A Guide to

INVESTMENT PLANNING

Balancing the risks you are comfortable with alongside the potential rewards

A Guide to Investment Planning

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If you are just getting started with investing or if you're looking to improve your expertise, 'A Guide to Investment Planning' is full of guidance and information that will really help you make the most of your money.

Saving and investing is about balancing the risks you are comfortable with alongside the potential rewards. As a general rule, the higher the risk, the bigger the potential rewards - but also the potential losses. We understand that every investor is unique and complex, which has led us to develop a highly innovative approach to investment. We believe it significantly improves the management of our clients' investments.

Whatever your investment objectives are for the long term, it is prudent to set aside short-term savings to meet any future emergencies. This should be held where you can access your money easily. Your investment goals and attitude to risk for return are personal and may change over time, particularly as you near retirement.

There are, of course, times in our lives when saving money may be difficult (for example, when studying or bringing up children), but it is important to look ahead. Saving little by little out of your income or investing lump sums when you can all helps. Holding savings for a long time means they can grow in value as well.

PLEASE NOTE THAT THIS IS A GENERAL GUIDE DESIGNED TO HELP YOU THINK ABOUT YOUR INVESTMENT NEEDS. IT DOES NOT PROVIDE SPECIFIC ADVICE. IF YOU ARE UNSURE OF YOUR FINANCIAL POSITION OR ABOUT WHICH TYPE OF INVESTMENT IS RIGHT FOR YOU, PLEASE CONTACT US FOR FURTHER INFORMATION.

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Investment goals

What do you want to achieve from your investments?

You may find your investment goals change if you get married, have children, or start a business, so it could be an idea to switch your investments into different funds. And as you approach retirement, you may want to move your money gradually into investments that offer more security.

There are different types of risk involved with investing, so it's important to find out what they are and think about how much risk you're willing to take. It all depends on your attitude to risk and what you are trying to achieve with your investments.

THINGS TO THINK ABOUT BEFORE INVESTING

- How much can you afford to invest?
- How long can you afford to be without the money you've invested (most investment products should be held for at least five years)?
- What do you want your investment to provide – capital growth (your original investment to increase), income or both?
- How much risk and what sort of risk are you prepared to take?
- Do you want to share costs and risks with other investors (by using a pooled investment, for example)?
- If you decide to invest using pooled investments, consider which type would be most suitable for you. The main differences between pooled investments are the way they pay tax and the risks they involve (especially investment trusts and with-profit funds).
- What are the tax benefit implications, what tax will you pay and can you reduce it?

WHAT AM I INVESTING FOR?

You may be looking for an investment to provide money for a specific purpose in the future. Alternatively, you might want an investment to provide extra income. So having decided that you are in a position to invest, the next thing to think about is: 'What am I investing for?' Your answer will help you to choose the most suitable type of investment for you. If you have a particular goal, you will need to think about how much you can afford and how long it might take you to achieve your goal.

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INVESTMENT GOALS

Your investment goals should determine your investment plan, and the time question 'How long have I got before I need to spend the money?' is crucial.

Generally, the longer it is before you need your money, the greater the amount of risk you are able to take in the expectation of greater reward. The value of shares goes up and down in the short term, and this can be very difficult to predict, but long term they can be expected to deliver better returns. The same is true to a lesser extent of bonds. Only cash offers certainty in the short term.

Broadly speaking, you can invest in shares for the long term, fixed interest securities for the medium term and cash for the short term.

ASSET MIX

As the length of time you have shortens, you can change your total risk by adjusting the 'asset mix' of your investments – for example, by gradually moving from share investments into bonds and cash. It is often possible to choose an option to 'lifestyle' your investments, which is where your mix of assets is risk-adjusted to reflect your age and the time you have before you want to spend your money.

Income can be in the form of interest or share dividends. If you take and spend this income, your investments will grow more slowly than if you let it build up by reinvesting it. By not taking income you will earn interest on interest and the reinvested dividends should increase the size of your investment, which may then generate further growth. This is called 'compounding.'

THE PERFORMANCE OF YOUR INVESTMENTS COULD MAKE A CRITICAL DIFFERENCE TO YOUR FINANCIAL WELLBEING IN THE FUTURE, SO RECEIVING PROFESSIONAL FINANCIAL ADVICE IS ESSENTIAL. PLEASE CONTACT US TO DISCUSS YOUR PARTICULAR SITUATION.

Diversification

Don't put all your eggs in one basket

When deciding whether to invest, it is important that any investment vehicle matches your feelings and preferences in relation to investment risk and return. Hence your asset allocation needs to be commensurate with your attitude to risk. Another key question to ask yourself is: 'How comfortable would I be facing a short-term loss in order to have the opportunity to make long-term gains?' If your answer is that you are not prepared to take any risk whatsoever, then investing in the stock market is not for you.

However, if you are going to invest, you need to be prepared to take some calculated risk in the hope of greater reward. Risk is an implicit aspect to investing: shares can fall, economic conditions can change and companies can experience varying trading fortunes.

The process of deciding what proportion of your investment portfolio should be invested in the four main different types of investment is called 'asset allocation'.

EQUITIES

The risks related to investing in equities can be reduced if you invest through an equity fund. A fund manager selects a range of equities so you are less reliant on the performance of any one company.

It also means that you don't have to choose the right companies to invest in yourself, but can rely on the knowledge and experience of the fund manager to choose companies which they feel will perform the best.

Most equity funds come into one of the following categories:

Growth funds - these aim to achieve long-term capital growth. The fund manager selects companies which show the best potential for increasing their share price.
Income funds - these aim to generate an attractive income for investors. The fund manager will try to select companies that pay regular dividends. Their share prices tend to be less volatile than those of other companies.

BONDS

Bonds are loans issued by companies (corporate bonds) or by governments (gilts in the UK and treasury bonds in the US) in order to raise money. In effect they are IOUs that promise to pay your money back on a specified date and pay a fixed rate of interest along the way.

On the whole, investing in bonds is seen as lower-risk than investing in equities. Gilts are very low-risk. It is considered unlikely that the UK government will fail to pay back money owed to investors. But with corporate bonds there is a risk that the company may not be able to repay its loan or that it may default on its interest payments.

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CASH

Cash accounts are considered the safest form of investment. Bank and building society accounts pay regular interest and give fairly easy access to your money. They're a good place for money you may need in the short term, but over the longer term they offer lower potential for growth than equities, bonds or property.

Additionally, your money could be eroded by the effects of inflation and tax. For example, if your account pays 5 per cent but inflation is running at 2 per cent, you are only making 3 per cent in real terms. If your savings are taxed, that return will be reduced even further.

Cash funds use the pooled savings of many investors in order to benefit from higher interest rates that are not usually available to individual investors.

Under current legislation, you can invest in a cash fund as part of your annual Individual Savings Account (ISA) entitlement - up to a maximum of £5,340 each tax year.

Please note that unlike a deposit account, the value of the fund can go down as well as up. The value of tax savings and eligibility to invest in an ISA will depend on individual circumstances, and all tax rules may change in the future.

PROPERTY

Most people who have bought their own home will realise that property can be a good investment - house prices rose significantly in recent years, although this growth has stalled recently. Some people also chose to invest in other properties, such as buy-to-let flats and holiday homes.

DIFFERENT CHARACTERISTICS FOR RISK

These four asset classes have different characteristics for risk. When you are young you may want to invest in assets with a higher potential for growth but greater risk, because you have the time to benefit from their long-term growth. As you get closer to retirement you may want to choose more conservative investments that are steadier in both risk and return.

There is a wide variety of different asset classes available to invest in and commensurate risks attached to each one. While these implicit risks cannot be avoided, they can be mitigated as part of the overall investment portfolio by diversifying.

If you put all of your eggs in one basket, you are more vulnerable to risk. Different investments behave in different ways and are subject to different risks. Saving your money in a range of assets helps reduce the loss, should one of your investments suffer a downturn.

A NEED TO DIVERSIFY

There is also a need to diversify within each type of investment. This is especially important in the case of share and bond investing, but can even be true of cash, where the risks are generally lowest. Putting all your money in one deposit account runs the risk that the interest paid on that account will change relative to other accounts. This could mean that the interest you receive is no longer as good as when you originally invested.

It is important to remember that all investments have a degree of risk. Even choosing not to invest is risky. The key is to get the right balance. Most people need a mix of assets in order to achieve their goals. The mix required depends upon individual needs.

By spreading your investments over a wide range of asset classes and different sectors, it is possible to avoid the risk that your portfolio becomes overly reliant on the performance of one particular asset. Key to diversification is selecting assets that behave in different ways.

DIFFERENT 'STYLES' OF INVESTING

Some assets are said to be 'negatively correlated', for instance, bonds and property often behave in a contrarian way to equities by offering lower, but less volatile returns. This provides a 'safety net' by diversifying many of the risks associated with reliance upon one particular asset. It is also important to diversify across different 'styles' of investing, such as growth or value investing, as well as across different sizes of companies, different sectors and different geographic regions.

