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Get Investing.

Taking you on a journey from saving to investing

Jan – March 2021

Why choosing the right investment platform matters

Five financial planning tips from top adviser

Investing strategies that pay you an income

Looking ahead: fund picks for 2021

+ lots more!

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Your Investment Journey...

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Note from the editors

Hi there!

Welcome to the 2 nd edition of Get Investing. from Stepstoinvesting.com – an independent learning platform helping everyday people understand investing, free of complexity and jargon.

2020 has been, by most measures, an exceptional year in markets. With investors blindsided by the speed of the spreading virus and severity of ensuing lockdowns, markets dropped dramatically in March as riskier shares were sold in favour of safer assets such as bonds and gold; only to sharply recover weeks later as governments and central banks moved to pour money into the economy to help avoid longer-term damage.

Broadly unsettled by the uncertainties created by the pandemic, investors spent most of the year preferring high quality, larger, more resilient firms that could better withstand economic shocks or benefit from populations under lockdown. Then, in November, came the 'Vaccine Trade', as news emerged on the success of a number of Covid vaccines - with markets jumping sharply upwards as investors started to take on more risk in economically linked companies in the hope for a brighter 2021.

It seems the pandemic has made our mission more critical than ever – hundreds of thousands of new, everyday investors have flocked to online investment platforms, and while we hope this represents a much-needed sorting out of personal finances, we fear new investors may be taking risks they are unaware of in an attempt to make the most of the market rebound.

Our focus is not on narrow sets of funds or platforms, but rather on discussing topics across the entire investment journey, from preparing your finances right the way through to investing and reviewing your portfolio; keeping you informed and making the right decisions for building your wealth.

If you want to learn the investing basics before reading the guide, sign-up to our free 7 day course using the links throughout the guide.

Have a very merry Christmas!

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Marcus and Simon, Co-Founders

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Investment platforms: Investments are for everyone (not just the rich)

By **Bella Caridade-Ferreira,**
at **Compare The Platform**

Bella Caridade-Ferreira, CEO of Compare The Platform, writes on why we should all be investing, particularly with such low interest rates, and how to go about getting started and choosing the right platform.

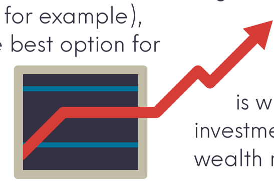
Lots of people think that investments are only for rich people. They're wrong. If you work, then there's a strong chance you already have an investment — it's called a pension. But if you've got long-term savings, you should consider investing. It doesn't matter how small or large. The problem is not whether to invest, but how to invest.

What is investing?

Let's start with what investing actually means. Investing is about committing your money to something to make more money. That might be a business, a property, or financial investments such as shares. The point of investing is to take some risk, make some money and achieve your financial goals.

It's different from saving or trading. Generally investing is associated with putting money away for a long period of time rather than trading stocks on a more regular basis. Investing is riskier than saving money. Savings are sometimes guaranteed but investments are not. However, if you were to keep your money under the mattress and not invest, you'd never have more money than what you've put away yourself.

It's worth pointing out that when interest rates are very low and inflation is higher than normal (as is the case today), over time your savings will gradually be worth less and you will be able to buy fewer things with the same amount of money (not great if you're saving for long term goals such as retirement). Apart from emergency cash savings or money you plan to use in the short term (for a house deposit for example), investing is the best option for your long-term financial goals.



Little and often

Some people think that there's no point in investing because they only have modest amounts to put aside. First things first: if you've got any bad debt, credit cards etc, it's best to pay those off first and make sure that you've got at least three to six months of emergency funds in a savings account. Once you've done that, you can start investing with as little as one pound. The trick is to start as soon as you can and invest regularly — little and often. Set up a standing order so that the money leaves your bank account and goes straight into your savings and investments so you forget it, and it becomes a habit.

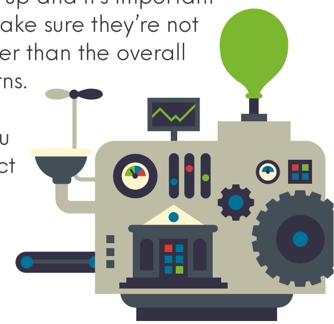
How to invest

Overall, there are three ways that people can invest. 'Do it yourself' – DIY investment platforms — this is where you use an investment platform alongside your own research and guidance to make your own investment choices. 'Do it with me' is when you find a financial adviser and they discuss your financial goals and put together a plan to help you achieve your goals. And the last option is 'do it for me' – this is where you hand over investment decisions to a wealth manager. Wealth managers used to be traditional, but now some of them are online and use algorithms to invest your money more cheaply.

Remember the fees

It's important to think about the fees you might pay for different types of services. Fees will have an impact on the returns you might earn. For example, if your investments earn 3% during the year, and the fees are 2%, then your returns are 1%. Conversely, if your fees are higher than your returns, then you'll be losing money on your investments.

If you invest through an adviser, you'll pay a fee for the advice. However, the adviser will administer your investments on an investment platform, which will charge a fee, and then there are charges for the actual investments. These three different layers of costs can add up and it's important to make sure they're not higher than the overall returns.



If you select your own investments through a DIY platform, you will be charged a platform fee and then there may be an ongoing charge figure for the investments. The cost of platforms can vary widely. Some platforms provide a huge amount of research, information and support and these tend to charge more than those that provide a basic service – you get what you pay for. When it comes to robo-advisers (do it for me), you pay one charge for the service that combines the cost of

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administering and hosting your investments as well as the actual investment, trading etc.

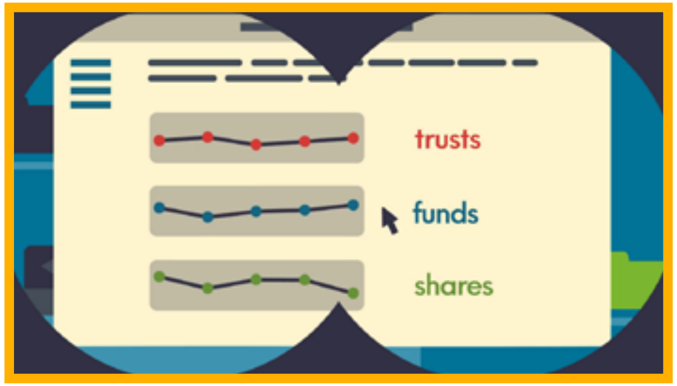
Remember there will be periods of time when your investments will perform poorly (this year is a case in point — stock markets fell significantly because of Covid-19), but history tells us stock markets bounce back in the long run. The trick is to take a longer-term perspective and ensure that your portfolio is doing well compared to the market average.

