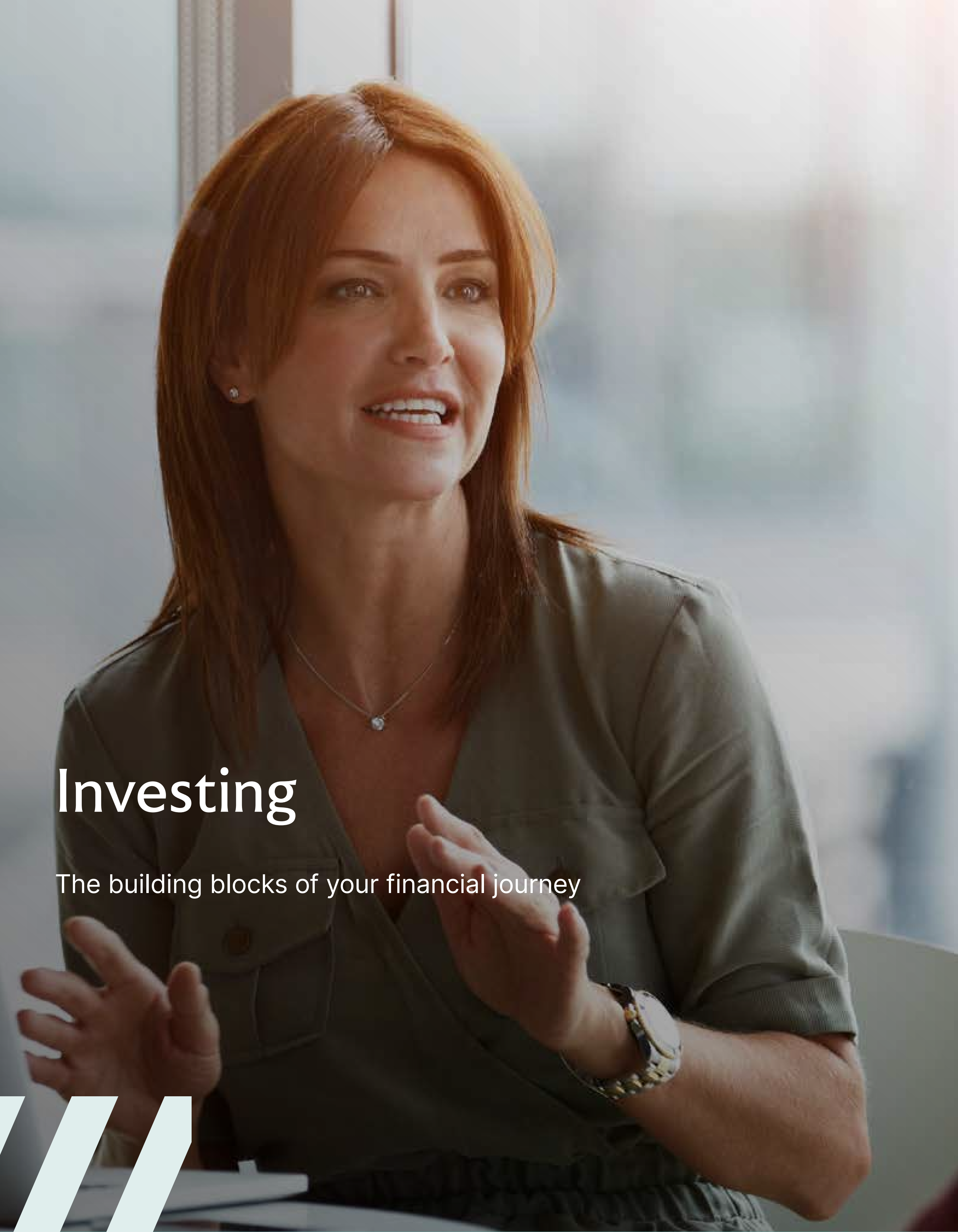


# Investing

The building blocks of your financial journey

WREN STERLING

# Why invest?

**Welcome to Wren Sterling's concise guide to investments. This guide is designed to give you a useful background to investing, rather than advise you on making investments, which is very much down to your individual circumstances.**

We explain the building blocks behind building your investments, as well as the influencing factors behind creating a personalised financial plan, including risk and your aspirations. These building blocks are called 'asset classes' and they are what your financial adviser will use in varying measures to build your investment strategy.