Growth stocks are held as investors believe their value is likely to grow significantly over the long term, whereas value shares are held because they are regarded as being cheaper than the intrinsic worth of the companies in which they represent a stake. By mixing styles that could out- or under-perform under different economic conditions, the overall risk rating of the investment portfolio is reduced. Picking the right combination of these depends on your risk profile, so it essential to seek professional advice to ensure that your investment portfolio is commensurate with your attitude to investment risk.

A 'PAPER LOSS'

The important thing to remember with investments is that even if your investment goes down, you will only actually make a loss if you cash it in at that time. When you see your investment value fall, this is known as a 'paper loss' as it is not a real loss until you sell.
If you are going to invest, you need to be prepared to take some risk and to see at least some fall in the value of your investment.
While all investments carry an element of risk, the amount of risk you take directly affects any potential returns and losses. Generally speaking, if there is less risk to your investment, your money will grow more slowly and with more risk your investment may fluctuate more.

CURRENCY RISK

You should also be aware of currency risk. Currencies, for example, sterling, euros, dollars and yen, move in relation to one another. If you are putting your money into investments in another country, then their value will move up and down in line with currency changes as well as the normal share-price movements.

Another consideration is the risk of inflation. Inflation means that you will need more money in the future to buy the same things as now. When investing, therefore, beating inflation is an important aim. Investing in cash may not beat inflation over the long term.

WE CAN HELP YOU MAKE INFORMED DECISIONS ABOUT THE INVESTMENT CHOICES THAT ARE RIGHT FOR YOU BY ASSESSING YOUR LIFE PRIORITIES, GOALS AND ATTITUDE TOWARDS RISK. ANY NUMBER OF CHANGING CIRCUMSTANCES COULD CAUSE YOUR WEALTH TO DIMINISH, SOME INEVITABLE AND SOME UNPREDICTABLE – NEW TAXES AND LEGISLATION, VOLATILE MARKETS, INFLATION AND CHANGES IN YOUR PERSONAL LIFE. STRUCTURING YOUR WEALTH IN A WAY THAT MINIMISES THE IMPACT OF THESE CHANGES IS ESSENTIAL. TO DISCUSS YOUR REQUIREMENTS, PLEASE CONTACT US.

Smoothing out your portfolio's returns

Increasing the long-term value of your investments

In the light of recent market volatility, it's perhaps natural to be looking for ways to smooth out your portfolio's returns going forward. Investing regularly can smooth out market highs and lows over time. In a fluctuating market, a strategy known as pound cost averaging can help smooth out the effect of market changes on the value of your investment and is one way to achieve some peace of mind through this simple, time-tested method for controlling risk over time.

It enables investors to take advantage of stock market corrections, and by using the theory of pound-cost averaging you could increase the long-term value of your investments. There are however no are guarantees that the return will be greater than a lump sum investment and it requires discipline not to cancel or suspend regular Direct Debit payments if markets continue to head downwards.

REGULAR INTERVALS

The basic idea behind pound-cost averaging is straightforward; the term simply refers to investing money in equal amounts at regular intervals. One way to do this is with a lump sum that you'd prefer to invest gradually – for example, by taking £50,000 and investing £5,000 each month for 10 months.

Alternatively, you could pound-cost average on an open-ended basis by investing, say, £5,000 every month. This principle means that you invest no matter what the market is doing. Pound-cost averaging could also help investors limit losses, while also instilling a sense of investment discipline and ensuring that you're buying at ever-lower prices in down markets.

MARKET TIMING

Investment professionals often say that the secret of good portfolio management is a simple one – market timing. Namely, to buy more on the days when the market goes down, and to sell on the days when the market rises.

As an individual investor, you may find it more difficult to make money through market timing. But you could take advantage of market down days if you save regularly, by taking advantage of pound-cost averaging.

SAVINGS HABIT

Regular savings and investment schemes can be an effective way to benefit from pound-cost averaging and they instil a savings habit by committing you to making regular monthly contributions. They are especially useful for small investors who want to put away a little each month.

Investors with an established portfolio might also use this type of savings scheme to build exposure a little at a time to higher-risk areas of a particular market.

The same strategy can be used by lump sum investors too. Most fund management companies will give you the option of drip-feeding your lump sum investment into funds in regular amounts. By effectively 'spreading' your investment by making smaller contributions on a regular basis, you could help to average out the price you pay for market volatility.

Any costs involved in making the regular investments will reduce the benefits of pound cost averaging (depending on the size of the charge relative to the size of the investment, and the frequency of investing).

As the years go by, it is likely that you will be able to increase the amount you invest each month, which would give your savings a valuable boost.

NO MATTER HOW SMALL THE INVESTMENT, COMMITTING TO REGULAR SAVING OVER THE LONG TERM COULD BUILD TO A SIZEABLE SUM. THE KEY TO SUCCESS IS GIVING YOUR INVESTMENT TIME TO GROW.

CHOOSE THE AMOUNT YOU WANT TO INVEST AND SET UP AUTOMATIC DEPOSITS. ONCE THIS IS UP AND RUNNING THE CHANCES ARE YOU WON'T EVEN NOTICE IT GOING OUT OF YOUR MONTHLY BUDGET.

REGULAR INVESTING MAY BE IDEAL FOR PEOPLE STARTING OUT OR WHO WANT TO TAKE THEIR FIRST STEPS TOWARDS BUILDING A PORTFOLIO OF FUNDS FOR THEIR LONG-TERM FUTURE. TO FIND OUT MORE ABOUT THE DIFFERENT OPTIONS AVAILABLE TO YOU, PLEASE CONTACT US.

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TAKING A LONG-TERM VIEW

Remember your reasons for investing in the first place

Stockmarkets can be unpredictable. They move frequently - and sometimes sharply - in both directions.

It is important to take a long term view (typically ten years or more) and remember your reasons for investing in the first place. Be prepared to view the occasional downturns simply as part of a long term investment strategy, and stay focused on your goal.

Historically the longer you stay invested, the smaller the likelihood you will lose money and the greater the chance you will make money. Of course, it's worth remembering that past performance is not a guide to what might happen in the future and the value of your investments can go down as well as up.

TIME TO GROW

Give your money as much time as possible to grow - at least 10 years is best. You'll also benefit from 'compounding', which is when the interest or income on your original capital begins to earn and grow too.

STAYING INVESTED

There will be times of market volatility. Market falls are a natural feature of stockmarket investing. During these times it is possible that emotions overcome sound investment decisions - it is best to stay focused on your long-term goals.

DON'T TRY TO TIME THE MARKET

Resist the temptation to change your portfolio in response to short term market movement. "Timing" the markets seldom works in practice - and can make it too easy to miss out on any gains.

The golden rule to investing is allowing your investments sufficient time to achieve their potential.

Fund focus

Are you investing for growth, income or both?

You should consider whether you are primarily investing for growth, income or both. If you want some income, but no risk to your capital, you could choose a money market or cash fund, which means a professional investor will be working to get the best available interest rates.

If, however, you are willing to take some risk with your capital, you may wish to choose a fund that invests in bonds, which provide a rate of interest higher than is available with cash. Alternatively, there are equity funds that invest in shares of companies and seek to generate income rather than capital growth, aiming to pay out higher than average dividends. Funds that offer a mixture of both shares and bonds are known as managed funds.

LIVING UP TO YOUR EXPECTATIONS

It's also a good idea to check that your funds are living up to your expectations. Don't be too alarmed by short-term disappointments – even the best funds go through difficult patches. However, if your funds are consistently achieving less impressive results than their rivals, it could be time to think about a change.

All funds that invest in shares are subject to the movements of the stock market. A 'passive' fund or 'index tracker' is designed to follow the value of a particular index, such as the FTSE 100. In general, an 'active' fund manager's aim is to reduce risk and generate better returns than the index for long-term investors, through in-depth research and a long-term outlook on companies' development.

WIDER RANGE OF UNDERLYING INVESTMENTS

You might also want to think about whether the fund is 'aggressive'. This usually means that it invests in fewer companies and is, therefore, potentially more risky than a fund adopting a more cautious approach, which is typically likely to have a wider range of underlying investments. Some funds invest mainly in small companies, which also generally implies that they are higher risk than funds investing in larger, usually more established companies.

In the case of share and bond funds, you will want to think about the focus of the fund. Some funds specialise in, for example, a geographical area such as North America, or in a particular sector such as technology. You might want to start with a broadly based fund and then, if you are able to invest more over time, you could choose to add more specialised funds to your overall portfolio.

DIVERSIFYING BETWEEN DIFFERENT TYPES OF INVESTMENT

Mixed funds are funds that diversify between different types of investment, meaning they invest in a mixture of cash, bonds, shares, pooled funds, property and derivatives.