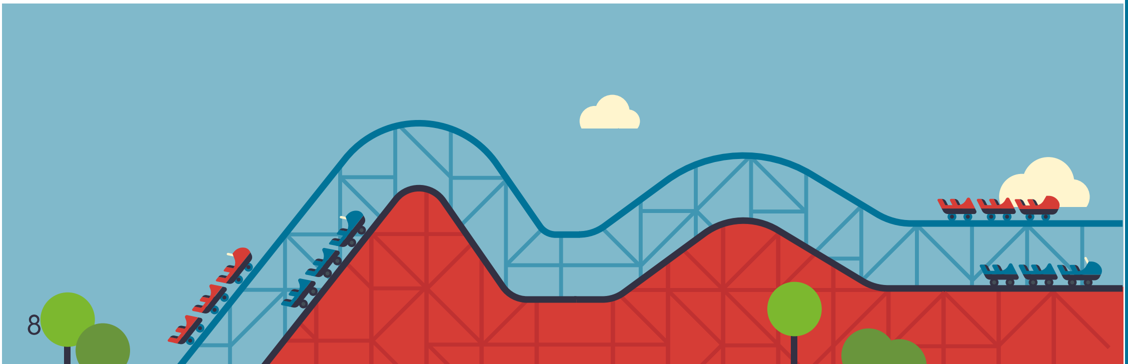
Passive or active investing

Recently, people have been promoting the benefits of passive investments such as trackers or ETFs.
These investments simply track a fixed group of companies like the 100 biggest in the UK, and because there are no investment decisions required, they're cheaper. Many fans of passive investments argue that most active managers (who select investments with the aim of outperforming the index) cannot beat the indices in the long run so it's pointless to pay the higher fees.

The press is awash with stories and articles about the pros and cons of passive and active investing, active advice and robo advice, fees and the like. The often wild claims give investors unrealistic ideas about long-term investments and make it difficult for them to make informed choices. The point is that there is no right way. Some people go cheap and cheerful, others will want to get a very personal service. It's a bit like the range of supermarkets on our high streets — you end-up with a similar outcome, but with slightly different price and service combinations — so as long as you're invested and your money is growing net of fees, how you invest doesn't matter a jot.

Video: Choosing an investment platform





Choosing a platform: Bella's checklist

Fees

All investment platforms charge in different ways so it's important to pick the investment platform that suits how you invest. Choosing the right one depends on the size of your pot and how you run your investments, as some investment platforms charge a flat fee for running your money, others a percentage.

Range of investments

What do you want to invest in? Funds, exchange-traded funds (ETFs), investment trusts, shares and bonds are all available on platforms. But not all offer each and every one, so make sure you check before setting up an account. You don't want to open up more than one account and double-up on administration fees.

Supporting tools and information

Consider whether you need help choosing your investments. Platforms don't offer independent financial advice, but many have recommended fund lists, useful portfolio-building tools and information about investments and how to go about choosing funds. Some are packed with information from in-house advisers and analysts, offering comprehensive shares and fund data. There might also be a choice of ready-made portfolios on offer, designed for people with particular needs.

Level of service

If you're handing over your savings pot to a platform, you are likely to want good customer service and technology to be top notch. There are plenty of platforms that pride themselves on a high standard of customer service and will most likely charge higher fees. Yet others offer cut-price fees and no-frills service. Make sure you get what you pay for.

Ease-of-use

It's no good investing with a platform which has a difficult-to-navigate website. If you want to be able to track your investments using an app, consider this in your search.

Some platforms to consider

The Big Exchange –
a platform co-founded by the Big Issue. Invest AND make a difference to the world we live in.

Vanguard –
Clean and simple and incredibly cheap! Vanguard is one of the largest asset managers in the world. The platform provides access to a curated selection of its funds making it blindingly easy to choose. Low cost investing is a big factor here.

Interactive Investor –
Interactive Investor is now the second largest platform in the UK and it stands out for being the only platform operating on a flat rate. Its ACE 40 ethical investment list is also a big draw.

AJ Bell Youinvest –
A good all-round platform for DIY investors. Charges are particularly good for investors with modest portfolios.

Diversification: Packing for a summer holiday

By **Faith Archer**, Journalist at **muchmorewithless.co.uk**

Award-winning journalist Faith Archer draws on the similarities between the key investment concept of diversification and summer holidays, and why investing is like packing for all weather conditions.

Spreading risk when investing, known as **diversification,** is much like packing for a British summer holiday.

Unlike skipping off for a fortnight of guaranteed sunshine in the Med, you never quite know what the weather will hold at home.

Heat wave? Cold snap? Torrential rain? Hit the jackpot with a combination of all three? All bets are off if you're planning a summer break in Blighty. However obsessively you check the weather forecast, you might still end up shivering or soaked.

Packing for a British holiday

When it comes to packing, it's not enough to stick a bikini and a kaftan in a beach bag. Instead, your packing needs to cover all the options.

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Video: What are asset classes?

Pile sunglasses, suncream and swimsuits into your suitcase, in the hope of blazing sun on the beach. Pack the macs and umbrellas in case the skies open. Then squeeze in thick socks and extra layers, in case the thermometer plummets and you have to cope with the cold. By the time you've added sandals, stout shoes and wellies, it's a wonder you can close your case.

Thinking of ditching excess baggage?

Now in an ideal world, you return home after two weeks of solid sunshine, and the only things you wore were T shirts and shorts. You might look at your bulging suitcase, and wonder why you packed all the extra stuff.

But if it tipped it down for an entire week, you'd be grateful for a raincoat. If the light sea breeze turned into a howling gale, you'd be glad you brought a jumper.

Just because you're lucky enough to have a stunning summer one year, doesn't mean it won't be wet and windy next year. If you ditch all the excess baggage, you could end up regretting it. Investing is similar to British weather in that past performance is no guarantee of what might happen in future.

Investing whatever the weather

On the financial front, diversification is a way of spreading your money across different kinds of investments to cope with different conditions.

When the sun is shining on the stock market, you may be dazzled by the stocks and shares that have soared ahead, or the higher risk funds that have delivered double-digit returns. You may wish all your investments had done so well, and be tempted to ditch the boring old bonds, that haven't grown anywhere near as much. Why bother keeping some of your investments in slow but steady cash, when you could strip your investments back to the excitement of emerging markets?

But if the stock market turns stormy, stocks and shares could plummet faster than a seaside sky can cloud over. In troubled times, bonds might suddenly look better in comparison, and cash is less likely to lose its value. You

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could then be really glad you packed your **portfolio** with a range of different assets, including bonds, cash and property-based investments, to shelter you from falling share prices.

Coping with different conditions

If you spread your money over a whole range of different kinds of assets, companies and countries, you will be much less affected by setbacks in any one area.

Sure, a spread of investments means some parts of your portfolio won't perform as well others at any one time, just as sandals aren't much use in in a rain storm, or a thick jumper on a hot day. However, the variety will help smooth any returns over the long term, just as packing for different weather conditions will help you survive your holiday in greater comfort.

Maybe it's a short sharp shower, and your investments dip before bouncing back. But brace yourself for the possibility of a deeper, longer down turn. The FTSE 100 index of Britain's biggest companies has fallen by about 50% twice this century. That may be a rare event – just as you'd be unlucky to face an entire fortnight of rain, even in England – but it's still possible.

Diversification is all about preparing for your financial future whatever the weather.

Video: Understanding diversification

About the author

Faith Archer is a personal finance blogger at Much More With Less as well as an award-winning personal finance journalist writing for various companies, charities, and national newspapers including the Financial Times, Sunday Times and Daily Telegraph.
muchmorewithless.co.uk

Adviser Corner: five top tips for planning your finances

By **Marcus de Silva**, Co-Founder at **stepstoinvesting.com**

Taking specialist advice on how to manage your money certainly gets the most out of your finances. But it comes at a cost. To lend a helping hand and save you some pennies, we decided to speak to independent financial adviser Felix Milton, from ***Philip J. Milton & Co.****, to draw on his extensive experience and give us five top financial planning tips.*

1 A "big no-no" to cash AND credit card debt

One mistake Milton frequently comes across is clients remarking that they have both cash and credit card debt: "Oh yes, I have £20k in savings, and about £10k in credit card debt, paying 18% APR". When pressed they answer that the cash is their "rainy-day fund".