### Why invest in the first place?

Investing can give your money the potential to work harder. If you have a lump sum, leaving it in a deposit account may not be enough to protect it from inflation, which over time may reduce the value of your money.
For example, to keep pace with the average rate of inflation between 2010 and 2019, you would need an investment paying 2.9% a year (as this is the average rate of inflation in that period). For what you could buy for £1 in 2010, you would need £1.50 at the end of 2024.*

### What are the asset classes?

The four main asset classes that are available to draw on for investment purposes are:

- Cash
- Fixed interest (Bonds)
- Property
- Shares

## What do you want from your money?

Aligning your money and future income to your long term goals is the cornerstone of financial planning. Depending on your life stage, you could be looking for different things.

For example, it may be to pay university fees for your children, to provide additional income in retirement or save for a rainy day. Everybody is different but most people want their money to work as hard as possible for them.

## How can I try to beat inflation and achieve my financial goals?

You could move some of your money into different asset classes, where it could grow at a faster rate. Of course, with the potential for growth comes a risk that you may not get back all the money you invest.

This guide is designed to help you understand your options and consider how a combination of the different asset classes can work together to create the right risk balance in your portfolio.
If you have any questions when you have finished reading this guide, you should discuss them with your financial adviser.

The value of your investments can go down as well as up, so you could get back less than you invested.

*Source: bankofengland.co.uk/monetary-policy/inflation/inflation-calculator

# Performance over time

We believe that the purpose of investing is to help our clients achieve their long-term goals, while saving for the short term. When considering investing, it's important to remember that returns are not guaranteed. While the markets generally trend upwards it is not possible to read the market, and investing for short periods means there is less time to regain any losses.
Our recommendations typically utilise different asset classes to reduce volatility without reducing the potential for growth.

## How £100,000 would have grown in the last 20 years

The chart below illustrates how £100,000 grew from January 2005 to 2025. Although there were ups and downs, £100,000 invested in equities or a balanced portfolio (a combination of equities and other lower risk investments) has typically provided more in returns than other routes.


*The data for the Balanced 60:40 portfolio is built from the MSCI All Countries World Index and Barclays Global Bond Aggregate. Data provided by FE. Care has been taken to ensure that the information is correct but it neither warrants, represents nor guarantees the contents of the information, nor does it accept any responsibility for errors, inaccuracies, omissions or any inconsistencies herein. www.financialexpress.net Investments can down as well as up and you could get back less than you invested.  Past performance is no guarantee of future results. Past performance is not a guide to future performance. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested.

# Understanding risk

## How do the four asset classes rank for risk?

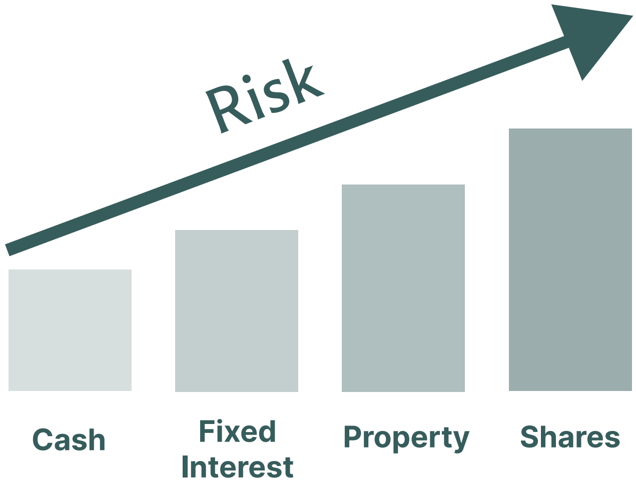
Each of the four main asset classes has a different level of risk. Cash is typically the safest, while shares carry the most risk.