Protected funds are 'protected' or 'guaranteed' to limit losses if the market goes down, or to give you assurance that you will get back at least a certain amount after a specified length of time. It is unlikely that such funds will grow as fast as unprotected funds when the stock market is performing well, as you have to pay for the cost of protection.

Funds that invest only in companies meeting certain 'ethical' criteria are known as socially responsible funds. They avoid, for example, tobacco companies or those that test on animals.

INVESTING IN A RANGE OF FUNDS

Funds of funds and manager of managers are designed to give investors a chance to invest in a range of funds. A fund of funds is where the fund in which you are invested invests in several other funds. A manager of managers chooses several managers to manage different parts of a pool of money.

Money market funds are designed to offer higher returns than a building society account but still have the same level of security. They invest in bank deposits and are generally called 'cash funds'. Some invest in short-term money market securities.

Property funds invest either directly or indirectly in property or property-related assets. A fund that invests directly will buy physical property, such as a shopping centre, in order to generate rental income. A fund that invests indirectly will purchase more liquid assets, such as property derivatives, REITS or shares in a property company.

DRIP-FEEDING MONEY

You don't have to have a lump sum in order to invest. Regular savings plans allow you to contribute relatively small amounts of money on a monthly basis and build up a capital sum. By drip-feeding money into a fund regularly, you could avoid investing all of your money at the peak of the market, when prices are high. However, you may miss the opportunity to invest at the bottom of the market, when prices are cheaper.

ACHIEVING THE RIGHT MIX OF ASSETS SHOULD BE YOUR FIRST DECISION AND IT IS A GOOD IDEA TO DIVERSIFY THE TYPES OF FUND YOU INVEST IN. NO MATTER WHAT YOUR INVESTMENT GOALS ARE AND HOW MUCH YOU WISH TO INVEST, IF YOU WOULD LIKE US TO REVIEW YOUR PARTICULAR SITUATION, PLEASE CONTACT US.

"You should consider whether you are primarily investing for growth, income or both. If you want some income, but no risk to your capital, you could choose a money market or cash fund, which means a professional investor will be working to get the best available interest rates."

Pooled investment schemes

Investing in one or more asset classes

Investing in funds provide a simple and effective method of diversification. Because your money is pooled together with that of other investors each fund is large enough to diversify across hundreds and even thousands of individual companies and assets. A pooled (or collective) investment is a fund into which many people put their money, which is then invested in one or more asset classes by a fund manager.

There are different types of pooled investment but the main ones are:

- Open-ended investment funds
- Unit trusts
- Investment trusts
- Investment bonds

GOOD RETURN FOR INVESTORS

Most pooled investment funds are actively managed. The fund manager researches the market and buys and sells assets to try and provide a good return for investors.

Trackers, on the other hand, are passively managed; they simply aim to track the market in which they are invested. For example, a FTSE100 tracker would aim to replicate the movement of the FTSE100 (the index of the largest 100 UK companies).

Trackers might do this by buying the equivalent proportion of all the shares in the index.

For technical reasons the return is rarely identical to the index, in particular because charges need to be deducted.

ACTIVELY MANAGED FUND

Trackers tend to have lower charges than actively managed funds. This is because a fund manager running an actively managed fund is paid to invest so as to do better than the index (to beat the market) or to generate a steadier return for investors than tracking the index would achieve. Of course, the fund manager could make the wrong decisions and under-perform the market. And there is no guarantee that an actively managed fund that performs well in one year will continue to do so. Past performance is no guarantee of future returns.

Trackers do not beat or under-perform the market (except as already noted), but they are not necessarily less risky than actively managed funds invested in the same asset class. Open-ended investment funds and investment trusts can both be trackers.

THE OLD MAXIM 'TIME IN THE MARKET, NOT TIMING THE MARKET' HAS NEVER BEEN MORE APT THAN DURING THE RECENT TURBULENCE EXPERIENCED IN THE FINANCIAL MARKETS. IF YOU WOULD LIKE TO FIND OUT MORE ABOUT POOLED INVESTMENT SCHEMES, PLEASE CONTACT US FOR FURTHER INFORMATION.

Open-ended investment funds

Acting in the investors' best interests at all times

Open-ended investment funds are often called collective investment schemes and are run by fund management companies. There are many different types of fund.

These include:

- Unit trusts
- OEICs (Open-Ended Investment Companies, which are the same as ICVCs – Investment Companies with Variable Capital)
- SICAV (Société d'Investissement à Capital Variable)
- FCPs (Fonds Communs de Placement)

This list includes certain European funds, which are permitted under European legislation to be sold in the UK.

OPEN-ENDED FUNDS

There are many funds to choose from and some are valued at many millions of pounds. They are called open-ended funds as the number of units (shares) in issue increases as more people invest and decreases as people take their money out.

As an investor, you buy units/shares in the hope that the value rises over time as the prices of the underlying investments increase. The price of the units depends on how the underlying investments perform.

You might also get income from your units through dividends paid by the shares (or income from the bonds, property or cash) that the fund has invested in. You can either invest a lump sum or save regularly each month.

DIFFERENT ASSET CLASSES

Open-ended investment funds generally invest in one or more of the four asset classes – shares, bonds, property and cash. Most invest primarily in shares but a wide range also invest in bonds. Few invest principally in property or cash deposits. Some funds will spread the investment and have, for example, some holdings in shares and some in bonds. This can be useful if you are only taking out one investment and, remembering that asset allocation is the key to successful investment, you want to spread your investment across different asset classes.

The level of risk will depend on the underlying investments and how well diversified the open-ended investment fund is. Some funds might also invest in derivatives, which may make a fund more risky. However, fund managers often buy derivatives to help offset the risk involved in owning assets or in holding assets valued in other currencies.

TRUSTEE OR DEPOSITORY PROTECTION

Any money in an open-ended investment fund is protected by a trustee or depository, who ensures the management company is acting in the investors' best interests at all times.

For income, there is a difference in the tax position between funds investing in shares and those investing in bonds, property and cash. Whichever type of open-ended investment fund you have, you can reinvest the income to provide additional capital growth, but the taxation implications are as if you had received the dividend income.

No capital gains tax (CGT) is paid on the gains made on investments held within the fund. But, when you sell, you may have to pay capital gains tax.

BUILDING AN EFFECTIVE PORTFOLIO INVOLVES RECEIVING PROFESSIONAL ADVICE TO ENSURE THAT YOUR PORTFOLIO SUITS YOUR ATTITUDE TO RISK. TO DISCUSS YOUR REQUIREMENTS, PLEASE CONTACT US.

Open-ended investment companies

Expanding and contracting in response to demand

Open-Ended Investment Companies (OEICs) are stock market-quoted collective investment schemes. Like investment trusts and unit trusts they invest in a variety of assets to generate a return for investors. They share certain similarities with both investment trusts and unit trusts but there are also key differences.

POOLED COLLECTIVE INVESTMENT VEHICLE

OEICs are a pooled collective investment vehicle in company form and were introduced as a more flexible alternative to established unit trusts. They may also have an umbrella fund structure allowing for many sub-funds with different investment objectives. This means you can invest for income and growth in the same umbrella fund, moving your money from one sub fund to another as your investment priorities or circumstances change.

By being 'open ended', OEICs can expand and contract in response to demand, just like unit trusts. The share price of an OEIC is the value of all the underlying investments divided by the number of shares in issue. As an open-ended fund, the fund gets bigger and more shares are created as more people invest. The fund shrinks and shares are cancelled as people withdraw their money.

SHARES ALLOCATION

You may invest into an OEIC through a stocks and shares Individual Savings Account (ISA). Each time you invest in an OEIC fund you will be allocated a number of shares. You can choose either income or accumulation shares, depending on whether you are looking for your investment to grow or to provide you with income, providing they are available for the fund you want to invest in.

Like unit trusts, OEICs provide a mechanism for investing in a broad selection of shares, thus aiming to reduce the risks of investing in individual shares. Therefore you have an opportunity to share in the growth potential of stock market investment. However, do remember that your capital is not secured and your income is not guaranteed.

INVESTMENT OBJECTIVES

Each OEIC has its own investment objectives and the fund manager has to invest to achieve these objectives. The fund manager will invest the money on behalf of the shareholders.

The value of your investment will vary according to the total value of the fund, which is determined by the investments the fund manager makes with the fund's money. The price of the shares is based on the value of the investments in which the company has invested.

WE OFFER EXPERTISE COVERING A RANGE OF DIFFERENT INVESTMENT PRODUCTS. TO DISCUSS YOUR REQUIREMENTS, PLEASE CONTACT US.

Unit trusts

Participating in a wider range of investments

Unit trusts are collective investments that allow you to participate in a wider range of investments than can normally be achieved on your own with smaller sums of money. Pooling your money with others also reduces the risk.

