all of your savings into a high-risk investment. You may be better off choosing something like a cash account or bonds that will protect the bulk of your money, while putting just a small sum into a more growth-focused option such as shares.

MORE CONSERVATIVE INVESTMENTS

You may be a few months away from putting down a deposit on your first home loan. In this case, you might be considering cash or term deposits. You might also choose a more conservative investment that keeps your savings safe in the short term.

On the other hand, if you have just recently started working and saving, you may be happy to invest a larger sum of your money into a higher-risk investment with higher potential returns, knowing you won't need to access it in the immediate future.

DIFFERENT INVESTMENT OPTIONS

If appropriate, you should consider a range of different investment options. A diverse portfolio can help protect your wealth from market ups and downs. There are four main types of investments, also called 'asset classes', each with their own benefits and risks.

These are:

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

DEFENSIVE INVESTMENTS

Defensive investments focus on generating regular income as opposed to growing in value over time. The two most common types of defensive investments are cash and fixed interest.

Cash investments include:

HIGH INTEREST SAVINGS ACCOUNTS

The main benefit of a cash investment is that it provides stable, regular income through interest payments. Although it is the least risky type of investment, it is possible the value of your cash could decrease over time, even though its pound figure remains the same. This may happen if the cost of goods and services rises too quickly (also known as

'inflation'), meaning your money buys less than it used to.

Fixed interest investments include:

TERM DEPOSITS, GOVERNMENT BONDS, CORPORATE BONDS

A term deposit lets you earn interest on your savings at a similar, or slightly higher, rate than a cash account (depending on the amount and term you invest for), but it also locks up your money for the duration of the 'term' so you can't be tempted to spend it.

Bonds, on the other hand, basically function as loans to governments or companies, who sell them to investors for a fixed period of time and pay them a regular rate of interest. At the end of that period, the price of the bond is repaid to the investor.

Although bonds are considered a low-risk investment, certain types can decrease in value over time, so you could potentially get back less money than you initially paid.

GROWTH INVESTMENTS

Growth investments aim to increase in value over time, as well as potentially paying out income. Because their prices can rise and fall significantly, growth investments may deliver higher returns than defensive investments. However, you also have a stronger chance of losing money.

The two most common types of growth investments are shares and property.

SHARES

At its simplest, a single share represents a single unit of ownership in a company. Shares are generally bought and sold on a stock exchange.

Shares are considered growth investments because their value can rise. You may be able to make money by selling shares for a higher price than you initially pay for them.

If you own shares, you may also receive income from dividends, which are effectively a portion of a company's profit paid out to its shareholders.

The value of shares may also fall below the price you pay for them. Prices can be volatile from day to day, and shares are generally best suited to long-term investors, who are comfortable withstanding these ups and downs.

Although they have historically delivered better returns than other assets, shares are considered one of the riskiest types of investment.

Property investments include:

- Residential property such as houses and units
- Commercial property such as individual offices or office blocks
- Retail premises such as shops or hotels
- Industrial property such as warehouses

Similarly to shares, the value of a property may rise, and you may be able to make money over the medium to long term by selling a house or apartment for more than you paid for it.

Prices are not guaranteed to rise though, and property can also be more difficult than other investment types to sell quickly, so it may not suit you if you need to be able to access your money easily.

RETURNS

Returns are the profit you earn from your investments.

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

- Dividends (from shares)
- Rent (from properties)
- Interest (from cash deposits and fixed interest securities)

The difference between the price you pay and the price you sell for – capital gains or losses. ■

Understanding investment risk

Making informed decisions to improve your chances of achieving your financial goals

If you want to plan for your financial future, it helps to understand 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'.

DIFFERENT TYPES OF INVESTMENT

None of us like 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 between the different types of investments. For example, funds that hold bonds tend to be less risky than those that hold shares, but there are always exceptions.

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.

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, 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. ■

Maintaining a diversified portfolio

Spreading risk between different kinds of investments

When you start investing, or even if you are a sophisticated investor, one of the most important tools available is diversification. Whether the market is bullish or bearish, 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') under-performing 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.

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

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

DIVERSIFYING WITHIN AN ASSET CLASS

There are many opportunities for diversification, even within a single kind of investment.

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

- Large and small companies
- The UK and overseas markets
- Different sectors (industrial, financial, oil, etc.)

DIFFERENT SECTORS OF THE ECONOMY

Diversification within each asset class is the key to a successful, balanced portfolio. You need to find assets that work well with each other. True diversification means having your money in as many different sectors of the economy as possible.