Managing risk is an important role for any financial adviser and risk management is designed to meet your long term financial goals, determining the split of your assets across the different classes.

## What does risk mean for me?

It is important that you understand, and feel comfortable with, the level of risk involved in any investments you make. There are a number of factors to consider:

- Your personal financial situation: how much risk can you afford to take?
- Your investment goals: what level of potential return would you like?
- Your timescale: how long do you want to leave your money invested? Investments should be held for the medium (at least 5 years) to long (over 10 years) term.




The diagram is for guidance purposes only.
Always seek advice before investing.

# Investment risk categories and grades

Consider these seven risk categories. If you recognise yourself in one of these groups, this may be able to help understand individual risk preferences.
We will assess your attitude to risk as part of your financial planning, and any recommendation we make will be designed with this in mind.

## 01

### Cautious

If your attitude to accepting risk is in the 'lowest' category, you're likely to be concerned about the possibility of losing money.
This indicates a preference for minimal to low-risk investments such as cash and fixed interest because it is much more important to you that investments do not fall in value.

## 02

### Cautious to moderate

You may prefer a mix of mainly lower-risk and medium-risk investments with some higher-risk investments. You would probably still be concerned with the possibility of losing money. You may feel it is more important that the value of your investments does not fall than that it retaining its purchasing power.

## 03

### Moderate risk

You may prefer investments which include a mix of higher-risk investments and predominantly lower and medium-risk investments.

For most, growth allowing the capital to retain its purchasing power is the most important aspect, although it is also somewhat important that the value does not fall.

## 04

### Moderate to adventurous

An investor in this bracket usually indicates a preference for investments which include an equally balanced mix of lower, medium-risk investments such as cash, and bonds, and higher-risk investments.

## 05

### Adventurous risk

You may prefer a more adventurous approach that values investment returns ahead of the possibility of losing money. Your investment strategy is likely to include a balanced mix of high-risk investments such as shares and lower-risk and medium-risk investments such as cash, and fixed interest.

For most, it is more important that the value of their investments retains its purchasing power than that it does not have a temporary fall.

## 06

### Adventurous to high

This category indicates a preference for investments which include a mix of predominantly higher-risk investments and some lower-risk and medium-risk investments such as cash, and fixed interest.

Investors in this category generally see risk as opportunity and are prepared to take a medium to large risk with their financial decisions.

You should be aware that your investments are at a higher risk of losing money.

## 07

### High risk

If you recognise yourself at the highest point of the attitude to risk scale, this indicates a preference for higher-risk investments, such as shares.
You may feel that it is more important that the value of investments retain their purchasing power and are less concerned by temporary falls in value. You're unlikely to invest in low or medium-risk investments as you typically look for potential gains before analysing the risks, understanding that you are at a higher risk of losing money.

# Investing in your values

**Traditional investing takes an investor's need for returns and attitude to risk into account. With Sustainable Investing, your money can influence positive change and support causes you care about.**

Investment advice already considers your personal situation, investment goals, attitude to risk and timescales, all of which your adviser will discuss with you. Sustainable investing simply adds another layer.

Your adviser will discuss your preferences with you and use these when making their recommendation. We may not be able to design a solution that matches your exact combination of risk, returns and investment goals. However, we will produce a report which will outline our reasoning for our recommendation.

## How do you want to invest?

Do you want to focus only on investment returns, or would you also like to consider creating a positive return for people and the planet? Which causes do you care about?

## ← Sustainable investing →

### Traditional

Traditional investing considers funds **for the financial return** they provide.

### Responsible

Responsible investing aims to **avoid harm** and prevent significant negative outcomes for people and the planet. Some investments may be excluded for ethical, values or religious reasons.

### Sustainable

Sustainable investing has long term positive outcomes and **benefits a range of people and the planet**. It is actively engaged in positively screened investments.