A unit trust fund is divided into units, each of which represents a tiny share of the overall portfolio. Each day the portfolio is valued, which determines the value of the units. When the portfolio value rises, the price of the units increases. When the portfolio value goes down, the price of the units falls.

INVESTMENT DECISIONS

The unit trust is run by a fund manager, or a team of managers, who will make the investment decisions. They invest in stock markets all round the world and, for the more adventurous investor, there are funds investing in individual emerging markets, such as China, or in the so-called BRIC economies (Brazil, Russia, India and China).

Alternatively, some funds invest in metals and natural resources, and many put their money into bonds. Some offer a blend of equities, bonds, property and cash and are known as balanced funds. If you wish to marry your profits with your principles you can also invest in an ethical fund.

MULTI-MANAGER FUNDS

Some funds invest not in shares directly but in a number of other funds. These are known as multi-manager funds. Most fund managers use their own judgment to assemble a portfolio of shares for their funds, which are known as actively managed funds. However, a sizeable minority of funds simply aim to replicate a particular index, such as the FTSE All-Share Index. These are known as passive funds, or trackers.

YOU MAY CHOOSE TO SPREAD YOUR INVESTMENTS ACROSS A RANGE OF UNIT TRUSTS AND HAVE A CHOICE OF INCOME AND/OR GROWTH. TO DISCUSS YOUR REQUIREMENTS, PLEASE CONTACT US.

> “Unit trusts are collective investments that allow you to participate in a wider range of investments than can normally be achieved on your own with smaller sums of money. Pooling your money with others also reduces the risk.”

Investment trusts

Reflecting popularity in the market

An investment trust is a company with a set number of shares. Unlike an open-ended investment fund, an investment trust is closed ended. This means there are a set number of shares available, which will remain the same no matter how many investors there are. This can have an impact on the price of the shares and the level of risk of the investment trust. Open-ended investment funds create and cancel units depending on the number of investors.

The price of the investment trust shares depends on two main factors:

- the value of the underlying investments (which works in the same way as open-ended investment funds); and
- the popularity of the investment trust shares in the market.

CLOSED-ENDED FUNDS

This second point applies to investment trusts but not to open-ended investment funds or life assurance investments. The reason is because they are closed-ended funds. The laws of economics say that if there is a high demand for something, but limited supply, then the price goes up. So, if you own some investment trust shares and there are lots of people queuing up to buy them, then you can sell them for more money. On the other hand, if nobody seems to want them, then you will have to drop the price until someone is prepared to buy.

The result is that investment trust shares do not simply reflect the value of the underlying investments; they also reflect their popularity in the market. The value of the investment trust's underlying investments is called the 'net asset value' (NAV). If the share price is exactly in line with the underlying investments, then it is called 'trading at par'. If the price is higher because the shares are popular, then it is called 'trading at a premium', and if lower, 'trading at a discount'. This feature may make them more volatile than other pooled investments (assuming the same underlying investments).

IMPROVING PERFORMANCE

There is another difference that applies to investment trusts; they can borrow money to invest. This is called 'gearing'. Gearing improves an investment trust's performance when its investments are doing well. On the other hand, if its investments do not do as well as expected, gearing lowers performance.

Not all investment trusts are geared and deciding whether to borrow and when to borrow is a judgement the investment manager makes. An investment trust that is geared is a higher-risk investment than one that is not geared (assuming the same underlying investments).

SPLIT-CAPITAL INVESTMENT TRUSTS

A split-capital investment trust (split) is a type of investment trust that sells different sorts of shares to investors depending on whether they are looking for capital growth or income. Splits run for a fixed term. The shares will have varying levels of risk, as some investors will be ahead of others in the queue for money when the trust comes to the end of its term.

The tax position is largely the same as for open-ended investment funds. You should be aware that tax legislation changes constantly and you should find out the most current position.

THERE IS SIGNIFICANT POTENTIAL FOR INCREASING YOUR WEALTH THROUGH INVESTING, BUT ONLY IF YOUR MONEY IS INVESTED IN THE RIGHT WAY. TO DISCUSS YOUR INDIVIDUAL REQUIREMENTS, PLEASE CONTACT US.

Investment bonds

A range of funds for the medium- to long-term

Investment bonds are designed to produce medium- to long-term capital growth, but can also be used to give you an income. They also include some life cover. There are other types of investment that have 'bond' in their name (such as guaranteed bonds, offshore bonds and corporate bonds) but these are very different. With an investment bond, you pay a lump sum to a life assurance company and this is invested for you until you cash it in or die.

MEDIUM- TO LONG-TERM

Investment bonds are not designed to run for a specific length of time but they should be thought of as medium- to long-term investments, and you'll often need to invest your money for at least five years. There will usually be a charge if you cash in the bond during the first few years.

The bond includes a small amount of life assurance and, on death, will pay out slightly more than the value of the fund. Some investment bonds offer a guarantee that you won't get back less than your original investment but this will cost you more in charges.

RANGE OF FUNDS

You can usually choose from a range of funds to invest in, for example, UK and overseas shares, fixed interest securities, property and cash. Investment bonds can also offer a way of investing in funds managed by other companies but this may lead to higher charges.

Investment risk can never be eliminated but it is possible to reduce the ups and downs of the stock market by choosing a range of funds to help you avoid putting all your eggs in one basket. Different investment funds behave in different ways and are subject to different risks. Putting your money in a range of different investment funds can help reduce the loss, should one or more of them fall.

SWITCHING BETWEEN FUNDS

You can usually switch between funds. Some switches may be free but you may be charged if you want to switch funds frequently. Any investment growth at the time of a fund switch is not taxable.

Any growth in investment bonds is subject to income tax. The investment will pay tax automatically while it is running so, if you are:

- a non-taxpayer – you will not have to pay any further income tax but you cannot reclaim any tax
- a basic-rate taxpayer – you will not normally have to pay any further income tax
- a higher-rate taxpayer (or close to being one) – if you withdraw more than 5 per cent of the original investment amount in a year or you have made a profit when you cash in the investment, you may be liable for more income tax

TAX PAYMENTS

Depending on your circumstances, the overall amount of tax you pay on investment bonds may be higher than on other investments (such as a unit trust, for instance). But there may be other reasons to prefer an investment bond. Or you may want to set up the investment within a trust as part of your inheritance tax planning (but note that you normally lose access to at least some of your money if you do this).

You can normally withdraw up to 5 per cent of the original investment amount each year without any immediate income tax liability. The life assurance company can pay regular withdrawals to you automatically. These withdrawals can therefore provide you with regular payments, with income tax deferred, for up to 20 years.

PLEASE CONTACT US TO DISCUSS YOUR INDIVIDUAL REQUIREMENTS.

Individual Savings Accounts

A tax-efficient wrapper surrounding your fund choices

Individual Savings Accounts (ISAs) are not actual investments; they are a tax-efficient wrapper surrounding your fund choices. When you make an ISA investment you pay no income or capital gains tax (CGT) on the returns you receive, no matter how much your investment grows or how much you withdraw over the years.

An ISA is an ideal way to make the most of your tax-efficient savings limit and save for the future. The value of tax savings and eligibility to invest in an ISA will depend on individual circumstances and all tax rules may change in the future.

SAVING OR INVESTING IN AN ISA

To save or invest in an ISA you must be:

- a UK resident
- a Crown employee (such as diplomat)
- a member of the armed forces (who is working overseas but paid by the government), including husbands, wives or civil partners
- aged over 16 years for the Cash ISA component, and over 18 years for the Stocks and Shares ISA component

An ISA must be in your name alone; you can't have a joint ISA.

ISA OPTIONS

You can invest in two separate ISAs in any one tax year: a Cash ISA and a Stocks and Shares ISA. This can be with the same or different providers. By using a Stocks and Shares ISA, you invest in longer-term investments such as individual shares or bonds, or pooled investments.

In the current 2011/12 tax year you can invest a total of £10,680 into an ISA if you are a UK resident aged 18 or over. You can save up to £5,340 in a Cash ISA, or up to a maximum of £10,680 in a Stocks and Shares ISA.

Total ISA investment allowed in the tax year 2011/12:

Cash ISA only
£5,340 maximum in a Cash ISA

or

Stocks & Shares ISA only
£10,680 maximum in a Stocks & Shares ISA

or

Cash ISA and Stocks & Shares ISA
No more than £5340 in a Cash ISA and the balance in a Stocks & Shares ISA up to a combined total of £10,680

TAX-EFFICIENT MATTERS

ISAs are tax-efficient investments with no income tax on any income taken from the ISA. There is no CGT on any gains within an ISA. Interest paid on uninvested cash within the Stocks and Shares ISA is subject to a 20 per cent HM Revenue & Customs (HMRC) flat rate charge. Interest received in a Cash ISA is tax-efficient. Dividends from equities are paid with a 10 per cent tax credit which cannot be reclaimed in an ISA but there is no additional tax to pay. You don't have to inform the taxman about income and capital gains from ISA savings and investments.