With shares, for example, you don't want to invest exclusively in big established companies or small start-ups. You want a little bit of both (and something in between, too). Mostly, you don't want to restrict your investments to related or correlated industries. An example might be car manufacturing and steel. The problem is that if one industry goes down, so will the other.

With bonds, you also don't want to buy too much of the same thing. Instead, you'll want to buy bonds with different maturity dates, interest rates and credit ratings. ■

[1] Cash you put into UK banks or building societies (that are authorised by the Prudential Regulation Authority) is protected by the Financial Services Compensation Scheme (FSCS). The FSCS savings protection limit is £85,000 (or £170,000 for joint accounts) per authorised firm.

MAIN FOUR ASSET CLASSES

Asset Class	Overview	Risk profile
Cash[1]	Savings and current account balances, savings bonds, premium bonds and other NS&I products, Cash ISAs and any cash you have.	Low, but your money's buying power is eroded over time if inflation is higher than the interest rates paid. Cash you put into authorised UK banks or building societies is protected by the Financial Services Compensation Scheme up to £85,000.
Fixed Interest Securities – also called 'bonds'. Essentially a loan to a company or government for a fixed period.	Gilts (government bonds), overseas bonds, local authority bonds and corporate bonds (loans to companies).	Relatively low and returns predictable if held to maturity. However, traded prices can be volatile. Your money's buying power can still be eroded over time if inflation is higher than the interest rate paid on the bond.
Shares – also known as 'equities'. A stake in a company.	You can hold shares directly or through an investment fund where you pool your money with other people's, like with a unit trust, OEIC (Open-Ended Investment Company) or life fund.	Investing in a single company is high risk. Investing in a fund provides more diversification, but risk levels will depend on the type of shares in the fund.
Property	Includes residential or commercial property and buy-to-lets, and investments in property companies or funds.	Price can vary and be more volatile than with bonds. Potential for gains but also losses. You might not be able to access your capital quickly if you have invested into property directly. Access to capital might also be restricted through property funds if closed to redemptions, meaning you will not have access until the redemption restriction has been lifted.

Investing in a fund

Making investment decisions on behalf of the investor

There are many reasons to invest through a fund, rather than buying assets on your own. At a basic level, investing in a fund means having a fund manager make investment decisions on behalf of the investor.

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).

Reduced dealing costs by pooling your money can help you make savings because you're sharing the costs. There is also less work for you, as the fund manager handles the buying, selling and collecting of dividends and income for you. But of course, there are charges for this. They also make the decisions about when to buy and sell assets.

ACTIVE OR PASSIVE FUND MANAGEMENT

ACTIVE MANAGEMENT

Most pooled investment funds 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. Funds that track an index are called 'tracker funds'.

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. ■

Pooled investment funds

Diverse range of funds that invest in different things with different strategies

Pooled investment funds – also known as '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.

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.

POPULAR TYPES OF POOLED INVESTMENT FUND

UNIT TRUSTS AND OPEN-ENDED INVESTMENT COMPANIES

Unit trusts and Open-Ended Investment Companies (OEICs) are professionally managed collective investment funds. Managers pool money from many investors and buy shares, bonds, property or cash assets, and other investments.

UNDERLYING ASSETS

You buy shares (in an OEIC) or units (in a unit trust). The fund manager combines your money together with money from other investors and uses it to invest in the fund's underlying assets.

Every fund invests in a different mix of investments. Some only buy shares in British companies, while others invest in bonds or in shares of foreign companies, or other types of investments.

BUY OR SELL

You own a share of the overall unit trust or OEIC – if the value of the underlying assets in the fund rises, the value of your units or shares will rise. Similarly, if the value of the underlying assets of the fund falls, the value of your units or shares falls. The overall fund size will grow and shrink as investors buy or sell.

Some funds give you the choice between 'income units' or 'income shares' that make regular payouts of any dividends or interest the fund earns, or 'accumulation units' or 'accumulation shares' which are automatically reinvested in the fund.

HIGHER RETURNS

The value of your investments can go down as well as up, and you might get back less than you invested. Some assets are riskier than others, but higher risk also gives you the potential to earn higher returns.

Before investing, make sure you understand what kind of assets the fund invests in and whether that's a good fit for your investment goals, financial situation and attitude to risk.

SPREADING RISK

Unit trusts and OEICs help you to spread your risk across lots of investments without having to spend a lot of money.

Most unit trusts and OEICs allow you to sell your shares or units at any time – although some funds will only deal on a monthly, quarterly or twice-yearly basis. This might be the case if they invest in assets such as property, which can take a longer time to sell.