Building a rainy-day fund of between 3 – 6 months expenses is recommended to anyone in case of emergency, and prior to any stock market investing. But not if you're saddled with expensive debt – get rid of that first.

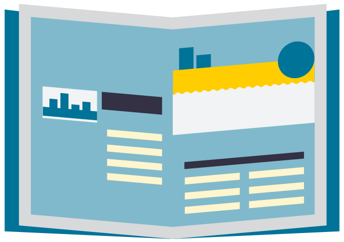
"If you can afford to reduce the debt and the servicing on that debt, you should do so. People forget that if they have an emergency, they could always borrow again on their credit card, and borrow just the amount needed for that specific emergency."

2 Get involved in a pension

"People get their fingers burnt with pensions when they don't use them. Particularly young people who think a pension is wasted money because they want to live life now."

Pension wrappers are stocked full of benefits (see our article on Pensions), which you get the most out of the longer you are in the market. Milton advises on getting started as soon as possible.

"The younger you start, the less you have to save. The first ten years from a compounding perspective are more important than the subsequent 20 years. So, if you can save as much as you can between the ages of 20 and 30 in your pension, you can almost take your foot off the gas a little bit for the next 20 years."



3 Stop touching your portfolio

Milton thinks one of the "biggest impacts to returns" in investor portfolios is excessive trading.

"Come up with a plan, stick to it, and review it once a year to check-in that it's all ticking over – unless you're in a situation where goals have changed."

He refers to some breath-taking research released by Bank of America recently. Analysts there looked at S&P500 stock market data going back to the 1930s. If, in each decade, you missed the ten best days, by now your investment would have increased by 91% – which is actually fairly pathetic considering the length of time elapsed.

These best days, Milton remarks, usually follow the worst days, during which investors can make the mistake of selling amid the stock market panic. The best approach is to leave your investments where they are.

So, back to the research: if you had not touched your portfolio since the 1930s? A rollicking 14,962% return!

4 Your house is not your pension

The strong, multi-decade long bull (positive) run in the housing market has led many to base their pension provisions on the sale of their home. This is particularly reflected in the decline in pensions' rates among the self-employed over the past two decades. Milton thinks this is "a big worry", especially as "people apply the endowment effect, which is to say: because you own it, you think it's worth more than it actually is."

Did you know?

Japan's bubble years: The 1980s

- 1982 – 1989: Golf membership increased 400%.
- Highest membership fee to most exclusive golf club: $3.7m
- At that time: land was 65% of national GDP, vs 2.5% in UK.
- 1989: at $139k / sq ft, real estate cost 350 times Manhattan rates.

Source: SCMP, July 2020

"We've been through one of the longest periods in history where the property market has increased year on year. It is not guaranteed to continue.

You can look at Japan in the 1980s, where the emperor's palace was worth more than all of the real estate in California put together, and then that bubble burst."

He also believes it's a potentially disastrous departure from a key concept when it comes to investing responsibly: diversification. "It is the definition of all your eggs in one basket."

He adds that with "stocks and shares, you spread [risk] around".

5 Avoid premium bonds

One final top tip from Milton is his dislike of premium bonds, available through NS&I. Essentially, these are savings accounts offered by the government, within which you buy £1 bonds. The interest you then receive on the bonds is decided by a monthly prize draw, with prizes ranging from £25 up to £1m.

According to Money Saving Expert, the odds are an eye-opener: From 1 in 34,500 to win the £25 prize, to 1 in 49,476,244,476 for the £1m prize. Milton thinks this makes it barely worth it. "It's very clever, because it works like a lottery. The rate is just an expected prize fund, it's not guaranteed that you'll get a prize, it's not guaranteed you will win anything at all. You may go the whole year without winning a single prize".

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Video: When do I need financial advice?

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Fund types: Faith Archer gives 7 reasons why she likes investment trusts

By **Faith Archer**, Journalist at muchmorewithless.co.uk

Award-winning journalist Faith Archer gives seven reasons why she likes investment trusts, alongside views from James de Sausmarez, with his perspective as Director and Head of Investment Trusts at Janus Henderson Investors.

Investment trusts were designed to give individual investors more bang for their buck, and have a history of delivering higher returns at lower cost.

Read on to find seven reasons why I like investment trusts, and the secret weapons they have up their sleeves:

1 Pay more predictable income

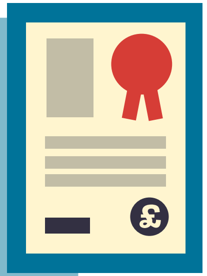
Investment trusts have the power to pay smoother, more predictable income than unit trusts. This is because they are allowed to hold back up to 15% of returns in good years, to be paid out as dividends when times are tough.

In fact, more than 19 investment trusts have increased their dividend pay outs for more than 20 years in a row. Five investment trusts – City of London, Bankers, Alliance Trust, Caledonia Investments and BMO Global Smaller Companies – have actually paid rising dividends for 50 years or more.

You can find a list of these 'dividend heroes' on the Association of Investment Companies website.

However, investors can keep a close eye on costs. Many investment trusts have very competitive annual charges.

therefore changes with the share price – so unlike unit trusts, it isn't directly linked to the value of the assets owned by the investment trust.



James on the revenue reserve:

"Because it's a company structure, an investment trust is able to put aside a bit of income in good years, and make it available in bad or difficult years. This year is a good example. Many investment trusts have managed to maintain and or grow their dividends despite what's been going on in markets."

When the value of the shares in an investment trust tots up to less than the value of the assets it holds, the shares are known as trading at a discount. If the shares are worth more than the assets, it trades at a premium.

The income is not guaranteed. However, any investment trust that has such a long record of paying increasing dividends will be reluctant to break it.

2 Higher returns, lower costs

Investment trusts often deliver higher returns, at lower costs, than unit trusts. Investment trusts are sometimes described as the City's best kept secret – perhaps because they have never paid commission so financial advisers would not recommend them.

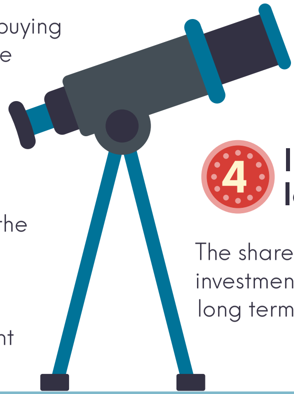
As always, the caveat for both unit and investment trusts is that this track record doesn't guarantee future performance. They can fall as well as rise and you may not get back your original investment.

3 Snap up shares at a discount

Investment trusts are themselves companies that are listed on the stock market.

You invest by buying shares, and the share price goes up and down depending on the popularity of the company.

The value of your investment



Buying shares at a discount makes me feel like I'm getting more assets for my money, although over the long term it doesn't make a massive difference to your investment return.

4 Invest for the long term

The share structure means investment trusts can take a long term view.

James on premiums and discounts:

"Discount the discount. The difference over the medium to long term – which is the period you should hold an investment trust for – between your 'buy' discount or premium and your 'sell' discount or premium is likely to be very small, so I think it's not something to worry about."

DISCOUNT

If people rush to sell shares, the share price might fall, but managers are not forced to sell investments at what could be a bad time. In contrast, a unit trust would have to sell assets if loads of investors wanted to cash in their units.

Investment trusts therefore have an advantage when investing in things that are harder to sell in a hurry – like commercial property such as hospitals, offices and factories, or companies that are not quoted on the stock market.

