
The
building
blocks
of your
financial
journey

INVESTMENTS


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 worth 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). What you could buy for £1 in 2010, you would need £1.29 in 2019.*

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.

What are the asset classes?

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

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

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 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.

*Source: [bankofengland.co.uk/monetary-policy/inflation/inflation-calculator](https://www.bankofengland.co.uk/monetary-policy/inflation/inflation-calculator)

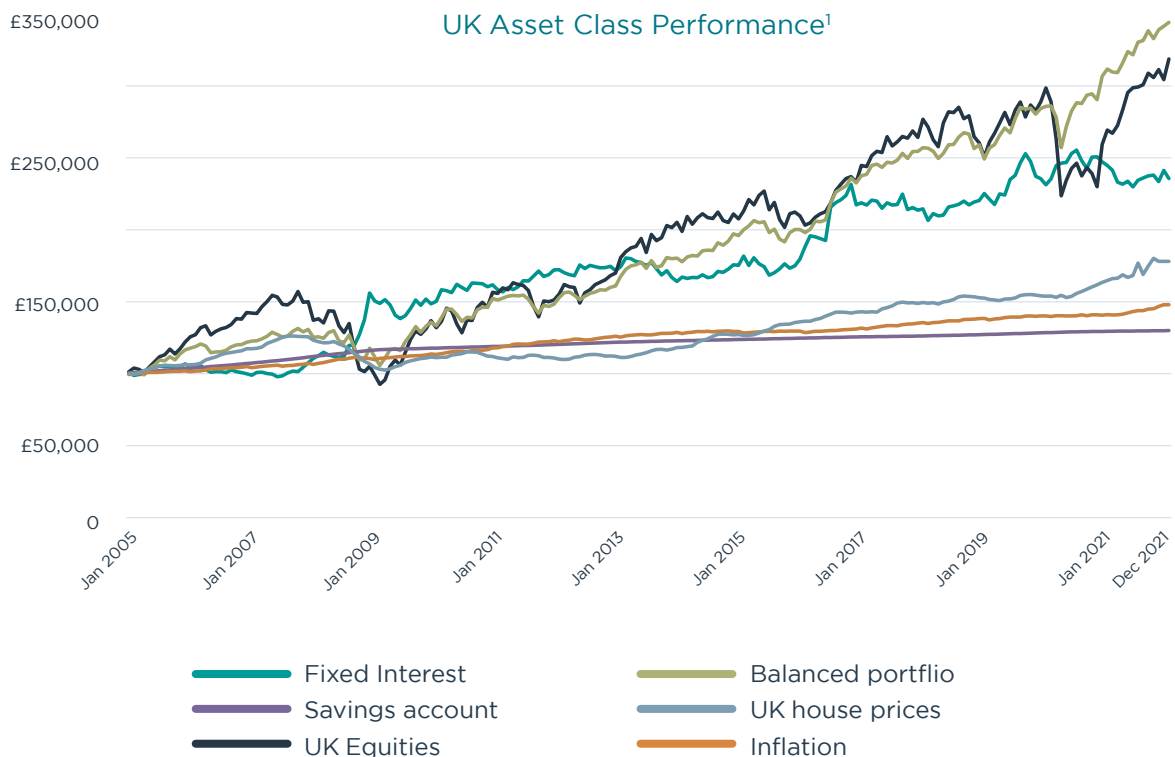
Performance over time

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 16 years

The chart below illustrates how £100,000 grew from January 2005 to December 2021. 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 returned significantly more in returns than other routes.²



¹ www.schroders.com/en/insights/economics/what-is-an-isa-cash-vs-stocks-and-shares-isa/

² www.bankofengland.co.uk/monetary-policy/inflation/inflation-calculator

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

Understanding risk

How do the four asset classes rank for risk?

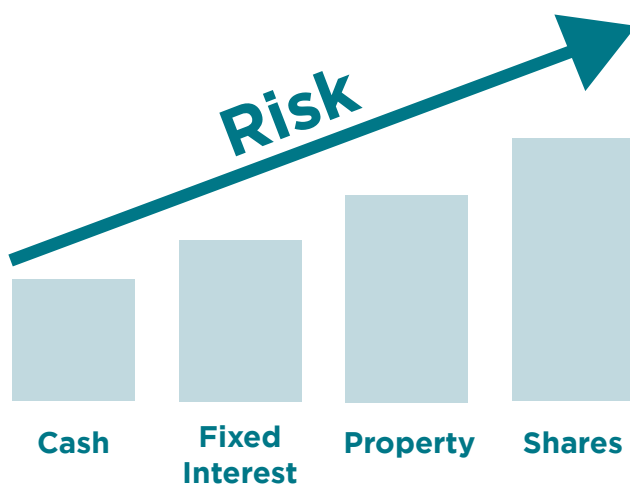
Each of the four main asset classes has a different level of risk. Cash is typically the safest, while shares carry the most risk.

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.