If you hold bond funds in your ISA, the income generated would be free of income tax. This could be a real benefit if you need to take an income from your investments, perhaps as you near retirement. Even if you don't want to invest in bonds at the moment, you may want to move money from equity funds into bonds in the future, perhaps when you need to take an income from your investments or if you want to reduce the level of risk in your portfolio as you near retirement.

TRANSFERRING YOUR ISA

If you have money saved from a previous tax year, you could transfer some or all of the money from your existing Cash ISA to a Stocks and Shares

ISA without this affecting your annual ISA investment allowance. However, once you have transferred your Cash ISA to a Stocks and Shares ISA it is not possible to transfer it back into cash.

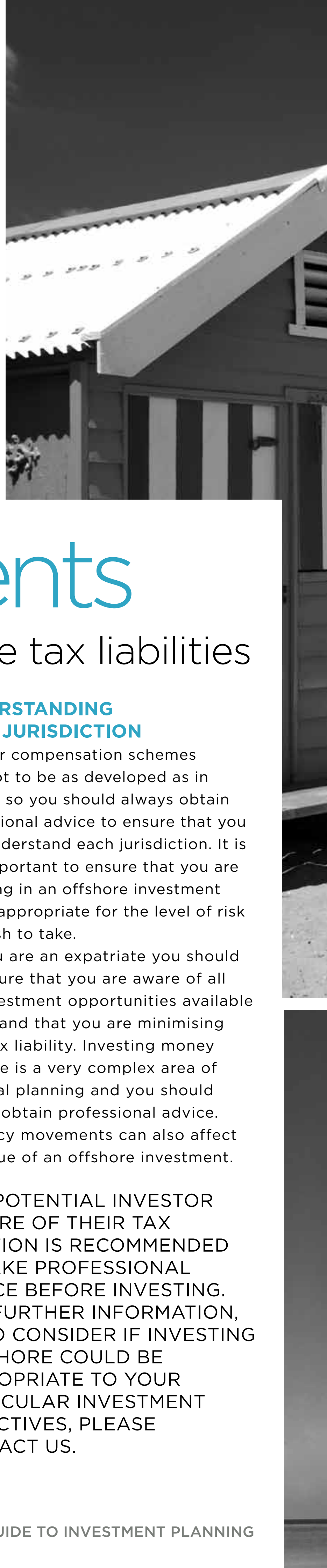
ISAs must always be transferred; you can't close the old one and start a new one, otherwise you will lose the tax advantage. If appropriate, you may wish to consider switching an existing Stocks and Shares ISA if you feel the returns are not competitive. But if you have a fixed-rate ISA, you should check whether you may have to pay a penalty when transferring.

FOR FURTHER INFORMATION ABOUT YOUR ISA OPTIONS, PLEASE CONTACT US DISCUSS YOUR REQUIREMENTS.

JUNIOR ISAs

A Junior ISA is a tax-efficient way to save for your child's future. You can invest in a Junior ISA each year and the money invested will grow over time and be available to the child on their 18th birthday.

- A Junior Individual Savings Account can be set up in the child's name by a parent or guardian
- You can set up a Stocks and Shares ISA or Cash ISA or a combination of both
- Any investment growth is free of income or capital gains tax
- Investment limit is £3,600 – this will rise in line with inflation from 2013
- Available to each child in the family each tax year
- Anyone can contribute to a child's account at anytime through the year
- Money is locked away until the child reaches the age of 18, giving the investment time to grow
- The child is the beneficial owner of the Junior ISA



Offshore investments

Utilising tax deferral benefits to minimise tax liabilities

For the appropriate investor looking to achieve capital security, growth or income, there are a number of advantages to investing offshore, particularly with regard to utilising the tax deferral benefits. You can defer paying tax for the lifetime of the investment, so your investment rolls up without tax being deducted, but you still have to pay tax at your highest rate when you cash the investment in. As a result, with careful planning, a variety of savers could put offshore investments to good use.

FINANCIAL CENTRES

The investment vehicles are situated in financial centres located outside the United Kingdom and can add greater diversification to your existing portfolio. Cash can also be held offshore in deposit accounts, providing you with the choice about when you repatriate your money to the UK, perhaps to add to a retirement fund or to gift to children or grandchildren. Those who work overseas or have moved abroad to enjoy a different lifestyle often want to pay as little tax as is legally possible.

TAX DEFERRAL

Many offshore funds offer tax deferral. The different types of investment vehicles available offshore include offshore bonds that allow the investor to defer tax within the policy until benefits are taken, rather than be subject to a basic rate tax liability within the underlying funds. This means that, if you are a higher rate tax payer in the UK, you could wait until your tax status changes before bringing your funds (and the gains) back into the UK.

The wide choice of different investment types available include offshore redemption policies, personalised policies, offshore unit trusts and OEICs. You may also choose to have access to investments or savings denominated in another currency.

MOVING ABROAD

Many banks, insurance companies and asset managers in offshore centres are subsidiaries of major UK, US and European institutions. If you decide to move abroad, you may not pay any tax at all when you cash-in an offshore investment, although this depends on the rules of your new country.

Regarding savings and taxation, what applies to you in your specific circumstances is generally determined by the UK tax regulations and whatever tax treaties exist between the UK and your host country. The UK has negotiated treaties with most countries so that UK expats in those countries are not taxed twice. Basically, if a non-domiciled UK resident is employed by a non-UK resident employer and performs all of their duties outside the UK, the income arising is only subject to UK tax if it is received in or remitted to the UK.

UNDERSTANDING EACH JURISDICTION

Investor compensation schemes tend not to be as developed as in the UK, so you should always obtain professional advice to ensure that you fully understand each jurisdiction. It is also important to ensure that you are investing in an offshore investment that is appropriate for the level of risk you wish to take.

If you are an expatriate you should make sure that you are aware of all the investment opportunities available to you and that you are minimising your tax liability. Investing money offshore is a very complex area of financial planning and you should always obtain professional advice. Currency movements can also affect the value of an offshore investment.

ANY POTENTIAL INVESTOR UNSURE OF THEIR TAX POSITION IS RECOMMENDED TO TAKE PROFESSIONAL ADVICE BEFORE INVESTING. FOR FURTHER INFORMATION, OR TO CONSIDER IF INVESTING OFFSHORE COULD BE APPROPRIATE TO YOUR PARTICULAR INVESTMENT OBJECTIVES, PLEASE CONTACT US.

"Many offshore funds offer tax deferral. The different types of investment vehicles available offshore include offshore bonds that allow the investor to defer tax within the policy until benefits are taken, rather than be subject to a basic rate tax liability within the underlying funds."

Investing for income

Safeguarding your money at a time of low interest rates

During these economic times, one of the tools available to the Bank of England to stimulate the economy is interest rates. Lower interest rates mean that it is cheaper to borrow money and people have more to spend, hopefully stimulating the economy and reducing the risk of deflation. This is why the Bank of England has aggressively cut them.

If you are an income-seeker, much will come down to your attitude to risk. If you want no or very low risk, you may wish to consider a traditional cash bank account and accept that income levels are likely to remain low for the foreseeable future. However, if you're further up the risk scale you may wish to opt for some of these other alternatives.

GILTS

If you're willing to take on a slightly higher degree of risk and you need the extra income, you may wish to consider gilts (or gilt-edged stocks), which are bonds issued by the government and pay a fixed rate of interest twice a year. Gilts involve more risk than cash, because there's a chance the government won't be able to pay you back. It's highly unusual for a government to default on a debt or default on the interest payments, so they have been considered safe. But in this current economic climate, this risk increases.

You are not guaranteed to get all your capital back under all circumstances. Not all gilts are bought from the government and held to maturity; some are bought and sold along the way, so there's a chance for their value, and the value of gilt funds, to rise and fall. There are other types, such as index-linked gilts, which form the largest part of the gilt portfolio after conventional gilts. Here the coupon is related to movements in the Retail Prices Index (RPI) and is linked to inflation.

CORPORATE BONDS

Next along the risk scale if you are looking for a higher yield are corporate bonds. These are issued by companies and have features that are exactly the same as gilts except that, instead of lending money to the government, you're lending to a company. The risk lies in the fact that companies may go bust and the debt may not be repaid. They have a nominal value (usually £100), which is the amount that will be returned to the investor on a stated future date (the redemption date). They also pay a stated interest rate each year, usually fixed. The value of the bonds themselves can rise and fall; however, the fact that bonds are riskier at the moment means companies are paying more in order to induce people to buy their debt. There are an increasing number of global bond funds entering the market that may enable you to get value from a lot of different markets.