5 Long track record

I prefer investments with a long track record of surviving whatever recessions, wars and stock market crashes can throw at them. Past performance is no guarantee for the future, but I'm reluctant to hand my money to a wet-behind-the-ears start up.

Luckily, the investment trust sector includes many long-established funds, including 23 that have succeeded for more than a century.

Investment trusts are actually the oldest form of collective investment. The first investment trust – Foreign & Colonial – was specifically designed for mere mortals like me, 'to provide the investor of moderate means the same advantage as the large capitalist'.

James on gearing:

"If markets go up and the investments go up, then gearing can work in your favour. It is particularly attractive when interest rates are very low, which they are at the moment. But it's a double-edged sword: it gears returns up or down. That said, it is determined by professional fund managers alongside the independent board, so subject to a lot of challenge."

6 Boost returns with borrowing

Investment trusts also have the secret weapon that they can borrow money to invest, known as gearing. The idea is to make more money from the money than the cost of borrowing it.

Borrowing is great when times are good, because it can boost your returns. Managers also have the chance to raise cash quickly, to seize attractive opportunities. However, if markets fall or investments fail, borrowing can make losses worse. In practice, trusts take different approaches, so check the gearing on specific trusts before diving in. As of 17th December 2020, according to SharePad, a data provider, the average gearing across the closed-ended sector was 10.1%.

James on boards:

"Independent boards are there to look after the interests of shareholders – they are a level of governance within the investment trust. Ultimately, if they don't like what's going on they could fire the fund manager – and that does happen from time to time."

7 Overseen by an independent board

Investment trusts have a board of directors, which appoints a manager to do the actual investing. The board is meant to ensure the investment trust is run in the best interests of the shareholders – and the shareholders are investors like you and me. I like the idea that the directors are working on my behalf, to squeeze fees, check on the fund manager's performance and replace the manager if necessary.

Podcast

Listen to James de Sausmarez discuss the history of investment trusts and the benefits they offer private investors.

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Video: How are funds structured?

About the author

Faith Archer is a personal finance blogger at Much More With Less as well as an award-winning personal finance journalist writing for various companies, charities, and national newspapers including the Financial Times, Sunday Times and Daily Telegraph.
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Pensions: three policies that transformed our golden years

By **Marcus de Silva,** Co-Founder at **stepstoinvesting.com**

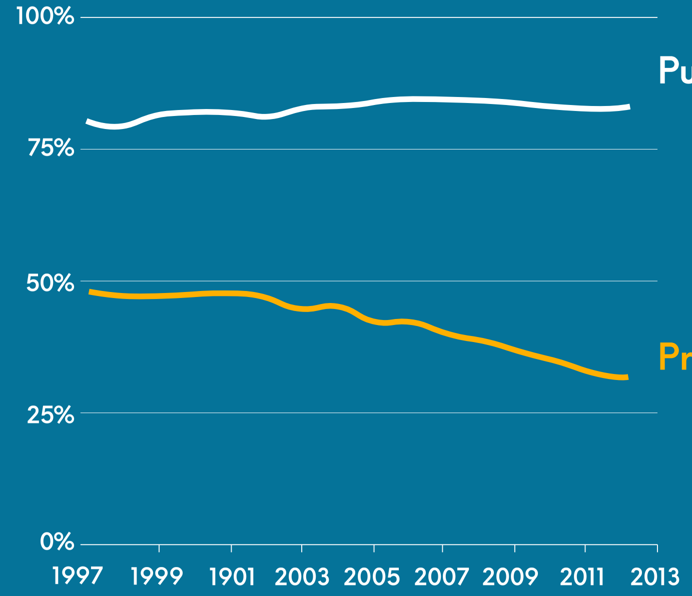
Transformational government policies of the last decade reversed a worrying decline in the percentage of Brits with pensions, and handed us both choice and responsibility. But is this enough to stave-off pension poverty? We speak to AJ Bell pensions analyst Tom Selby.

How things have changed

Rewind a decade and you'll find a nation knee-deep in a pensions' crisis. In the 15 year run-up to 2012, the take-up of pensions in the private sector had been in freefall, seeing the numbers of people building a retirement pot falling from 1 in 2, to 1 in 3. With the basic state pension just £97.50 per week at the time, millions of Brits found themselves facing pension poverty down the line - a grim and unfair way to see-out those golden years following a lifetime of hard graft.

The problem was rooted in the slow death of defined benefit (DB) schemes – also known as final salary pensions – which guarantee you a portion of your final salary or career average once you retire at 65 until your death. Following the second world war, booming stock market returns and lower life expectancies had made them all the rage in both the public and private sector, as Tom Selby explains.

Participation rates in employer retirement plans by sector



Adding: "As working patterns changed and the job market became more fluid, pension saving simply got left behind."

Source: Cribb and Emerson 2019

"Pension saving was just something that happened as part of being employed by a company – employment that often lasted for someone's entire career. You would work for a company for 30 or 40 years, receive a carriage clock on retirement, and be left with a nice, guaranteed pension to see you through your final years."

It proved unsustainable. Medical innovation and longer lifespans coupled with cooling stock market returns wrong-footed the clever actuaries who devised the schemes. They were becoming thunderously expensive to fund, and the private sector started to abandon them in droves.

Selby continues: "As the rising costs of DB pensions became ever more apparent, provision in the private sector started to decline and scheme membership followed. While some companies would have offered a defined contribution (DC) alternative in its place, many people simply wouldn't have had access to a retirement savings vehicle or even have been made aware of the importance of saving for later life.

Staring into the abyss of a worsening crisis, the government proceeded to enact some of the most transformational policy decisions the pensions sector had seen and would see in decades; the impact of which would hand us both the choice and the responsibility to craft our own financial destinies. Tom Selby walks us through the three major developments.

'The biggest policy development for decades?'

1 2012: auto-enrolment

Selby explains: "The launch of automatic enrolment – a huge experiment in behavioural economics and 'nudge' theory – in October 2012 was arguably the biggest policy development of the past decade. With guaranteed DB pensions withering on the vine in the private sector, government inaction would have risked leaving an entire generation with little or no private savings to rely on in retirement.

"Although auto-enrolment in its current guise – with minimum contributions set at 8% of band earnings – does not go far enough to stave off a future pensions' crisis, it has at least made a start. Getting over 10 million people saving something in a pension is a massive shift in the right direction and provides a platform to build upon. The next logical steps will be addressing those who are excluded from the reforms, including the self-employed, and encouraging people to take responsibility by saving over-and-above the minimum amount."

2 2015: pension freedoms

Selby continues: "The 'pension freedoms' announcement by former Chancellor George Osborne in the March 2014 Budget fundamentally changed the UK's pensions' landscape. The impacts of the reforms, introduced in April 2015, will be felt for decades to come, with savers now having total freedom and choice over how they spend their retirement pot from age 55.

"Where previously the vast majority of people bought an annuity from their existing provider, today around 3 people enter drawdown – keeping their money invested while drawing a retirement income – for every 1 person who buys an annuity. It is hard to underestimate the seismic nature of this change in behaviour, with responsibility for managing the risk of longer retirements swinging away from insurance companies and towards individuals.

"This new flexibility has generally been welcomed by consumers but also places a greater emphasis on people taking an active interest in their pension throughout retirement."

3 2016: state pension reforms

Selby explains: "In order for automatic enrolment to work it was crucial that the state pension was reformed. This is because under the pre-2016 system, someone could be better off opting out of their workplace scheme as this would boost their means-tested state pension entitlement.