### Solution focused*

Solution focused investing aims to create **important outcomes for specific goals** and causes.

### Philanthropy

*While **solution focused** approaches do deliver competitive financial returns, you can choose to sacrifice returns in order to create a greater positive impact on people and the planet.

Source: Uscreates Impact Investing tool

The value of an investment can go down as well as up, your capital is at risk.

# Diversification and risk

By spreading your investment amongst the different asset classes, you can reduce the combined risk of your investments even though the risks specific to each individual asset class remain unchanged. This principle is known as 'diversification'.

Put simply, diversification means holding a wide range of investments in order to limit your dependence on any one company, property or asset class. This is where your financial adviser can offer added value. Your diversification strategy should be specific to your current situation and future financial aspirations.

It's important to remember that the four asset classes do not usually respond in the same way to changing economic conditions. The aim therefore is that by spreading the investments over the asset classes, potential losses in one asset class could be offset by gains in another. There is however no guarantee that this strategy can work all of the time as the effect of changing economic conditions is so complex. Similarly, your situation could change, so it's important to regularly review your plans.

| | |
|---|---|
| Cash | Fixed interest (Bonds) |
| Property | Shares |

**Important**

Past performance is not a guide to future performance. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. Stocks and shares carry more risk, and are subject to more risk than other asset classes. We suggest you speak to an adviser If you are not sure as to the right investment for you.

As property is a specialist sector it can be volatile in adverse market conditions, there could be delays in realising the investment.

Property valuation is a matter of judgement by an Independent Valuer therefore it is generally a matter of opinion rather than fact.

Wren Sterling do not provide advice on purchasing direct shares, property and bonds but would instead look at a range of pooled investment funds where investors money is pooled with other investors in a single fund. The fund manager uses the fund to invest in asset classes through through various different securities and financial instruments.

# Asset classes

## Cash

When we talk about 'cash' in investment terms, we mean money that is invested in banks, building societies and other organisations to produce interest.

Although cash rarely offers high returns, it is one of the safest ways to invest your money. In addition, the Financial Services Compensation Scheme protects up to £85,000 of cash held in a UK bank or building society (per individiual, per banking license). For this reason, it is always sensible to keep at least part of your money in this asset class.

### Potential advantages

1. Easy to understand - most people have experience of cash investments.
2. Security - cash investments are one of the safest ways to invest your money.
3. Easy access - deposit accounts usually give you easy access to your money.
4. Tax - using your personal savings allowance each year is a very tax efficient way to save.
5. Predictable returns - make it easier to anticipate how much your investment can grow each year.

### Potential disadvantages

1. Modest returns - cash investments usually produce lower returns than other asset classes over the longer term.
2. Vulnerable to inflation - inflation can devalue your money in real terms.
3. Interest rates can fall - interest is normally paid into your bank or building society account each year. If interest rates drop and stay low, your investment may grow more slowly than you anticipated.

# Fixed interest (bonds)

When we talk about fixed interest investments, we mean bonds. Bonds are loans to a government or a company (corporate) for a set period, returning a fixed income. Government bonds in the UK are also known as gilts (short for gilt edged securities).

There are different types of bonds. The two most common in the UK are conventional bonds and index-linked bonds. These names refer to the basis on which income is paid.

- Conventional bonds pay the same fixed rate of interest throughout their lives.
- Index-linked bonds pay interest that is linked to inflation and compensates the investor for rises in the cost of living.

Corporate bonds usually carry a higher rate of interest than government bonds, because they are higher in risk. This is because they do not have a government's stature behind them.

Bonds can be bought and sold prior to their maturity date (the date when the fixed interest rate period expires). The price paid for your bond at this time could be more or less than your original investment.

## Potential advantages

1. Predictable returns - conventional bonds offer a fixed rate of return and repayment of your original investment on a set maturity date.
2. Good for financial planning - bonds could make it easier to plan for the future with confidence.
3. Generally more secure than shares - especially government bonds and corporate bonds from large, successful companies.
4. Bonds can still do well when stock markets are unsettled and so are often seen as an attractive alternative to shares. However, on occasions, bonds have dropped in value in times when the stock markets have also been falling.