INVESTMENT LENGTH

However, bear in mind that the length of time you should invest for depends on your financial goals and what your fund invests in. If it invests in shares, bonds or property, you should plan to invest for five years or more. Money market funds can be suitable for shorter time frames.

If you own shares, you might get income in the form of dividends. Dividends are a portion of the profits made by the company that issued the shares you've invested in.

TAXED DIVIDENDS

If you have an investment fund that is invested in shares, then you might get distributions that are taxed in the same way as dividends.

In April 2016, a new tax-free Dividend Allowance of £5,000 a year was introduced for all taxpayers (this tax-free allowance will fall to £2,000 in April 2018).

Dividends above this level are currently taxed at:

- 7.5% (for basic-rate taxpayers)
- 32.5% (for higher-rate taxpayers)
- 38.1% (for additional-rate taxpayers)

Any dividends received within a pension or Individual Savings Account (ISA) will remain effectively tax-efficient.

Basic-rate payers who receive dividends of more than £5,000 need to complete a self-assessment return. ■

With-profits funds

Stock market return linked but with fewer ups and downs than investing directly in shares

If you save regularly or invest a lump sum using a life insurance policy, you might choose to invest in a with-profits fund. These aim to give you a return linked to the stock market but with fewer ups and downs than investing directly in shares. However, they are complex and are not as popular a form of investing as they used to be.

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 is called 'smoothing'. 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 to 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. ■

Investment trusts

Public company aiming to make money by investing in other companies

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 – this is usually 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'.

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. Its 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.

As of April 2016, all individuals are eligible for a £5,000 tax-free Dividend Allowance (this tax-free allowance will fall to £2,000 in April 2018). Dividends received by pension funds or received on shares within an Individual Savings Account (ISA) will remain tax-efficient and won't impact your dividend allowance.

TAX-EFFICIENT

Many unit trusts can be held in an 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. ■

Stocks & Shares ISAs

Investing in a wide range of different tax-efficient investments

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.

A Stocks & Shares ISA is a wrapper that can be put around a wide range of different investment products to help save you tax.

A number of different types of investment can be held in an ISA, including:

- Unit trusts
- OEICs (Open-Ended Investment Companies)
- Investment trusts
- Exchange traded funds
- Corporate and government bonds
- Individual stocks and shares

WHOLE ALLOWANCE

You can pay a total of £20,000 a year into an ISA in the current 2017/18 tax year. The whole allowance of £20,000 can be paid into a Stocks & Shares ISA, a Cash ISA, or a combination of these.

Your yearly ISA allowance expires at the end of the tax year, and any unused allowance will be lost. It can't be rolled over to the following year. You can choose between making a lump sum investment and/or making regular or ad hoc contributions throughout the tax year.

INVESTMENT VALUE

Any increase in value of the investments in your Stocks & Shares ISA is free of Capital Gains Tax, and most income is tax-efficient.

You can only pay into one Stocks & Shares ISA in each tax year, but you can open a new ISA with a different provider each year if you want to. You don't have to use the same provider for your Cash ISA if you have one.

ISA RULES ON DECEASED SPOUSE ISA TRANSFERS

ISA rules introduced in April 2015 now permit the surviving partner of a spouse or registered civil partner who died on or after 3 December 2014 to receive an additional ISA allowance equal to the value of the deceased's ISA savings at the time of death.

TRANSFERRING ISAS

Should you wish to switch your current or previous year's ISA to a different provider's ISA while simultaneously keeping future tax benefits intact, you have to arrange for a transfer rather than selling and reinvesting.

All ISA providers have to allow transfers out, but they don't have to allow transfers in. You can transfer money from a Cash ISA to a Stocks & Shares ISA.

If you transfer an ISA that you have paid into during the current tax year to a new provider, you must transfer the whole balance. For ISAs from previous years, you can choose how much to transfer.

For most of the investments you would put into a Stocks & Shares ISA, the value can go can go down as well as up, and you might get back less than you invested. The level of risk in your Stocks & Shares ISA will depend on the investments you choose to put into it. ■

Lifetime ISA

Helping you save for a first home or for your retirement at the same time

The start of the tax year on 6 April 2017 saw the launch of the Lifetime ISA (LISA), which was announced in the 2016 Budget. This new type of ISA is designed to help you save for a first home or for your retirement at the same time. To be eligible, you have to be aged between 18 and 39 years old (up until your 40th birthday).

SUPPLEMENTED BY A GOVERNMENT BONUS

You can save up to £4,000 a year into a LISA, and this will be supplemented by a government bonus of 25% of the money you put in. After year one, the bonus will be paid into your account monthly based on how much you pay in, but in the first year it will be paid in one lump sum at the end of the tax year.