"It was also necessary because the old state pension was hideously complicated, making it all-but-impossible for ordinary people to understand and plan around. While it will take decades for these complexities to be weeded out of the system, moving to a world where most people are entitled to a flat-rate

amount brings welcome simplification and certainty.

"With the state pulling back from retirement provision – the state pension age is expected to rise to 67 by 2028 and 68 by 2039 – the onus has very much shifted to individuals to take responsibility for their own retirement outcomes."

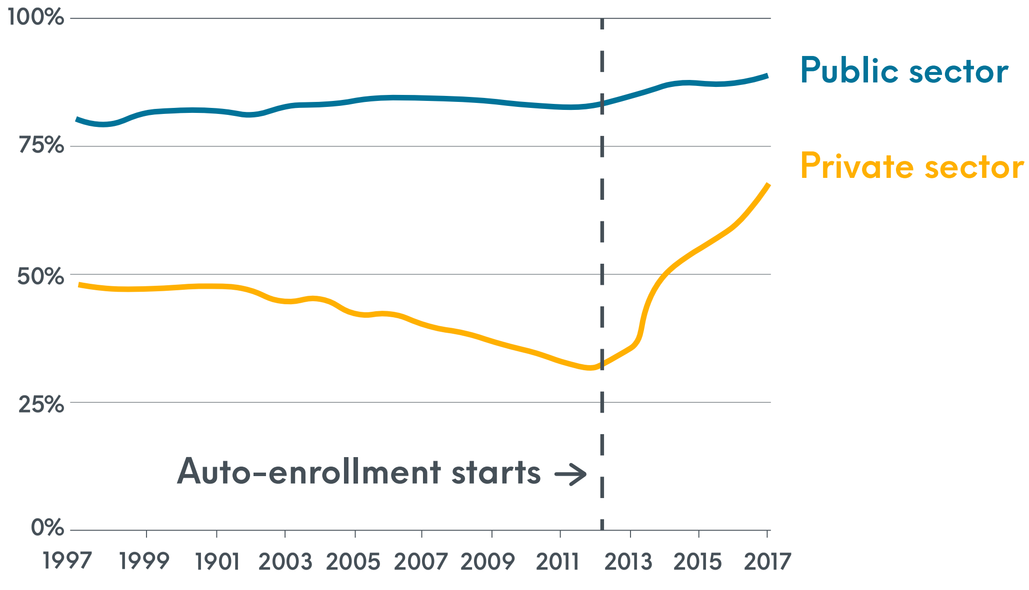
Have policies gone far enough?

There's no doubt that the impact of auto-enrolment on the take-up of private sector pensions has been remarkable.

But while government reforms have led to a higher pensions take-up more broadly, there are pockets where figures remain dreadful. Since the turn of the millennia, the self-employed have gone from 1 in 2 owning a pension to 1 in 6 today.

The government attempt to push the pension onus onto us is also a double-edged sword: while the freedom to spend our own pot as we see fit makes much more sense – especially in the face of dwindling annuity rates - key financial and investment decisions are still required by individuals to reach their goals. A general lack of financial education and information could lead to enormously costly decisions in both accumulation and draw-down phases. And combined, these factors have led fraudsters to the honey-pot – costing schemes an estimated £6bn per year.
The Sun newspaper recently declared in a splashy headline that 9 million Brits face pension poverty unless they do more to save – it seems the travails of a decade ago seem not to have been put to bed.

A pension is your ticket to freedom later in life – let's not ignore it.



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Funding retirement

What does retirement bliss look like to you – A suite of new hobbies? Endless rounds of golf? Jet-setting around the world, luxuriating in five-star resorts? What age retirement will come is something to think about, but one thing is for sure: it needs some funding.

The state pension is the likely starting point. If you were 67 and retired today, and had diligently paid 35 years of national insurance over your working life, you'd be entitled to £175.20 per week. That's £9,110 per year.

While not to be sniffed at, if you want to work your way through our glorious itinerary, you're going to need to make up the difference with an additional pot: a workplace or private pension.

Workplace pensions generally come in two forms (though there are more): a defined benefit scheme (DB), whereby upon 65 years of age you receive a secure, salary-related income for the rest of your years in retirement; or a defined contribution (DC) scheme - an investment pot built-up with your employer's help, aided by tax incentives, that can be drawn upon once you reach 55 (57 from 2028).

A private pension is much like a workplace DC scheme, only you manage the pot yourself.

The most common is the self-invested personal pension (SIPP), which involves making your own investment decisions through an investment platform such as AJ Bell.

What is triple lock?

The current government policy regarding the state pension which guarantees that each year
it will rise by whichever is greatest: inflation, average rise in earnings, or 2.5%

Podcast

Listen to Tom Selby discuss pensions in more detail.

Video: What is a self-invested personal pension (SIPP)?

stepstoinvesting.com

Investing for income: Get paid today without compromising tomorrow

By **Cherry Reynard**, Journalist

With interest rates on savings at all-time lows, multi-award-winning investment journalist Cherry Reynard takes a look at different fund strategies for investors seeking an income.

The trouble with saving and investing is that it lacks the immediate allure of, say, wine and holidays. It's all about taking care of your future self, but that can leave your current self feeling neglected. By targeting income investments, you can keep both parties happy – jam today and jam tomorrow.

It's worth noting that this isn't as easy as it used to be. In the giddy days before the global financial crisis, Covid-19 and all the other crises inbetween, it was possible to keep your money in a bank account and earn 3-4% interest every year. It is still possible to generate this level of income, but you will need to broaden your horizons.

There are four ways to generate an income from your investments: dividends from shares, interest from bonds;

rental income from property; and 'alternatives', which is a catch-all label for everything from catastrophe bonds to peer to peer lending to solar energy.

Top Tip – Don't go for the highest yield. It can mean that the market expects the income to be cut. Steady, growing income is preferable for the longer-term.

1 Stock markets

If you own shares, you own part of a company. That entitles you to a share of the company's profits, some of which will be paid out as dividends once or twice a year. One way to judge whether a company is likely to pay dividends is its dividend yield – this shows its historic dividend payments as a percentage of its current share price. For the FTSE 100, the dividend yield tends to be between 4% and 5%.

That said, investors shouldn't make the mistake of thinking this is like the income from a bank account. Companies can hit tough times and there aren't always enough profits to make payments to shareholders. The pandemic has forced many companies to cut payouts, even if some have bounced back relatively quickly.

The best way to minimise the impact of one company missing a payment is to hold plenty of them – collective funds focused on equity income blend a range of different companies. It is also worth ensuring that you are invested across a range of geographic regions; anyone who had been relying solely on the UK would have had a tough time through the recent crisis. Finally, make sure you hold a blend of sectors - some high-income companies can be in stodgy old industries such as oil and tobacco, so you need a balance in your portfolio.

Equity funds to consider:

- Fidelity Global Dividend
- Evenlode Global Income
- City of London investment trust

2 Bonds

Bonds are loans to companies or to governments. You lend a company or a government a fixed amount, they pay you interest and pay the loan back at the end. The amount of interest you receive is based on the risk of the company going bust (think consumer loans, where higher risk borrowers need to pay higher rates). Although companies don't go bust very often, you only need to look at the UK's beleaguered high street to know that it can happen.