## Potential disadvantages

1. Inflation - bonds are vulnerable to inflation unless index-linked and held to maturity.
2. Accessibility - you may need to be prepared to leave your bond invested until it matures to get maximum value, so it shouldn't be seen as rainy day money
3. Some risk - if a company cannot repay the loan, you could lose all your money.

# Asset classes continued

## Property

As an investment asset class, property usually means investing in commercial property such as offices, retail, leisure and industrial developments. It can also include residential property.

A major attraction of property investment is that the success of the venture depends on professional property management. Successful maintenance, repairs, refurbishment, and tenancy arrangements can all add value. Both the rental income and capital value of a property can be enhanced in this way. Commercial and residential property have different risk profiles and returns in one market do not necessarily follow the other.

### Potential advantages

1. Regular income – property usually generates a regular income from rent.
2. Capital growth – the market value of property can increase over time.
3. Keeps pace with inflation – rents typically increase at least as fast as inflation, protecting the value of your income.
4. Relatively stable – property investments have been generally less volatile than shares over the last 20 years, but past performance is not a guide to the future and there have already been some fluctuations during that period.
5. A physical asset – property is a tangible investment, which can be easier to relate to for investors

Think carefully before securing other debts against your property. Your property may be repossessed if you do not keep up repayments on your mortgage. The Financial Conduct Authority does not regulate some aspects of commercial mortgages.

Property investments may be illiquid and may be difficult to realise.

### Potential disadvantages

1. Property takes time - shares can be bought and sold in seconds, but property takes time to buy, market and sell. Money tied up in property may be less accessible than other investments.
2. Risks to income - gaps in tenancies or tenants defaulting on rent payments could interrupt your income.
3. Market fluctuations – the value of property can fall as well as rise, particularly in certain areas or with certain types of property (such as bars or restaurants), so you could get back less than you invested. The amount of rent that property attracts can fluctuate with market conditions, so rental income cannot be guaranteed.
4. Additional costs - there are costs involved with buying and maintaining property such as legal fees, stamp duty, insurance and survey fees.
5. Property value - the value of properties is generally a matter of a valuer's opinion and not  fact.

# Shares

Shares are also known as equities. Owning shares in a company means you own a part of it, and have a share in the value of the company's assets, through its share price. It also means you can have a share of the company's profits by receiving dividends.

Dividends are payments from a company's profits to its shareholders and are usually paid quarterly or annually a year. Share prices follow the fortunes of the company, whether they are good or bad.
Shares are bought and sold on stock markets and their prices can go up and down. Over the last 20 years, shares have been the most volatile asset class. This means there have been times where they have risen rapidly, but also crashed, notably in 2008 and 2020. 2008 was the worst year on record for the UK's FTSE 100 index, when its value fell by 31 per cent.*
Shares are generally considered to be a long term investment, and historically, time in the market has produced positive returns.

## Potential advantages

1. No upper limit – shares offer potentially higher returns than other investments.
2. Growth – if share prices rise, the value of your original investment will also increase.
3. Regular income – during the good times, shares can produce regular dividend payments.
4. Spread your risk – by holding lots of different shares from different companies you can reduce your dependence on the performance of one company.

## Potential disadvantages

1. Higher risk – shares have the highest level of risk amongst the four main asset classes.
2. Potential losses – shareholders accept a share of a company's bad times as well as the good. The value of a share can go down as well as up and you could lose some or all of your original investment.
3. Dividends are not guaranteed – a company does not have to pay dividends. If it is performing poorly they can be reduced or stopped entirely. A company may also decide to invest more of its profits back into the business, temporarily reducing dividends.
4. Dealing charges – you usually buy and sell shares through a stockbroker, who will charge you a fee for this service.

*Source: www.telegraph.co.uk/finance/markets/4045001/FTSE-100-suffers-worst-ever-year.html

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