EQUITY INCOME

If your primary objective is the preservation of income, you may not consider the stock market as the obvious place for your money. However, for investors who are prepared to see their investments fluctuate in value while hopefully providing a stable income that grows over time, you may wish to consider equity income funds. These invest in shares, focusing on the big blue-chip firms that have a track record of good dividend payments. The dividends will be your income.

GLOBAL EQUITY INCOME FUNDS

Further up the risk scale are global equity income funds. These are similar to UK funds, except that there are only a handful of the big blue-chip firms that pay reliable dividends in the UK, whereas global diversification offers a significant range of companies to choose from. Investing in other currencies brings an added level of risk, unless the fund hedges the currency.

EQUITY INCOME INVESTMENT TRUSTS

Equity income investment trusts are higher risk but similar to other equity income investments. They are structured differently from unit trusts and open-ended investment companies. Investment trusts are closed-ended. They are structured as companies with a limited number of shares. The share price of the fund moves up and down depending on the level of demand, so the price of the trust depends not only on the value of the underlying investments but also on the popularity of the trust itself. In difficult times, when investors are selling up, trusts are likely to see their share price fall more than the value of their underlying investments. This means they also have more potential for greater returns once better times resume. Investment trust share prices are therefore often at a 'discount', or 'premium' to the value of the assets in the fund.

IF YOU ARE AN INCOME-SEEKER AND WANT TO DISCUSS THE INVESTMENT PRODUCTS AND SERVICES WE OFFER, PLEASE CONTACT US FOR FURTHER INFORMATION.

Socially responsible investing

Not sacrificing your life principles in exchange for chasing the best financial returns

For investors concerned about global warming and other environmental issues, there are a plethora of ethical investments that cover a multitude of different strategies. The terms 'ethical investment' and 'socially responsible investment' (SRI) are often used interchangeably to mean an approach to selecting investments whereby the usual investment criteria are overlaid with an additional set of ethical or socially responsible criteria.

ETHICAL CRITERIA

The Ethical Investment Research Service (EIRIS) defines an ethical fund as 'any fund which decides that shares are acceptable, or not, according to positive or negative ethical criteria (including environmental criteria).'

Funds that use negative screening, known as dark green funds, exclude companies that are involved in activities that the fund manager regards as unethical. Each fund group has a slightly different definition of what is unethical, but this typically includes gambling, tobacco, alcohol and arms manufacture. It could also cover pollution of the environment, bank lending to corrupt regimes and testing of products on animals.

POSITIVE SCREENING FUNDS

Positive screening funds use positive criteria to select suitable companies. Funds that take this approach look for companies that are doing positive good, such as those engaged in recycling, alternative energy sources or water purification. So an ethical fund of this type might buy shares in a maker of wind turbines or solar panels.

ENGAGEMENT FUNDS

Engagement funds take a stake in companies and then use that stake as a lever to press for changes in the way that the company operates. This could mean persuading oil and mining companies to take greater care over the environmental impact of their operations or pressing companies to offer better treatment of their workers.

In addition, this process may involve making judgements regarding the extent to which such investments are perceived to be acceptable, and about the potential for improving through engagement the ethical performance of the party offering the investment.

BEST FINANCIAL RETURNS

Ethical investors will believe that they should not (or need not) sacrifice their life principles in exchange for chasing the best financial returns, with some arguing that in the long term, ethical and SRI funds have good prospects for out-performing the general investment sectors.

Since ethical investment, by definition, reduces the number of shares, securities or funds in which you can invest, it tends to increase the volatility of the portfolio and therefore the risk profile. This can be mitigated by diversifying between funds, and between different styles of funds and fund managers. Like their non-ethical equivalents, some ethical funds are much higher risk than others.

TO FIND OUT MORE OR TO DISCUSS YOUR ETHICAL OPTIONS, PLEASE CONTACT US.

Enterprise Investment Schemes

Attractive tax breaks as part of a diversified portfolio

Enterprise Investment Schemes (EISs) are tax-efficient vehicles set up to encourage investment into small, unquoted trading companies. Following the changes announced in various Budgets, the EIS is the only tax-efficient investment offering a capital gains tax (CGT) deferral. Capital gains tax on the disposal of other assets can be deferred by reinvesting the proceeds in EIS shares.

An income tax rebate of 30 per cent is available on investments up to £500,000 per tax year, providing you've paid sufficient income tax and stay invested for three years.

TWO ASPECTS TO CGT RELIEF

There are two aspects to CGT relief available. Growth on the EIS is tax free as long as you have held the investment for at least three years. Also, you can use an EIS to defer a capital gain and so delay paying CGT.

As long as an EIS continues to trade and was held for at least two years at the time of death it falls outside your estate for inheritance tax purposes.

Dividends from EIS companies are paid with a 10 per cent non-reclaimable tax credit and are potentially liable to further tax. Consequently most EIS companies do not pay dividends as it is more tax-efficient to roll up income within the company as tax-free growth

TAX-FREE GROWTH

EIS funds fall into two distinct camps: those that wind up after the three years required for investments to be held to qualify (known as 'planned exit EISs') and those that carry on until investors agree that a wind-up makes commercial sense. For EIS funds and portfolios, the manager may not be able to invest as quickly as hoped. This may reduce the return on your investment, and the investment may lose its EIS status or tax relief may be delayed.

Investments in smaller companies will generally not be publicly traded or freely marketable and may therefore be difficult to sell. There will be a big difference between the buying price and the selling price of these investments. The price may change quickly and it may go down as well as up.

WEALTHIER INVESTORS

Investing in an EIS is at the top end of the risk scale, but in return you receive attractive tax breaks. As high-risk investments, EISs may only be suitable for wealthier sophisticated investors as part of a diversified investment portfolio. The past performance of an EIS is not a reliable indicator of future results and you should not subscribe to an EIS unless you have taken appropriate professional advice.

Venture Capital Trusts

Wealthier investors taking a long-term view

A Venture Capital Trust (VCT) is a company whose shares trade on the London stock market. A VCT aims to make money by investing in other companies. These are typically very small companies that are looking for further investment to help develop their business. The VCT often invests at an early stage in a company's development, so it is a higher risk investment. This means that the VCTs are aimed at wealthier investors who can afford to take a long-term view and accept falls in the value of their investment.

ATTRACTIVE TAX BENEFITS

VCTs also offer some attractive tax benefits. If you are a tax payer, you will receive a tax rebate of up to 30 per cent when investing in a VCT. The initial investment, up to a maximum of £200,000 per person per annum, attracts 30 per cent provided it is held for at least five years.

You need to be aware that this is a tax rebate and restricted to the amount of income tax you pay; tax deducted at source on dividends is not eligible. This rebate is only available when you invest in a new issue of shares in a VCT or a top-up, but it's worth noting that if you buy VCTs on the secondary market in the same tax year these count towards the £200,000 allowance, despite the fact you don't receive the income tax incentive.

TAX-FREE DIVIDENDS

Capital gains and dividends are also tax-free when you eventually dispose of a VCT, although there is no relief for capital losses.

By buying shares in an existing VCT quoted on the stock market you become eligible for a capital gains tax exemption and benefit from tax-free dividends as they are paid. However, to obtain the 30 per cent tax relief against income tax you must buy shares in a VCT via a new subscription.

VCTs invest in unquoted business, so they are high risk and they can be illiquid, and management costs can also be high.

Taxation matters

Different investments have different tax treatment

INDIVIDUAL SAVINGS ACCOUNTS (ISA)

You pay no personal income tax or capital gains tax on any growth in an ISA, or when you take your money out. If you invest in a Stocks and Shares ISA, any dividends you receive are paid net, with a 10 per cent tax credit. There is no further tax liability.

Please be aware that the impact of taxation (and any tax reliefs) depends on individual circumstances. Current tax rules may change in the future.

UNIT TRUSTS AND OPEN-ENDED INVESTMENT COMPANIES (OEICS)

With a unit trust or OEIC, your money is pooled with other investors' money and can be invested in a range of sectors and assets such as stocks and shares, bonds or property.

Dividend income from OEICS and unit trusts invested in shares

If your fund is invested in shares, then any dividend income that is paid to you (or accumulated within the fund if it is reinvested) carries a 10 per cent tax credit. If you are a basic rate or non taxpayer, there is no further income tax liability. However, higher rate taxpayers currently have a total liability (2011/12) of 32.5 per cent on dividend income; the tax credit reduces this to 22.5 per cent.

Any interest paid out from fixed interest funds (these are funds that invest, for example, in corporate bonds and gilts, or cash) is treated differently to income from funds invested in shares. Income is paid net of 20 per cent tax.

CAPITAL GAINS TAX

No capital gains tax is paid on the growth in your money from the investments held within the fund but, when you sell, you may have to pay capital gains tax. Bear in mind that you have a personal capital gains tax allowance that can help you limit any potential tax liability.