In days gone by, bonds were a useful source of income. The trouble is, with interest rates so low, many bond investments pay next to nothing. Often, if you want a higher income, you have to take a chance on a higher risk company. As with shares, diversification makes sense and a collective fund is usually a good option. Strategic bond funds allow the fund manager some flexibility and that can be useful at a time when bonds don't look very exciting.

Bond funds to consider:

- Allianz Strategic Bond
- TwentyFour Dynamic Income
- Henderson Diversified Income trust

Top Tip - It is worth looking at a fund's track record of growing dividends. For a longer term investor, a fund that grows its pay-out each year can be more valuable than one with a high starting income. There are certain investment trusts that have been increasing their dividend pay-out to investors for decades -

3 Property

Not many people can afford to buy a multi-million pound office block, rent it out and draw the income. However, with a commercial property fund, you can pool your resources with other investors, own a little bit of a building and receive a little share of the rent. This has historically been another good option for income investors. While there is a risk that tenants don't pay, there are usually other tenants waiting in the wings.

However, commercial property hasn't been a great investment through the crisis. Businesses have been in distress and plenty of them have put pressure on their landlords to drop the rent. However, there are unusual property options that have proved a better choice – warehouses, for example, that provide storage centres for online delivery groups such as Amazon or infrastructure funds, that invest in roads and schools.

Property funds to consider:

- Aberdeen European Logistics Income
- Tritax Big Box REIT
- M&G Global Listed Infrastructure

4 Alternatives

'Alternative' income options usually come in the form of investment trusts, which tend to be a better option for less conventional assets that may be more difficult to trade, but have some unusual features which can make them seem more complex (see article). There are sound reasons for including this type of investment. Often the performance bears little relation to equity and bond markets, which can be useful at a time when stock markets are wobbly or bond markets look poor value.

Interesting options include solar and wind farms, where investors can sleep soundly knowing that they are playing their part in saving the planet, while also bringing in a nice income. Healthcare trusts, which may own doctors surgeries or other hospital buildings, have also proved a reliable source of long-term income. Importantly, they have also proved resilient during the recent crisis.

Alternative funds to consider:

- Bluefield Solar Income ltd
- Premier Miton Global Renewables
- Target Healthcare REIT

The Income Seekers Checklist:

- **Check the yield** – it won't tell you what the fund will pay in future, but it will show whether it's successfully paid an income in the past
- **Check the investment objectives** – if the fund is committed to paying an income to shareholders, it will say so there
- **Check the top 10 holdings** – If it's just a lot of boring blue-chips, you may be better off with a tracker or a more 'active' active fund
- **Check the payment frequency** – If you are relying on an income to pay your bills every month, consider whether you want an investment that only pays once a year
- **Check the manager** – do they have a long and well-established track record of running income funds?

Don't forget to use your ISA!

ISAs are a good home for income paying investments. All the income paid out from investments held within an ISA wrapper is tax free.

		12 Month Yield	Income Frequency	Size	Number Holdings	Main Geography
Equity Funds	Fidelity Global Dividend	3.20%	Quarterly	£1,808m	49	USA (31%)
	Evenlode Global Income	2.10%	Quarterly	£822m	40	USA (37%)
	The City of London Investment Trust	5.20%	Quarterly	£1,628m	97	UK (92%)
Bond Funds	Henderson Diversified Income Trust	4.80%	Quarterly	£204m	199	USA (59%)
	Allianz Strategic Bond	2.96%	Semi-Annually	£716m	375	Japan (20%)
	TwentyFour Dynamic Bond Income	3.60%	Quarterly	£1,861m	303	UK (31%)
Property Funds	Aberdeen European Logistics Income	4.50%	Quarterly	£249m	14	Netherlands (47%)
	Tritax Big Box REIT	4.35%	Quarterly	£2,710m	Not Declared	Not Declared
	M&G Global Listed Infrastructure	2.60%	Quarterly	£316m	58	US (32%)
Alternative Funds	Bluefield Solar Income Ltd	6.15%	Quarterly	£521m	Not Declared	Not Declared
	Premier Miton Global Renewables	6.89%	Quarterly	£29m	42	USA (15%)
	Target Healthcare REIT	5.91%	Quarterly	£502m	73	UK (100%)

Yield and performance for key fund sectors forecast next year

Fund Sector	1 yr average fund performance (% to 2/12/20)	Yield range (%)
Global Equity Income	3.9	1.32 - 9.66
UK Equity Income	-8.9	3.1 - 8.23
Sterling Corporate Bond	6.5	0.8 - 4.6
Sterling High yield	3.9	3.2 - 6.49
UK Direct Property	-3.5	1.44 - 5.7

Source: Trustnet, Dec 2020

About the author

Cherry Reynard is an experienced financial journalist, working across national, consumer, and trade titles, including the Financial Times, the Daily Telegraph, Citywire, and Money Marketing. She is six-time winner of the Investment Management Association's freelance journalist of the year, and four-time winner of the Association of Investment Companies' freelance journalist of the year.

Global Markets in 2021: What to expect and how best to invest

By **Marcus de Silva**, Co-Founder at stepstoinvesting.com

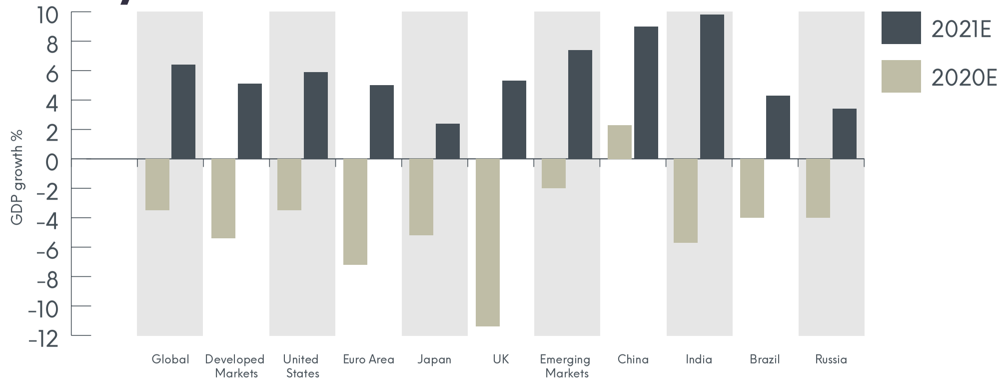
Rob Gleeson, Chief Investment Officer at FE Investments, thinks there's lots of reasons to be optimistic for 2021 and provides three economic scenarios and related investment opportunities. He also looks beyond the year and the longer-term case for 'impact investing'.

It's that time of the year in the investment world when fund managers sit back, take stock – excuse the pun – and gaze into their crystal balls to think about what comes next.

What a year 2020 has been. Every major country in the world, bar probably only China, will have seen their economies shrink thanks to the pandemic, with Morgan Stanley estimating the average contraction likely at around 3-4%. Based on these projections, it will take until at least the end of 2021 before the global economy returns to the size it was before the pandemic – two years lost then.

But, from low bases, expectations can rise. And the big jumps we saw in stock markets following news

Economic predictions: strong rebound forecast next year



Source: Morgan Stanley Research, December 2020

of effective Covid vaccines – the 'vaccine trade' as it became known – is a nod to what's driving investor thinking for next year.

"There are lots of reasons to be optimistic about the coming year.", says Rob Gleeson.

"It's possible vaccination programs across the UK, Europe, US, and other places are rolled out relatively smoothly." He continues that if the Brexit transition adds to this without drama, the combination could fire-up the economy, spark inflation, and even lead to – albeit unlikely - interest rate rises. "In this scenario, there's no point picking what's best for a pandemic. Investors have predicted this almost every year - but it could be the year for value stocks."