The maximum bonus that you can receive is £1,000 each year. You'll obtain a bonus on any savings you make up until you reach 50 years of age, at which point you won't be able to make any more payments into your account. You only receive the bonus on the new money that you pay in (or transfer from another ISA) during the tax year, rather than it being based on the overall value of your LISA.

COMBINATION OF DIFFERENT ISA TYPES

You will be able to have any combination of different ISA types and a LISA at the same time. For example, if you have a Cash ISA and a Stocks & Shares ISA already, you can also have a LISA. You can't pay in more than the annual ISA allowance however, which in the 2017/18 tax year (that started on 6 April) is £20,000, with a maximum of £4,000 going into the LISA. The ISA allowance relates to each person and not per household, so two first-time buyers could both receive a bonus when buying their first home together.

If you already have a Help to Buy: ISA, you'll be able to transfer your balance into a LISA at any time if the amount doesn't exceed £4,000. In the tax year 2017/18 only, you'll be able to transfer the full balance of your Help to Buy: ISA – as it stood on 5 April 2017 – into your LISA without affecting the £4,000 limit. Alternatively, you could keep your Help to Buy: ISA and open a LISA, although you'll only be able to use the bonus from one of these accounts towards buying your first home.

APPROACH TO RISK, INVESTMENT TIME FRAME AND MAKING INVESTMENT DECISIONS

LISAs can hold cash, stocks and shares qualifying investments, or a combination of both. The option that is right for you will depend on your approach to risk, your investment time frame and how confident you are making your own investment decisions.

You will be able to use funds held in a LISA after 12 months to buy a first home valued up to £450,000. You must be buying your home with a mortgage. Alternatively, after your 60th birthday, you will be able to take out all your savings from your LISA tax-efficiently for use in retirement.

CONTINUING TO SAVE INTO YOUR LISA

A LISA can be accessed like a normal ISA at any time for any reason, but if not used as above, you'll have to pay a withdrawal charge of 25% of the amount you withdraw (being the government bonus plus a penalty of 5%). However, this withdrawal charge won't apply if you decide to cash in your account during the first 12 months after its launch.

If you want to use your LISA to save for a property as well as for retirement, once you've bought your first home, you will be able to continue saving into your LISA as you did previously. You'll continue to receive the government bonus on your contributions until you reach the age of 50. ■

Investment bonds

Life insurance policies where you invest 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, 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.

You invest a lump sum – the minimum is usually between £5,000 and £10,000. Most investment bonds are whole of life. There is no minimum term usually, 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

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. When added to your other income for the tax year, if the resulting figure 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, and 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 the products listed in the next table. Once again, there are lots of different strategies and risk levels to choose from.
Insurance company funds	Investment funds run by life insurance companies. When you invest through an insurance or pension product, you often choose how your money is invested. The choice 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).
Investment products (indirect)	**Overview**
Stocks & Shares ISAs	A tax-efficient way of investing in shares or investment funds, up to an annual limit. Many unit trusts and OEICs come pre-packaged as ISAs. Alternatively, you can choose for yourself which investments and funds to put in your ISA.
Workplace pension	A way of investing for the future, with a contribution from your employer and tax relief from the Government. Your money is invested in pooled funds.
Personal pension	A way of investing for the future, with tax relief from the Government. You can use it instead of or as well as a workplace pension. Your money is invested in pooled funds.
Investment bonds	A life insurance contract that is also an investment vehicle. You invest for a set term or until you die.
Endowment policies	A life insurance policy that is also an investment vehicle. It aims to give you a lump sum at the end of a fixed term. Often, you choose which investment funds to have in your policy.
Whole-of-life policies	A way of investing a regular amount or a lump sum as life insurance. It pays out on death, and is often used for estate planning. Often, you choose which investment funds to have in your policy.

Looking for a clearer picture about your financial plans?

Lifestyle planning will help you stay in control of your financial future by giving a more holistic planning approach and clearer picture of the consequences of change on an ongoing basis. It also helps to give an idea of when certain key decisions should be made, such as retiring early or downsizing a property.

For more information, or to discuss how we could assist you, please contact us.

This guide is for your general information and use only, and is not intended to address your particular requirements. The content should not be relied upon in its entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of the content. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts. Levels and bases of, and reliefs from, taxation are subject to change and their value depends on the individual circumstances of the investor. The value of your investments can go down as well as up and you may get back less than you invested. All figures relate to the 2017/18 tax year, unless otherwise stated.

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