ACCUMULATED INCOME

Accumulated income is interest or dividend payments that are not taken but instead reinvested into your fund. Even though they are reinvested, they still count as income and are subject to the same tax rules as for dividend income and interest.

ONSHORE INVESTMENT BONDS (INSURANCE/LIFE ASSURANCE BONDS)

Investment bonds have a different tax treatment from other investments. This can lead to some valuable tax planning opportunities for individuals.

There is no personal liability to capital gains tax or basic rate income tax on proceeds from your bonds. This is because the fund itself is subject to tax, equivalent to basic rate tax.

You can withdraw up to 5 per cent each year of the amount you have paid into your bond without paying any immediate tax on it. This allowance is cumulative, so any unused part of this 5 per cent limit can be carried forward to future years (although the total cannot be greater than 100 per cent of the amount paid in).

If you are a higher rate taxpayer now but know that you will become a basic rate taxpayer later (perhaps when you retire, for example), then you might consider deferring any withdrawal from the bond (in excess of the accumulated 5 per cent allowances) until that time. If you do this, you will not need to pay tax on any gains from your bond.

ONSHORE INVESTMENT BOND CONSIDERATIONS

Certain events during the lifetime of your bond may trigger a potential income tax liability:

- Death.
- Some transfers of legal ownership of part or all of the bond.
- On the maturity of the bond (except whole of life policies).
- On full or final cashing in of your bond.
- If you withdraw more than the cumulative 5 per cent annual allowance. Tax liability is calculated on the amount withdrawn above the 5 per cent.
- If you are a higher rate taxpayer or the profit (gain) from your bond takes you into a higher rate tax position as a result of any of the above events, then you may have an income tax liability. As you are presumed to have paid basic rate tax, the amount you would liable for is the difference between the basic rate and higher rate tax.

THE EVENTS MAY ALSO AFFECT YOUR ELIGIBILITY FOR CERTAIN TAX CREDITS.

The taxation of life assurance investment bonds held by UK corporate investors changed from 1 April 2008. The bonds fall under different legislation and corporate investors are no longer able to withdraw 5 per cent of their investment each year and defer the tax on this until the bond ends.

OFFSHORE INVESTMENT BONDS

Offshore investment bonds are similar to UK investment bonds (see above) but there is one main difference. With an onshore bond, tax is payable on gains made by the underlying investment, whereas with an offshore bond no income or capital gains tax is payable on the underlying investment. However, there may be an element of withholding tax that cannot be recovered.

The lack of tax on the underlying investment means that potentially it can grow faster than one that is taxed. Note that tax may be payable on a chargeable event at a basic or higher rate tax as appropriate.

Remember that the value of your fund can fluctuate and you may not get back your original investment.

A-Z of investment planning

Understanding the jargon

ACCUMULATION UNITS/SHARES
With this type of unit/share, any income earned on your investment remains accumulated within the price of your units/shares, increasing the value of your holding.

ACTIVE MANAGED FUNDS
The IMA definition of Active Managed Funds is: Funds which offer investment in a range of assets, with the manager being able to invest up to 100 per cent in equities at their discretion. At least 10 per cent of the total fund must be held in non-UK equities. There is no minimum sterling/euro balance and equities are deemed to include convertibles. At any one time the asset allocation of these funds may hold a high proportion of non-equity assets such that the asset allocation would by default place the fund in either the Balanced or Cautious sector. These funds would remain in this sector on these occasions since it is the manager's stated intention to retain the right to invest up to 100 per cent in equities.

ANNUAL MANAGEMENT CHARGE (AMC)
A fee paid to the fund manager that covers the cost of investment management and administration. It is normally 0.75 per cent - 1.5 per cent p.a. and is charged to the fund on a daily basis. The AMC forms part of the total expense ratio (TER) of a fund.

ASSET ALLOCATION
A term to describe how your money is invested. In most cases, the fund manager will spread money across a range of different assets and companies in order to diversify your holdings and help to spread risk.

BALANCED FUNDS
The IMA definition of Balanced Funds is: Funds which offer investment in a range of assets, with the maximum equity exposure restricted to 85 per cent of the fund. At least 10 per cent of the total fund must be held in non-UK equities. Assets must be at least 50 per cent in sterling/euro and equities are deemed to include convertibles.

BID PRICE
Unit trusts and OEICs can have separate prices for buying and selling units/shares. Such funds are known as dual-priced. The bid price is the price at which units/shares are sold and are lower than the offer or buying price.

BID/OFFER SPREAD
For dual-priced funds this is the difference between the buying and selling prices of your units/shares. The buying or offer price is normally higher than the selling or bid price as it will include an initial charge to be paid to the fund manager for setting up and administering your units/shares.

BLUE CHIP
Large, well-established companies that are generally considered to be stable. In the UK, such British companies are usually listed on the FTSE 100 index.

BONDS
Also known as 'fixed interest securities', bonds are investments that pay a fixed rate of interest and have a fixed term. Governments or companies may issue them. Those issued by governments are known as 'gilt's. Not to be confused with investment bonds issued for individual investors, usually by insurance companies.

CAPITAL GAINS TAX
Tax paid to HM Revenue and Customs (HMRC) on any increase in the value of your savings or investments. The tax is payable on the profits you make when you sell your units/shares.

CAPITAL GROWTH
The increase in the value of your investment, excluding any income.

CASH
In savings and investment terms, 'cash' refers to a bank or building society deposit account in which your capital is secure. It can also refer to money market funds.

CASH FUNDS
Alternative name for money market funds.

CAUTIOUS MANAGED FUNDS
The IMA definition of Cautious Managed Funds is: Funds which invest in a range of assets with the maximum equity exposure restricted to 60 per cent of the fund and with at least 30 per cent invested in fixed interest and cash. There is no specific requirement to hold a minimum per cent of non-UK equity within the equity limits. Assets must be at least 50 per cent in sterling/euro and equities are deemed to include convertibles.

CLOSED-ENDED FUNDS
Unlike unit trusts and OEICs, which are open-ended, these are funds that only have a fixed number of units/shares in issue at any time. The price of units/shares in such funds, which include Investment Trusts, will fluctuate according to investor demand rather

than as a result of changes in the value of their underlying assets.

COLLECTIVE INVESTMENT SCHEMES
Funds that pool investors' money and invest on their behalf. This term refers to unit trusts and OEICs.

COMPOUNDING
The process by which your investment grows in value over time with reinvested interest or dividends.

CORPORATE BONDS
Fixed interest securities issued by public companies.

DERIVATIVES
A general term for futures and options.

DISTRIBUTIONS
Income paid out from a unit trust or OEIC in the form of interest or dividends.

DISTRIBUTION YIELD
Reflects the amounts that may be expected to be distributed over the next twelve months as a percentage of the mid-market unit price of the fund as at the date shown. It is based on a snapshot of the portfolio on that day. It does not include any preliminary charge and investors may be subject to tax on distributions.

DIVERSIFICATION
A term used to describe the spreading of risk by investing in a number of different companies and assets. Doing so will mean that you won't have all of your eggs in one basket.

DIVIDENDS
Income paid on shares out of company profits.

DIVIDEND DISTRIBUTIONS
Income paid out by unit trusts and OEICs that invest mainly in equities.

DUAL PRICING
Both unit trusts and OEICs can be dual-priced; such funds have an offer price at which you buy, and a lower bid price, at which you sell. The difference between the two prices is known as the bid/offer spread. The buying price is normally higher than the selling price as this includes the initial charge to be paid to the fund manager.

EQUITIES
Shares in a company. (See also 'Stocks and shares'.)

EQUITY EXPOSURE
Usually expressed in percentage form. This illustrates the proportion of a fund that is invested in stocks and shares (equities).

ETHICAL FUNDS
Also known as 'socially responsible investments' (SRIs). These funds aim to avoid investing in activities that may be harmful to society, such as tobacco production or child labour. Some funds also aim to actively invest in companies that promote ethical policies such as recycling.

FINANCIAL SERVICES COMPENSATION SCHEME (FSCS)
This scheme exists for claims against an authorised financial services company when it is unable to pay claims against it as it is insolvent or no longer trading. For companies still in business, claims must be referred to the Financial Ombudsman Service.

FIXED INTEREST SECURITIES
Assets that provide regular, fixed interest payments and are issued by companies and governments. They include gilts and bonds.

FORWARD PRICING
This is the most popular method of pricing for authorised investment funds. Once the manager has received an instruction to buy or sell units/shares, the price of those units/shares will be determined at the next valuation point of the fund.

FTSE 100 INDEX
British index on the London Stock Exchange, comprising the leading 100 UK Companies.

FTSE 250 INDEX
Index on the London Stock Exchange of the largest 250 companies by market capitalisation after those listed on the FTSE 100.

FTSE ALL-SHARE INDEX
British index on the London Stock Exchange of all UK listed companies. Incorporates companies from the FTSE 100, FTSE 250 and FTSE Small Cap indices.