Value investors pick stocks that appear unvalued in the market, which tend to be in sectors that are fairly sensitive to what's going on in the economy, such as airlines, oil, and banks. The value 'style' (see next article) has performed poorly ever since the global financial crisis, but now some investors are hailing its comeback. If you believe that next year is a full-throated return to normality, value stocks that benefit from an economic recovery could be a good bet.

Gleeson remarks that the UK's FTSE-100 is actually chocked full of these sorts of stocks, and has lagged other markets in recent years.

His preference is an active manager though - someone who can look for stocks that are "cheap today but could do better tomorrow". To avoid any Brexit exposure, Gleeson recommends Schroder Global Recovery.

Schroder Global Recovery

12 Month Yield: 3.93%
Income Frequency Annually
Sector: Global
Size £208m
Manager Simon Adler/ Andrew Lyddon/Nick Kirrage
Start Date All Oct-15
Number Holdings 56
Main Geography UK (22%)
Type Fund

If we remain as we are...

Single-mindedness, however, does not pay in investing as things rarely turn out as expected.
What if vaccine roll-out programs are bungled and economies remain in the restricted purgatory they're currently in for longer than expected?

Gleeson thinks in this scenario, you would want more of what's been performing well in 2020: high quality growth companies in sectors such as technology.
"If things remain grim, the only way businesses can continue growing and performing is if they become more efficient. So, any software or automation-type technology that can drive costs out of a business will be popular; any investment in long-term growth will be less popular."

He points out that the technology heavy indices of the US have a lot of these types of stocks, such as software company and video conferencing supplier Zoom. He adds that defensive consumer staples businesses – firms such as Unilever and Reckitt Benckiser that sell essential consumer products in demand regardless of the economic climate – might also be well suited in this environment as they are cash generative businesses that can invest in their own efficiencies. Gleeson thinks Baillie Gifford American might be a good pick here.

Baillie Gifford American
12 Month Yield: 0.60%
Income Frequency Annually
Sector: North America
Size £5,254m
Manager Multiple
Number Holdings 43
Main Geography USA (91%)
Type Fund

Finding the safer bets...

Dare I ask – what if things get worse? Gleeson thinks that this is the least likely outcome, and that as things are already pretty bad the investor response would be a "flight to safety": a full-on defensive move into areas such as government bonds and cash, as well as absolute return – a specialist strategy that tries to avoid any negative returns. In this grim scenario, Gleeson recommends either BlackRock Absolute Return Bond, or Allianz Strategic Bond.

Allianz Strategic Bond
12 Month Yield: 1.94%
Income Frequency Semi-Annually
Sector: Strategic Bond
Size £2,394m
Manager Kacper Brzezniak/ Mike Riddell
Start Date Nov-15 / Nov-15
Number Holdings 545
Main Geography Japan (20%)
Type Fund

Importantly, Gleeson points out that in FE's funds their aim is to be "middle of the pack" in terms of benchmarked performance, so they don't take a one-way view. "Our investment process is to hold a bit of all of them, and then whatever happens we'll probably be alright".

In short – holding funds with various strategies is the epitome of diversification, but if you believe one particular strategy is more likely to succeed than another next year, you can always turn the dial up on that investment.

Blackrock Absolute Return Bond
12 Month Yield: 1.80%
Income Frequency Semi-Annually
Sector: Targeted Absolute Return
Size £275m
Manager Multiple
Type Fund

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What is impact investing?

Impact investing sits under the umbrella of sustainable investing, and involves strategies that look for businesses focused on solving real-world sustainability issues by generating a positive social or environmental impact alongside delivering a financial return to their investors.

Opportunities beyond 2021

As investors, we should all be in this for the long haul, and Gleeson thinks there's some exciting longer-term opportunities in some of the 'green' investments tackling the climate emergency – an area known as impact investing.

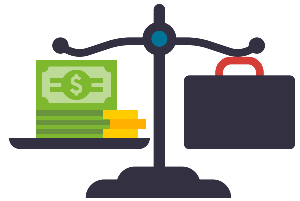
He outlines that the issue is a big focus for the US' incoming Biden administration, increasingly so for the Johnson administration, and particularly so for Europe – with "€750bn of lending signed-off and almost all of it earmarked for clean energy projects in member states."

He adds that the crisis has made people more aware of their "physical environment" and been a catalyst for action due to "massive fiscal spending" and the fact climate change programs and clean energy require enormous sums to build the necessary infrastructure.
"Where the money comes from is no longer a question people are asking themselves. Billions are turning up out of anywhere. Attitudes to public finances have changed. I don't think we'll ever go back to austerity again. I think larger deficits and large government spending now the new normal."

He adds that, because "very few people are willing to take risk and invest in something productive at the moment", it is intensifying government focus to invest in these areas.

"You look at businesses, it's about stripping out costs, it's not about making big investments. For the consumer, it's about paying down debt and increasing savings. The government is the only one willing to spend. If [stimulus] money is going to go into the economy and do something productive and add to growth, the money has got to go somewhere. If it doesn't get spent it just sits in the asset markets and that's how bubbles are created."

The risk to this thesis is Treasury thriftiness: "The institutional memory at the Treasury is very long. As much as Boris Johnson, and frontbench politicians and economic commentators are now more relaxed with high deficits – that doesn't mean that the Treasury is looking at the ledger and seeing all that red and is perfectly OK about it. There is a 600-year history of trying to balance the books."



Baillie Gifford Positive Change
12 Month Yield: 0.32%
Income Frequency Annually
Sector: Global
Size £1,319m
Manager Multiple
Number Holdings 33
Main Geography USA (48%)
Type Fund

Gleeson uses Baillie Gifford Positive Change for an impact fund.

stepstoinvesting.com

Investment styles: why it might be time for 'value'

By **Marcus de Silva**, Co-Founder at stepstoinvesting.com

Recent announcements of multiple vaccines could be a shot in the arm for the long-suffering value investment 'style', as a bet on a recovering global economy might be the best approach to investing for the next phase of the crisis, says Adrian Lowcock, Head of Personal Investing at ***Willis Owen.***

When choosing investments for your portfolio, the fund universe can be chopped-up into a number of important and useful bite-sized pieces – geographical markets, asset classes, active or passive fund management, or investment styles.

An investment 'style' is the strategy a fund uses to target investments for the portfolio – the recipe used to bake those delectable returns. There are many, but the most common tend to focus on a few particular ingredients: targeting a level of risk, investing in companies of a certain size, or finding stocks that are deemed to be growth or value.

Growth investors seek stocks with strong growth in profits, whereas value investors find stocks that appear undervalued in the market. Knowing what a fund is seeking is important because, for one reason or another, different styles can fall in or out of favour in the market over time.

Indeed, the 'growth' style has performed much more strongly than the 'value' style for around 15 years. Over this time, if you'd invested in businesses of the MSCI Value Index, a list of 'value' companies, you would've doubled your money – which is not bad - but if you'd invested in the MSCI Growth Index, likewise for 'growth' companies, you would've received back four times your money.