Please note that this is a general guide

Investment risk categories and grades

These risk categories give you an idea of how a financial adviser might respond to your individual risk preferences. If you recognise yourself in one of these personas, it's likely that your financial planning will be aligned to them:

- 1 As 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.
- 2 Although identifying oneself in this category indicates a preference for investments which include a mix of higher-risk investments and lower-risk and medium-risk investments, you would probably still be most concerned with the possibility of losing money.
For most, it is somewhat more important that the value of their investments does not fall than that it retains its purchasing power.
- 3 This risk profile indicates a preference for investments which include a mix of higher-risk investments and predominantly lower and medium-risk investments.
For most, growth so that the capital retains purchasing power is the most important aspect, although it is also somewhat important that the value does not fall.
- 4 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.
- 5 Risk group 5 suggests a more adventurous approach to investment 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 somewhat more important that the value of their investments retains its purchasing power than that it does not fall.
- 6 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.
- 7 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.
For you, it is much more important that the value of investments retain their purchasing power than seeing 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.

How accurate are the risk categories?

These categories are simply a guide. Fund values will normally fall and rise in line with movements on the investment markets. This is known as volatility. Over time your financial adviser may suggest a change in the funds a client may hold within their portfolio to track any changes in the markets or your personal circumstances and aspirations. This may mean that funds move from one risk category to another.

Investing in your values

Traditional investing takes an investor's need for returns and attitude to risk into account. With Impact 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. Impact 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?

← Impact Investing →

Traditional	Responsible	Sustainable	Solution focused*	Philanthropy
Traditional investing considers funds for the financial return they provide.	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 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 investing aims to create important outcomes for specific goals and causes.	*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.

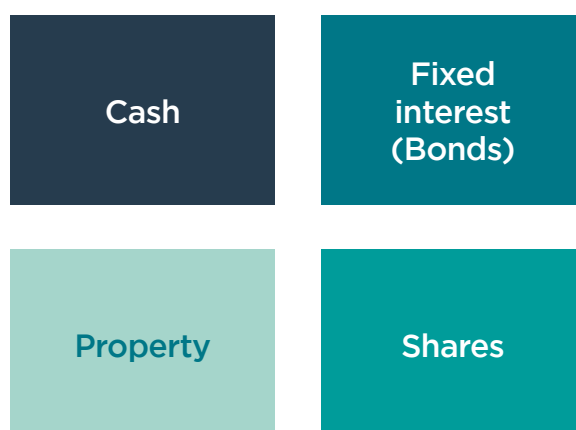
Source: Uscreates Impact Investing tool
The value of an investment can go down as well as up, your capital is at risk.

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.



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. The stocks and shares ISA carries more risk and is subject to greater volatility than the cash ISA. 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.

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 individual). For this reason, it is always sensible to keep at least part of your money in this asset class.

POTENTIAL ADVANTAGES

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

POTENTIAL DISADVANTAGES

- **Modest returns** - cash investments usually produce lower returns than other asset classes over the longer term.
- **Vulnerable to inflation** - inflation can devalue your money in real terms.
- **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. At the moment, interest rates are historically low.

Asset classes:

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

- **Predictable returns** - conventional bonds offer a fixed rate of return and repayment of your original investment on a set maturity date.
- **Good for financial planning** - bonds could make it easier to plan for the future with confidence.
- **Generally more secure than shares** - especially government bonds and corporate bonds from large, successful companies.
- **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

- **Comparatively low returns** - even when markets are strong, returns on a bond are limited to the amount stated at the outset.
- **Inflation** - bonds are vulnerable to inflation unless index-linked and held to maturity.
- **Accessibility** - you really 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
- **Some risk** - if a company cannot repay the loan, you could lose all your money.

Asset classes: 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

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

POTENTIAL DISADVANTAGES

- **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.
- **Risks to income** - gaps in tenancies or tenants defaulting on rent payments could interrupt your income.
- **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.
- **Additional costs** - there are costs involved with buying and maintaining property such as legal fees, stamp duty, insurance and survey fees.
- **Property value** - the value of properties is generally a matter of a valuer's opinion and not fact.

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.

Asset classes:

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 twice 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

- **No upper limit** – shares offer potentially higher returns than other investments.
- **Growth** – if share prices rise, the value of your original investment will also increase.
- **Regular income** – during the good times, shares can produce regular dividend payments.
- **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

- **Higher risk** – shares have the highest level of risk amongst the four main asset classes.
- **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.
- **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.
- **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

Where we are

We have advisers throughout the UK, based in seven regional offices.

Need to speak to us?

T: 0370 1432 100

E: contactus@wrensterling.com

W: wrensterling.com

Glasgow	T: 0141 341 5240
Halifax	T: 0333 0438900
Nottingham	T: 0115 908 2500
Warwick	T: 0333 043 9001
Grantham	T: 01476 560 662
London	T: 0370 1432 100
Surrey	T: 01932 481069



The value of an investment can go down as well as up. Investors may get back less than their original investment.

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