FUNDS OF FUNDS
Fund of funds are designed to increase diversification by investing in other funds.

FUTURES
Agreement to buy or sell a fixed amount of a particular asset at a fixed future date and a fixed price.

GILTS
Bonds issued by the UK government. Also known as 'gilt-edged securities'. Along with bonds, can be referred to as 'fixed interest securities'.

GEARING
The amount a fund can 'gear' is the amount it can borrow in order to invest. In unit trusts and OEICs, borrowing is limited to 10 per cent of the fund's value and is usually for the purpose of managing cash flow rather than to increase the fund's investment exposure.

GROSS INCOME
Distributions such as dividends and interest paid out to you before income tax has been deducted.

GUARANTEED FUNDS
The IMA's definition of guaranteed/ protected funds is: Funds, other than

money market funds, which principally aim to provide a return of a set amount of capital back to the investor (either explicitly guaranteed or via an investment strategy highly likely to achieve this objective) plus some market upside.

HEDGE FUNDS

A fund that uses an assortment of trading techniques and instruments to meet an objective of providing positive investment returns irrespective of the performance of stock markets.

HISTORIC PRICING

Where the price at which you buy or sell your units/shares is calculated at the last valuation point, i.e. the fund manager uses the price set before they received your instructions.

INCOME UNITS/SHARES

This type of unit/share pays out to you on set dates each year any interest or dividends your investment makes.

INDEX/INDICES

A grouping of shares or fixed interest securities on the stock market which are often similar in size or represent similar industries. For example, the FTSE 100 index represents the largest 100 UK companies by market capitalisation.

INDEX TRACKING FUNDS

Funds that aim to mirror the progress of a stock market index, e.g. the FTSE 100, by buying and selling shares in the same proportions as represented on the index. These are also sometimes called tracker, index or passive managed funds.

INDIVIDUAL SAVINGS ACCOUNT (ISA)

A tax-efficient means of saving. There are two types of ISA – a Cash ISA and a Stocks and Shares ISA. In the current 2011/12 tax year you can save up to £5,340 into a Cash ISA. Or, you can invest up to £10,680 into a Stocks and Shares ISA. The overall limit is £10,680 and, as long as this is not exceeded, you could open a Cash ISA and a Stocks and Shares ISA in the same tax year, keeping within the limits detailed above.

INFLATION RISK

The risk to your savings caused by rising inflation. If inflation rises but interest on your savings doesn't keep up, it can reduce the spending power of your money. A £1 coin will always be worth £1, but what you can buy with that coin will reduce with increased inflation.

INITIAL CHARGE

A charge that is paid to the fund manager when you invest to cover their expenses, such as commission, advertising, administration and dealing costs.

INTEREST

An amount, in percentage form, that a bank or building society will credit to you if you save with it in a deposit account or savings account. The amount paid to you will be a percentage of whatever capital you have in your account. Gilts and bonds also pay income in the form of interest.

INTEREST DISTRIBUTIONS

Income paid out by unit trusts and OEICs that invest predominantly in gilts and bonds.

INVESTMENT FUNDS

A general term for unit trusts and OEICs.

INVESTMENT TRUSTS

Similar to unit trusts and OEICs in that they provide a means of pooling your investment but with a different structure and governed by different regulations. They are closed-ended funds and public listed companies whose shares are traded on the London Stock Exchange.

JUNK BONDS

These bonds have a high risk of the company that issued the bonds being unable to repay them. They are lower rated, with a poor credit rating often as low as D. They are also referred to as 'non-investment grade bonds'.

KEY FEATURES DOCUMENT

A document that must be offered to investors in Non-UCITS Retail Schemes (NURS) before or at the point of purchase. It summarises key information about the fund and provides details on risk and an illustration of the effects of charges both to the investor and the fund.

LIFE INSURANCE PRODUCTS

Products that guarantee that a sum of money will be paid out to you after a set term or upon death.

MONEY MARKET FUNDS

Funds that invest in cash investments, such as bank deposits. Often referred to as 'cash funds', they offer higher returns than a building society account but still have the same level of security.

MULTI-MANAGER FUNDS

Multi-manager funds are designed to increase diversification by outsourcing a pool of money for investment to a number of appointed managers.

NET INCOME

Dividends and interest paid out to you after income tax has been deducted.

NON-UCITS RETAIL SCHEMES (NURS)

Unit trusts and OEICs that are based in the UK and sold only to UK investors. Such funds differ from UCITS funds in that they cannot be sold into Europe and they have different investment restrictions. The fund documentation also differs and at the point of purchase you may be given either a Key Features Document or a Simplified Prospectus.

OEICS

Open-Ended Investment Companies. These are very similar to unit trusts but are constituted as companies rather than trusts. They are the established structure in many other European countries and can be single or dual-priced.

OFFER PRICE

Some unit trusts and OEICs have separate prices for buying and selling units/shares. The offer, or buying, price is usually higher than the bid, or selling, price as it includes an initial charge.

OPEN-ENDED FUND

Funds such as unit trusts and OEICs that expand and contract by issuing or cancelling units/shares depending upon demand.

OPTIONS

Options provide the opportunity (a 'right' rather than an obligation) for the buyer to purchase or sell a certain number of shares at a future date and at a known price.

OVERSEAS FUNDS /OFFSHORE FUNDS

Unit trusts and OEICs that are based outside the UK (but within Europe) and that are authorised by the Financial Services Authority and sold into the UK via distributor status.

POUND COST AVERAGING

Investing on a regular basis can iron out stock market fluctuations and can help you to avoid investing all of your money when the market is at its peak. Saving regularly enables you to buy more shares when the market and prices are low and fewer when the market and prices are high. Over time the cost of your units will even out and it is likely that you will end up paying below average prices for your units. This is known as 'pound cost averaging'.

PREFERENCE SHARES

These are similar to bonds in that they usually pay a fixed rate of income. However, they pay it as a dividend rather than interest and are subject to the issuing company making sufficient profits.

REDEMPTION DATE

Usually associated with gilts or bonds, the redemption date is the date set in advance when the gilt or bond will be repaid by the issuing government or company and you will receive your capital back.

RETURN

The amount of income, capital growth or both that is generated by your investment.

RISK PROFILE

This relates to how much risk you are prepared to take with your money. Generally the more risk you take, the higher the potential gain, but the more likely it is that you could lose some or all of your capital. Your risk profile may depend on your financial circumstances, as some people are able to take more risk than others. If you are unsure of your risk profile, you should contact an independent financial adviser for assistance before making an investment.

SECURITIES

Another name for investments such as stocks, shares and bonds.

SHARES

The name given to a part of a company owned by an investor – the investor buys shares in the company. Is also used to describe the OEIC equivalent of a unit.

SINGLE PRICING

Some OEICs and unit trusts have a single price at which investors both buy and sell. The initial charge is shown separately and is charged in addition to the unit/share price.

SOCIALLY RESPONSIBLE INVESTMENT FUNDS

See 'Ethical funds'.

STOCKS AND SHARES

Also known as 'equities', this is the name given to a part of a company owned by an investor.

TRACKER FUNDS

See 'Index tracking funds'.

UNDERLYING YIELD

The Underlying Yield reflects the annualised income, net of expenses, of the fund (calculated in accordance with relevant accounting standards) as a percentage of the mid-market unit price of the fund as at the date shown. It is based on a snapshot of the portfolio on that day. It does not include any preliminary charge and investors may be subject to tax on distributions.

UNITS

Unit trusts are divided into 'units' of equal value; therefore an investor buys units in the unit trust. The OEIC equivalent is known as a 'share'.

UNIT-LINKED POLICIES

These are insurance products where you pay a premium which is then invested in a fund holding a range of assets, usually including equities and fixed interest securities. Part of the premium paid pays for life assurance. Unit-linked policies are similar to with-profits products but do not invest in as many assets.

UNIT TRUST

Private individuals pool their contributions with others, which combine to form a large fund. The fund invests in a spread of different assets to minimise the risk of loss. Also known as 'collective/pooled investments' or 'investment funds'. Unit trusts can be both single and dual-priced.

VALUATION POINT

The time of day when unit trusts or OEICs are valued and then priced.

WARRANTS

A security that offers the owner the right to purchase the shares of a company at a fixed date, usually at a fixed price.

WITH-PROFITS FUND

A with-profits fund is a pooled insurance product. With-profits funds pool together premiums paid by a number of investors, which the insurance company then invests in a very wide range of assets. (See also 'Unit-linked policies'.)

YIELD

The amount of income generated by a fund's investments in relation to the price. Equity funds will normally quote the Historic Yield. Fixed interest funds will normally quote the Underlying Yield and the Distribution Yield.

ZERO DIVIDEND PREFERENCE SHARES

Preference shares that do not pay out dividends but instead pay out a predetermined amount at the end of the investment period.

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