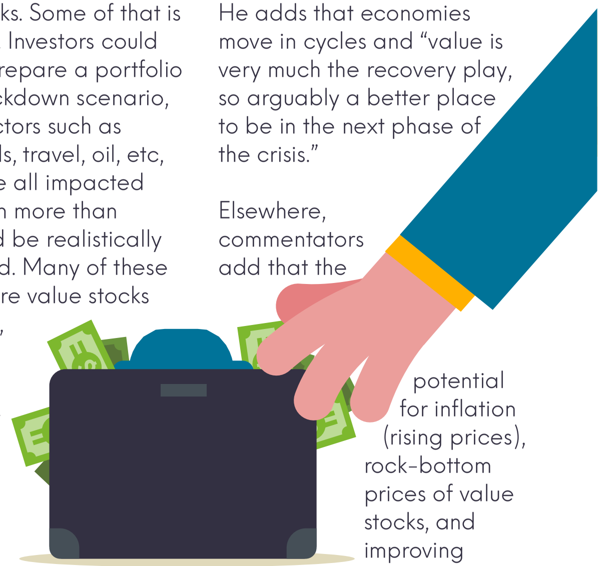
Persistent poor performance has led many to cry: 'the death of value investing'. But with recent stock market developments, Adrian Lowcock thinks value might be poised for a comeback.

A time and a place

An important feature of value investing is that value stocks tend to be found in 'cyclical' sectors that are sensitive to the ebbs and flows of the economic cycle, such as industrials, financials or real estate. In the austere world following the global financial crisis, sectors such as these were strained by low economic growth, low interest rates, and increasingly challenged business models.

Then, the pandemic hit, adding to the growing chasm between the two styles. Adrian explains:

"The crisis this year really hit value stocks much harder than growth stocks. Some of that is unfortunate. Investors could not really prepare a portfolio for a lockdown scenario, so sectors such as hotels, travel, oil, etc, were all impacted much more than could be realistically expected. Many of these areas were value stocks and mature, slower growth, businesses... and more sensitive to the economic cycle."



He continues: "The crisis has stretched the gap between value stocks and growth stocks to new extremes and this presents an opportunity for investors. The market had until very recently become single-minded about the future – growth stocks were the only option, and 'old economy' value stocks were a thing of the past. This, to me, was reminiscent of the dotcom bubble mindset."

Changing fortunes

The crisis played to the doubters of the value style; that was, until the vaccine gave it the shot in the arm it needed:

"The vaccine is big news as it gives the first opportunity for investors to see a return to normality and economic activity to recover."

He adds that economies move in cycles and "value is very much the recovery play, so arguably a better place to be in the next phase of the crisis."

Elsewhere, commentators add that the potential for inflation (rising prices), rock-bottom prices of value stocks, and improving company profits over the next year could all be a boon for the value style. And let us not forget the extraordinary economic policies of our time:

"Governments are looking to stimulate economic activity and cyclical stocks should do well from fiscal stimulus (government spending). The sums being talked about are huge and could boost markets in 2021 and 2022 as the pandemic fades and focus switches to this area."

The risks to the investment opportunity

Adrian points out that there are, of course, risks to this strategy: "The lesson from 2020 is that the risks to value investing

Different factors typically perform well at certain points in the global economic cycle

Source: BlackRock, 2020

are both the economic cycle and value traps."

Investors in this style will need to decide on how robust they think the potential economic recovery will be, because, if it's lacklustre, value stocks could continue to perform poorly.

Schroder Recovery	
Manager	Nick Kirrage/ Kevin Murphy
12 Month Yield:	3.62%
Start Date	Jul-06 / Jul-06
Income Frequency	Annually
Number Holdings	46
Sector:	UK All Companies
Main Geography	UK (86%)
Size	£659m
Type	Fund

The other issue of 'value traps' – industry jargon for finding stocks that you think look cheap, only for you to invest and see the share price go nowhere – is why Adrian believes you need a fund manager overseeing investments:

"To be a successful value investor requires discipline and conviction combined with the ability to reassess any investment views. Active management is essential to avoid traps and lock in profits where they appear."

Ideas for your portfolio:

Schroder Recovery –

"This is a deep value fund. Fund managers Nick Kirrage and Kevin Murphy look to identify companies that are trading at significant discounts to their perceived 'fair values', and start with a number of stock filters for finding value. They have demonstrated a strong working relationship and share a sound investment philosophy."

For overseas:

J.P.Morgan US Equity Income –

"This fund aims to produce income from shares (equity income) although it should be borne in mind that the US has a lower yield than most markets. Manager Clare Hart focuses on companies with relatively attractive dividend yields, and with high levels of [profits relative to dividends paid]. This means she invests in high quality companies with durable franchises, consistent

company projects, and strong management. Hart pays attention to avoiding capital losses, and tends to favour companies with a sustainable competitive advantage. As a result, the yield on the fund is modest but the strategy should produce a steady income, with the potential to grow over the longer-term."

JPMorgan US Equity Income	
Manager	Andrew Brandon/Dave Silberman/ Clare Hart
12 Month Yield:	2.52%
Start Date	Nov-19 / Nov-19 / Dec-08
Income Frequency	Quarterly
Number Holdings	84
Sector:	North America
Main Geography	USA (92%)
Size	£2,954m
Type	Fund

What about passive trackers or ETFs?

In more recent years, the technology used to create broad index funds such as FTSE-100 or S&P 500 trackers has evolved, and indices are now available that target individual styles, such as growth or value.

As they are cheap, I press Adrian on why he doesn't think they're a good idea:

"I think trying to automate value investing is extremely hard. Value traps are just not as easy to spot as people may think. More often than not, the trap does not show up in the data, which simply shows you a potential value investment. To really understand a value opportunity you need to analyse the business and its future potential.

"Low cost investing can work in certain areas of the market or to get general exposure, but it cannot do everything."

ISHARES IV PLC EDGE MSCI WORLD VALUE FACTOR ETF	
Number Holdings	404
Main Geography	USA (37%)
Type	Exchange Traded Fund
12 Month Yield:	0%
Size	£1,745m

Video: What is passive investing?

stepstoinvesting.com

A deeper dive: what drives returns of different investment styles?

Markets are complicated beasts, and over the years, legions of academics have hacked through a dense jungle of competing forces to uncover what drives returns.

Setting the lens to the widest sight, we find returns across asset classes – shares, bonds, property, etc – are driven by broad, over-arching macroeconomic forces, such as interest rates or inflation. Zoom-in with granular detail, and we find that an individual stock's returns are driven by its fundamentals – the basic attributes of a business that make it successful, such as how profitable it is, how quickly it's growing in its market, and so forth.

Mid-scope and we find another view. What researchers uncovered was that certain groups of stocks which performed very strongly could be identified by relatively simple shared characteristics known as factors, such as whether a company was small or paid out a particular level of income. These factors can be viewed as the components of a return – the spices responsible for a tasty dish.

A multitude of factors have since been unearthed, and the main culprits are as follows:

Value – Unearthed many years ago, research shows relatively cheap stocks tend to outperform relatively expensive ones.

Momentum – Powered by herd mentality, the tendency for stocks that are going up to continue to do so, and likewise for those going down.

Quality – The idea that strong, healthy balance sheets trump highly indebted firms.

Low volatility – 'Steady Eddies' in the market tend to do better than those whose prices are bouncing from one extreme to another.

Size – It matters. Investors in smaller companies get rewarded more strongly over time than those in larger firms.

Yield – It seems the dividend discipline is important, as firms that pay a strong level of income tend to perform well over time.

Some investment style or strategies will target or tilt towards one or more of these factors in order to achieve a return. A value 'style', for example, would likely tilt towards value and yield factors; a growth style towards quality and momentum factors.